



ShedMasters | 23

B A R C E L O N A

savills

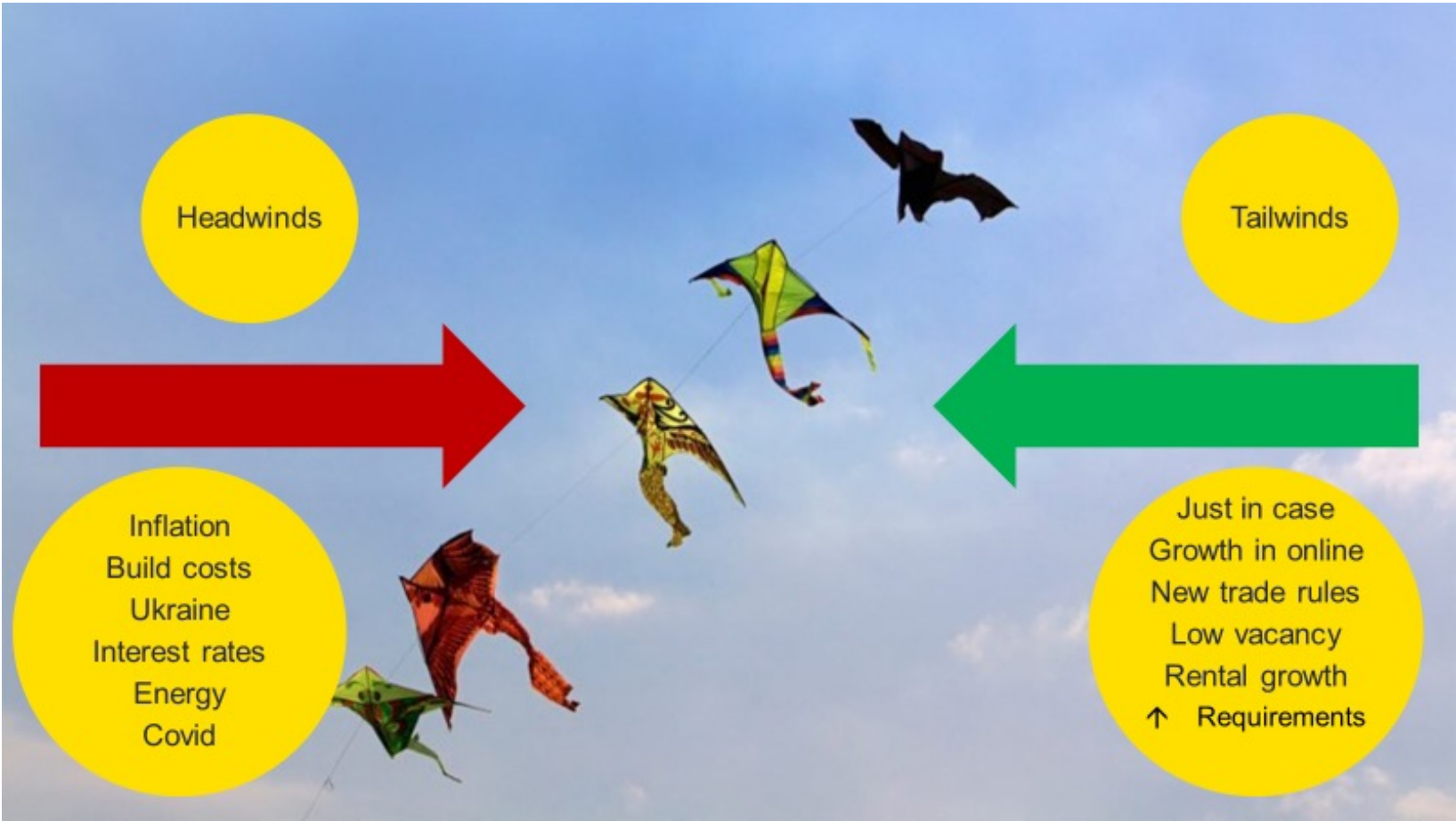
29
JUNE
2023

Shedmasters 2023

Market overview

Kevin Mofid

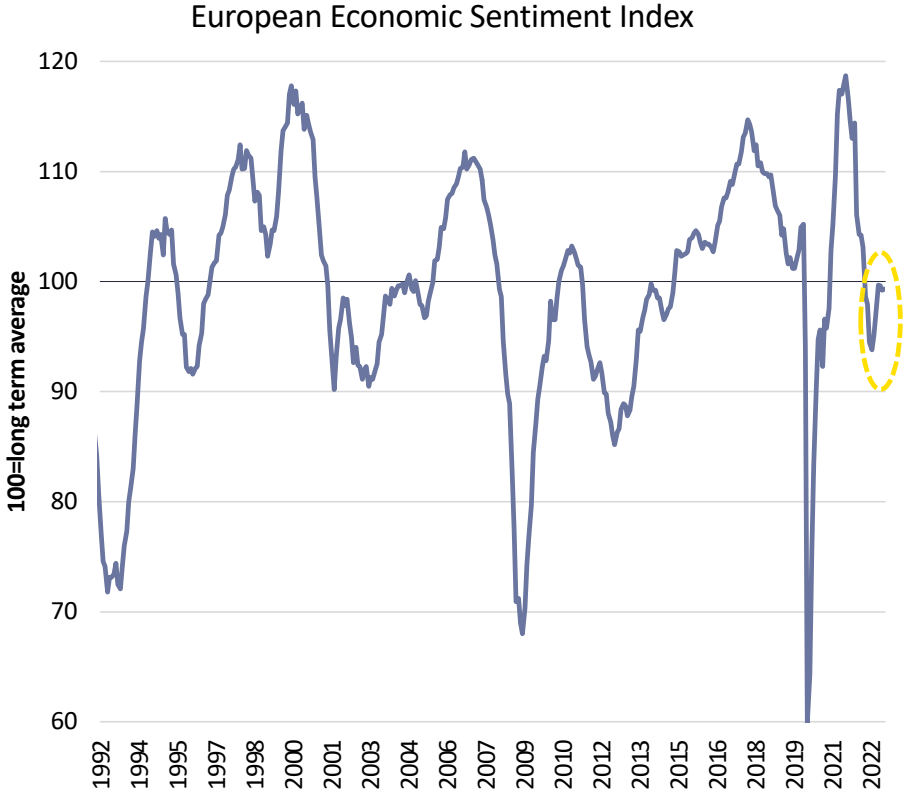
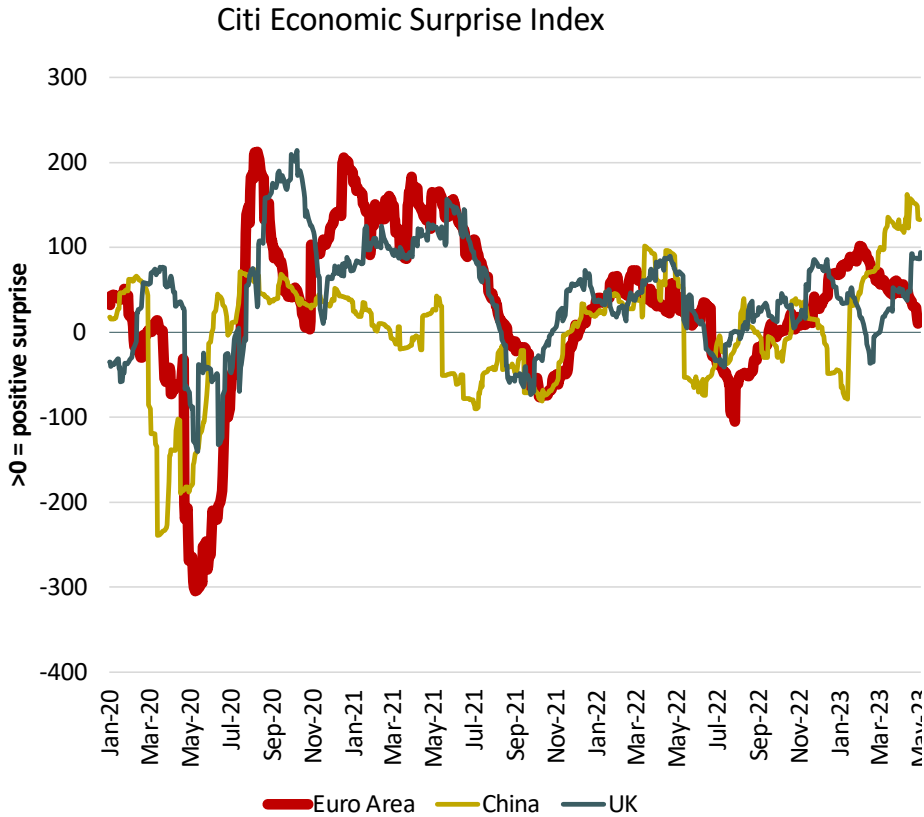
Slide 1 2022 revisited.....



