EMEA Industrial & Logistics

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March 2009

Quick Stats

	Change from Q3 08	Change from Q4 07
Rent	↓	↓
Yield	↑	↑

Hot Topics

- Occupiers are focussing more tightly on cost-reduction, producing variable demand patterns
- A desire to upgrade for overall efficiency gains is a growing trend, with signs emerging of a two-tier market in some locations
- Values have drifted downwards, with yields rising and rents down in year-on-year terms. This is deterring speculative development in most markets
- Investment activity in the sector declined last year, in line with the general contraction but still accounts for 10% of the market

OVERVIEW

- **Demand patterns mixed for both industrial and logistics buildings, as cost-cutting imperative grows**
  Occupiers of industrial and logistics property are operating in an environment of generally weakening demand for their products and services, and overall take-up fell in 2008. Current demand patterns reflect the growing need to reduce operating costs. For manufacturers, this stems from the need to address excess capacity and weak price trends for many products, while distributors are increasingly looking to secure efficiency gains across the supply chain.

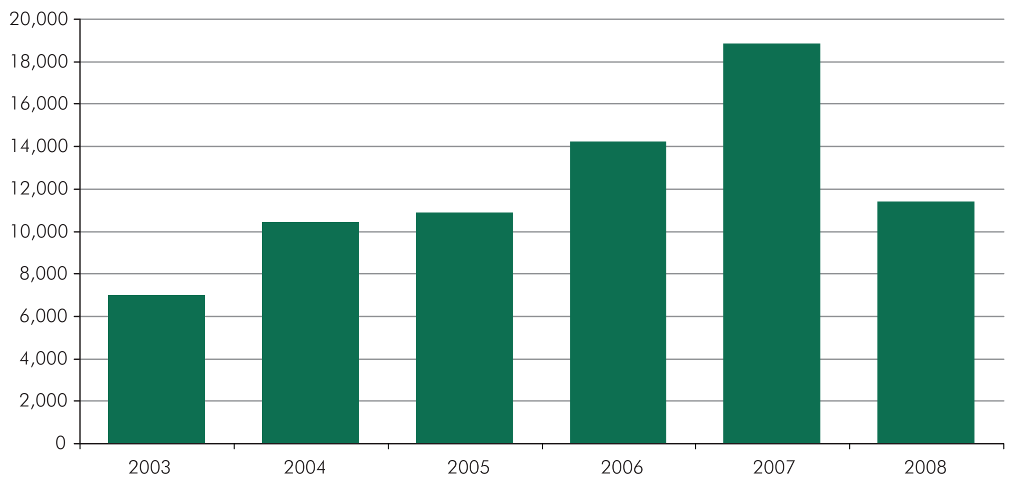
- **Variety of occupier responses to weaker economic outlook**
  As well as generally slower leasing activity, the desire to restructure leases or rationalise use of buildings in order to reduce overall costs is increasingly driving occupier behaviour. The quality and flexibility of buildings is therefore a key consideration and so, even in a generally slowing demand environment, the need to upgrade is generating requirements for more efficient buildings.

- **Industrial and logistics sector accounts for 10% of European investment market**
  Investment turnover in the sector totalled €11.5bn last year. This is 40% down from 2007, but it still accounts for nearly 10% of total investment turnover, compared with 8% in 2007. Investment demand in the sector in western Europe is mainly focussed on logistics buildings. In the CEE region it is more evenly split between logistics and manufacturing.

- **Speculative development has virtually ceased in the wake of value falls**
  Capital values in the sector fell by around 13% in 2008 - broadly in line with other sectors - as a consequence of a 1.3% drop in rents and a rise in yields approaching 100 basis points. This has deterred further speculative development, so that build-to-suit is the only way of securing large-unit logistics space in some markets. As a result there is still upward pressure on rents for this type of property.

