BNP PARIBAS REAL ESTATE

RESEARCH

EUROPEAN LOGISTICS MARKET

Property report Q4 2013

EXECUTIVE SUMMARY

The logistics market showed strong signs of improvement in 2013

The logistics market performed particularly well in 2013 and the anticipation of economic recovery encouraged the investment market. The scarcity of prime products still affected occupier demand and stimulated build-to-suit solutions across Europe.

The logistics occupier market is picking up

- After flat growth in 2013, GDP is expected to increase by 1.3% during 2014 in the EU 15. Business confidence is improving and growth is spreading throughout Europe, but the recovery is still fragile.
- The occupier market bounced back in France, the UK and the Netherlands, energised by the strong online and retail sectors. The market remained healthy in Germany whilst in Spain the weak economic backdrop still impacted on demand.
- The lack of grade A warehouses continued to restrain most markets and boosted demand for large build-to-suit developments. 2013 saw the return of speculative development in the UK, a trend that could spread in other European countries in 2014.
- Rents only increased marginally in Europe. Overall, prime rents remained fairly stable in 2013.

Growing investor interest in logistics assets

- Industrial investment volumes increased by 55% in 2013, faster growth than overall commercial real estate investment.
- The return of players with value added or opportunistic strategies animated the logistics market across Europe in 2013.
- After several years of stability, prime yields started to move down in a number of countries, the UK in particular. Although stable in Germany, they remained low in 2013.

Vincent Robion – March 2014

CONTACTS

EUROPEAN LOGISTICS COVERAGE

FRANCE
Christophe Prioux
christophe.prioux@bnpparibas.com
+33 (0)1 47 59 21 67

GERMANY
Oliver Wissel
oliver.wissel@bnpparibas.com
+49 30 884 65 171

UNITED KINGDOM
Nick Waddington
nick.waddington@bnpparibas.com
+44 (0) 121 234 6869

SPAIN
Thierry Bougeard
thierry.bougeard@bnpparibas.com
+34 93 301 20 10

Jean-Bernard Gaudin
jean-bernard.gaudin@bnpparibas.com
+34 91 454 99 90

NETHERLANDS
Peter Sagius
peter.sagius@bnpparibas.com
+31 20 305 97 20

POLAND
Katarzyna Pyś-Fabiańczyk
katarzyna.pys-fabianczyk@bnpparibas.com
+48 501 203 821

IRELAND
Peter Flanagan
peter.flanagan@bnpparibas.com
+353 1 661 1233

OTHER LOCATIONS

Austria
Czech Republic
Greece
Hungary
Russia
Serbia
Slovakia
Sweden
Turkey

Please contact
Florence Hesse
florence.hesse@bnpparibas.com

RESEARCH

Christophe Pineau
Head of International Research
christophe.pineau@bnpparibas.com

Vincent Robion
Senior Analyst
vincent.robion@bnpparibas.com

BNP PARIBAS REAL ESTATE

EUROPEAN ECONOMIC IMPROVEMENT IS SPREADING

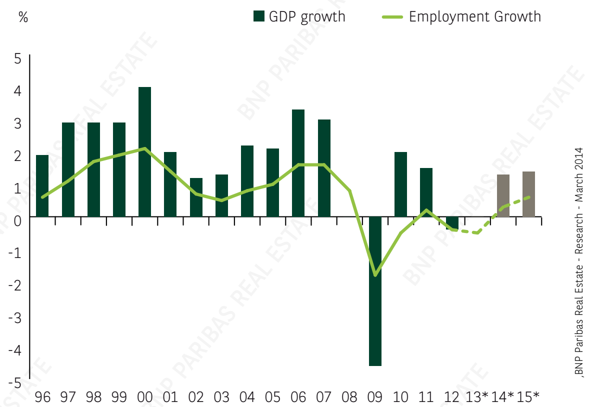
Economic conditions in Europe have improved markedly, with economic growth becoming more broad-based across countries and sectors. Admittedly the rate of growth is stronger in some countries than others with the Southern European economies continuing to be weighed down by structural reforms. The outlook for domestic demand in particular has improved as sentiment in the Eurozone has started to stabilise. This is supported by sentiment data from the European commission, showing that consumer confidence in Europe has seen widespread improvement.

Recently released official data also points to improvement across European economies. In the UK the recovery continued with more growth in Q4 2013 (0.7%). In addition to the good performance seen in 2013 (+1.85%) overall, we anticipate further strong growth in 2014 (+2.8%). Performance in the Eurozone also improved in Q4 2013 (+0.3%) for the third consecutive quarter of growth. However, whilst all countries saw economic improvement, strength of recovery is biased towards Northern European countries.

GDP picked up in Italy (+0.13%) and Spain (+0.3%) but growth remained weak, whilst in Portugal (+0.5%) growth continued to decelerate from that achieved in the first half of 2013. On the other hand, growth firmed up in Germany (+0.4%) and the Netherlands (+0.7%), whilst it remained subdued in France (+0.3%) reflecting continued uncertainty. In overall 2013 growth in the Western European economies (+0.1%) was lacklustre. Nonetheless the latest sentiment data suggests that the economic prospects are for continued improvement over the course of 2014, with growth of +1.4% for the year as a whole. Thereafter growth will pick up strongly, particularly in 2015 (+1.6%).