1

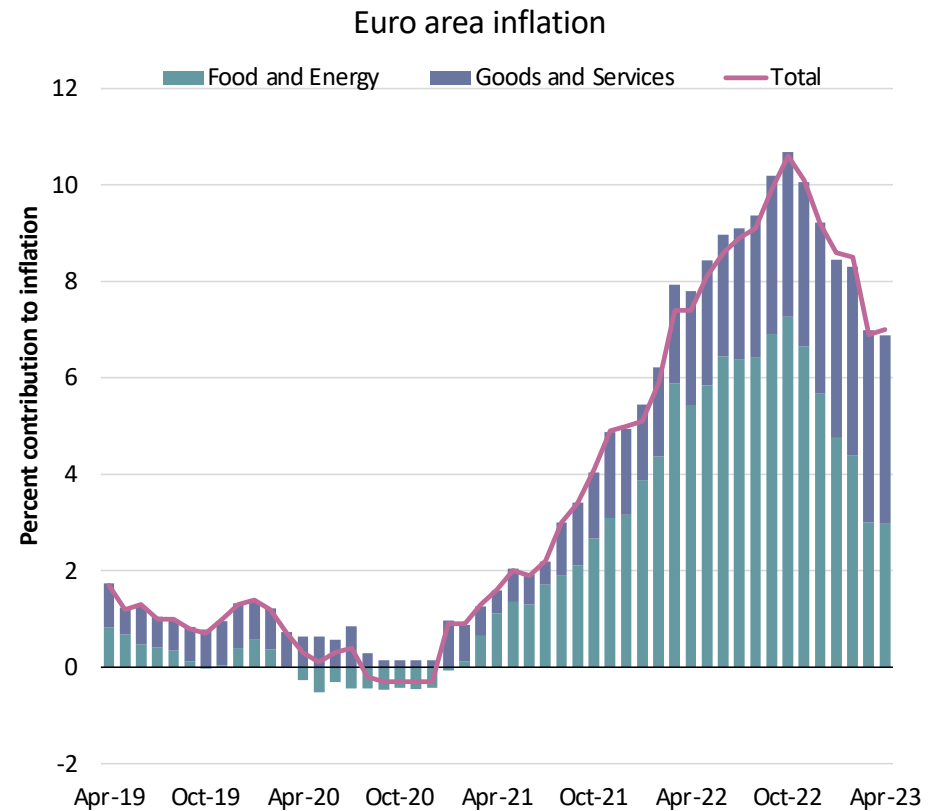
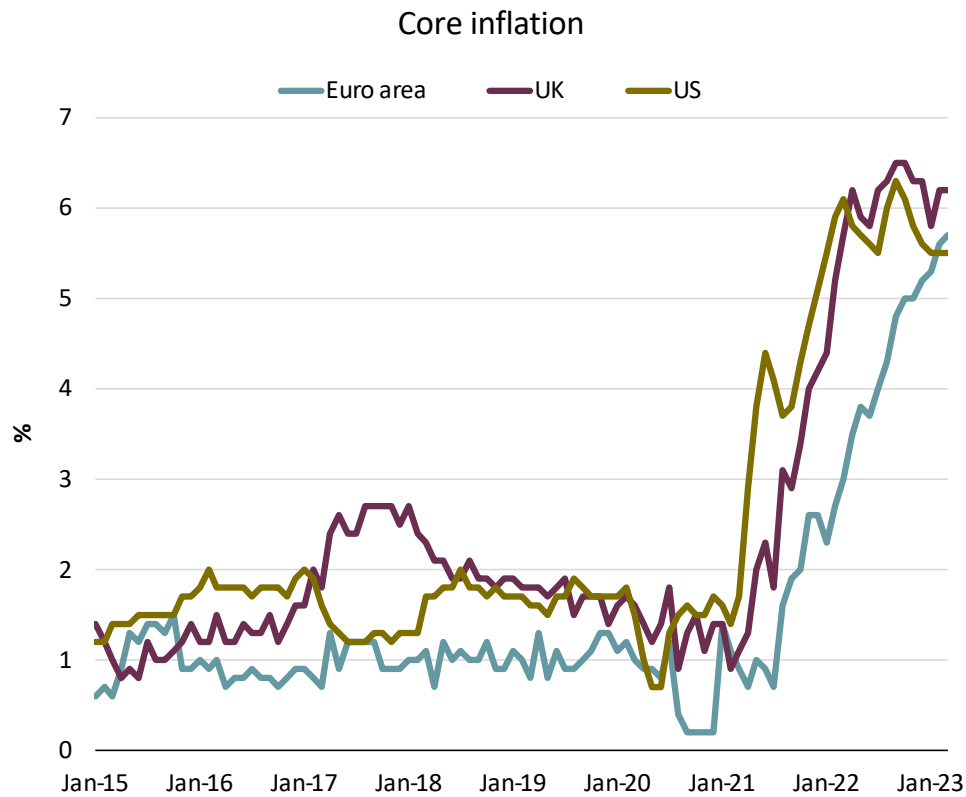
Economic overview

An optimistic start to 2023...