- **Rental outlook generally subdued, but better prospects for best quality space**
  Overall we expect widespread downward pressure on rents this year. Even so, there are some markets where rents for the best quality space will perform better as occupiers seek to upgrade as part of a drive for broader cost-efficiency.

European Investment Turnover, Industrial and Logistics (€m)



Source: CB Richard Ellis

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ECONOMIC BACKGROUND

With economic headwinds strengthening worldwide, the backdrop to the market is one of declining corporate confidence, and a general focus on cost-saving and capital preservation. European GDP fell in both the second and third quarters of 2008 and, with economic data having become increasingly negative in recent months, looks certain to have dropped in the final quarter as well. None of the major European economies is expected to escape a contraction in 2009. Latest indications suggest that the major European economies will see declines of between 2% and 2.5% this year. Within this general picture, capital investment, industrial production and consumer spending are all expected to turn negative this year.

OCCUPIER ACTIVITY

Demand patterns remain very mixed, with the weakening economy causing widespread hesitancy among occupiers over major commitments such as new buildings. In most markets, demand increasingly stems from a variety of cost-cutting imperatives. Sectors where demand is holding up best tend to include staple goods, such as food and toiletries.

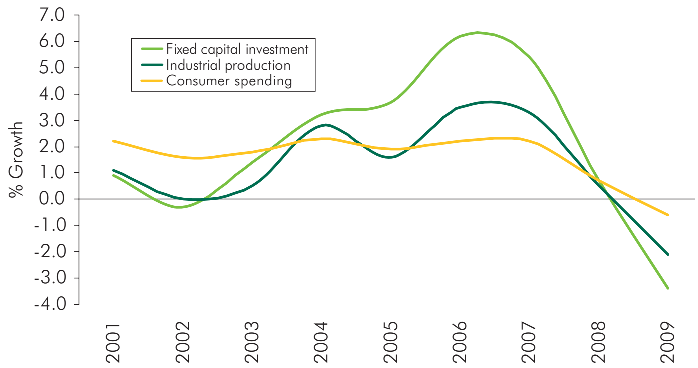
Overall take-up was down by around 8% in 2008, but has held firmer in the main CEE markets. Vacancy levels are tending to edge upwards but again this is not universally the case and there are some markets where vacancy is still lower than it was a year ago.

Alongside these changes, there is also evidence of lengthening transaction times and a desire to sub-lease excess space. This is linked to a growing desire to restructure leases or usage of buildings in order to reduce costs. In some of the more mature markets, such as Germany, this is resulting in demand focussing more exclusively on the best-located properties with the greatest internal adaptability and flexibility. Hence, even in a generally weaker demand environment, the need to upgrade for overall efficiency gains is a growing trend, with signs emerging of a two-tier market in some locations.

RENT AND YIELD CHANGES

The EU-15 industrial rent index fell slightly in the final quarter of last year, taking the year-on-year growth rate into negative territory at -1.3% thus far. This change in the index primarily reflects rental falls in a small number of locations - including Vienna, Madrid and particularly Dublin - rather than a more general downturn.

Key Economic Drivers, EU-27, 2001-09

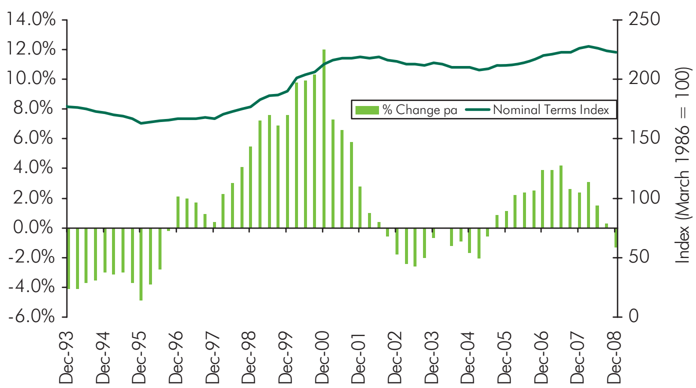


Source: Experian Business Strategies

Selected Occupier Transactions, H2 2008

Market	Size (Sq m)	Tenant	Rent (€/ sq m/month)
Mainz, Germany	3,800	Kwabo Extrusion GmbH	4.80
Prague, Czech Republic	11,000	Gebruder Weiss	na
Vaneto, Italy	44,000	Bertola Logistics	4.00
Rotterdam, Netherlands	12,000	Steinweg	4.33
Budapest, Hungary	27,000	Rossmann	na

