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MarketView
EMEA Industrial & Logistics

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October 2008

Quick Stats

	Change from Q3 07	Q2 08
Rents	↑	↓
Yields	↑	↑

Hot Topics

- Uncertain economic environment producing mixed demand patterns, with CEE markets generally strongest
- Moderate fall in rents in the third quarter, although year-on-year growth rate just positive
- Stronger growth in some markets producing growing landlord pressure for shorter leases
- Prime yields up by around 75 basis points since late 2007
- Shift in the pattern of industrial investment, with turnover for Europe excluding UK down only 3% relative to the first half of last year. Germany in particular has seen increased activity

OVERVIEW

In overall terms, industrial rents softened slightly in the third quarter of 2008 and the annual rate of growth, although still positive, is at a three-year low. The sector is clearly not immune to the current economic uncertainties and, with corporate investment and industrial production growth expected to ease, there will be little general upward pressure on rents in the short term.

Exceptions exist, notably in a number of CEE markets such as Poland where a combination of rising construction costs and strong demand is pushing up rents. Isolated land shortages in some other markets, such as parts of Belgium, are having the same effect. In these areas, landlord pressure for shorter leases – allowing growth to be captured earlier – is likely to intensify.

In common with other real estate sectors, yields in the industrial market are now rising, having progressively fallen over the preceding five years. Prime yields across Europe are, on average, now around 75 basis points above the low reached in the third quarter of last year.

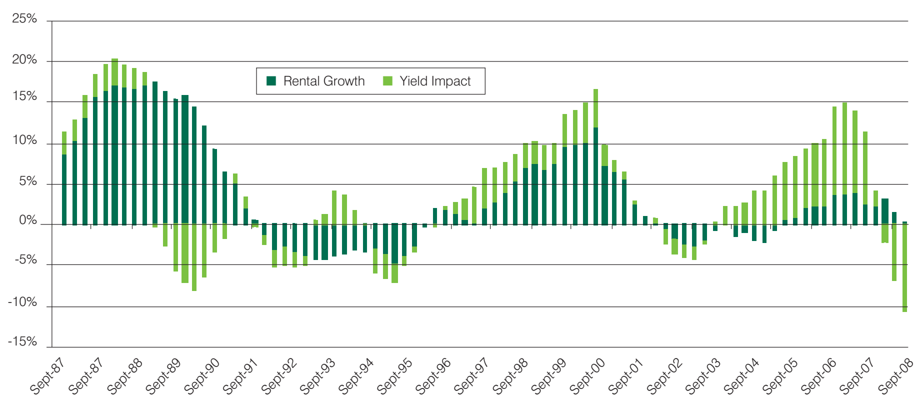
Recent and longer-term indicators reflect the relative stability of the European industrial market, from both an occupational and investment perspective.

The sector's defensive attributes – relatively high income return and low requirement for rental growth – are increasingly attractive in a lower-growth environment, and investment levels so far this year show the sector's increasing attraction to investors across a broad range of markets.

Against a sharp reduction in aggregate investment activity in the first half of this year, industrial investment totalled €6.6bn, accounting for 10% of total turnover, well above its contribution over the past two years. Over half of this comprised cross-border acquisitions, indicating that investment in the sector is also becoming more international.

Excluding the UK, investment turnover in the first half was only 3% lower in H1 2008 than in the first half of last year, with Germany in particular seeing stronger investment activity.

Components of Capital Value Change, EU-15 Industrial Market, 1987-2008



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ECONOMIC BACKGROUND

Growth expectations for European economies have generally weakened in recent months. The combined impacts of weaker world trade, the credit squeeze and heightened economic uncertainty have dented both business and consumer confidence. As a result, forecasts for growth across the European Union as a whole now indicate growth of under 2% this year and little more than 1% in 2009. Forecasts for industrial production over the next two years have also weakened, to around half the rate of growth seen over the 2006-07 period. With corporate investment also easing, heightened occupier caution is evident in many parts of the market.