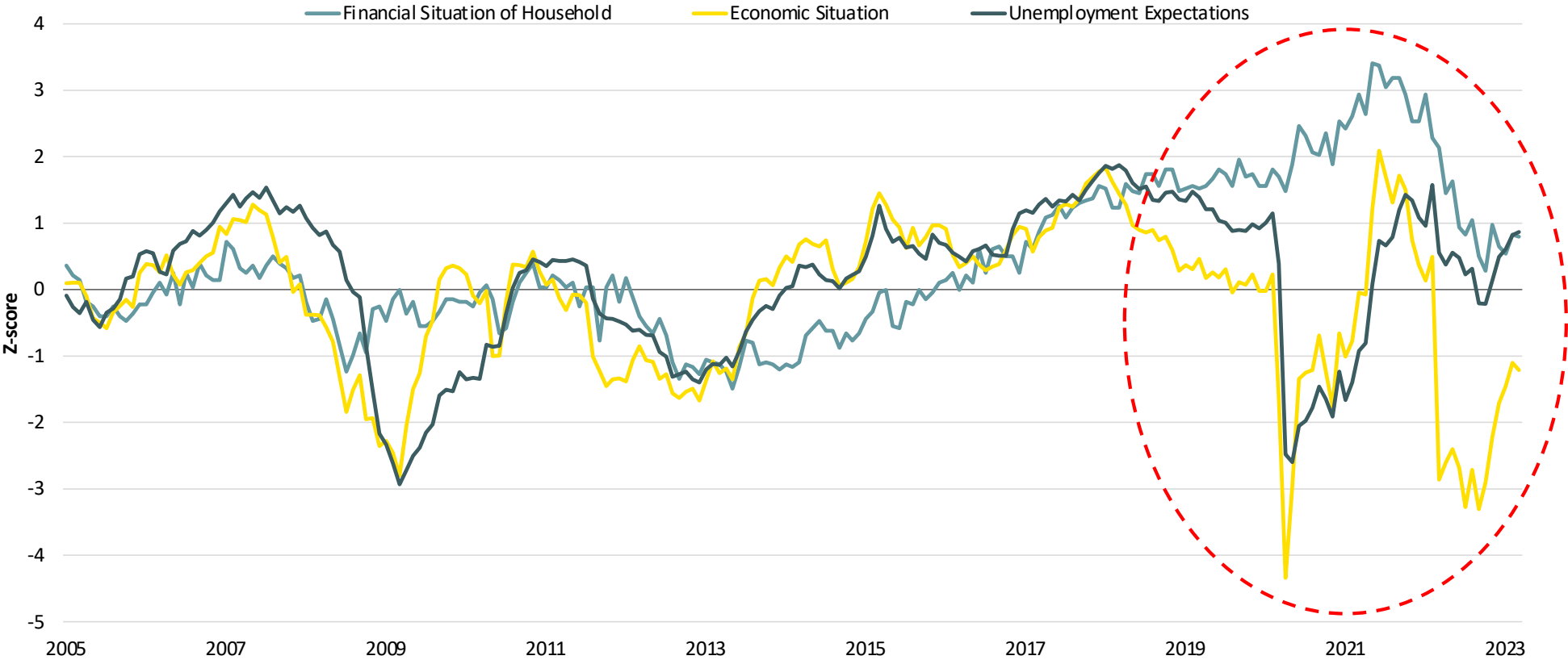


Source: Savills Research using Macrobond

Inflation increasingly driven by non-energy services sector

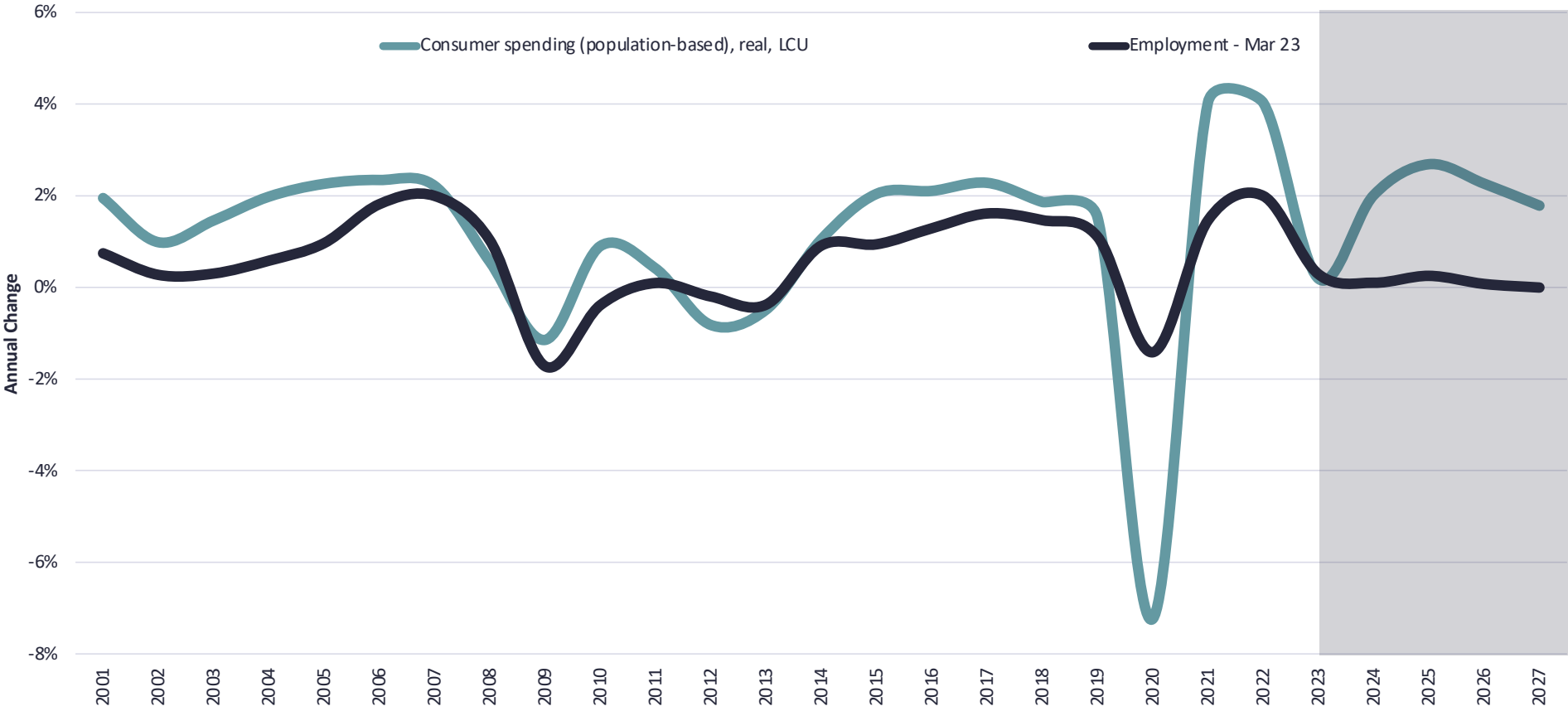


Consumer confidence at an individual level remains strong



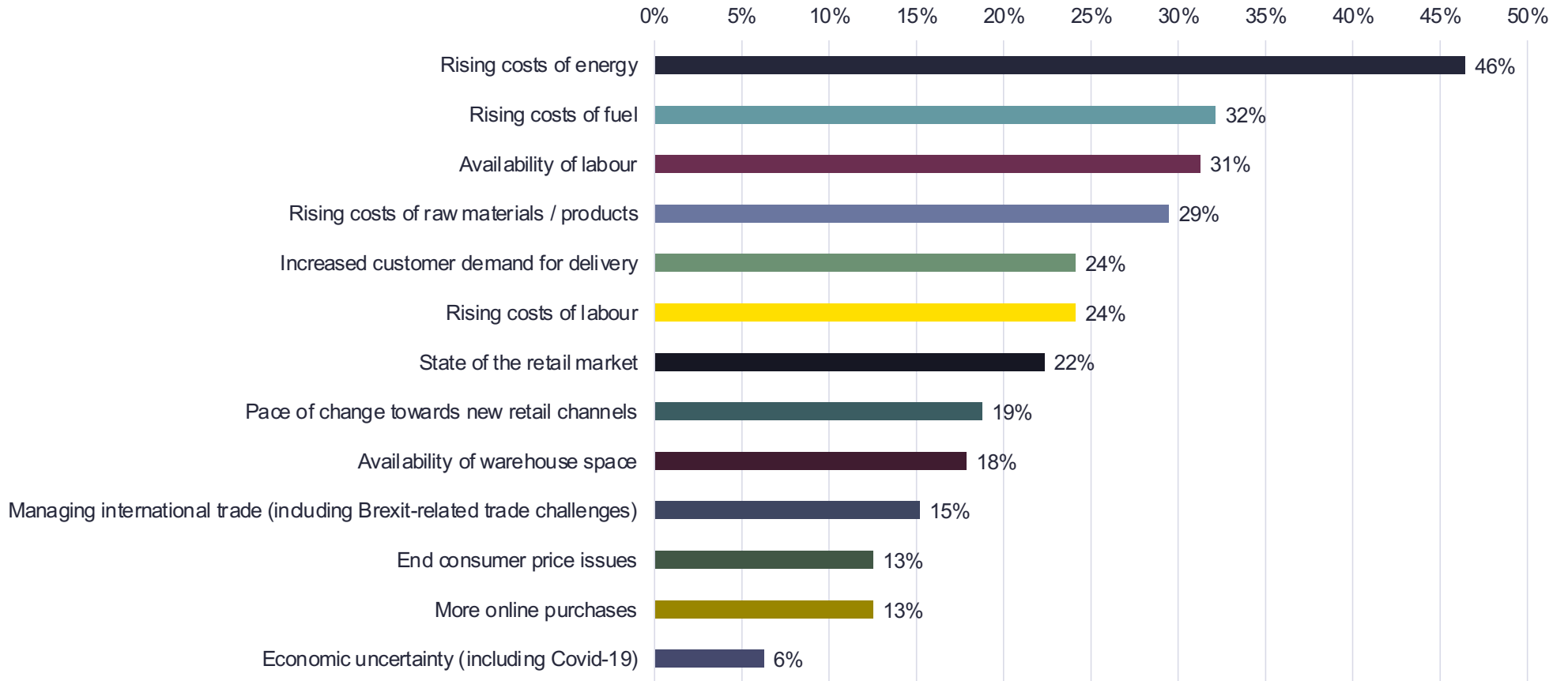
Source: Savills using Macrobond

Revised forecasts suggest a marginally sharper contraction in employment and stronger growth in consumption in 2023

