REPORT | H2 2024

European Logistics & Industrial Real Estate 2024

PAN EUROPEAN CLUB PARTNER

CMS law·tax·future

Collected insights from the biggest decision makers in Europe's Logistics & Industrial sector

Editor: Rory Hickman
Designer: Douglas Soldera Junqueira & Mikael Jacob
Image: NetVideo / Shutterstock

GRI Club

CONTENTS

INTERACTIVE TITLES

Image: GRI / Midjourney

INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled from the many conversations on the logistics and industrial sector that have taken place throughout 2024 at both our Pan-European and country-specific meetings, collecting perspectives from the biggest players in the industry, including investors, lenders, and operators active in the European markets.

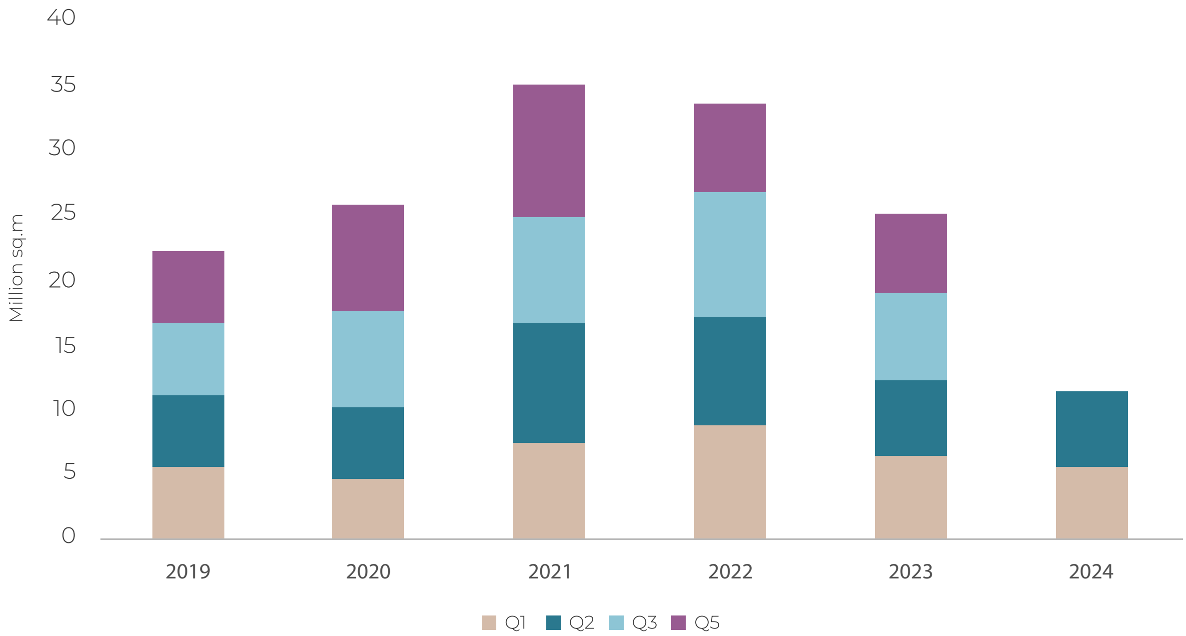
Image: GRI / Midjorney

H1 2024 OVERVIEW

Overall investment activity in the European logistics sector rebounded in H1, seeing total volumes increasing significantly compared to the previous year. This recovery was driven by strong investor interest in logistics assets amid improving economic conditions, although performance varies significantly between nations.

Prime rents have continued to rise, although the pace of growth has slowed compared to earlier periods, with more pronounced increases in markets with low vacancy rates and strict land-use regulations, reflecting a shift towards higher-quality assets.

European logistics take-up



Leasing activity in the European logistics market improved in Q2 2024, with take-up levels rising compared to a slow start in Q1. However, overall take-up for the first half of the year remained slightly below the previous year due to weaker demand in some markets and challenges like extended lease negotiations and limited supply of high-quality warehouses.

Third-party logistics (3PL) providers remain the most active occupier segment, followed by manufacturers in key sectors such as electric vehicles, battery production, and pharmaceuticals.