OCCUPIER ACTIVITY

Demand patterns are distinctly mixed in this environment, and in some cases reflect a range of factors including stock quality and relative market maturity, as much as wider economic conditions.

Well-established markets such as France and the Netherlands have seen weakening activity in the first half of the year, but often accompanied by significant changes in the structure of demand. In France, for instance, logistics companies' desire to expand their network coverage is boosting demand in regions such as Rhône-Alpes and Nord-Pas de Calais. In the Netherlands, much of the existing stock is outdated or poorly-located, and the desire to upgrade or relocate is a key driver feature of the market.

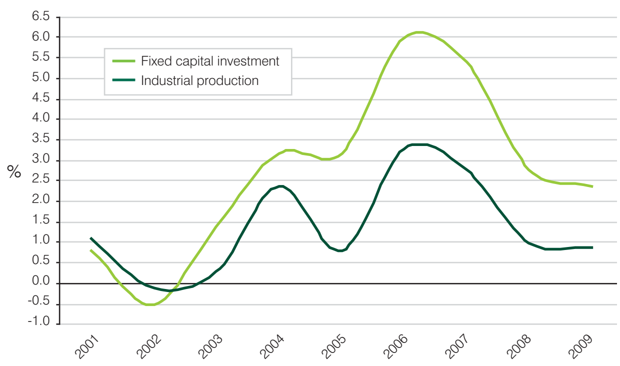
CEE markets are seeing increased activity as the stock of modern logistics space expands and third party logistics operators extend their networks into new markets. In the Czech Republic, for example, take-up in the first half of this year was 83% ahead of the corresponding period last year. Many of these markets are also seeing the evolution of more mature structures: in Poland, for instance, demand is increasingly dispersed around the country and over 50% of modern logistics stock is now located outside the Warsaw area. Similarly, the Budapest market is evolving into distinct submarkets demarcated by the main arterial routes out of the City, with the highest values prevailing in the Budapest South area particularly around the airport.

RENT AND YIELD CHANGES

Industrial rents in Europe display a high degree of stability relative to other real estate sectors. The EU-15 industrial prime rent index fell by 1.0% in the third quarter of 2008, the second successive quarterly reduction. The year-on-year rate of growth remains just positive at 0.4%, although this is the lowest growth rate recorded for three years and some way below the ten-year average growth rate of 2.9%.

At individual city level, most markets showed no movement over the most recent quarter. The change in the index resulted from rental falls in Milan (-6.5%), Rome (-4.6%), Berlin (-2.2%) and Madrid (-2.0%). Elsewhere rents remained unchanged from their mid-year level.

Key Economic Drivers, EU-27, 2001-09

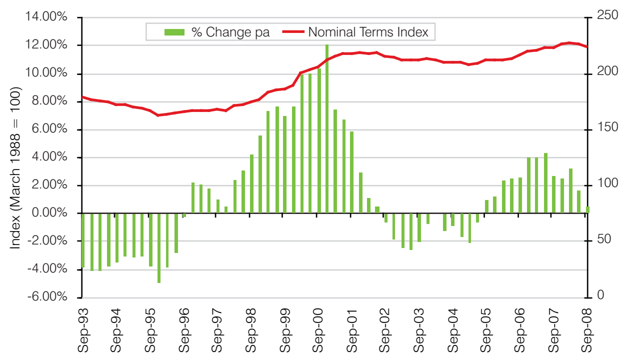


Source: Experian Business Strategies

Selected Occupier Transactions, H1 2008

Market	Size (sq m)	Tenant	Rent € / sq m/ month)
Germany	19,900	Borg Warner Turbo Systems	3.16
Czech Repulic	9,500	Mitsui Soko	3.15
Italy	26,000	Ceva Logistics	3.65
Poland	16,000	Nippon Express	3.20
France	49,000	Schenker Joyau	9.15
Hungary	13,400	DHL	na