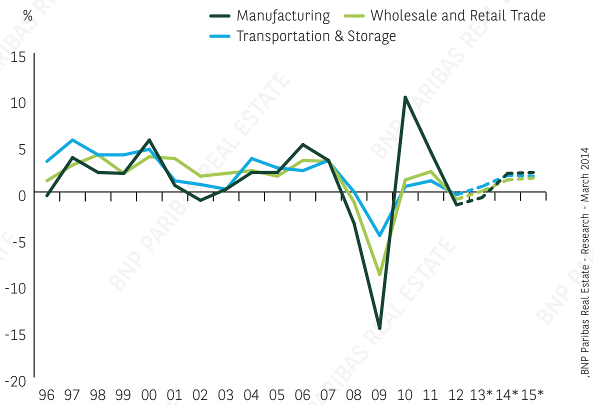
Encouragingly manufacturing activity remained a major component of the growth story across the continent. The volume of Eurozone exports in the main economies during Q3 2013 weakened but remained a major contributor to growth. The sharp fall in order books volumes recorded in recent years has now begun to stabilise on the back of improving new orders. This suggests that export growth could accelerate in the coming quarters as a result of improved confidence amongst European consumers. It is likely to be the strongest in countries that are more focused on intra-European trade such as Spain (+7.5%), where it remained strongly supportive of overall growth.

GDP and employment growth in the EU 15



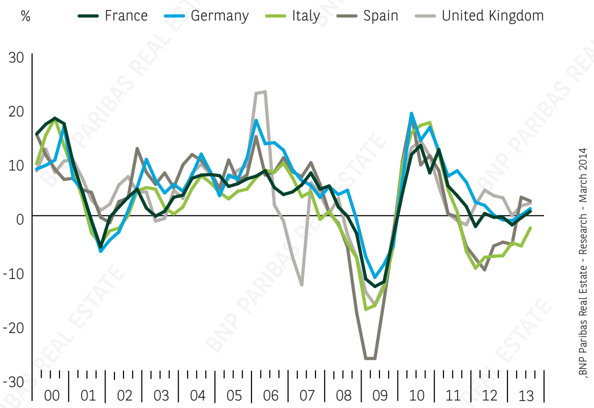
* Forecast
Source: Datastream /BNP Paribas

Distributive trade and manufacturing output in the EU 15



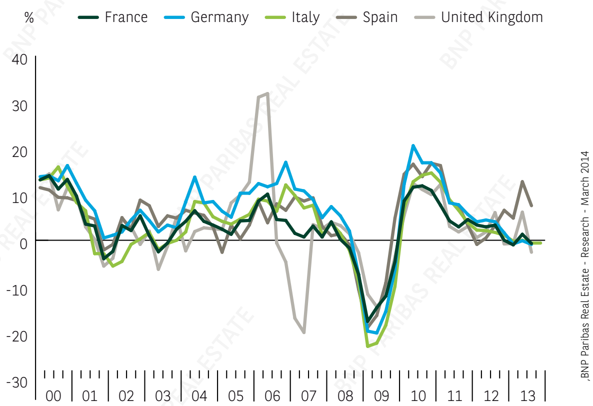
* Forecast
Source: Datastream / BNP Paribas

Imports
(year-on-year change)



Source: Datastream

Exports
(year-on-year change)



Source: Datastream

TAKE-UP IS BOUNCING BACK

The market for warehouses over 5,000 m² picked-up in 2013 recording a two-digit growth in the UK, France and the Netherlands. Distribution and online retailing were key driving forces in these markets in 2013. In Germany, despite the slowdown in activity, the market reached its third highest volume of transactions ever recorded. While some markets performed well in 2013, some like Spain and Portugal were still exposed to economic difficulties that hampered logistics developments.

Availability for prime warehouses dried up and new developments remained limited in most European countries. The lack of speculative development continued to encourage build-to-suit solutions. At the end of 2013, the signs of economic improvement eased market stagnation in construction and speculative developments are being considered again. The widespread scarcity of high quality products has had only a modest impact on rents for now.

In **Germany**, the market for warehouses over 5,000 m² decreased by 9% in 2013. This still represents another strong performance for a third year in a row, achieving more than 3.9 million m² transacted and well above the ten-year average. Similar to France, owner-occupier deals represented a strong share of the total market (46%), resulting from the inadequacies between supply and demand. This in turn prompted a modest increase in top rents in locations such as Munich and Hamburg and in the Ruhr region. Demand was predominantly expressed by logistics providers who took 37% of the total take-up.