EU-15 Industrial Rent Index



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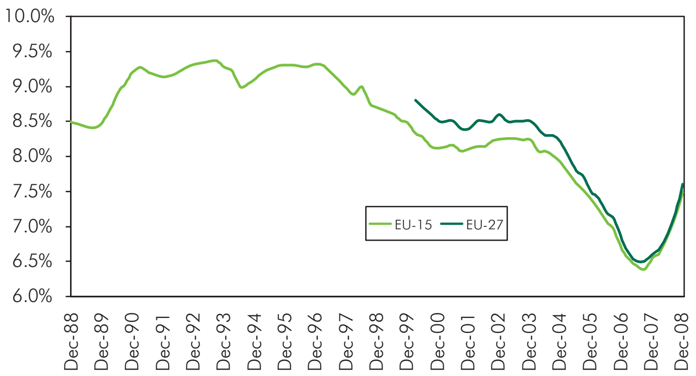
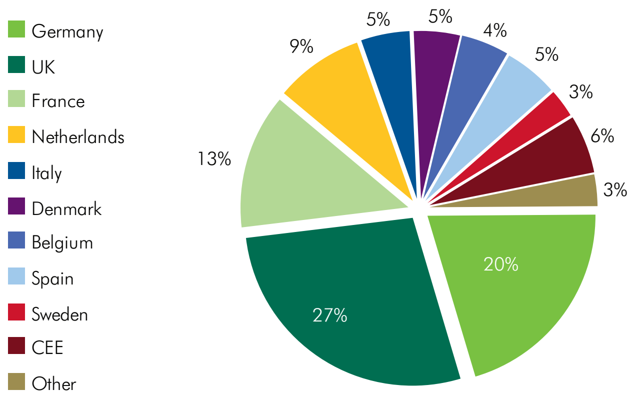
Industrial Yield Indices



Industrial Investment by Market, 2008



Key Investment Transactions, H2 2008

Market/City	Buyer	Price €m
Russia/St Petersburg	Raven Russia Ltd	146.5
Spain/Various	Axa Immoselect	130.0
France/Various	OPCI	128.7
UK/Various	Crown Estate	81.1
Belgium/Bornem	First Industrial	78.0

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Rents in the CEE region showed more variable patterns, with increases in Warsaw and Bucharest contrasting with a sharp decline in Kiev and general stability in the other core Central Europe markets of Hungary and the Czech Republic.

Industrial yields rose by a further 35 basis points in the fourth quarter, with the EU-15 industrial yield index now standing at 7.49%. Across the market as a whole, yields have now been rising for five consecutive quarters, with the latest rise constituting the largest single quarter's increase over this period. The aggregate movement since the cyclical low of September 2007 has been over 100 basis points.

Most of the major western European markets - including Vienna, Brussels, Copenhagen, Milan, Madrid and Amsterdam - saw yield increases of 25-50 basis points in the final quarter of last year, but larger increases were recorded in Paris and Dublin. This has taken yields in most major centres at least 75 basis points higher than they were at the end of 2007 and, in a number of significant cases, including Paris, Amsterdam, Stockholm and Milan, 100 basis points or more higher.

Developers in all markets have been deterred from speculative development by value reductions on this scale. Increasingly, therefore, build-to-suit is the only way of acquiring large-unit space in some markets, producing upward pressure on rents for this type of space: a further indication of the emergence of a two-tier market.