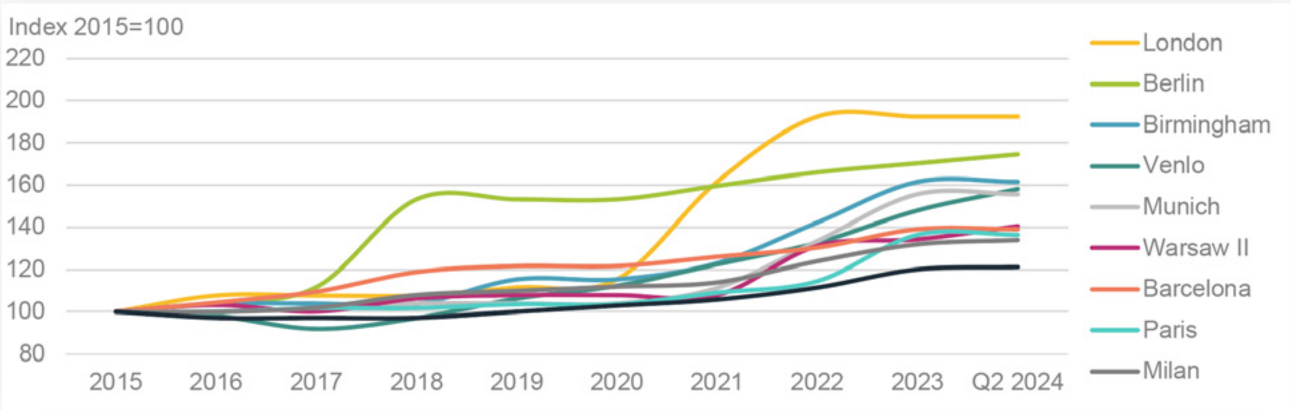
Despite a significant decline in speculative construction of new logistics space, the overall vacancy rate has risen to 4.8%, indicating a more competitive market for available properties, although this rate is still below the long-term average.

H2 2024 OUTLOOK

Looking ahead to the remainder of 2024, the outlook remains cautiously optimistic. Yields have stabilised, with prime yields around 5%, suggesting that the phase of yield decompression may have reached its limit.

Stable yields and rising rents in key locations such as Brussels, London, and Bratislava indicate that market conditions are holding steady or improving. There is also a growing focus on single asset transactions, reflecting a more conservative investment approach in response to economic uncertainties and high borrowing costs.

Prime headline rents



Source : BNP Paribas Real Estate Research

However, the logistics sector continues to face significant headwinds from global geopolitical and economic disruptions, such as the war in Ukraine, fluctuating inflation rates, and rising freight costs, which are contributing to a more cautious market sentiment and concerns about the impact of high interest rates on demand.

For the second half of 2024, the European logistics market is expected to stabilise further if financial conditions ease and central banks move towards interest rate cuts. Such changes could encourage more significant investment deals and the return of larger, pan-European portfolios, especially in core markets like France, Germany, and the Netherlands.

Nonetheless, the sector must address ongoing challenges, including slow progress in meeting ESG compliance standards, high costs associated with technological advancements and automation, and fluctuating demand patterns. While technology and automation offer substantial potential benefits, particularly in light of recent labour shortages, the high costs and uncertain future for some assets may limit broader adoption.

FRANCE

Amid volatility in the French real estate market, the logistics sector stood out as a relatively stable and promising area in H1 2024 due to its ability to reprice more quickly than other sectors, making it attractive to investors seeking stable and predictable returns.

This swift adjustment has drawn corporate investors back to the market, significantly boosting investment volumes, which have even surpassed those in the office sector early in the year, further enhancing investor confidence and interest.