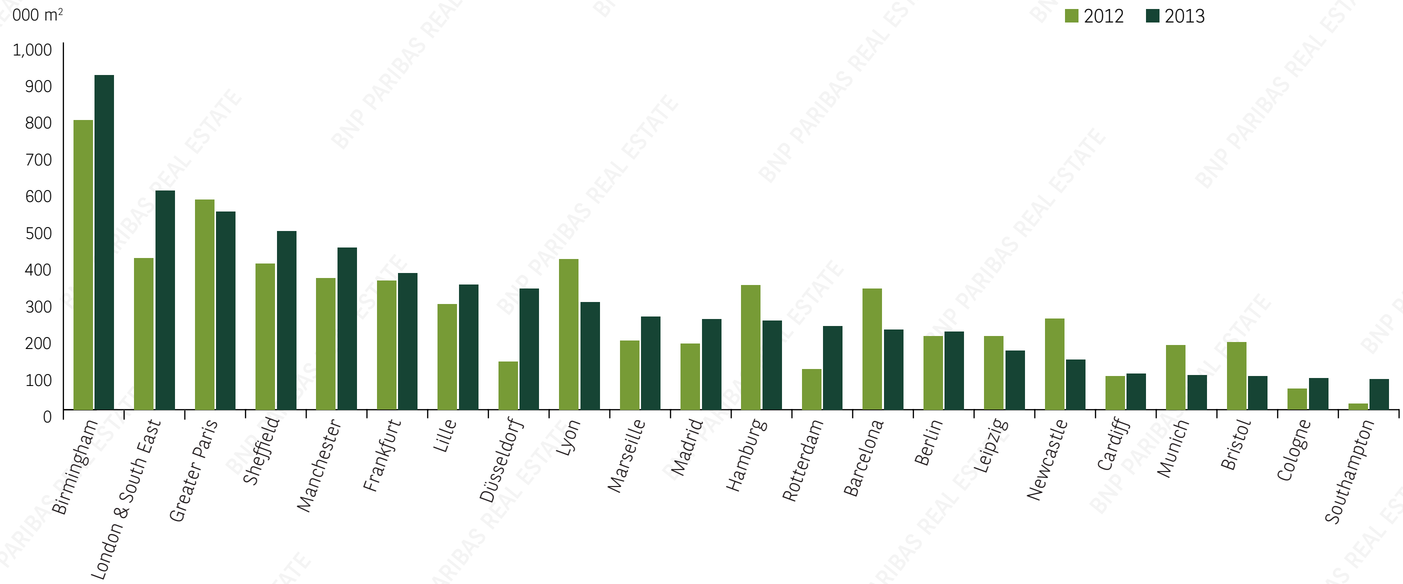
In **France**, take-up increased by a strong 12% to reach 2.5 million m² in 2013. Retail and distribution continued to act as a major market driver, accounting for 50% of the volume of transactions signed in 2013. The market has been characterized by the absence of speculative developments over the past three years despite the scarcity of new grade A warehouses available. This encouraged turnkey deals, which accounted for nearly half of the volume of transactions. The warehousing market was mainly stimulated by French regional activity, whilst the volume of transactions in Greater Paris reached its lowest level since 2005. Overall, the logistics market trends reflected a still weak domestic growth. However, the encouraging signs of recovery in most European countries are expected to impact on the French economy in the near future and boost business confidence.

In the **Netherlands** the rising volume of e-commerce boosted the demand for high quality distribution warehouses. Take–up increased by 13% to 1.2 million m² in 2013. This mainly reflected a strong upturn in Rotterdam where the volume of transactions doubled over the year compared to 2012. Demand for large new logistics warehouses is expected to remain strong in 2014 but the limited availability of such buildings will leave some room for carefully targeted speculative developments. Another trend in the market is the growing obsolescence of existing warehouses as user requirements are evolving fast.

In the **UK**, after a dip in 2012, take-up rose by 19% above the 3 million m² mark in 2013, the highest level recorded over the past six years. The main logistics areas benefitted from strong growth; Birmingham remaining the single largest European market with more than 900,000 m² taken up during the year. The key drivers of the market have been the rapid growth in online retail and the push by the major supermarkets to convenience retail. Supply levels remained high but only a handful of new large units across the country were available at the end of the year. This triggered the return of speculative schemes for the first time since 2008.

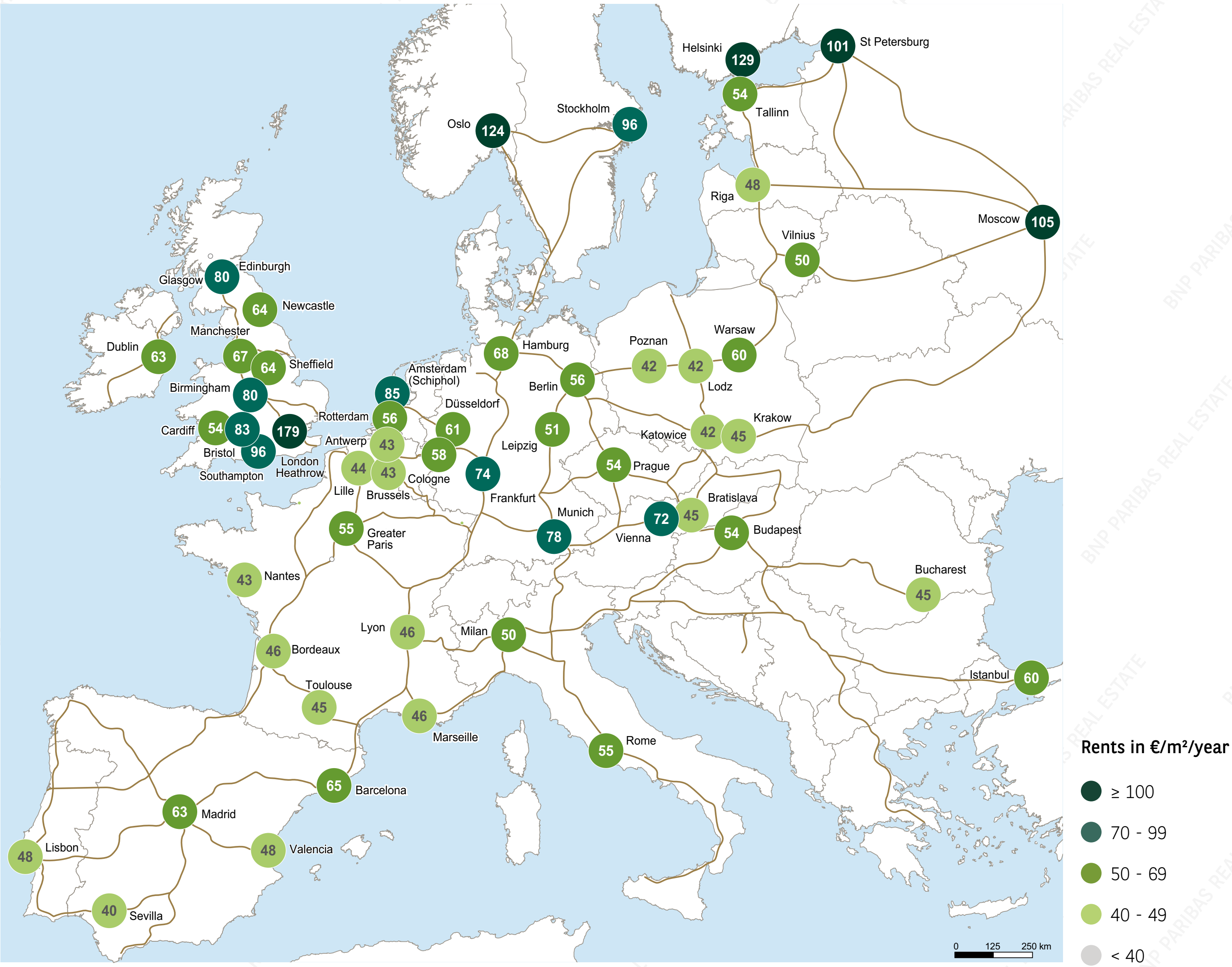
In **Spain**, take-up declined by 18% in 2013 to just 523 000 m². Market trends were much differentiated between the two major logistics areas. In Barcelona, the activity dropped significantly (-34%) whilst in Madrid the volume of transactions bounced back (+37%) close to the levels recorded in 2010 and 2011.

