European Commercial – Autumn 2024

SPOTLIGHT
Savills Research

2024 European Real Estate Logistics Census

● Market ● Occupiers ● Developer & Investors

Introduction

In the first half of 2024 (H1 2024), the macroeconomic headwinds that led to declines in take-up and investment volumes abated, with economic growth now on an upward trajectory. Take-up was flat year-on-year, but down 15% compared to H2 2023. Historical data shows the 13.2 million sq m of logistics space signed in H1 2023 still surpasses the 10.7 million sq m average recorded in the same period between 2013 and 2019. Notably, our census shows that most respondents expect take-up to reach 25-30 million sq m by the end of 2024.

While leasing activity remained relatively subdued in H1 2024, we have seen investment volumes stabilise and post solid growth. Investment volumes reached €16.5 billion: 17% higher than H2 2023 and 24% higher than H1 2023. Looking at historic investment trends, H1 2024 is well ahead of the pre-pandemic H1 average of €10.7 billion for 2013–2019.

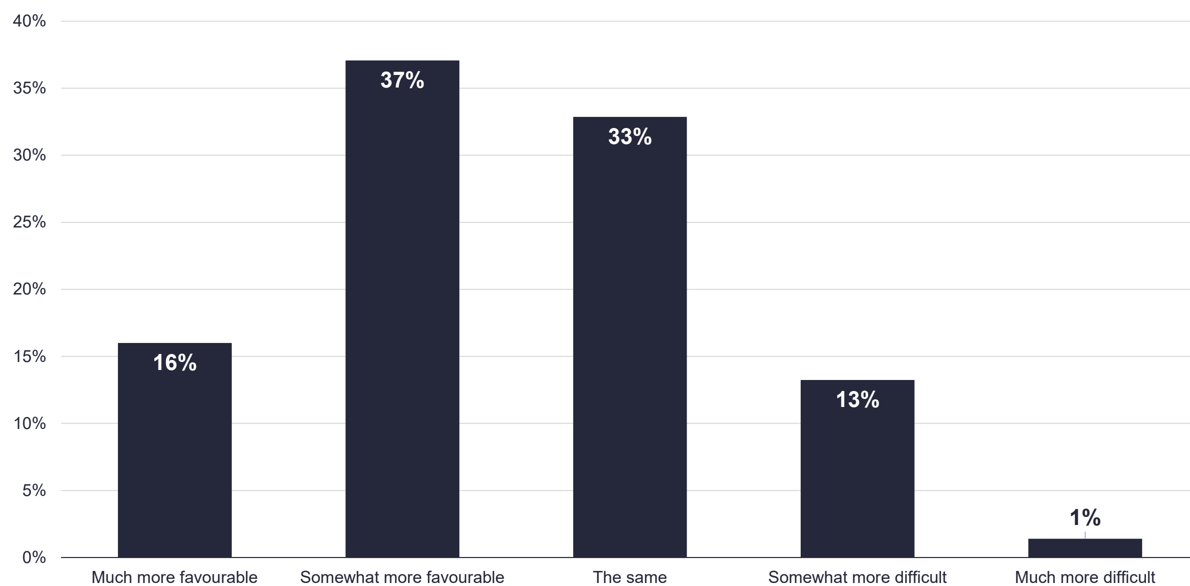
Investor appetite for logistics assets has remained well above long-term trends. In H1 2024, 22% of European real estate investment volumes went into logistics real estate, the highest level of any asset class. Indeed, this is higher than any previous share of investment commanded by logistics in the first half of the year, which has averaged 12.5% between 2017 and 2020.

With market conditions shifting rapidly, understanding occupier and investor intentions and gaining insights into their key challenges and opportunities is crucial. Savills and Tritax EuroBox are delighted to share the results of the fourth annual European Real Estate Logistics Census. Global supply chain consultancy Analytiqa undertook the census and data collection over the summer of 2024. In total, 642 key players in the sector took part, comprising occupiers (78%), investors (9%), developers (5%) and a further 8% comprising landowners, asset managers, agents, and consultants. Occupiers were further split into manufacturers (60%), logistics (22%) and retailers (18%).

Following a period of unprecedented shocks and dramatic policy actions, European economic growth improved in H1 2024. This was reflected in confidence with 53% of respondents believing business conditions are more favourable than a year ago. Only 14% said they are more difficult, with the balance saying they saw no change. This is a significant improvement on last year's census when just 34% of respondents answered positively.

With thanks to our partners:

Chart 1: How do you view current business conditions vs. the previous year?



Source: Savills, Tritax EuroBox, Analytica

How are business conditions for the survey respondents?

Occupiers remain more cautious than developers and investors, although sentiment is picking up: 51% are more positive about the outlook compared to 42% in 2023. 3PLs were the least confident (45%) of our occupier groups but, even so, nearly half are reporting improved sentiment. Given the significant shift in 3PL market conditions through late 2023/early 2024, following a wave of post-pandemic outsourcing, this is perhaps an early indication that companies are starting to see market conditions improve: an encouraging sign for logistics real estate markets.

While sentiment is improving, challenging operating conditions have been reflected in occupier activity. Of our sample, 69% of occupiers have scaled back or delayed general business expansion plans due to the current economic conditions. Crucially, however, of this 69%, only 6% have put their plans on hold indefinitely. More common has been a delay of 1-2 years (32%) or 2-5 years (24%).

Manufacturing occupiers were the most likely to have proceeded as planned with their expansion plans (23%), or to have delayed only by 1-2 years (35%). Retailers, on the other hand, were the most likely to have scaled back their expansions further: with 27% delaying by 2-5 years.