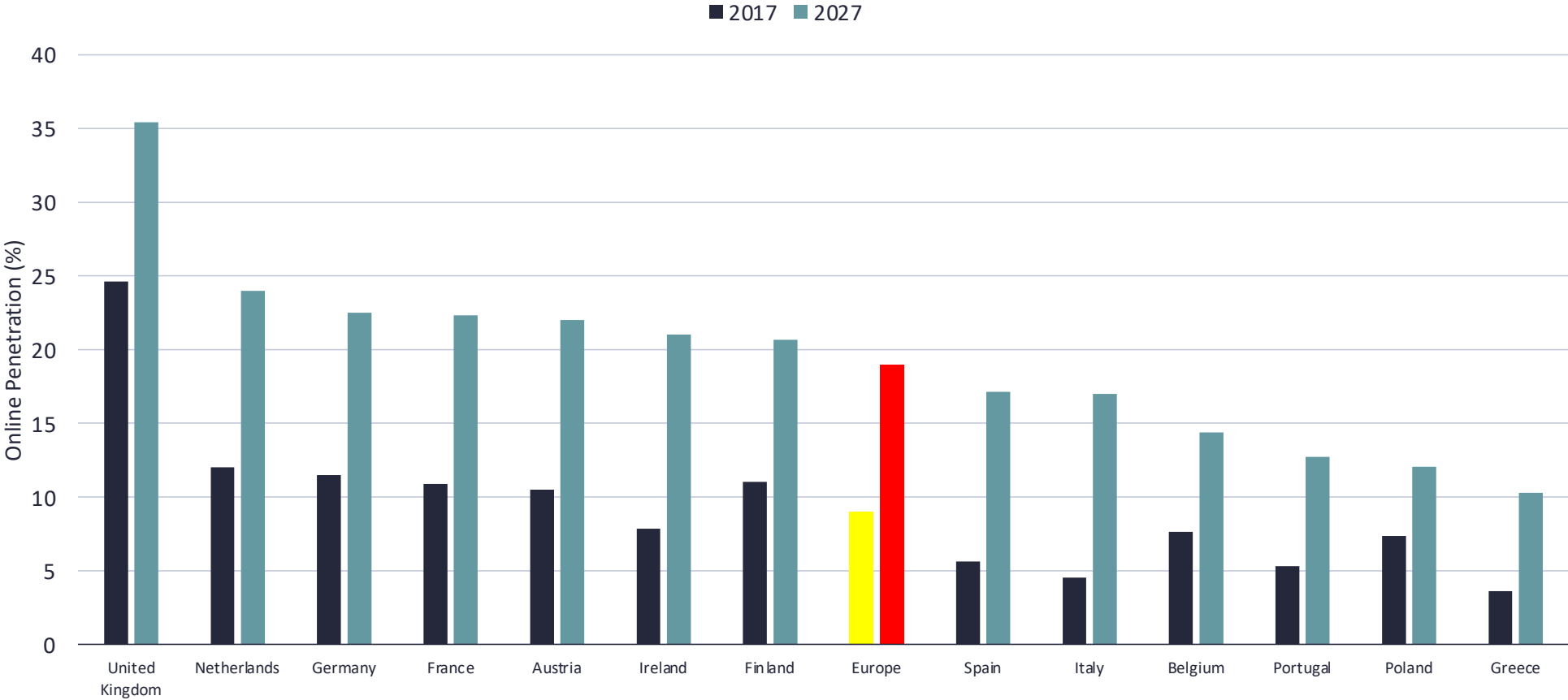


Source: Oxford Economics

What are occupiers concerned about?