EU-15 Industrial Rent Index



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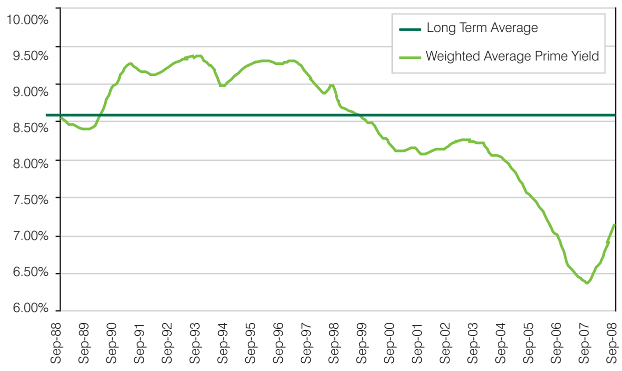
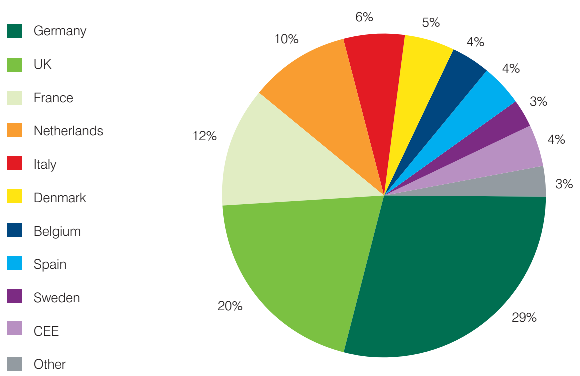
EU-15 Industrial Yield Index



Industrial Investment by Market, H1 2008



Key Industrial Investment Transactions, H1 2008

Market/City	Buyer	Price € m
Germany/Various	Lone Star Real Estate	1,000
France/Various	AXA Reim	195
UK/Various	Paradigm REM	187.4
Croatia/Zagreb	Helios	120.0
Ireland/Dublin	KPMG Syndicate	115.5
Germany/Hamburg	ING	90.0

Growth in Central & Eastern Europe remains generally stronger than in western European markets. The EU-10 industrial rent index remained stable in the third quarter (up 7.3% year-on-year), consolidating gains made earlier in the year in markets such as Prague and Sofia. Annual growth rates for this group of markets are some way below their position earlier in the year, suggesting that growth momentum may be starting to slow.

In common with other European property sectors, industrial yields rose further in the third quarter, with the EU-15 industrial yield index up by 23 basis points to over 7.1%. This means that prime yields are on average around 75 basis points above the low reached in the third quarter of last year. Increases of 25 basis points were widespread in the third quarter, with some markets, including London, Dublin and Brussels up by a full 50 basis points. Increases in yields are also becoming more widely evident across the CEE, with Moscow, Bucharest and Bratislava all seeing yields rising by at least 50 basis points.

INDUSTRIAL INVESTMENT

In aggregate terms, European investment turnover in H1 2008 totalled €66.5 billion, 46% down on the corresponding period in 2007. In relative terms the industrial market held up rather better, with H1 turnover of €6.6bn comparing with €8.9bn in the first half of last year, a contraction of 25%. Industrial investment comprised 10% of overall market activity in the first half of this year, up from 7.5% last year.

Excluding the UK, investment turnover in the first half was only 3% lower in H1 2008 than in the first half of last year. This reflects much-increased investment activity in Germany and, to a lesser extent, the Netherlands, Denmark and Italy.

As a result, the geographic pattern of industrial investment activity around Europe has shifted. The three major economies of Germany, France and the UK continue to dominate the market, but with changes in their respective contributions. The UK comprised only 20% of the market in H1 2008, compared with over a third last year, with France also posting a reduced contribution. At 29%, Germany represented the single largest component of first half activity, up from 12% in 2007 as a whole.