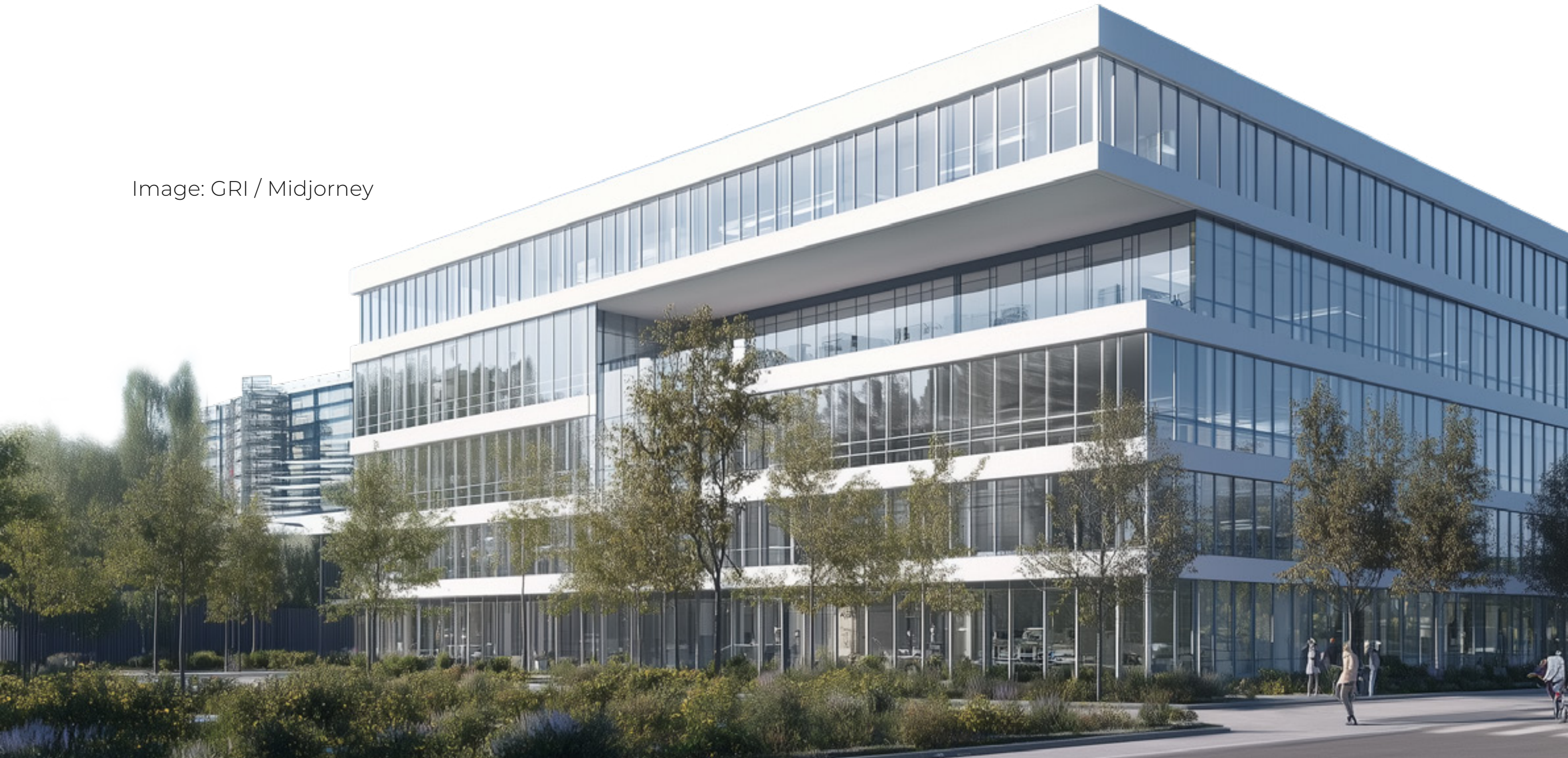
Despite the sector's relative stability, market activity in logistics has been mixed. The take-up for larger XXL warehouses saw an almost 40% increase, but the medium-sized segment suffered from reduced transactions due to low supply.

Investment volumes also reflected this mixed performance, with significant declines in major hubs like Greater Paris, Marseille, and Lyon, while smaller markets, such as Lille and Orléans, saw a concentration of activity, accounting for nearly half of the country's transactions in H1 2024.

Prime yields for logistics assets have remained stable, indicating a balanced market with expectations for gradual tightening as economic conditions improve.