Take-up - Warehouses over 5,000 m²

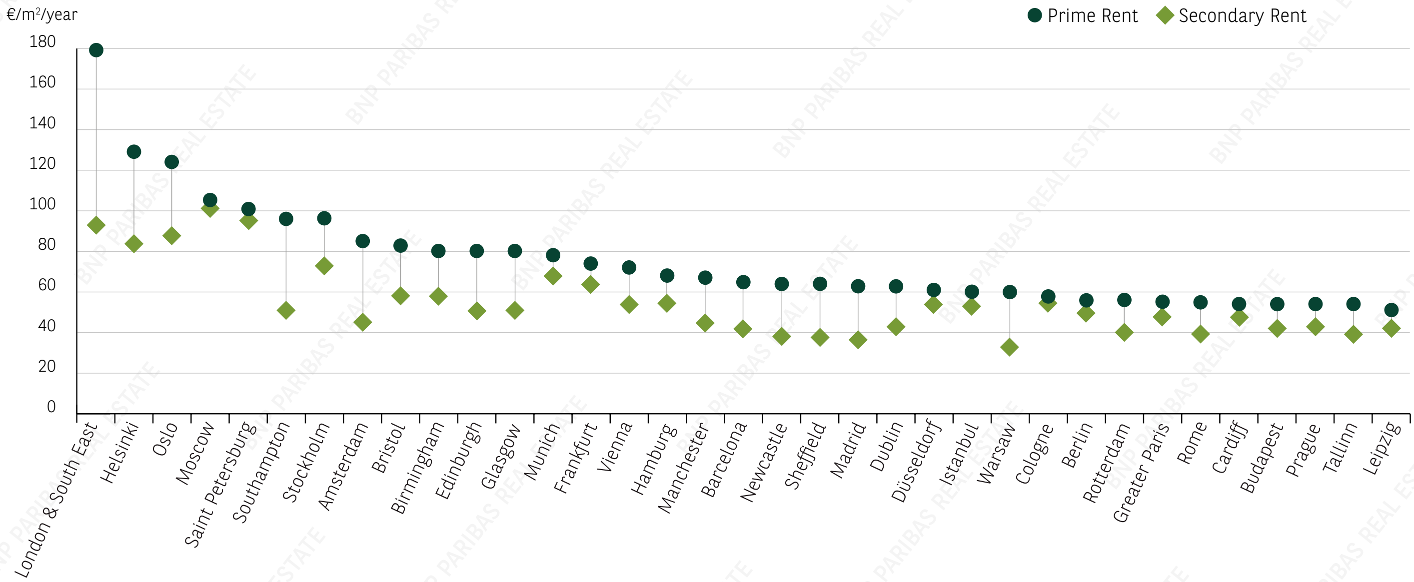


BNP Paribas Real Estate - Research - March 2014

PRIME RENTS IN Q4 2013 - WAREHOUSES OVER 5,000 M²



Prime and secondary rents - Warehouses over 5,000 m²



BNP Paribas Real Estate - Research - March 2014

INCREASED INTEREST FOR LOGISTICS ASSETS ACROSS EUROPE

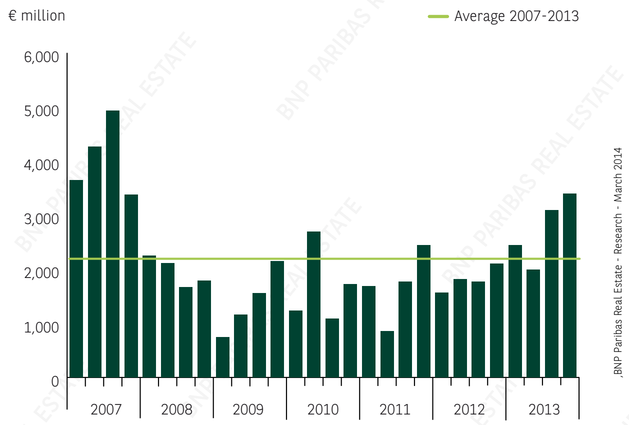
Commercial real estate investment increased significantly by 25% to reach a total volume of 135bn euros invested in Western Europe in 2013. The rate of increase for industrial and warehousing investment was even stronger, +55% compared to 2012, reflecting widespread activity throughout Europe. Yet, the limited supply of new prime assets remained a challenge in investment acquisition.