What impact is this expected to have on occupier real estate requirements in the short and medium term? The survey highlights two trends:

- Any post-pandemic right-sizing appears to be complete, with just 1% (2023: 11%) expecting to require less space in the next 12 months.
- We should anticipate a consistent increase in occupier take-up over the next few years. 29% of our sampled occupiers, which we estimate occupy 1.8 billion sq m in aggregate, expect to need more space in the next 12 months. This increases to 53% (+15pp year-on-year) from 1-3 years. These results suggest that new requirements will gather momentum through H2 2024 and into 2025.

Chart 2: Has the current macro-environment impacted your business expansion plans?

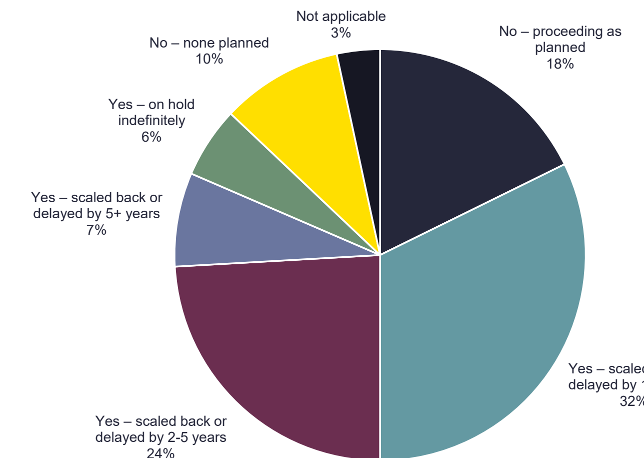
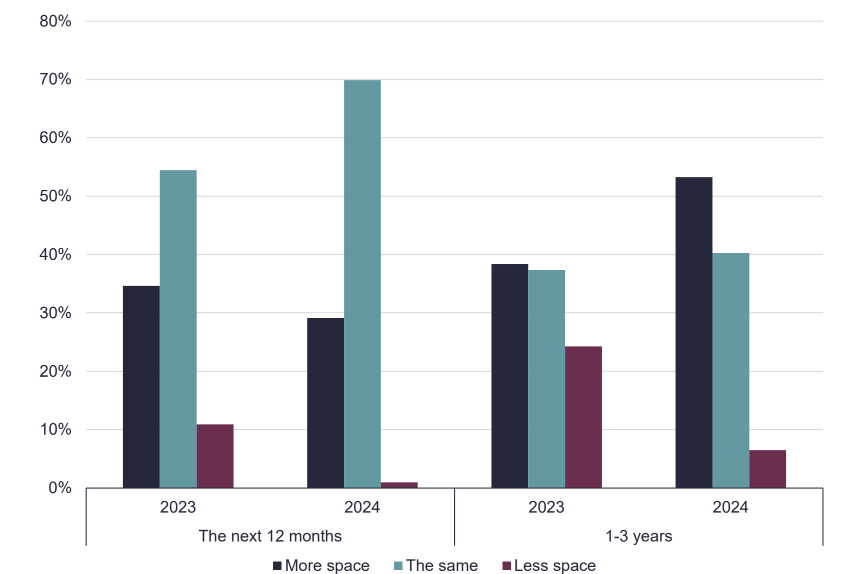


Chart 3: How will your warehouse space needs change over the next three years?



Source: Savills, Tritax EuroBox, Analytica

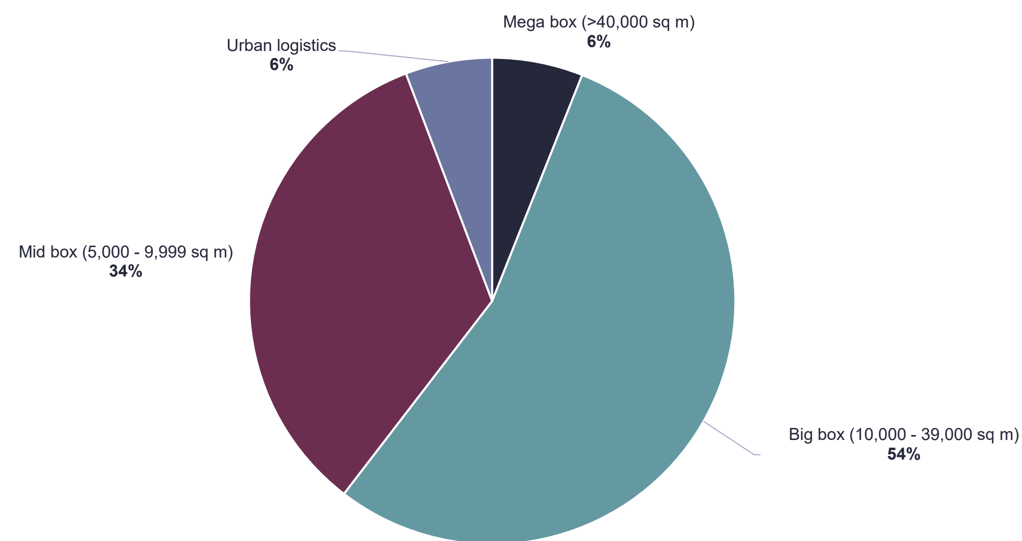
Occupiers' preferences remain focused on big-box units

With the European development pipeline slowing, and the vacancy rate beginning to level off, any uptick in demand should result in market fundamentals improving over the next 18 months.

Expansion plans favour core Western European markets, led by Germany and France. 26% of occupiers expect to take more space in Germany over the next three years and 24% in France. Belgium and Spain are the next two most popular locations, marginally ahead of the Netherlands and Italy. Interestingly (and possibly indicative of re/near-shoring interest), the Czech Republic was selected as a target market by 10% of respondents expecting to expand, twice as many as Poland (selected as a target by just 5%).

