EUROPEAN LOGISTICS: RENTAL GROWTH RECOVERY EXPECTED OVER NEXT 18 MONTHS AFTER FIVE YEARS OF DECLINE

- ***Industrial sector offering higher yield spreads than retail and offices***
- ***Northern Europe leads Southern Europe for occupier take up***

LONDON, 28 October 2014 – Prime rent levels in the European logistics sector are expected to experience a robust recovery over the next 18 months, according to M&G Real Estate, the leading global real estate fund manager.

An upswing in the cyclical factors as the economic revival becomes more entrenched, as well as the ongoing structural changes in retail such as the rise of online retailing, are benefitting the industrial property sector.

Richard Gwilliam, Head of Property Research, explains: "The supply of quality, modern stock is limited but with economic recovery we'll see a steady increase in demand, particularly from third party logistics operators and online retailers, putting upwards pressure on prime rents and tempting a return to some well-focused speculative development in core locations."

Occupier demand this year has been most evident in Northern Europe, contrary to parts of Southern Europe suffering double-digit vacancy rates. As in the UK and US, large industrial occupiers are consolidating their space: bigger and more efficient sheds to match changes in supply channel dynamics.

In the main Eurozone economies, the spread between yields on industrial property and government bonds is on average around 340 basis points higher than before the global economic crash of 2007. Richard Gwilliam says: "European industrial should prove highly tempting to potential investors compared to bonds, offices and even primary retail. We fully expect pent up demand to consume any development over the next 12 months."

Port cities in Northern Europe have seen faster recovery in capital value than elsewhere, reflecting the dominance of sea freight in European trade movements. An example of this is the holding of M&G Real Estate's European property strategy, a prime logistics facility in the centre of Gothenburg port in Sweden. Gothenburg is Sweden's second largest city with the port considered to be the number one logistics location in Scandinavia, thanks to its excellent accessibility. Locations such as Rotterdam and Hamburg are also on the rise with

Antwerp experiencing significantly lower vacancy rates for key logistics locations at around three to four per cent.

While the rise of internet retail sales is generally positive for logistics, the benefits are unevenly spread. In Germany, France, UK and Nordics, online retail spending as a proportion of total sales is over 5% but in Southern European markets this drops to less than 1%. In markets where e-tailing is growing, there has been a substantial investment in warehousing and distribution capabilities.

Richard Gwilliam concludes: “Modern retail requires modern logistics and one size doesn’t fit all.”

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Notes to Editors:

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