Secured office assets in the main liquid locations were still eagerly sought after by core strategy investors in 2013, pushing down prime yields even more. However, the emerging trend in 2013 came from the return of players with value added or opportunistic strategies. This is allowing risky but high potential markets to start to grow again. In this context, logistics properties are increasingly regarded as an attractive asset class providing higher yields than office or retail buildings. Unsurprisingly, office investment lost ground to other assets in 2013, but still accounted for 48% of total real estate investment.

The largest industrial investment markets including France, Germany and the UK performed well in 2013, but some countries saw a return of investor interest in logistics. This was the case in Sweden and the Netherlands where the volume of industrial investment doubled in one year. In Spain and Italy, industrial investment volumes remained weak even though they increased substantially over the course of the year.

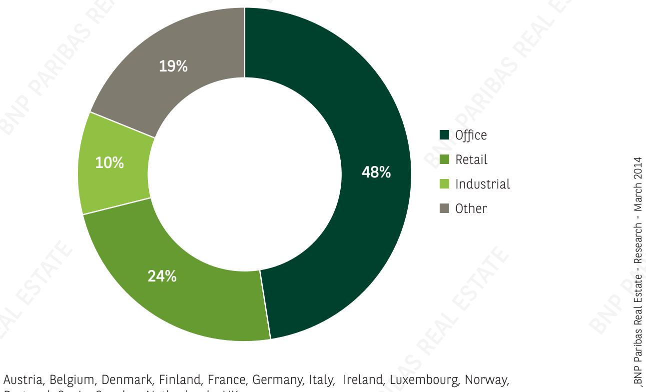
Following a period of stabilisation, net prime yields started to move down slightly in a number of markets. In the UK, the robust demand and the scale of investment growth contributed to a reduction in prime yields of between 50 and 100 basis points in the main logistics markets including Birmingham, Manchester and Scotland. In France, the dynamic activity also resulted in a slight decline in prime yields to 7.15% in the regional markets. In Germany, prime yields remained unchanged ranging from 6.50% and 6.85 % in the main German markets.

Industrial* investment volume
5 countries: France, Germany, Italy, Spain, UK



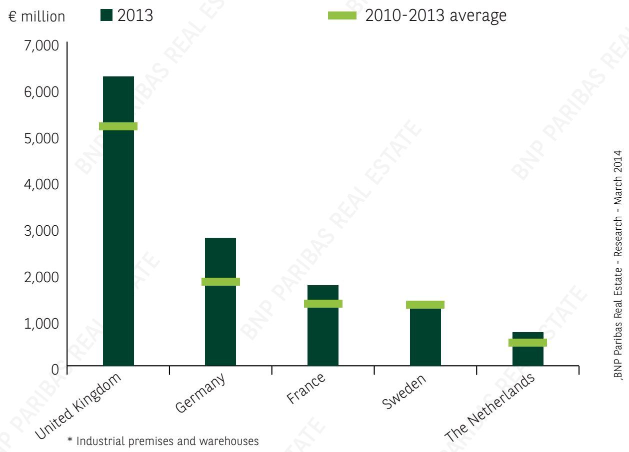
* Industrial premises and warehouses

Commercial real estate investment (€ million)
Western Europe*



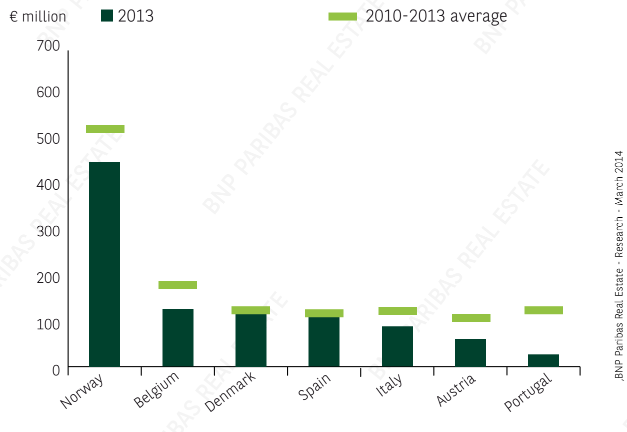
Austria, Belgium, Denmark, Finland, France, Germany, Italy, Ireland, Luxembourg, Norway, Portugal, Spain, Sweden, Netherlands, UK