When asked about expansion plans, 54% of occupiers who plan to expand intend to lease big box units of 10,000-39,999 sq m. A further 34% are considering mid-box units of 5,000-9,999 sq m. More bespoke box sizes (like mega-box units greater than 40,000 sq m) accounted for 6% of responses; while urban logistics accounted for 6%. Retailers are the most likely of the three occupier groups to require mega or urban warehouses. This reflects the ongoing evolution of their supply chains in response to maturing omni-channel shopping habits.

Chart 4: For new warehouse space over the next three years, are you considering buildings with the following floorprints? (select all that apply)



Source: Savills, Tritax EuroBox, Analytica

Cost pressures remain top of the agenda

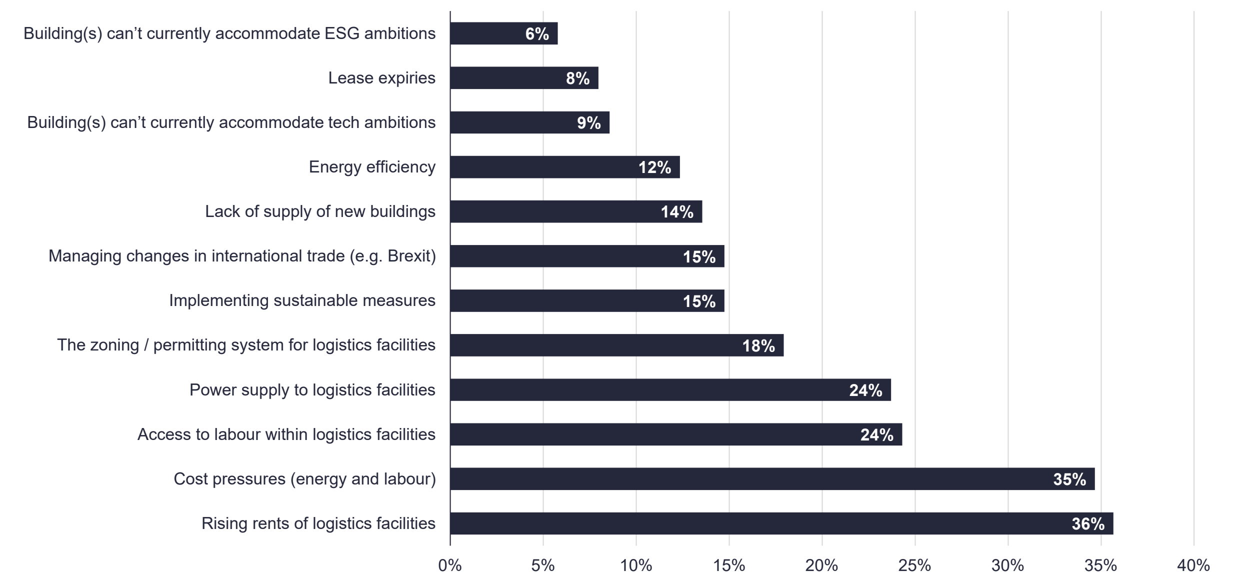
Cost pressures have typically been cited by occupiers as their primary concern, and this year is no different. Energy, labour and rents remain top issues and while inflationary pressures have abated, occupiers are still feeling the effects and remain very cost-conscious.

3PLs have been particularly impacted. This reflects the need for operational efficiency within the 3PL business model and the nature of competition within the market (which centres on cost-effective solutions for clients). Energy, labour and rising rents were a concern for more than two-thirds of the 108 3PL respondents.

Access to labour at logistics facilities remains an issue (highlighted by 25%). Power supply concerns have moved up the rankings, with 24% highlighting this issue, up from 13% in 2023.

A notable, albeit unsurprising (given current market dynamics), change is that a "lack of supply of suitable buildings" has fallen from third to eighth place. Just 14% of occupiers see this as an issue, reflecting a sharp increase in Grade A units in supply. Managing changes in international trade (15%), energy efficiency (12%) and buildings being unable to accommodate ESG ambitions (6%) all moved down the rankings in 2024.

Chart 5: What are the biggest challenges facing your logistics property operations? (select all that apply)



Source: Savills, Tritax EuroBox, Analytica

Game Changers - ESG is the most important potential factor

Looking ahead, we asked occupiers what was on the horizon that could be 'game-changing' for their logistics real estate. Reflecting the uncertain market environment in which occupiers continue to operate, no fewer than six issues were rated as important or very important (and therefore potentially game-changing) by more than 50% of respondents.

The most cited issue, "more stringent ESG targets/regulations", was identified as important or very important by 69% of occupiers. EU regulations continue to be a moving target, with more regulations on the horizon. This is creating ongoing uncertainty. A major change to ESG or regulatory requirements could have significant impacts on both occupiers' businesses and their real estate requirements.

Interestingly, there's significant variation between occupiers according to their sector: 82% of 3PLs consider more stringent ESG targets/regulations important/very important compared to 70% of retailers and 65% of manufacturers. This is driven by increasing pressure from 3PL customers to ensure that their operations are ESG-compliant when bidding for contracts. Indeed, of those occupiers who are expecting to adjust their footprints to meet near-term challenges, 26% cited ESG as a driving factor.

Across their existing estates, occupiers have already responded in several ways to this concern. When asked which ESG/sustainability measures they have implemented over the past twelve months, most cited energy efficiency/demand reduction measures (44%), waste reduction/recycling (36%) and renewable energy (28%). Both energy efficiency and waste reduction measures could represent relatively low-hanging fruit with measurable ESG and cost benefits.

Chart 6: What's on the horizon that could be 'game-changing' for your logistics real estate buildings?