Supply constraints continue to shape the French logistics market, with new developments limited by land scarcity, high construction costs, and regulatory hurdles. The vacancy rate had risen above 4% by mid-year, yet the lack of new supply has supported rental growth, particularly in prime locations.

Image: GRI / Midjorney



Despite this stable prime rent level in Île-de-France, average rental values for new properties fell by almost 5%, while second-hand values have remained stable or declined in most regions.

Looking toward Q4 2024, the logistics market in France is expected to stabilise with moderate growth in demand and rental rates, particularly in regional markets where supply constraints are most acute. However, rising costs, land acquisition challenges, and economic uncertainties, including inflation, geopolitical tensions, and regulatory challenges, could temper this outlook.

While logistics in France remains one of the more promising sectors, sustained growth will depend on overcoming regulatory barriers, managing costs, and responding to shifting demand patterns, especially in urban and regional areas where e-commerce and proximity to consumers continue to drive market dynamics.

Image: GRI / Midjorney

GERMANY

The German logistics market has faced challenges in the first half of 2024, with overall activity subdued due to economic uncertainties and limited new-build space. Take-up of warehousing and logistics space in H1 2024 hit its lowest level since 2012.

Of the top logistics markets - Berlin, Düsseldorf, Frankfurt, Hamburg, and Munich - only Frankfurt experienced growth, with an 85% increase in take-up, while Berlin and Hamburg saw significant declines of 26% and 24%, respectively. Smaller markets also struggled, contributing to the overall decline in activity.

While some key markets experienced notable rental growth, overall rental increases have slowed compared to previous years, reflecting caution among occupiers. Smaller spaces have accounted for the majority of transactions, indicating a shift in demand towards more flexible space options.

The distribution and logistics sector remains the most active, accounting for more than 40% of total take-up, although it was noted that occupiers generally prefer extending existing leases over taking on new space.

Looking ahead, the German logistics market is expected to see gradual improvement in the latter half of 2024, contingent on stabilising economic conditions and the availability of modern, speculative developments. Rental levels are likely to remain stable, with slight increases anticipated in key locations where demand remains strong.

However, the overall market sentiment remains cautious, with many stakeholders awaiting further signs of economic recovery and more significant new supply to support sustained growth.

As economic conditions improve, particularly with positive indicators in industrial production, a gradual uptick in activity may occur, although it is expected to remain below the long-term average for the foreseeable future.

UNITED KINGDOM

The UK logistics market has shown resilience and growth in H1 2024, driven by strong demand from key sectors such as third-party logistics providers (3PLs), manufacturing, and retail. Leasing activity increased significantly compared to 2023, with notable growth in Q2.

While the overall vacancy rate edged up slightly due to an influx of secondhand space, demand remains robust across most regions, particularly in the East Midlands, which emerged as a key area of activity. In contrast, regions like the South East and Scotland saw more subdued market conditions with limited new leasing.

Rental rates have generally continued to rise, especially in the Midlands and the North West, reflecting sustained demand for high-quality logistics space. However, new development activity has slowed due to high construction costs and softer tenant demand, resulting in a slightly reduced pipeline of new projects compared to pre-pandemic levels.

Investment volumes in the logistics sector reached £1.4 billion in Q2 2024, a 20% increase from the previous quarter, driven by private equity and foreign investors. Prime yields have remained stable, indicating confidence in the sector despite broader economic uncertainties.

Looking ahead, the market is expected to maintain a cautiously optimistic outlook. Modest rental growth and improved investment activity are likely, supported by potential interest rate cuts and continued interest in modern, sustainable facilities.

While speculative development has slowed, demand for existing space and customised build-to-suit options is anticipated to grow, as occupiers seek to secure their supply chains against future uncertainties.

The UK logistics sector is positioned for continued demand and steady growth, with certain regions, like the East Midlands and the North East, expected to remain hotspots for activity as economic conditions stabilise and investor confidence gradually improves.

ITALY

The Italian logistics sector remained highly dynamic in early 2024, continuing to attract strong investor interest and emerging as the most active area in terms of transactions.