Industrial* investment (€ million)
Western Europe



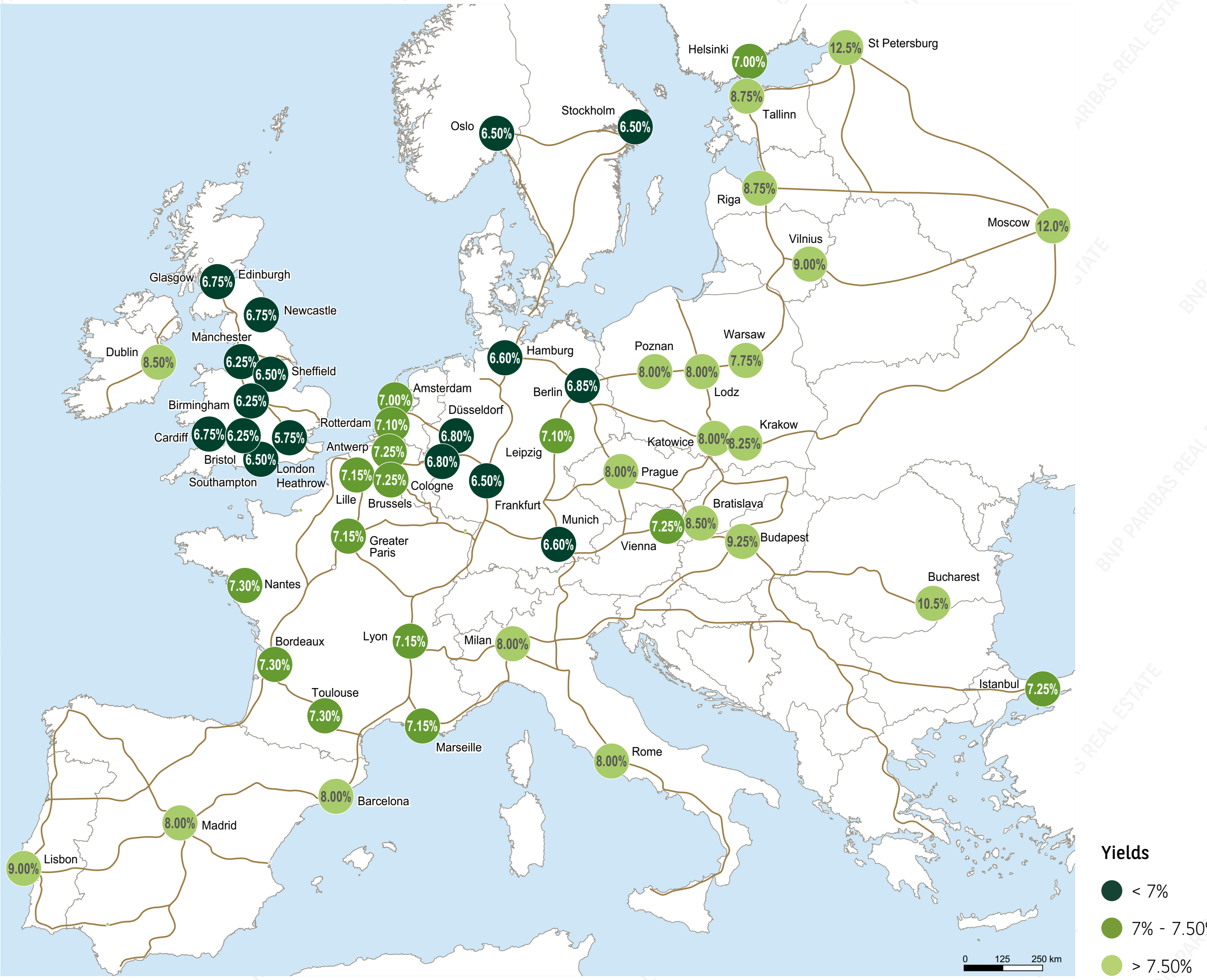
* Industrial premises and warehouses

Industrial* investment (€ million)
Western Europe



* Industrial premises and warehouses

NET PRIME YIELDS IN Q4 2013 - WAREHOUSES OVER 5,000 M²



Net prime yields - warehouses over 5 000 m²

OCCUPIER LOGISTICS MARKET - WAREHOUSES OVER 5,000 M²

City	Take-up ('000 m²)			Rents (€/m²/year)		
				"Prime"		Secondary
	2013	2012	Variation y-o-y (%)	Q4 2013	Q4 2012	Q4 2013
Birmingham	910,680	788,244	-13%	80	77	58
London & South East	596,418	413,319	-31%	179	166	93
Greater Paris	539,933	572,497	+6%	55	52	48
Sheffield	486,844	397,955	-18%	64	64	38
Manchester	441,887	358,222	-19%	67	67	45
Frankfurt	372,000	351,000	-6%	74	74	64
Lille	340,600	287,642	-16%	44	45	42
Düsseldorf	330,000	131,000	-60%	61	61	54
Lyon	293,316	410,660	+40%	46	46	42
Marseille	254,024	188,453	-26%	46	46	42
Hamburg	242,000	339,000	+40%	68	67	55
Rotterdam	227,664	111,186	-51%	56	63	40
Berlin	213,000	201,000	-6%	56	56	50
Leipzig	161,000	200,000	+24%	51	51	42
Newcastle	136,795	248,414	+82%	64	64	38
Cardiff	98,471	91,733	-7%	54	61	48
Munich	94,000	176,000	87%	78	74	68
Bristol	91,482	184,565	+102%	83	83	58
Cologne	86,000	57,000	-34%	58	58	54
Southampton	83,693	16,751	-80%	96	96	51
Amsterdam	77,503	76,041	-2%	85	85	45
Lisbon	8,603	50,500	+487%	48	60	42