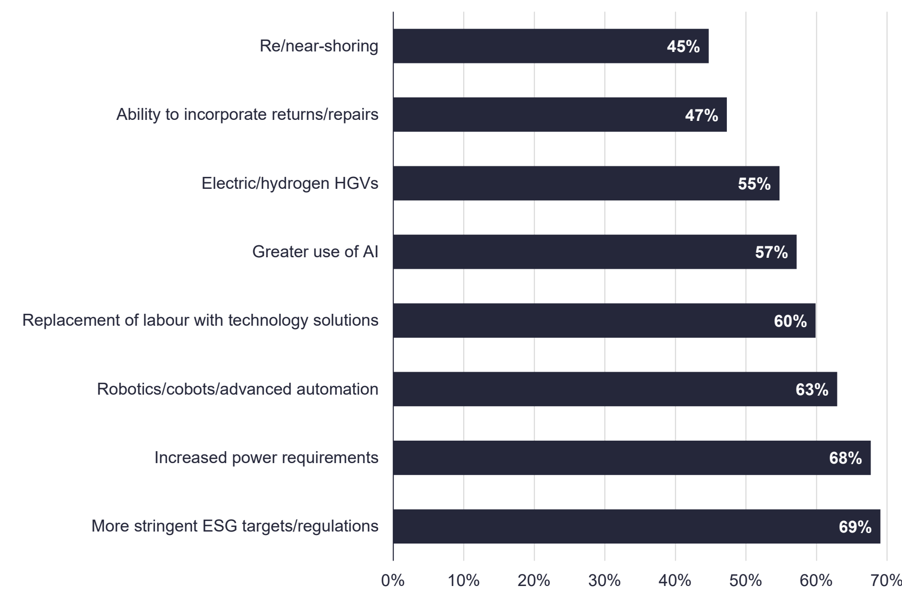
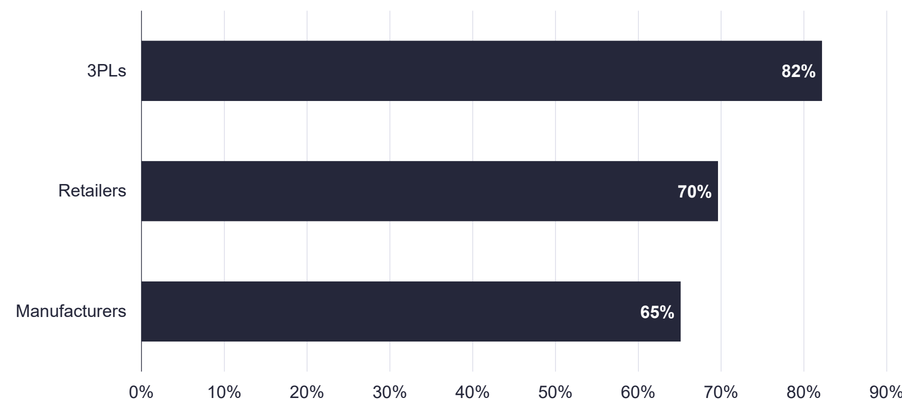


Chart 7: Which sectors see ESG target and regulation changes as game-changing?



Source: Savills, Tritax EuroBox, Analytica

While adopting measures around renewable energy remains important, this initiative has reduced to #3 this year (having been the primary area of focus in 2023). Lower energy costs, economic conditions and a challenging financing environment are likely to have had an impact on more capex-intensive investments such as these.

Electric vehicle (EV) charging remains a complex issue, evidenced by interesting insights into where companies are, and are not, implementing measures. Fitting EV charging points for private use (23%) remains popular, but the survey shows only 13% made progress around charging HGV/LGV electric vehicles.

Significant uncertainty remains around the green transport revolution as it relates to HGVs and, to a lesser extent, LGVs. Occupiers are adopting EVs primarily for last-mile or smaller freight solutions. HGV solutions will be heavily influenced by the technology choices of original equipment manufacturers (OEMs). Occupiers remain unclear on exactly what this will look like and whether, therefore, to develop dedicated infrastructure at warehouse locations or utilise shared (multi-fuel) facilities. The future capacity of power grids and local availability of power only serves to complicate the picture further.

What ESG / sustainability measures did you implement in the last 12 months? (select all that apply) - ranked by order of importance

1. **Energy efficiency**
2. **Waste reduction/recycling**
3. **Renewable energy generation and storage**
4. **Private car electrical vehicle charging points**
5. **Grey water/rain water harvesting**
6. **Indoor environmental quality monitoring**
7. **Biodiversity**
8. **Active travel and other staff wellbeing initiatives**

Source: Savills, Tritax EuroBox, Analytica

Game Changers - New technology is amping up power requirements

The second game changer as reported by occupiers is increasing power requirements. In addition to being considered one of the biggest challenges facing occupiers' logistics property operations, it is the second biggest potential game changer identified by occupiers. Due to a combination of geopolitical events, under-investment in infrastructure, and the advent of power-hungry technologies like automation and AI, occupiers are increasingly conscious of the need to obtain adequate power supply for their future operations. Indeed, 68% of occupiers identify increasing power requirements as important or very important for their future operations.

The investments occupiers have made highlight why this is such an issue. In the last 12 months, 37% invested in warehouse robotics/automation, 33% in predictive/optimisation analytics and 28% in EVs – all of which will drive higher power consumption.

The survey suggests further investment in these areas is on the agenda. Warehouse robotics/automation will remain top of mind for many over the next two years. From a real estate perspective, this is expected to continue to support the rotation to higher quality, modern space with the specifications needed to facilitate technology-enabled operations, provided these buildings have adequate power availability.