Cross-border investment accounted for around half (€3.3bn) of industrial investment in the first half of 2008, a shift from last year when domestic purchasers dominated.

US acquirers were particularly prominent in the first half, with the purchase of the Deutsche Post portfolio by US fund Lone Star Real Estate accounting for nearly €1bn of this total on its own. UK purchasers have also been active in a range of continental markets, with a number of property companies and collective funds acquiring industrial property, principally in Italy and Germany, but also in Croatia, France and Spain.

		PRIME INDUSTRIAL RENT		% CHANGE		PRIME INDUSTRIAL YIELD
Country	City	Local	€ /sq m/ annum	Last 3 months	Last 12 months	%
Austria	Vienna	€5.50/sq m/month	66.00	0	10.0	6.50
Belgium	Brussels	€60.00/sq m/annum	60.00	0	0	6.00
Bulgaria	Sofia	€5.00/sq m/month	60.00	0	25.0	8.00
Croatia	Zagreb	€5.90/sq m/month	70.80	1.7	-1.7	7.90
Czech Republic	Prague	€5.50/sq m/month	66.00	0	4.8	7.50
Denmark	Copenhagen	DKR 525/sq m/annum	70.38	0	0	6.50
Finland	Helsinki	€132.00/sq m/annum	132.00	0	1.5	6.60
France	Paris (warehousing)	€80.00/sq m/annum	80.00	0	6.7	7.00
Germany	Berlin	€4.50/sq m/month	54.00	-2.2	0	7.25
Germany	Dusseldorf	€5.20/sq m/month	62.40	0	0	6.75
Germany	Frankfurt	€5.90/sq m/month	70.80	0	1.7	6.75
Germany	Hamburg	€5.60/sq m/month	67.20	0	1.8	6.75
Germany	Munich	€6.40/sq m/month	76.80	0	-1.5	6.75
Greece	Athens	€6.50/sq m/month	78.00	0	0	7.50
Hungary	Budapest	€6.50/sq m/month	78.00	0	8.3	7.50
Ireland	Dublin	€130.00/sq m/annum	130.00	0	0.8	6.25
Israel	Tel Aviv	$13.37/sq m/month	113.94	0	10.2	7.00
Italy	Milan	€58.00/sq m/annum	58.00	-6.5	-6.5	7.25
Netherlands	Amsterdam	€70.00/sq m/annum	70.00	0	0	7.10
Netherlands	Rotterdam	€65.00/sq m/annum	65.00	0	0	6.50
Norway	Oslo	NKR1,150/sq m/annum	138.65	0	4.6	7.00
Poland	Warsaw (warehousing)	€6.00/sq m/month	72.00	0	9.1	6.75
Portugal	Lisbon	€5.00/sq m/month	60.00	0	11.1	7.75
Romania	Bucharest	€4.50/sq m/month	54.00	0	n/a	8.50
Russia	Moscow	US$ 140.00/sq m/annum	99.42	0	12.0	11.00
Serbia	Belgrade	€5.00/sq m/month	60.00	0	0	12.00
Slovak Republic	Bratislava	€4.50/sq m/month	54.00	0	0	7.50
Spain	Barcelona	€114.00/sq m/annum	114.00	0	26.6	6.50
Spain	Madrid	€96.00/sq m/annum	96.00	-2.0	-5.9	6.75
Sweden	Stockholm	SEK 650/sq m/annum	66.45	0	0	7.75
Switzerland	Geneva	SFR 200.00/sq m/annum	126.91	0	25.0	6.75
Switzerland	Zurich	SFR 140.00/sq m/annum	88.84	0	0	6.00
UAE	Dubai	AED 30.00/sq ft/annum	55.83	0	0	10.00
UK	Birmingham	£5.95/sq ft/annum	80.96	0	0	7.50
UK	Glasgow	£6.50/sq ft/annum	88.45	0	4.0	7.50
UK	London – Heathrow	£13.25/sq ft/annum	180.27	0	0	6.50
UK	Manchester	£6.00/sq ft/annum	81.64	0	0	7.50