Investment volumes grew significantly compared to the previous year and outperformed the average of recent years. The market was largely driven by international capital, which accounted for the majority of the investment activity.

The market has seen a resurgence in deals, particularly through sale and leaseback transactions involving light industrial properties. Prime yields have remained stable at 5.5%, with expectations of gradual tightening as core investors return to the market.

In Q2 2024, “Built-To-Own” (BTO) deals made up nearly a quarter of the total logistics space uptake, reflecting a strategic move by businesses to manage costs and secure long-term stability amid rising rental rates.

Occupier demand for logistics space remains strong in Italy, especially from third-party logistics providers (3PLs), who accounted for a significant majority of the market absorption in Q2 2024. There is also a noticeable trend towards environmentally sustainable properties, with a large proportion of leased assets being ESG-compliant.

However, rising construction and financing costs, coupled with limited supply, have led to increased rental rates in major markets like Milan and Verona. The vacancy rate remains exceptionally low across the country, with some sub-markets nearing zero vacancy, which is likely to sustain upward pressure on rents.

Looking ahead, Italy is positioning itself as a key player in the EMEA logistics sector, driven by factors such as low e-commerce penetration and strong demand for Grade A logistics buildings.

The market dynamics are expected to be shaped by trends like reshoring, a heightened focus on ESG-compliant assets, and a preference for build-to-suit developments to mitigate risks associated with speculative construction.

Emerging logistics clusters outside of the primary hubs are maturing, providing new investment opportunities, especially for assets that can be upgraded to meet evolving ESG standards.

SPAIN

The Spanish logistics market in 2024 has been characterised by a strong link between demand and economic growth, with significant contributions from manufacturers, supply chain logistics, and distribution operators supporting GDP.

However, the market faces challenges due to an excess supply of logistics space, which has kept vacancy rates higher than in other major European markets. While vacancy rates in countries like Germany, the Netherlands, and the UK are below 4%, Spain's rates remain comparatively elevated, creating a barrier to the kind of rental growth seen elsewhere.

This oversupply has deterred some investors, although there is optimism among market participants that vacancy rates will eventually decline, potentially boosting the sector's attractiveness.

The central area of Spain has shown strong growth, with logistics take-up in Q2 2024 doubling compared to the same period last year, and prime rents increasing. Catalonia also experienced a substantial increase in take-up, up 50% year-on-year, with rising prime rents reflecting growing demand.

Major markets like Madrid and Barcelona saw mixed performance; Madrid recorded robust take-up levels, driven by demand from retailers, e-commerce operators, and the food sector, while Barcelona experienced a more modest increase, with a focus on high-quality, ESG-compliant logistics spaces. Despite this, both cities maintained stable prime rents and relatively high vacancy rates, signalling a steady yet cautious market environment.

Image: GRI / Midjorney

Investment in Spain's logistics sector has been buoyant, with volumes increasing by 30% in Q2 2024, reflecting strong investor interest despite broader economic uncertainties. The stabilisation of interest rates is expected to support further investment activity throughout the year, particularly in prime assets.

Prime yields have remained stable in key markets, with Madrid and Barcelona showing slight variations but overall maintaining investor confidence.

Looking ahead, the outlook for Spain's logistics market remains positive, albeit cautious. Continued demand for high-specification, ESG-compliant spaces is expected to drive growth, particularly in major hubs like Madrid and Barcelona. However, the market will be shaped by a longer decision-making process among investors and a focus on prime assets as key trends.

Image: @lunamarina / freepik

PORTUGAL

The Portuguese logistics market has shown steady growth in 2024, supported by increasing demand and strategic advantages such as its geographical location and robust infrastructure.

Logistics space take-up in Q2 2024 grew year-on-year, with the majority of activity concentrated in Greater Lisbon, which accounted for most of the national volume, while Greater Porto also experienced significant growth.

Despite economic uncertainties, demand remains high, particularly driven by the growth of e-commerce, the shift towards more resilient supply chain models, and the increasing emphasis on sustainability.