Chart 8: What ESG / sustainability measures did you implement in the last 12 months? (select all that apply)

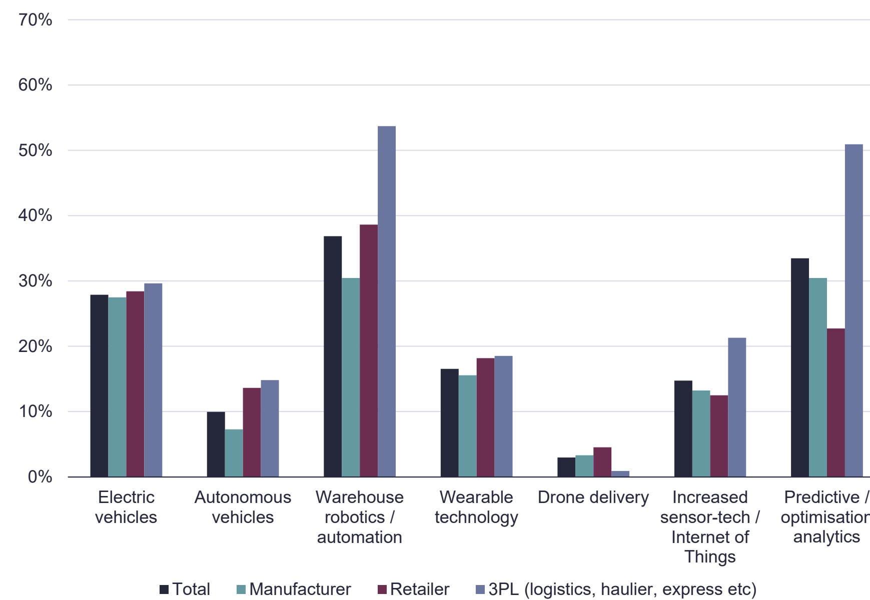
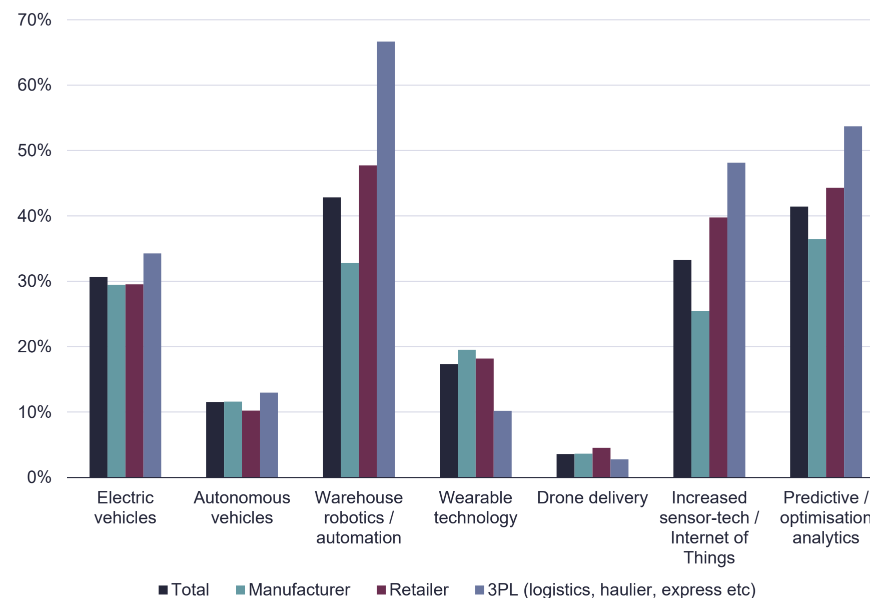


Chart 9: What supply chain technologies do you intend to invest in over the next two years? (select all that apply)



Source: Savills, Tritax EuroBox, Analytica

Game Changers - Reshoring on the radar of 45% of occupiers

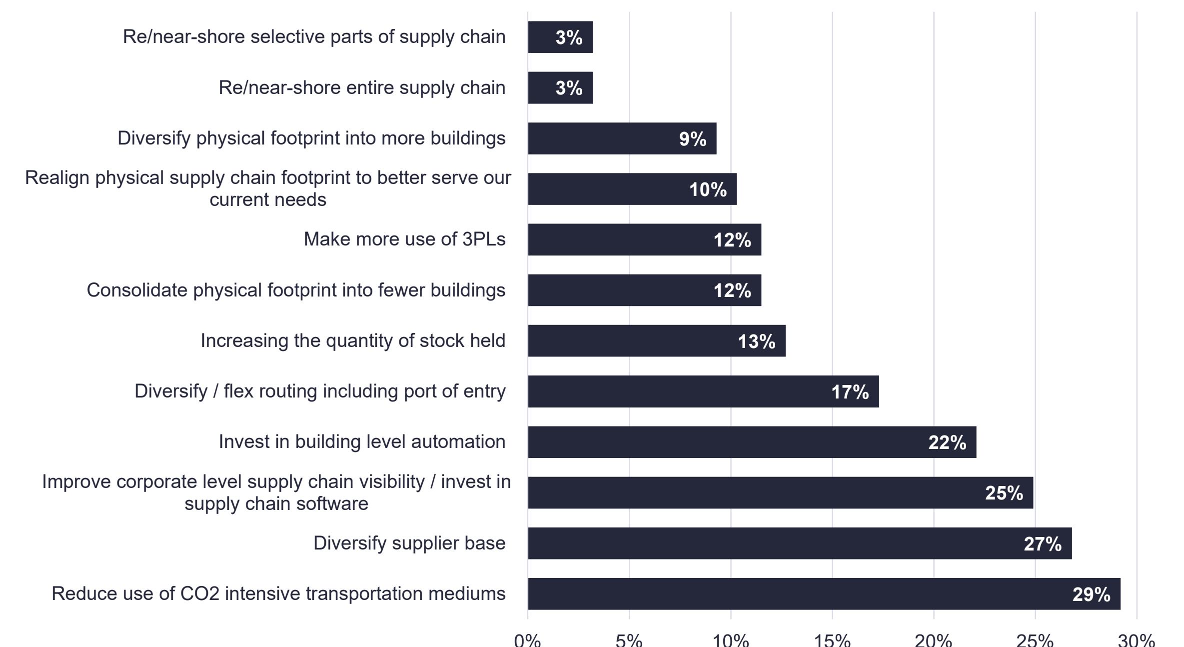
Since the pandemic, media coverage has often focused on occupiers nearshoring or onshoring their supply chains. Indeed, within Savills' UK leasing data, we have seen a significant uptick in take-up from manufacturing-based occupiers, accounting for 28% of take-up over the last four months. This is 5ppts higher than the long-run average, and at its highest point in five years.