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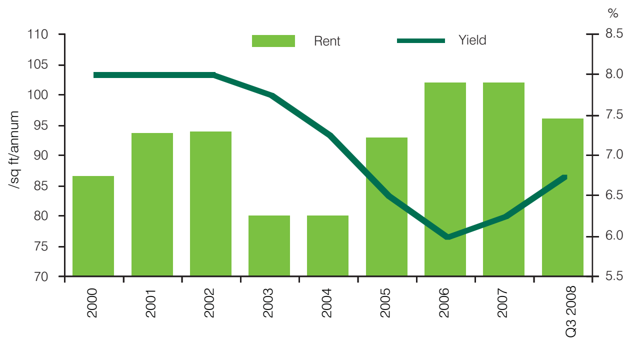
Hamburg Prime Industrial Rent and Yield

GERMANY

Germany is one of Europe's most advanced logistics markets, in terms of both size and quality of stock. Demand is currently stable in the main locations, with demand for large-volume units of over 10,000 sq m particularly strong. Prime rents have seen very little movement in the main centres over the past nine months. Yields have moved 25 basis points above their end-2007 levels to 6.75% in Hamburg, Frankfurt and Munich. The trend towards shorter leases continues, and developers have begun showing greater flexibility in meeting client demands for three-year lease contracts.

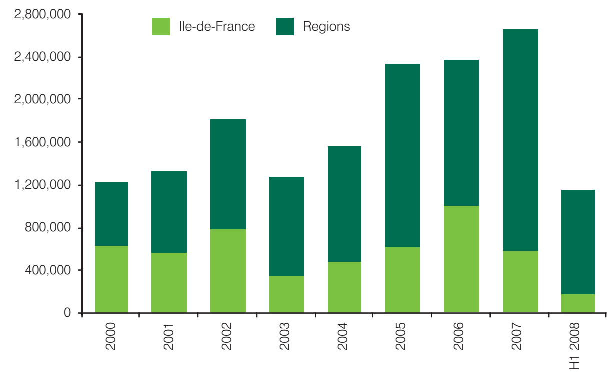
Madrid Prime Industrial Rent and Yield



SPAIN

The uncertain outlook for the Spanish economy is raising questions over the strength of industrial demand. Demand is relatively stable in the main centres of Madrid and Barcelona, although even here prospective occupiers are showing increased caution. Both markets are also seeing a trend towards large occupiers locating at increasing distances from the cities. Rents in Madrid have slipped below €100 /sq m /annum and landlords are becoming noticeably more flexible over lease negotiations. In general the outlook is more favourable for large-volume logistics than for general industrial, due partly to supply constraints and rental stability.

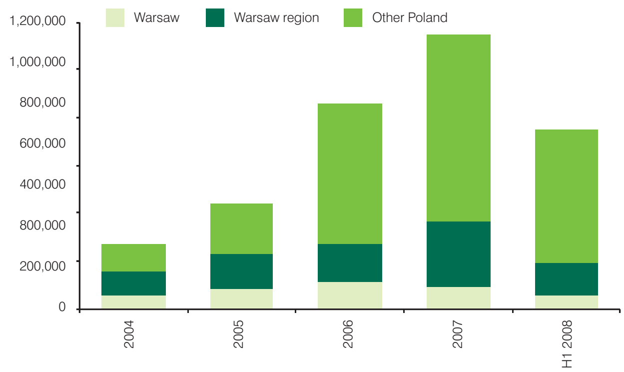
Logistics Take-up, France (Sq m)



FRANCE

Most indicators in the French market point towards a period of reduced activity. Demand is mainly driven by logistics companies looking to broaden their network density. One consequence of this is a reduced contribution from the Ile de France region, and proportionately increased activity in regions such as Nord-Pas-de-Calais and Rhone-Alpes. Rents are generally stable, although some pockets of downward pressure are emerging. Prime warehouse rents in the Ile de France area are stable at €80 /sq m /annum, and yields up 50 basis points in the past six months to 7.0%.