Constant exchange rate £/€ =1,1894

REAL ESTATE INVESTMENT MARKET

Country	Commercial real estate investment (€ million)			Industrial investment (€ million)		
	2013	2012	Variation y-o-y (%)	2013	2012	Variation y-o-y (%)
United Kingdom	54,677	37,480	-31%	6,245	4,040	-35%
Germany	30,871	25,567	-17%	2,757	1,753	-36%
France	18,455	17,845	-3%	1,743	1,392	-20%
Sweden	10,264	12,038	+17%	1,348	1,206	-11%
Norway	4,941	6,137	+24%	440	559	+27%
Italy	4,641	1,752	-62%	86	15	-83%
The Netherlands	4,251	4,029	-5%	723	296	-59%
Spain	3,637	1,785	-51%	113	53	-53%
Finland	2,380	2,070	-13%	585	86	-85%
Belgium	1,822	1,726	-5%	124	143	+16%
Austria	1,780	1,800	+1%	60	80	+33%
Luxembourg	629	318	-49%	4	5	+41%
Portugal	412	160	-61%	26	8	-70%
Total	**138,761**	**112,708**	**-19%**	**14,252**	**9,637**	**-32%**

NET PRIME YIELDS - WAREHOUSES OVER 5,000 M²

City	Net prime yields		
	Q4 2013	Q4 2012	Bp variation
Amsterdam	7.00%	7.00%	0
Antwerp	7.25%	7.25%	0
Barcelona	8.00%	8.00%	0
Berlin	6.85%	6.85%	0
Birmingham	6.25%	7.25%	-100
Bordeaux	7.30%	7.50%	-20
Bratislava	8.50%	9.00%	-50
Brussels	7.25%	7.25%	0
Bucharest	10.50%	10.50%	0
Budapest	9.25%	9.25%	0
Cardiff	6.75%	7.00%	-25
Cologne	6.80%	6.80%	0
Dublin	8.50%	9.50%	-100
Düsseldorf	6.80%	6.80%	0
Edinburgh	6.75%	7.25%	-50
Frankfurt	6.50%	6.50%	0
Greater Paris	7.15%	7.20%	-5
Hamburg	6.60%	6.60%	0
Helsinki	7.00%	7.20%	-20
Istanbul	7.25%	7.25%	0
Katowice	8.00%	8.00%	0
Krakow	8.25%	8.00%	25
Leipzig	7.10%	7.10%	0
Lille	7.15%	7.40%	-25
Lisbon	9.00%	8.75%	25
London & South East	5.75%	6.00%	-25
Lyon	7.15%	7.40%	-25
Madrid	8.00%	8.00%	0
Manchester	6.25%	7.25%	-100
Marseille	7.15%	7.40%	-25
Milan	8.00%	7.75%	25
Moscow	12.00%	11.50%	50
Munich	6.60%	6.60%	0
Newcastle	6.75%	7.00%	-25
Oslo	6.50%	6.75%	-25
Prague	8.00%	n.a.	n.a.
Riga	8.75%	9.00%	-25
Rome	8.00%	8.00%	0
Rotterdam	7.10%	7.10%	0
Saint Petersburg	12.50%	12.00%	50
Sheffield	6.50%	7.50%	-100
Southampton	6.50%	7.00%	-50
Stockholm	6.50%	6.50%	0
Tallinn	8.75%	9.00%	-25
Toulouse	7.30%	7.50%	-20
Vienna	7.25%	7.50%	-25
Vilnius	9.00%	9.50%	-50
Warsaw	7.75%	8.00%	-25

BNP Paribas Real Estate - Research - March 2014

GLOSSARY

The numerical data used by BNP Paribas Real Estate for its statistics feature all the information at the group's disposal when compiling them. These statistics may change according to new information brought to our knowledge that is often confidential to begin with.

Definitions from A to Z...

Design & Build: construction of a bespoke building for an occupier.
- **Owner-occupier development:** construction of a building for an occupier who has signed a bill of sale on a property still to be built.
- **Lease turnkey:** construction of a building for an occupier who has signed a lease on a property still to be built.

Distributive trade: it is measuring the volume of material goods to consumers distributed through retailing and wholesale trade.

Light industrial buildings: individual buildings intended for production or small-scale distribution and able to accommodate all the company departments under one roof.

Logistics: the process of planning, implementing, and controlling procedures for the efficient and effective transportation and storage of goods, and related information from the point of origin to the point of consumption. Includes inbound, outbound, internal, and external movements.

New supply: all building restructuring that adds to the existing stock. These are analysed according to progress.
- **Completed new supply:** buildings on which construction work is finished.
- **Under construction:** buildings on which construction has effectively begun. Prior demolition work is not taken into account.
- **Planning permission granted:** authorisation to build obtained, generally booked after settlement of third party claims.
- **Planning permission submitted:** planning permission requested, being processed.
- **Projects:** identified intention of a building operation for which no request has been filed.

Portfolio: group of several assets located in different places.

Rent: common annual headline rent, expressed per square metre per year, and excluding taxes and charges.
Prime rent: represents the top open-market rent at the survey date for a real estate unit:
- Over 5,000 m² suitable for logistics uses
- Of the highest quality and specification
- In the best location in a market

Secondary rent: represents a market rent at the survey date for a real estate unit:
- Over 5,000 m² suitable for logistics uses
- Of good quality and specification
- In a good location in a market

Second hand premises: premises that have been previously occupied by an occupier or vacant for more than five years.

Speculative / Non speculative operation:
- **Speculative:** construction launched without prior rental or sale to the occupier.
- **Non-speculative:** construction launched after partial or complete sale or rental to an occupier.