INDUSTRIAL INVESTMENT

Overall European investment market turnover fell significantly in 2008 to €117 billion, less than half the previous year's total. Activity was particularly subdued in the second half, with turnover totalling less than €50bn.

Against this general background, the industrial and logistics sector continues to attract a significant proportion of investment activity. Turnover in the industrial market totalled €11.5bn last year, down 40% from 2007, but still accounting for nearly 10% of total investment turnover, up from 8% in 2007.

The UK, while still the largest single market, saw a sharp reduction in its share of activity (down from 34% to 27%) as did France. By contrast, Germany contributed an increased proportion of activity, as did Belgium and Denmark which between them accounted for 9% of the total.

Cross-border investment accounted for around 44% of industrial transactions last year, with the USA and the UK the dominant acquirers, but significant contributions also from Germany and Australia.

KEY MARKET DATA, END-2008		PRIME INDUSTRIAL RENT		% CHANGE		PRIME INDUSTRIAL YIELD
Country	City	Local	W / Sq m annum	Last 3 months	Last 12 months	%
Austria	Vienna	€5.40/sq m/month	64.80	-1.82	8.00	7.00
Belgium	Brussels	€48.00/sq m/annum	48.00	0	2.00	7.50
Bulgaria	Sofia	€5.00/sq m/month	60.00	0	25.00	9.50
Croatia	Zagreb	€5.90/sq m/month	70.80	0	-1.67	8.75
Czech Republic	Prague	€5.50/sq m/month	66.00	0	4.76	7.75
Denmark	Copenhagen	DKR 525.00/sq m/annum	70.49	0	0	7.00
Finland	Helsinki	€132.00/sq m/annum	132.00	0	0	6.70
France	Paris (warehousing)	€80.00/sq m/annum	80.00	0	0	7.50
Germany	Berlin	€4.50/sq m/month	54.00	0	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	0	6.75
Germany	Hamburg	€5.70/sq m/month	68.40	1.79	3.64	6.75
Germany	Munich	€6.40/sq m/month	76.80	0	0	6.75
Greece	Athens	€6.50/sq m/month	78.00	0	0	8.25
Hungary	Budapest	€6.50/sq m/month	78.00	0	0	8.00
Ireland	Dublin	€118.00/sq m/annum	118.00	-9.23	-8.53	9.00
Israel	Tel Aviv	$10.00/sq m/month	87.78	-25.21	-21.51	9.50
Italy	Milan	€58.00/sq m/annum	58.00	0	-6.45	7.80
Italy	Rome	€62.00/sq m/annum	62.00	0	-11.43	7.80
Netherlands	Amsterdam	€70.00/sq m/annum	70.00	0	0	7.50
Netherlands	Rotterdam	€65.00/sq m/annum	65.00	0	0	7.00
Norway	Oslo	NKR1,100/sq m/annum	116.55	-4.35	0	7.50
Poland	Warsaw (warehousing)	€6.40/sq m/month	76.80	6.67	11.30	7.75
Portugal	Lisbon	€4.50/sq m/month	54.00	0	0	7.50
Romania	Bucharest	€4.70/sq m/month	56.40	4.44	n/a	8.50
Russia	Moscow	US$ 140.00/sq m/annum	102.41	0	7.69	12.00
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	8.50
Spain	Barcelona	€108.00/sq m/annum	108.00	0.93	0.84	7.00
Spain	Madrid	€94.00/sq m/annum	94.00	-2.08	-7.84	7.00
Sweden	Stockholm	SEK 650/sq m/annum	60.74	0	0	8.00
Switzerland	Geneva	SFR 210.00/sq m/annum	139.44	5.00	31.25	6.75
Switzerland	Zurich	SFR 140.00/sq m/annum	92.96	0	0	6.50
Turkey	Istanbul	US$ 6.50/sq m/month	57.06	0	8.33	9.00
Ukraine	Kiev	US$ 9.00/sq m/month	79.00	-18.18	-18.18	16.00
UAE	Dubai	AED 45.00/sq ft/annum	96.46	0	50.00	11.00
UK	Birmingham	£6.00/sq ft/annum	68.74	0.84	0.84	8.25
UK	Glasgow	£6.50/sq ft/annum	74.47	0	0	8.25
UK	London – Heathrow	£13.25/sq ft/annum	151.80	0	0	7.75
UK	Manchester	£5.75/sq ft/annum	65.88	-4.17	-4.17	8.25