When asked what changes have been implemented to their supply chain in the last three years, 25% of occupiers said they had shortened (re-shored) their supply chain to mitigate risks from disruption. Looking forward, three survey findings are of particular note:

1. When it comes to intentions, diversifying the supplier base further (30% of retailers; 27% of manufacturers) and diversify and/or flex routing (26% of retailers; 17% of manufacturers) remain on the agenda.
2. Firm intentions to re-shore, however, are less evident. Re/nearshoring is a major strategic decision and, as such, it is not surprising to see only 6% of respondents currently have firm plans to do so. Reshoring is typically costly, complex and operationally very challenging to enact while ensuring wider business operations are not compromised. That is not to say, however, that there won't be a meaningful impact on European logistics demand. This 6% comprises several very large occupiers that in total occupy approximately 171.5 million sq m. Any change to their supply chains could create significant new and/or additional demand.
3. In addition, it doesn't preclude reshoring from growing further in the years ahead. Indeed, 45% of occupiers see re/nearshoring as something important or very important on the horizon that could be game-changing for their logistics real estate networks. As we have noted in previous reports, reshoring is expected to be a slow burn. However, when combined with nearshoring as well as diversifying supplier bases and routing, it is likely to have a persistent and significant impact on real estate requirements. Making large strategic changes to supply chains takes time. As such, we would expect to see re/nearshoring manifest as a sustained but moderate increase in take-up over the long term.

From a market perspective, while our survey doesn't specifically ask occupiers where they will re/nearshore into, it is noteworthy that from a CEE perspective, the Czech Republic is the top destination for expansion ahead of Poland and Hungary.

Chart 10: How do you intend to evolve your supply chain model over the next 3 years? (select all that apply)



Source: Savills, Tritax EuroBox, Analytica

Are investors and developers aligned with occupiers?

The survey suggests that investors, developers and occupiers are broadly aligned. There are, however, two areas where significant differences exist:

- Reshoring/nearshoring: occupiers currently rank this as relatively less important compared to other factors. For the reasons outlined above, we expect it to be a slow burn. Investors, however, take a longer-term view and assess the potential impact across the sector as a whole. Meanwhile, developers also recognise this potential to create demand for new buildings.

- The transportation revolution is a significant issue for occupiers, but some investors are, perhaps, somewhat deprioritising. The fact that occupiers focus on this issue is no surprise, given that transport typically accounts for between 40% and 75% of operational costs. Decisions on warehouse location are typically heavily influenced by transport costs. If factors change (autonomous driving, fuel costs etc.), it follows that alternative locations could become more attractive.

How do different market actors rank trends that could be 'game-changing' for logistics real estate buildings?

Potential Game Changers	Rank for Occupiers	Rank for Investors	Rank for Developers
More stringent ESG targets/regulations	1st	3rd	2nd
Increased power requirements	2nd	2nd	1st
Robotics/robots/ advanced automation	3rd	4th	4th
Replacement of labour with technology solutions	4th	5th	5th
Greater use of AI	5th	7th	7th
Electric/hydrogen HGVs	6th	9th	6th
Ability to incorporate returns/repairs	7th	6th	8th
Re/nearshoring	8th	1st	3rd
Innovative ways to use drones	9th	8th	9th

Source: Savills, Tritax EuroBox, Analytica

Developers less active but investors are more optimistic

It is notable that despite being the most optimistic group in terms of business conditions, developers are by and large holding off on developing more space in the next 12 months. At present 38.1% of developers plan to develop less space, while only 23.8% plan to develop more space. By contrast in 2023, 36% of developers had planned to develop more space over the next 12 months. This correlates with what Savills has observed in terms of speculative announcements, which remain subdued compared to their pandemic averages.

What is notable is that there is some misalignment between developers and occupiers in terms of the size of the units planned for speculative development and the size of units occupiers, are considering. Of our sample, a lower proportion of developers (35%) plan to spec big box units of 10,000-39,999 sq m relative to the 54% of occupiers considering this size band.

Mid-box (5,000-9,999 sqm) also sees a disparity between developers and occupiers (47% vs. 34%). Developers and occupiers are more aligned on mega-box units of greater than 40,000 sq m (9% vs. 6%). The same pattern occurs on the other end of the market, with 6% of occupiers considering urban logistics units (sub-5,000 sqm), while 9% of developers plan to spec this unit size.

Changes in market fundamentals have led to a shift in the issues facing developers when considering new development sites. For the last decade, rising rents and declining yields have created an attractive market environment for logistics. The lack of potential new sites and managing cost price inflation were the biggest challenges for developers in this period.

This has started to shift as supply has grown, with the lack of development sites falling from Very Important/Important to 95% of developers in 2023 to 78% in 2024. The length of the planning process has remained a key issue, growing from 83% to 88%, now occupying the top of the list. A notable shift in recent years has been the growing criticality of the supply of power to new developments and 2024 was no exception, with this issue rising from 56% of developers to 72% - from the 3rd to 4th most important.