Online retail penetration will continue to rise

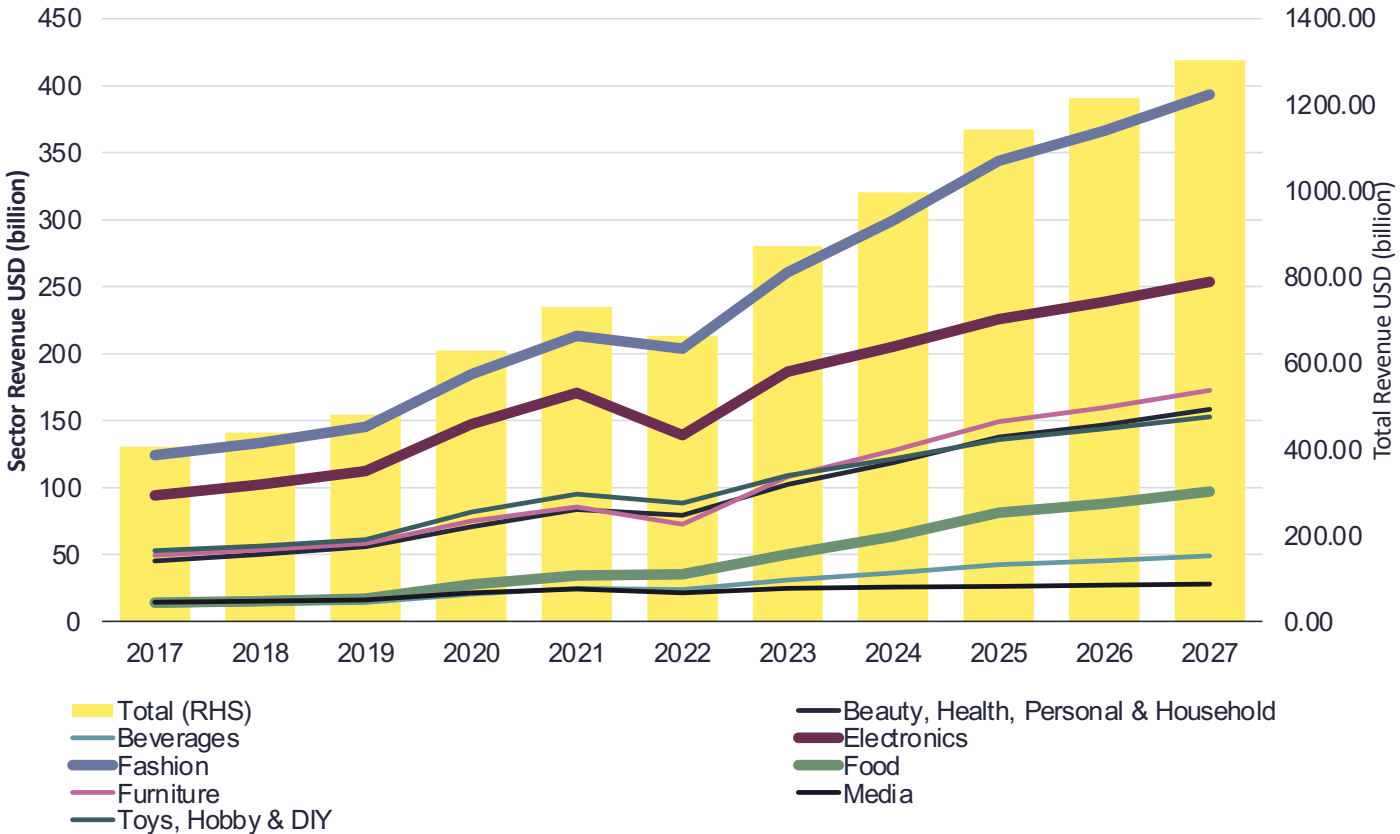


Source: Statista

And fashion is expected to be the largest beneficiary

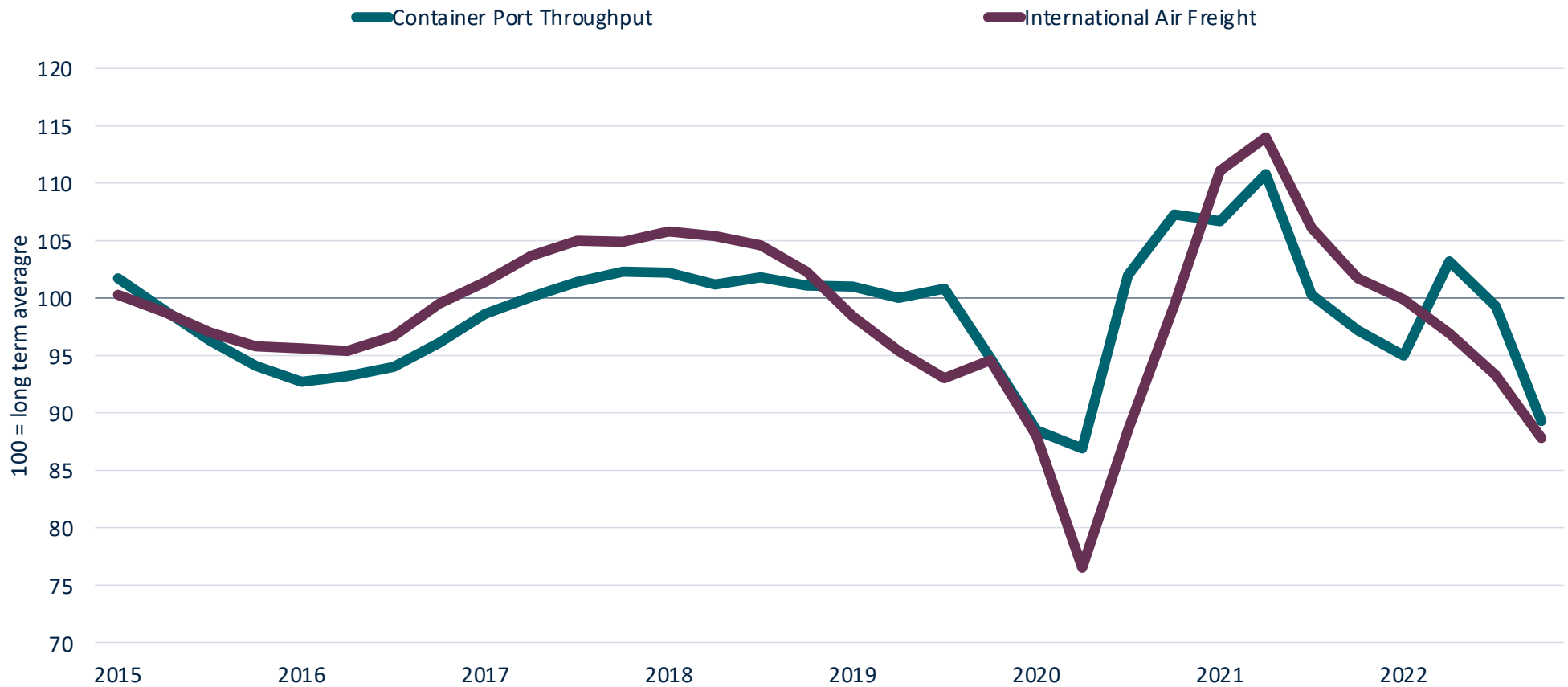


- Total revenue is expected to continue to grow over the next five years, despite economic headwinds (+49%)
- Fashion is projected to remain the highest sector in terms of revenue out to 2027.
- Food sector revenue is expected to almost double by the end of the period.



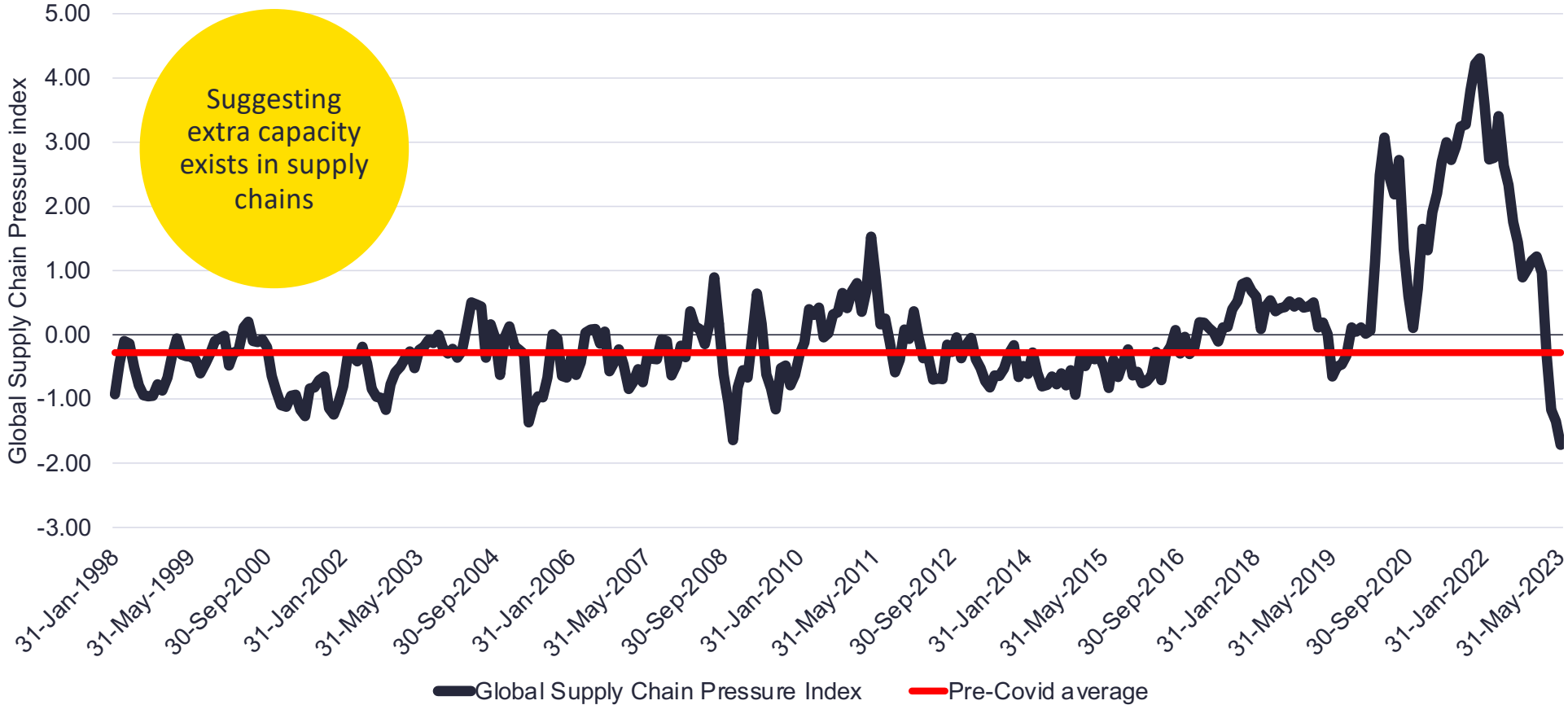
Source: Statista

WTO Global Goods Trade Barometer index



Source: WTO via Macrobond

Global Supply Chain Pressure index now at lowest level ever



Source: Federal Reserve Bank of New York, Global Supply Chain Pressure Index, <https://www.newyorkfed.org/research/gscpi.html>.

Supply chains: you've got a friend in me

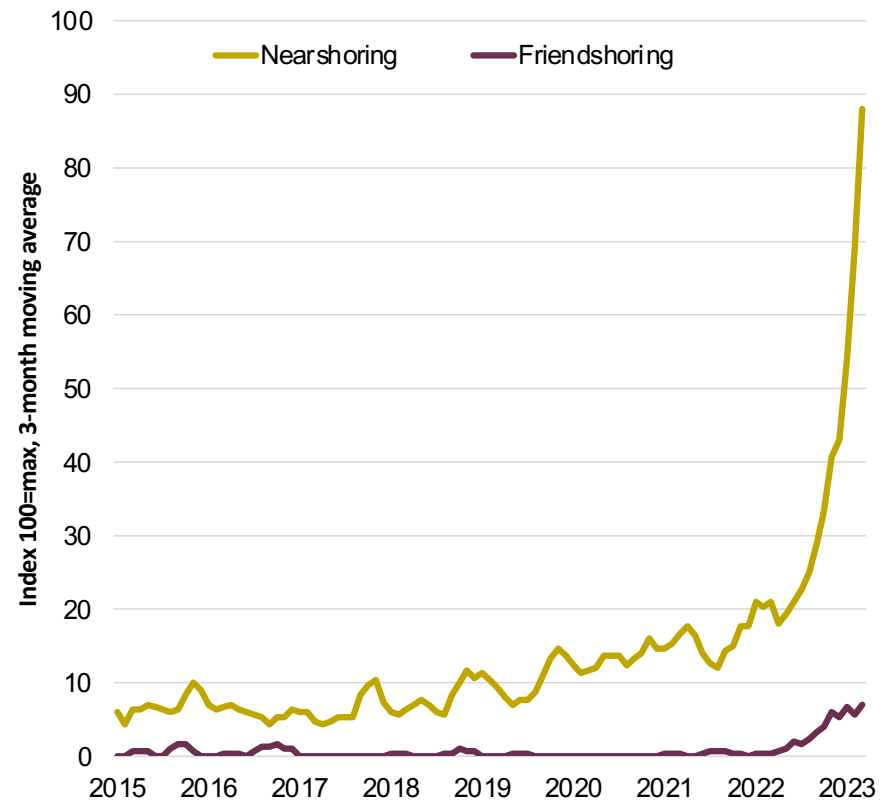
Geoeconomic fragmenting

Geopolitics and government industrial policy are becoming increasingly consequential for supply chain managers.