Rising rents in key areas reflect the strong demand for logistics space, especially in prime locations. Prime rents have increased in both Lisbon and Porto, reflecting the limited supply of high-quality, modern logistics facilities. However, the investment market has faced some challenges, with volumes decreasing compared to the previous year, although ongoing transactions could boost figures by year-end.

The market is marked by an imbalance between supply and demand, particularly in the Greater Lisbon and Greater Porto areas, where a lack of available space is becoming a constraint. Nevertheless, a significant pipeline of new logistics developments is underway, much of which is already pre-let or owner-occupied, indicating strong market confidence.

Sustainability is a growing focus in the Portuguese logistics sector, with new regulations requiring all newly constructed buildings to achieve zero emissions. There is also a requirement for existing buildings to enhance energy performance in the coming years, driving interest in ESG-compliant facilities.

Occupiers and investors alike are prioritising sustainable buildings, and many are willing to pay higher rents for certified spaces, aiming for energy savings and reduced carbon emissions.

Looking ahead, the Portuguese logistics market is poised for continued growth in 2024, bolstered by a strong pipeline of new developments, a focus on sustainable practices, and technological innovation.

CENTRAL & EASTERN EUROPE

The once unassailable logistics market in CEE is at a critical juncture in 2024, experiencing a slowdown in growth due to several converging factors.

While the sector has been a strong performer in recent years, demand for logistics space has not kept up with the increasing supply, resulting in rising vacancy rates and heightened competition among tenants.

This oversupply is further compounded by increased rental prices, making it challenging for tenants to manage costs and prompting them to seek smaller, more efficient spaces and embrace automation to offset expenses.

The market also faces additional pressures from high labour and construction costs, and many large projects are currently on hold due to these economic uncertainties.

Investment strategies in the region are adapting to these dynamics, with a trend toward more tailored, build-to-suit projects for specific, long-term needs, while speculative developments cater to short-term requirements. Interest rates and construction costs remain high, leading investors to demand higher returns in a more complex financial environment.

Poland, a traditionally strong logistics hub due to its strategic location and lower costs, is now seeing its competitive edge wane as land and construction expenses rise, potentially impacting its appeal for new investments.

Meanwhile, Romania is emerging as a new rival in the region, offering strategic advantages for supply chain logistics despite its less developed infrastructure.

Image: GRI / Midjorney

Vacancy rates are rising across all CEE countries, although the Czech Republic maintains the lowest rate among the key markets, reflecting its strong demand and limited supply. In Poland and Hungary, vacancy rates have exceeded 8%, but with a reduced pipeline of new developments compared to the previous year, a significant further increase in vacancies is not anticipated.

The region's market is also witnessing a shift towards integrating retail and logistics spaces, particularly in areas with overcapacity, where retail properties are being repurposed for last-mile delivery, reflecting the need for more flexible and adaptable space solutions.

Looking ahead, the logistics market in CEE is expected to remain under pressure due to the current economic and market conditions. Some improvement may occur over the next few years, but significant changes are unlikely before 2025-2026.

The focus is increasingly on modernising supply chains, with a trend toward more decentralised logistics operations to better serve local markets. The region is also poised to benefit from nearshoring and reshoring strategies by Western companies, driven by its geographic proximity to key markets, skilled labour pools, and favourable business environments.

However, these opportunities will require continued adaptation, investment in infrastructure, and a focus on sustainable and technologically advanced logistics solutions to maintain competitiveness in a challenging market environment.

Image: GRI / Midjorney

GRI CLUB MEMBERS WILL ALSO ATTEND

GRI LIGHT INDUSTRIAL & LOGISTICS 2024

Founded in 1998 in London, GRI Club currently brings together more than 17,000 senior executives spread across 100 countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond and schedule meetings, and receive unrestricted access to all GRI Club content.

Find out more about GRI Club Europe.

CONTACT

Diego Tavares
Managing Director & Senior Partner
diego.tavares@griclub.org

Kirsty Stevens
UK & Pan-Europe Director
kirsty.stevens@griclub.org

GRI Club

GRI Club Europe

GRI Club

@griclub.europe

griclub.org

GRI CLUB