Logistics Take-up, Poland (Sq m)



POLAND

More than half the total stock of modern logistics space in Poland is now located outside the Warsaw area, with other significant concentrations including Katowice, Poznan and Lodz. Most regional locations are focused on "big box" logistics with minimum unit sizes of 2,500 – 3,000 sq m., many of them dominated by major retailers who have set up national and regional distribution centres. Prime rents in Warsaw have risen to €72 /sq m /annum, despite rising vacancy. Prime yields have edged out 25 basis points so far this year to 6.75%.

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MARKET BRIEFING

Demand softened in Amsterdam in the first half of the year, reflecting the broader national picture. Despite this, desire to upgrade from poor quality buildings continues to support prime rents at €70/sq m/annum.

Industrial rents in the Barcelona market have seen significant growth over the past year, up by over 20%, rather less for logistics buildings and warehouses. Occupier caution may temper this momentum but some growth is still likely from current levels of around €114/sq m/annum.

Brussels lies within the "Golden Triangle", the main concentration of logistics and industrial activity in Belgium. Occupier market conditions are stable, and good quality space trades at up to €60/sq m/annum.

Leasing volumes in the Budapest market have risen strongly in the first half. Rents are stable at over €72.00 /sq m /annum, with the highest levels prevailing in the Budapest South area, particularly around the airport.

Demand in the Copenhagen area is heavily-focussed on the best quality buildings, the supply of which is very limited. Rents for modern, well-located logistic properties are steady at DKK 500-525 / sq m.

Demand for good quality space in prime Dublin locations remains strong, although transaction times are lengthening. Rents remain stable at €130/sq m/annum.

The industrial logistics market in Portugal is relatively immature. Rising take-up in Lisbon in the second quarter resulted mostly from expansion of existing companies rather than new entrants, although this is still sufficient to keep prime rents stable at €60 /sq m /annum.

Milan continues to be the main focus of industrial and distribution activity in northern Italy, and is benefitting from structural market changes such as increased penetration of third-party logistics operators. Despite this rents have slipped to €58 /sq m / annum.

The relatively high cost of occupying warehouse space in Moscow – around €99/sq m/annum – is becoming a deterrent to occupiers. Some international operators are pursuing supply chain solutions that involve minimising the amount of warehousing held within Russian borders.

The Oslo market is supported by continuing growth in the Norwegian economy, albeit at lower rates than in recent years. Vacancy is very limited which, along with high rents of up to NOK 1150 /sq m/ annum, is forcing occupiers further away from the city.

Demand remains strong in the Czech Republic, with take-up in Prague rising strongly in the second quarter. Prime rents have risen to €66.00 /sq m /annum.

Leasing activity in the Rotterdam market has been generally strong in the first half, although with some slowing in the second quarter as a result of many logistics operators having now completed the process of upgrading to newly-built premises. Prime rents remain unchanged at €65.00 /sq m /annum.

Despite weakening sentiment in the Swedish manufacturing sector, prime Stockholm rents remain stable at around SEK650 / sq m/ annum, with some upward pressure evident for the best quality logistics space.

Rents in the UK regional markets are generally stable at between £6-7.00 per sq ft. Demand is expected to recede over the short term somewhat as a result of slower consumption and hence reduced retailer requirements for distribution space.

The Vienna market is seeing strong interest in modern flexible industrial/logistics sites, and development activity is responding. Prime rents are expected to remain stable at around €66.00 /sq m /annum.

The Zurich market continues to be dominated by owner-occupied assets, some of which are likely to released into the investment market. Prime rents have been stable for some time at SFR140 /sq m /annum.

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