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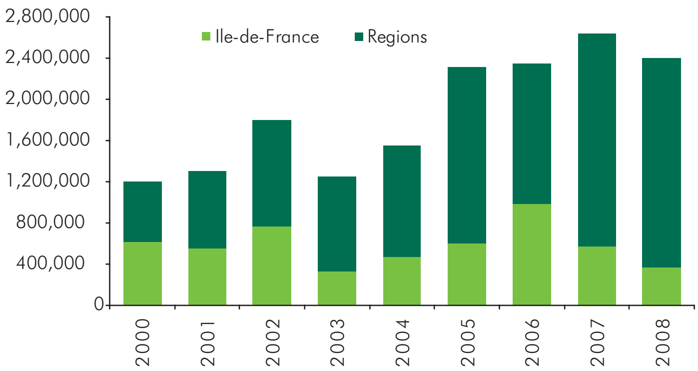
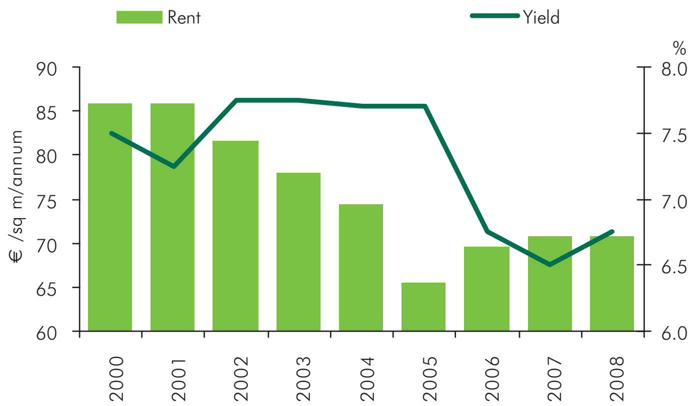
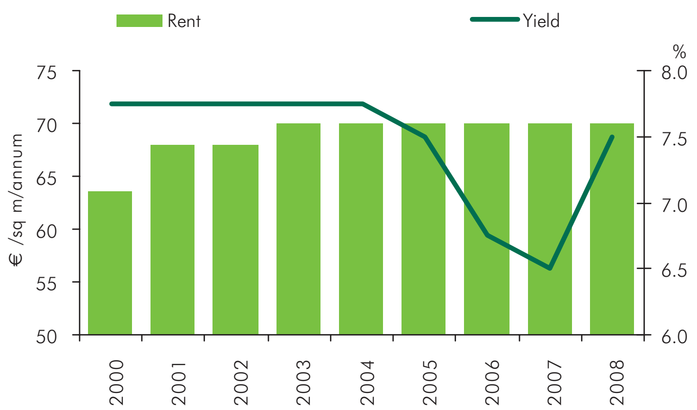
Logistics Take-up, France (Sq m)