Chart 11: What size units are you considering speculatively developing?/For new warehouse space over the next three years, are you considering buildings with the following floorprints? (select all that apply)

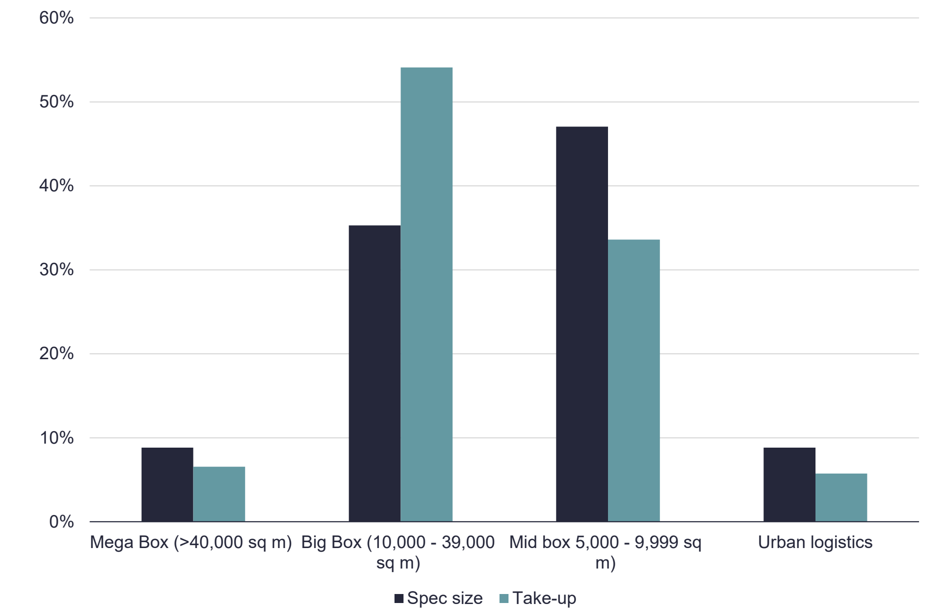
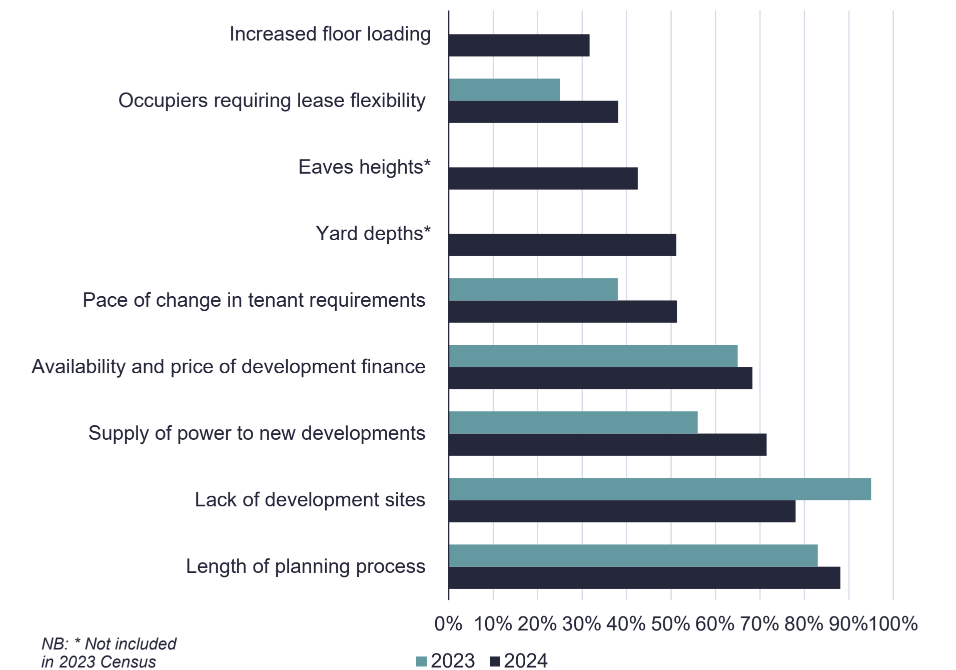


Chart 12: Rate each of the following issues in terms of their level of importance when considering new industrial and logistics developments.



Source: Savills, Tritax EuroBox, Analytica

What's on the horizon for occupiers?

Investors are optimistic about investment volumes, with 52% of investors expecting investment volumes to grow in the next 12 months, and only 9% expecting a decline. This reflects the 60% of investors who believe that market conditions are more favourable than they were 12 months ago. In a welcome sign for developers, over half of investors (51.9%) would consider funding speculative development in the next in the next 12 months.

Investor expectations of yields for the end of next year appear to have settled on 4.5-5% (54.2%), with 29.2% being less bullish and expecting 5-6% and 12.5% expecting yields to begin to approach pandemic-era levels, falling to between 4-4.5%.

Investors remain focused on the core locations in Europe. Germany remains the location of choice for 65% of investors, followed by France (56%) and Spain (54%). Switzerland (2%), Norway (4%) and Hungary (7%) are seeing the least interest among investors. This continues a trend we saw in the 2023 census with investors becoming more discerning about the location of the assets they are considering.

According to investors, the biggest factor affecting the investment market at present is pricing aspirations, which 87% of investors rate as very important or important. This reflects the disparity between the expectations of vendors and purchasers that has weighed on transactional activity over the last two years. Occupier market conditions and availability of debt are the second and third most important factors.

With central banks now shifting to rate-cutting regimes, and occupier markets on an upward trend, this may start to propel investment volumes later in the year.