Location, location, location

For operators across 'strategically important sectors,' cost and efficiency are rapidly falling down the list of supplier considerations.

Google search trends



Supply chains facing multiple challenges in the future

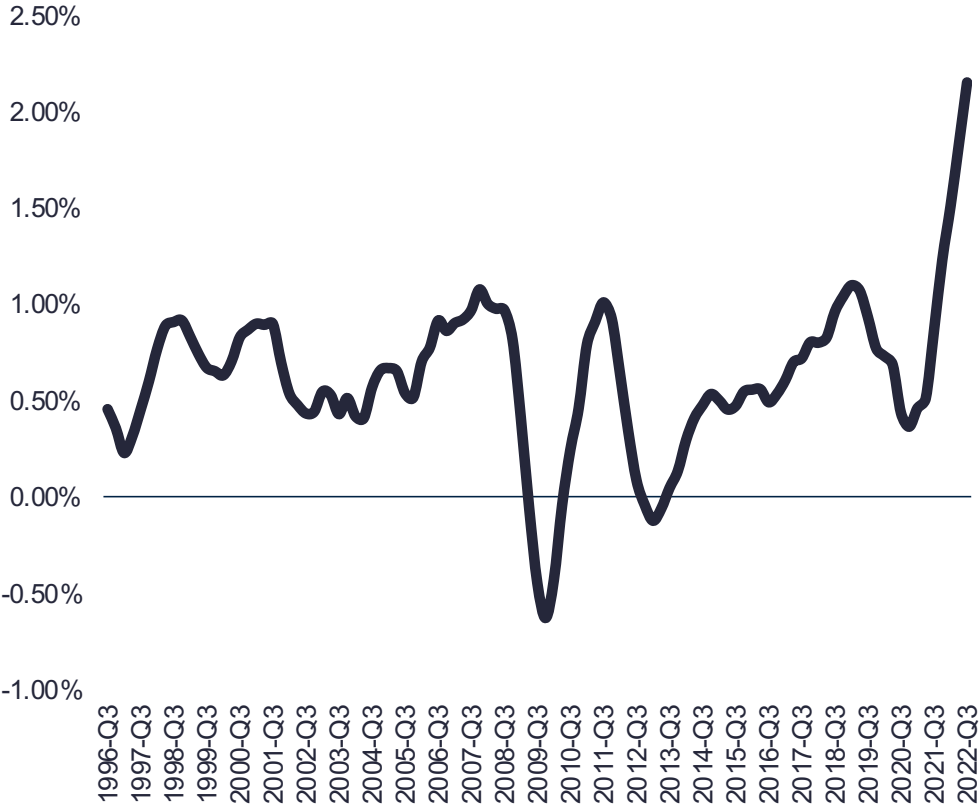
China labour costs have risen by 250% since joining the WTO

One-quarter of trade is conducted with high-risk countries

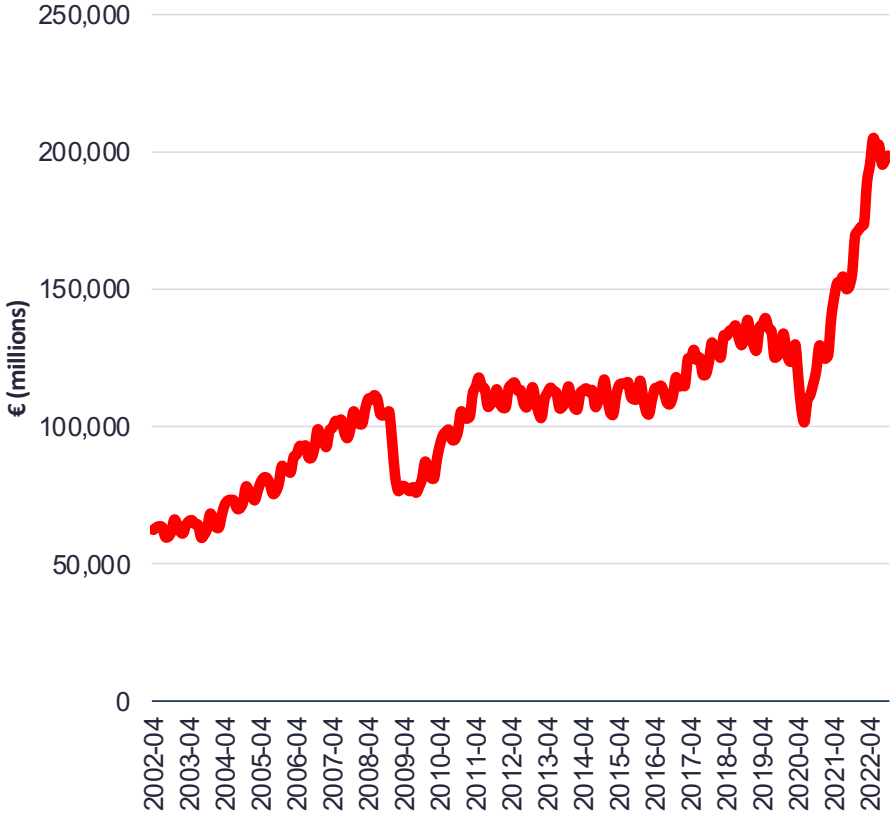
International trade accounts for 20-30% of global carbon emissions