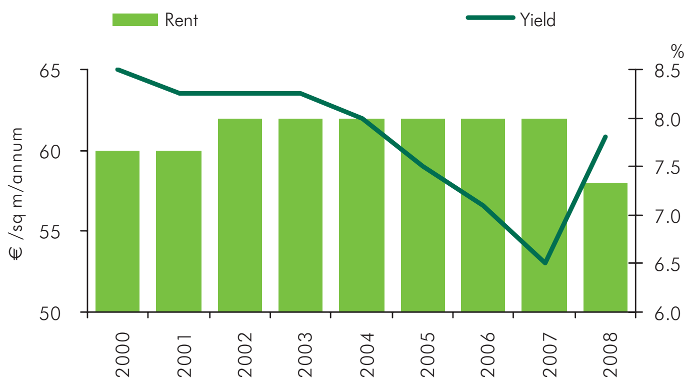
Frankfurt Prime Industrial Rent and Yield



Amsterdam Prime Industrial Rent and Yield



Milan Prime Industrial Rent and Yield



FRANCE

Logistics take-up last year was down slightly (9%) on the 2007 level but broadly in line with the past three years as a whole. The Ile-de-France area only accounted for around 15% of last year's total, reflecting the increasing significance of the regional markets, particularly the North and the Rhone corridor, and the expansion of specialist third party logistics networks. Demand weakened towards the end of 2008 as a result of organisational restructuring and the postponement of real estate decisions. Rents are generally stable but still seeing pockets of upward pressure where Class A buildings are scarce.

GERMANY

Germany is one of the largest and most advanced logistics market in Europe. The standard requirements for a logistics warehouse have constantly risen in recent years, reflecting growing demand for properties with third-party adaptability. Demand for large-volume logistics space remains stable, although intensifying competition among 3PL operators is forcing closer scrutiny of property costs. Prime rents in the principal locations range between €55-70/sq m/annum, and prime yields 6.75%. Rising build costs have driven up rents for new build-to-suit space, while speculative development is increasingly uncommon.

NETHERLANDS

Although the Dutch logistics market is one of the most active and long-established in Europe, much of the existing logistics space is outdated, or less-favourably located. Demand conditions are somewhat fragile at present, with general weakness tempered to some extent by demand linked to commodities trading, mostly in the Rotterdam area. A sizeable development pipeline is likely to exert downward pressure on rents in the short term. Longer term prospects remain favourable due to the consolidation of logistics operators into the premier locations. Prime yields have risen by around 100 basis points over the past year.

ITALY

Demand weakened in Italy towards the end of 2008, although in some of the core locations in the north of the country, the availability of high-quality modern stock remains restricted. Activity has tended to focus on smaller units, with limited large-volume demand, and a general elongation of transaction times. Prime rents in the main centres remained stable in the final quarter of last year, at €58/sq m /annum in Milan and €62 /sq m /annum in Rome. Both markets are down on year-on-year terms. Prime yields rose in both markets to 7.8%, which is 130 basis points up compared with the end-2007 level.

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MARKET BRIEFING

Rents for the best logistics space in **Barcelona** can reach up to €9/sq m/month and competition for the best space remains strong. More broadly, some softening in industrial demand is forcing landlords to offer more generous terms and giving tenants the option of moving closer to Barcelona.

Demand remains well-supported in Belgium and is tightly focussed on the core locations within the "Golden Triangle" including **Brussels**. Rents for prime logistics space in Brussels are stable at around €48 /sq m /annum.

The supply side of the **Budapest** market changed dramatically last year, with over 250,000 sq m added to modern stock, pushing the vacancy rate above 15%. Despite this top rents have remained stable at up to €78 /sq m /annum.

Industrial production in Denmark is falling and the **Copenhagen** vacancy rate is edging up. Rents for modern, well-located logistics properties have so far remained stable at DKK 500-525 /sq m /annum.

Dublin rents have eased back to €118 /sq m /annum. The level of transactional activity is expected to fall relative to last year, although the volume of short-term lettings remains healthy as occupiers seek flexibility.

The **Geneva** market is a good example of demand holding firm for the best quality space, while weakening for poorer quality buildings. Rents for the best buildings rose by around 5% in the final quarter of 2008 to CHF210 /sq m /annum.