Chart 13: Where in Europe would you like to invest? (select all that apply)

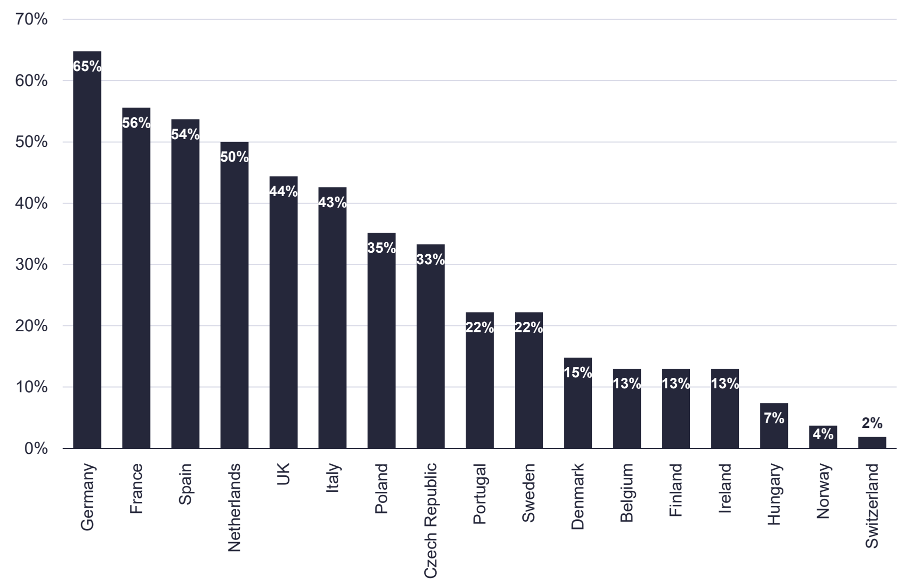
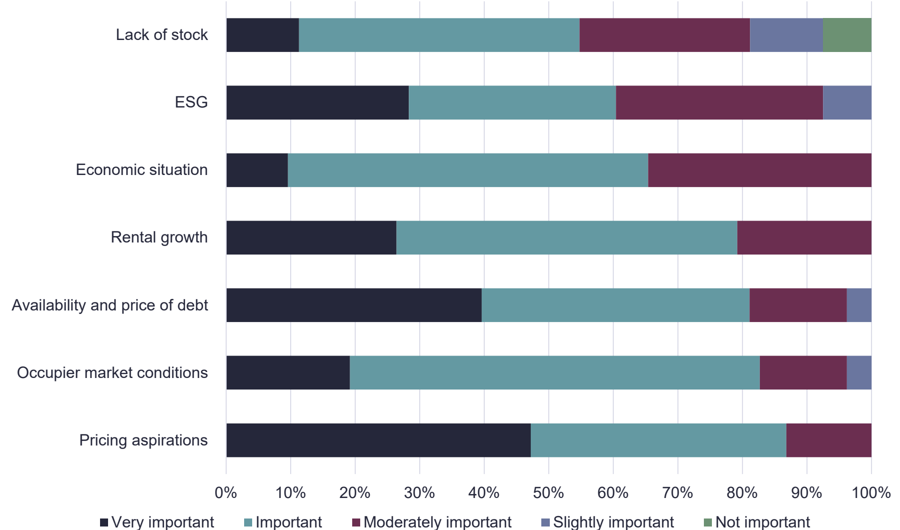


Chart 14: What are the biggest factors impacting the investment market at the moment?



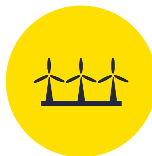
Source: Savills, Tritax EuroBox, Analytica

Summary

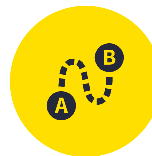
Five key considerations

1. Occupier sentiment is on an upward trend: Despite the continued economic uncertainty, 53% of respondents said that business conditions were more favourable than they were six months ago. This compares to just 42% in last year's census. Notably, we picked up a mixed array of responses with agents and landlowners tending to have a more negative view of current conditions.

2 More stringent. ESG requirements most important occupier issue: The most cited issue was "more stringent ESG targets/regulations" which was considered important or very important by 69% of occupiers. EU regulations continue to be a moving target, with more regulations on the horizon. A major change to ESG or regulatory requirements could have significant impacts on their businesses and real estate requirements.



3. Power requirements are growing: Significant investment in power hungry technologies like warehouse robotics/ automation and predictive analytics has led to 68% of occupiers ranking increasing power requirements as a potential game changer to their future operations. This is likely to only intensify over time as technology adoption accelerates and energy constraints intensify.



4. Re/nearshoring a multi-year driver of demand: Reshoring is expected to be a slow burn. However, when combined with nearshoring as well as diversifying supplier bases and routing, it is likely to have a persistent and significant impact on real estate requirements. As such, we would expect to see re/nearshoring manifest as a sustained but moderate increase in take-up over the long term.

5. Investors are more optimistic but targeting core locations: Investors are optimistic about investment volumes, with 52% of investors expecting investment volumes to grow in the next 12 months. Germany remains the location of choice for 65% of investors, followed by France (56%) and Spain (54%). Switzerland (2%), Norway (4%) and Hungary (7%) are seeing the least interest among investors.

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.

Investment

Marcus De Minckwitz
Head of EMEA Industrial and Logistics
+44 (0) 207 409 8755
MdeMinckwitz@savills.com

Tritax EuroBox

Phil Redding
CEO, Tritax EuroBox
+44 (0) 207 920 1616
eurobox@tritax.co.uk

Research

Kevin Mofid
Head of European Logistics Research
+44 (0) 203 618 3612
kmofid@savills.com

Andrew Blennerhassett
European Logistics Analyst
+44 7977 149 770
andrew.blennerhassett@savills.com

Henry Stratton
Head of Research: Tritax
+44 (0) 20 7290 1616
henry.stratton@tritax.co.uk

Savills plc: Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.