Supply chain: all the elements in the process of supplying a product to a customer. The chain begins with the sourcing of raw materials and ends with the delivery of finished merchandise to the end-user. It embraces vendors, manufacturing facilities, logistics service providers, distribution centres, distributors, wholesalers, other intermediaries, etc.

Supply chain management: Encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities.

Transaction (Take-up): rental or sale to an occupier of a real estate asset, sealed by the signature of a lease or deed, including turnkey and owner-occupier operations. The transaction is only taken into account once any existing conditional clauses have been lifted.
- Pre-let refers to take-up that was either in the planning or construction stage
- All deals (including pre-lets) are recorded in the period in which they are signed
- Contract renewals are not included
- Sales and leasebacks are not included as there had been no change in occupation

Vacant Space: all completed buildings actively seeking rental or sale to occupiers.

Warehouses: buildings intended for storage, distribution or packaging.

Yield:
- **Net yield:** ratio between net income (excl. operating costs) and the acquisition price including all acquisition costs.
- **Initial yield:** ratio between the net rent before taxes and charges on the date of sale and the selling price (all costs included).
- **Prime yield:** net lowest yield obtained for the acquisition of a unit:
  - of standard size,
  - of the highest quality and specification,
  - in the best location in each market.

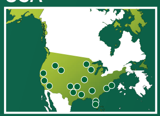
INTERNATIONAL COVERAGE FOR LOCAL SOLUTIONS

Hong Kong

Singapore

U.A.E

USA



● Our locations
○ Our alliances

MAIN LOCATIONS

FRANCE
Headquarters
167, Quai de la Bataille
de Stalingrad
92867 Issy-les-Moulineaux
Tel.: +33 1 55 65 20 04
Fax: +33 1 55 65 20 00

BELGIUM
Boulevard Louis
Schmidtlaan 2 B3
1040 Brussels
Tel.: +32 2 290 59 59
Fax: +32 2 290 59 69

CZECH REPUBLIC
Pobřežní 3
186 00 Prague 8
Tel.: +420 224 835 000
Fax: +420 222 323 723

GERMANY
Goetheplatz 4
60311 Frankfurt
Tel.: +49 69 2 98 99 0
Fax: +49 69 2 92 91 4

HONG KONG
63 /F Two international finance
Center - 8 Finance Street
Hong Kong
Tel.: +852 2909 2806
Fax: +852 2865 2523

HUNGARY
Alkotás u. 53.
H-1123 Budapest,
Tel.: +36 1 487 5501
Fax: +36 1 487 5542

IRELAND
20 Merrion Road,
Dublin 4
Tel.: +353 1 66 11 233
Fax: +353 1 67 89 981

ITALY
Via Carlo Bo, 11
20143 Milan
Tel.: +39 02 58 33 141
Fax: +39 02 3706 9209

JERSEY
3 Floor, Dialogue House
2 - 6 Anley Street
St Helier, Jersey JE4 8RD
Tel.: +44 (0)1 534 629 001
Fax: +44 (0)1 534 629 011

LUXEMBOURG
Axento Building
Avenue J.F. Kennedy 44
1855 Luxembourg
Tel.: +352 34 94 84
Fax: +352 34 94 73
Investment Management
Tel.: +352 26 26 06 06
Fax: +352 26 26 06 26

NETHERLANDS
JJ Viottastraat 33
1071 JP
Amsterdam
Tel.: +31 20 305 97 20

POLAND
Al. Jana Pawła II 25
00-854 Warsaw
Tel.: +48 22 653 44 00
Fax: +48 22 653 44 01

ROMANIA
Union International Center
11 Ion Campineanu Street
6th floor, 1st district
Bucharest 010031
Tel.: +40 21 312 7000
Fax: +40 21 312 7001

SINGAPORE
10 Collyer Quay, #31-01
Ocean Financial Centre
Singapore 049315
Tel.: +65 62 10 12 88
DID: +65 62 10 31 99

SPAIN
María de Molina, 54
28006 Madrid
Tel.: +34 91 454 96 00
Fax: +34 91 454 97 65

U.A.E
ABOU DHABI
Al Bateen Area
Plot n° 144, W-11
New Al Bateen Municipality
Street n° 32
P.O. Box 2742 Abu Dhabi
Tel.: +971 44 248 277
Fax: +971 44 257 817

DUBAI
Emaar Square
Building n° 1, 7th Floor
P.O. Box 7233, Dubaï
Tel.: +971 44 248 277
Fax: +971 44 257 817

UNITED KINGDOM
5 Aldermanbury Square
London EC2V 8HR
Tel.: +44 20 7338 4000
Fax: +44 20 7430 2628

ALLIANCES

ALGERIA *
AUSTRIA
CYPRUS
ESTONIA
FINLAND
GREECE
IVORY COAST *
LATVIA
LITHUANIA
MOROCCO
NORTHERN IRELAND
NORWAY
RUSSIA
SERBIA
SLOVAKIA **
SWEDEN
SWITZERLAND
TUNISIA *
TURKEY
UKRAINE
USA

* Coverage via our alliance in Morocco
** Coverage via our alliance in Austria

PLEASE CONTACT

Alliances
Bernard Blanco
Tel.: +33 (0)1 47 59 20 84
bernard.blanco@bnpparibas.com

Research
Christophe Pineau
Tel.: +33 (0)1 47 59 24 77
christophe.pineau@bnpparibas.com