Take-up of logistics space in the **Lisbon** market contracted last year. Market activity is increasingly focussed on larger units as the market matures, and prime rents stand at €54 /sq m /annum.

Madrid rents edged lower in the fourth quarter, and are down by nearly 8% year-on-year to €94 /sq m /annum. Demand is generally weak, and a number of companies are seeking reviews of their rents with landlords, under threat of relocation.

The **Moscow** market remains relatively undersupplied with modern space, reflected in rents of up to €140/sq m/annum. New completions undershot expectations last year, and several new development projects have been shelved, so the supply situation may persist.

Oslo rents have dropped to NOK 1100 /sq m/ annum, down around 4% from their most recent peak. With operators increasingly seeking efficiency improvements, demand along the main road corridors is expected to hold up best.

The number and total volume of deals in the **Prague** market declined towards the end of 2008, with activity heavily focussed on the logistics sector. Prime rents remained stable at €66 /sq m/annum.

Recent leasing activity in the **Rotterdam** market has been mainly focussed on small and medium-sized units, with commodities–driven demand particularly prominent. Large-volume logistics activity has been sparse. Prime rents remain unchanged at €65 /sq m /annum.

Prime **Stockholm** rents have so far remained stable at around SEK650 /sq m/ annum. However, an increasing number of industrial companies have indicated their intention to reduce headcount which is likely to push up vacancy.

Prime rents in the **UK regional** markets generally lie between £5.75-7.50 /sq ft, and most remained stable towards the end of last year. The outlook for the coming year remains uncertain, with subdued demand likely to place downward pressure on rental values.

Demand for modern logistics properties remains high in the **Vienna** market, and prime rents stand at €64.80 /sq m /annum. The future pipeline is highly uncertain, with projects increasingly dependent on securing major pre-lets.

Rents continue to rise in the **Warsaw** market and stood at €76.80 /sq m /annum at the end of 2008. Demand is likely to ease in 2009, and there is already evidence of companies scaling back investment plans in response to falling orders.

The **Zurich** market is dominated by owner-occupation of predominantly custom-built premises. As a result, while export activity is clearly being adversely affected by weaker trade, prime rents in the local market have remained stable at CHF140 /sq m /annum.

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For more information regarding the MarketView, please contact:

EMEA Research

Nick Axford, Executive Director, EMEA Research
CB Richard Ellis
St Martin's Court, 10 Paternoster Row
London EC4M 7HP
t: +44 20 7182 3039
e: nick.axford@cbre.com

Richard Holberton, Director, EMEA Research
CB Richard Ellis
St Martin's Court, 10 Paternoster Row
London EC4M 7HP
t: +44 20 7182 3348
e: richard.holberton@cbre.com

Catherine Bushnell, Analyst, EMEA Research
CB Richard Ellis
St Martin's Court, 10 Paternoster Row
London EC4M 7HP
t: +44 20 7182 3405
e: catherine.bushnell@cbre.com

EMEA Cross Border Industrial and Logistics Team

Simon Blake, Executive Director
CB Richard Ellis
Kingsley House, 1a Wimpole Street
London W1G 0RE
t: +44 20 7182 2360
e: simon.blake@cbre.com

Guy Frampton, Executive Director
CB Richard Ellis
Kingsley House, 1a Wimpole Street
London W1G 0RE
t: +44 20 7182 2150
e: guy.frampton@cbre.com

David Turner, Executive Director
CB Richard Ellis
Kingsley House, 1a Wimpole Street
London W1G 0RE
t: +44 20 7182 2361
e: david.turner@cbre.com

James Markby, Associate Director
CB Richard Ellis
Kingsley House, 1a Wimpole Street
London W1G 0RE
t: +44 20 7182 2746
e: james.markby@cbre.com

John Palmer, Managing Director CEE Industrial & Logistics
CB Richard Ellis
Rondo ONZ 1
00-124 Warsaw
t: +48 22 544 8000
e: john.palmer@cbre.com

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