Inventory indicators still point upwards

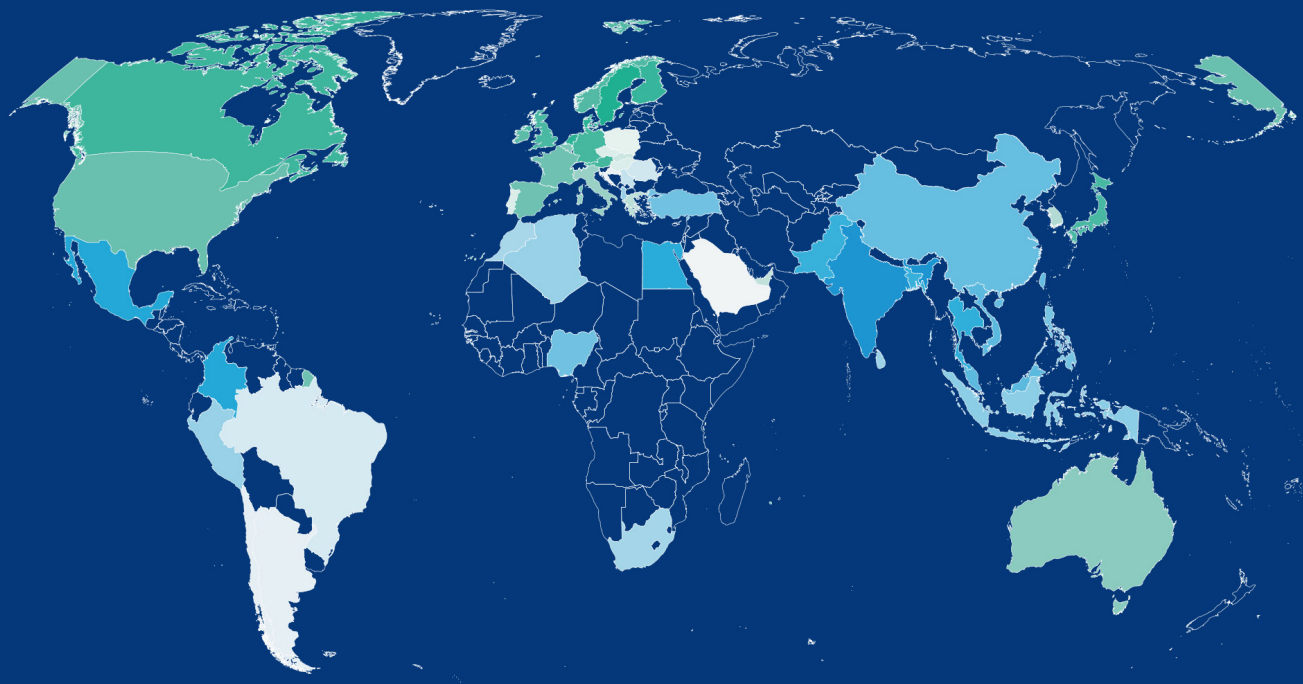
Inventory accumulation as % of GDP



Import of intermediate goods



Source: Eurostat

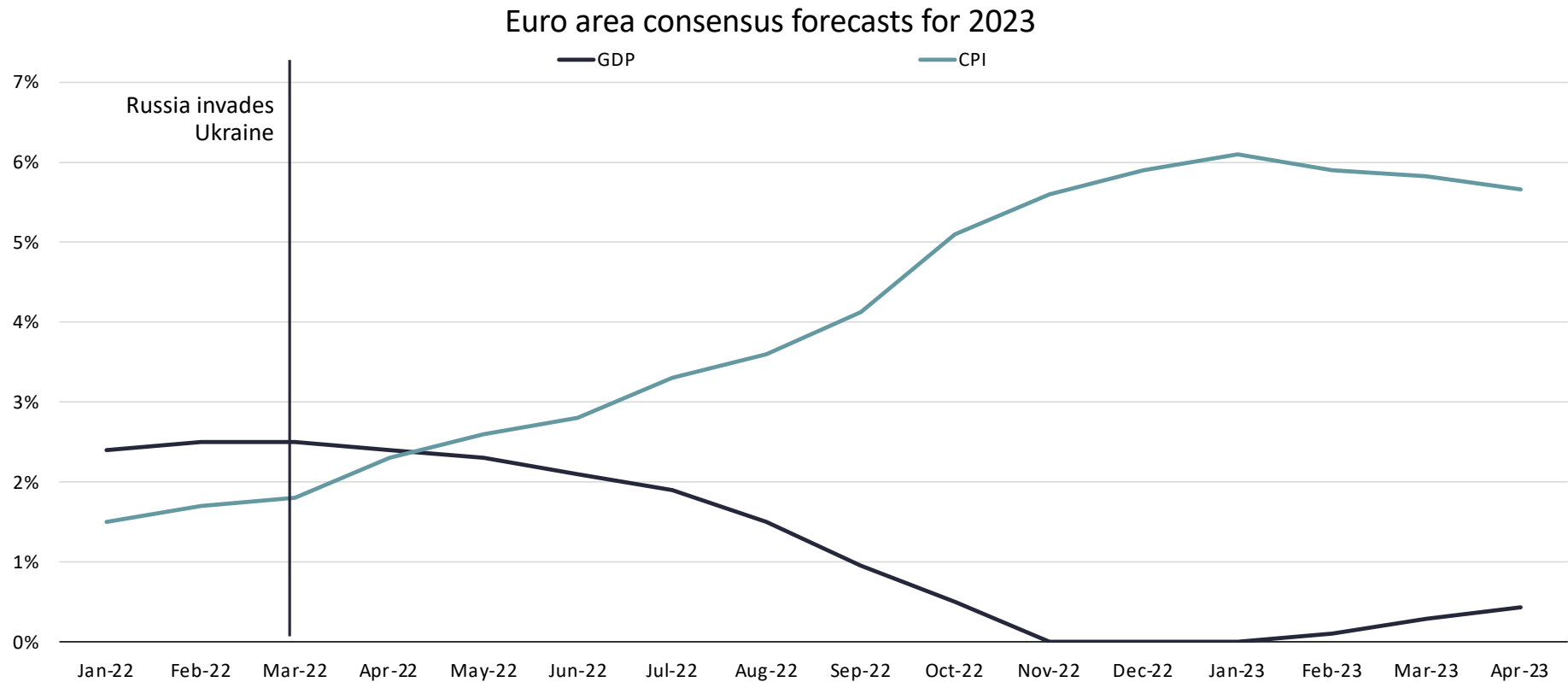


Change in ranking from offshoring to nearshoring

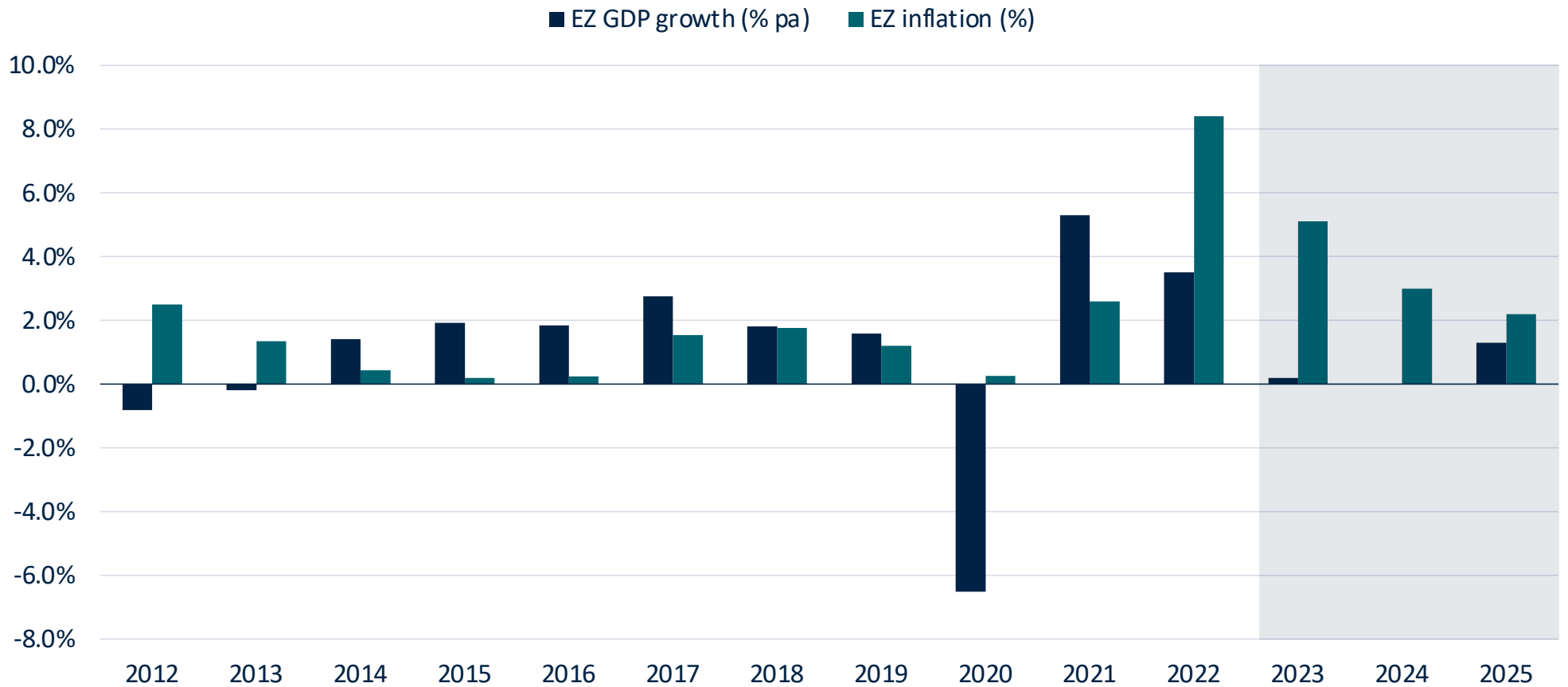


Source: Savills research

European economic outlook continue to move in the right direction



Eurozone economic outlook has improved, but growth is going to be very limited



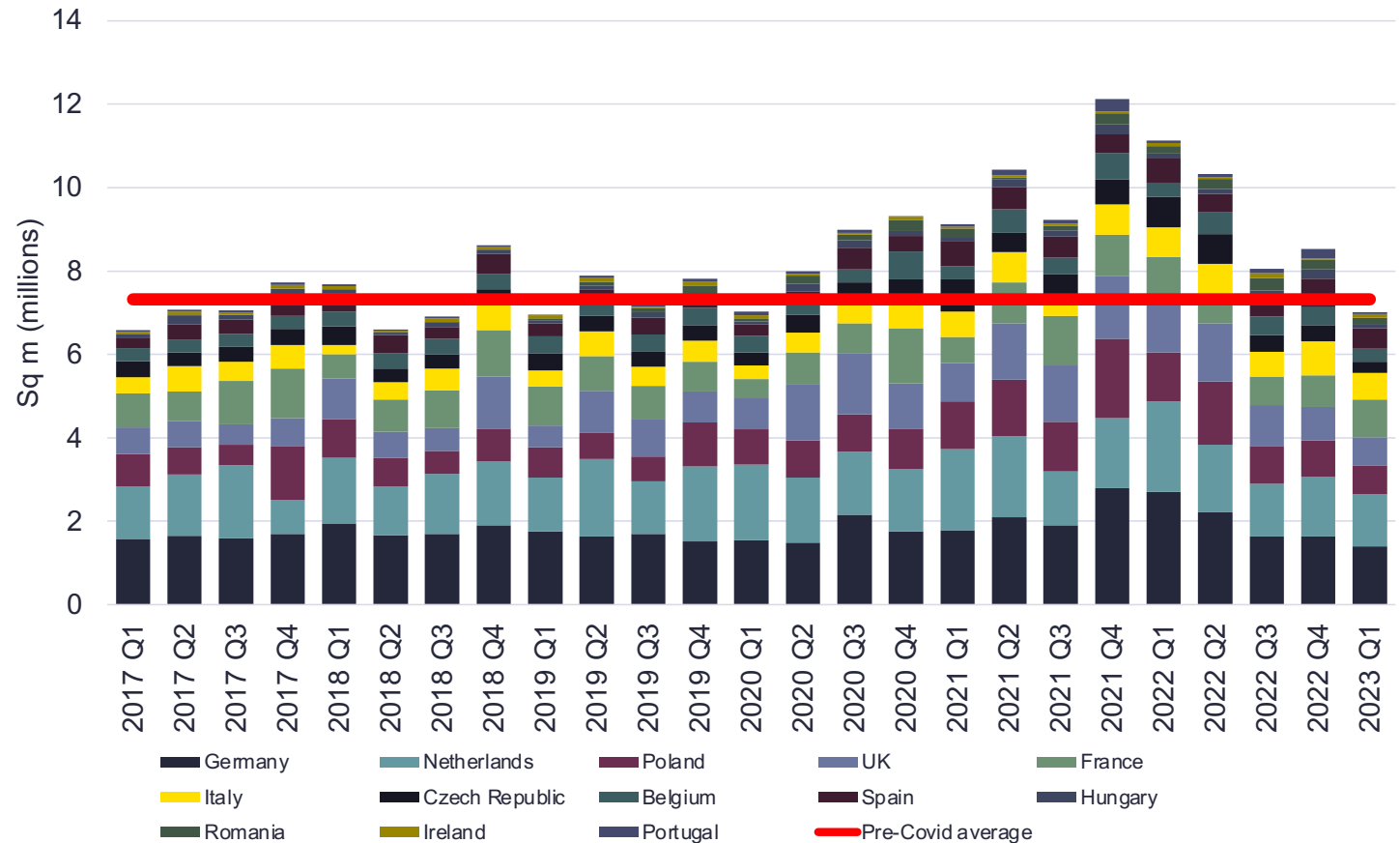
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Occupier markets

European logistics take-up trends lower totalling just over 7m sq m



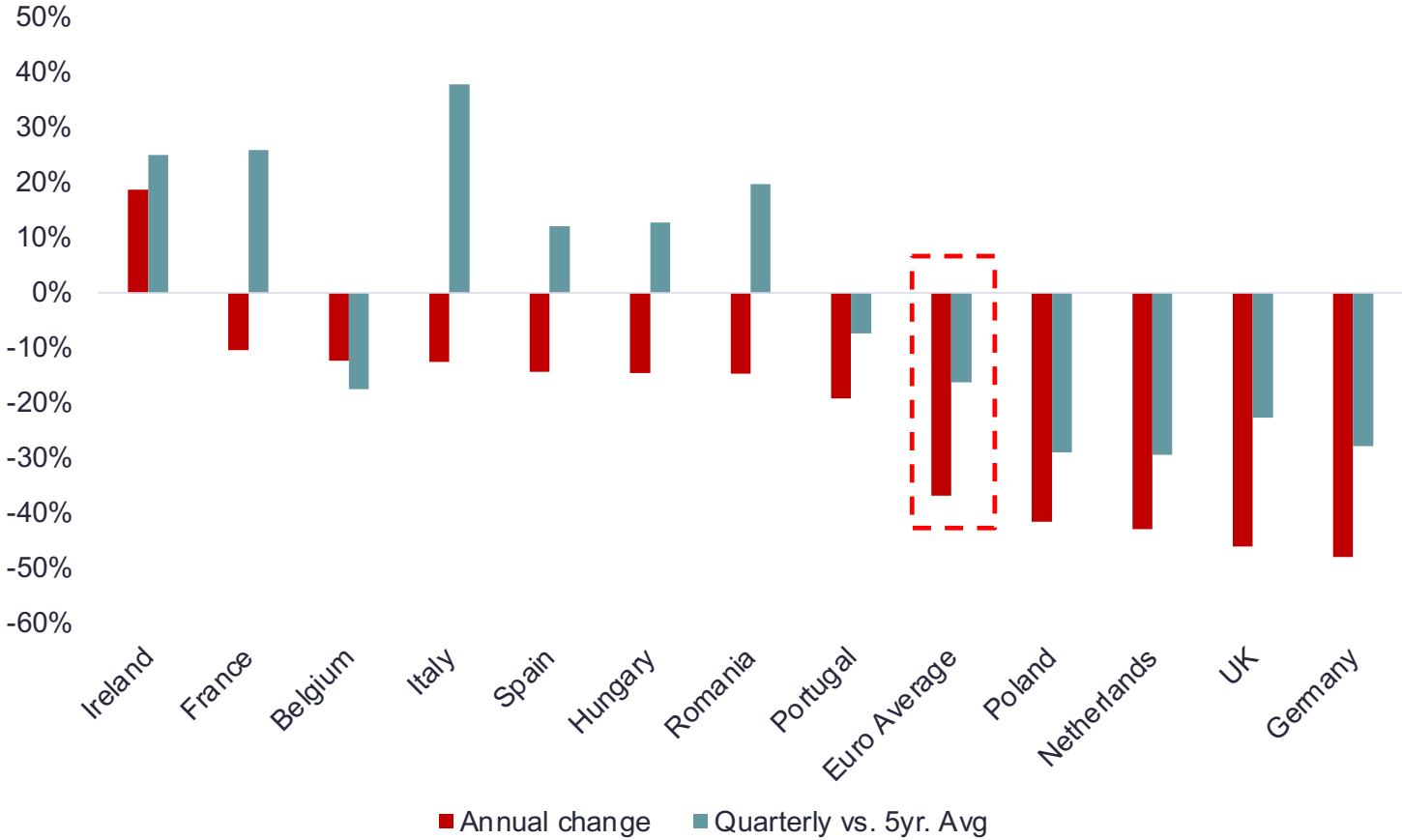
- Provisional estimates of take-up across Europe reached approximately 7m sq m in Q1 2023, a fall of 37% compared to the same period last year, and 18% lower than Q4 2022.
- While this represents a considerable decline in take-up relative to the pandemic era, Q1 2023, is in line with the same period in 2019 (+1%)
- Ireland was the only market to see growth in take-up, with a record Q1.
- The greatest annual declines were in the Netherlands (-43%), the UK (-46%) and Germany (-48%).



Source: Savills Research.

Annual averages are overstating the decline due to a record Q1 in 2022

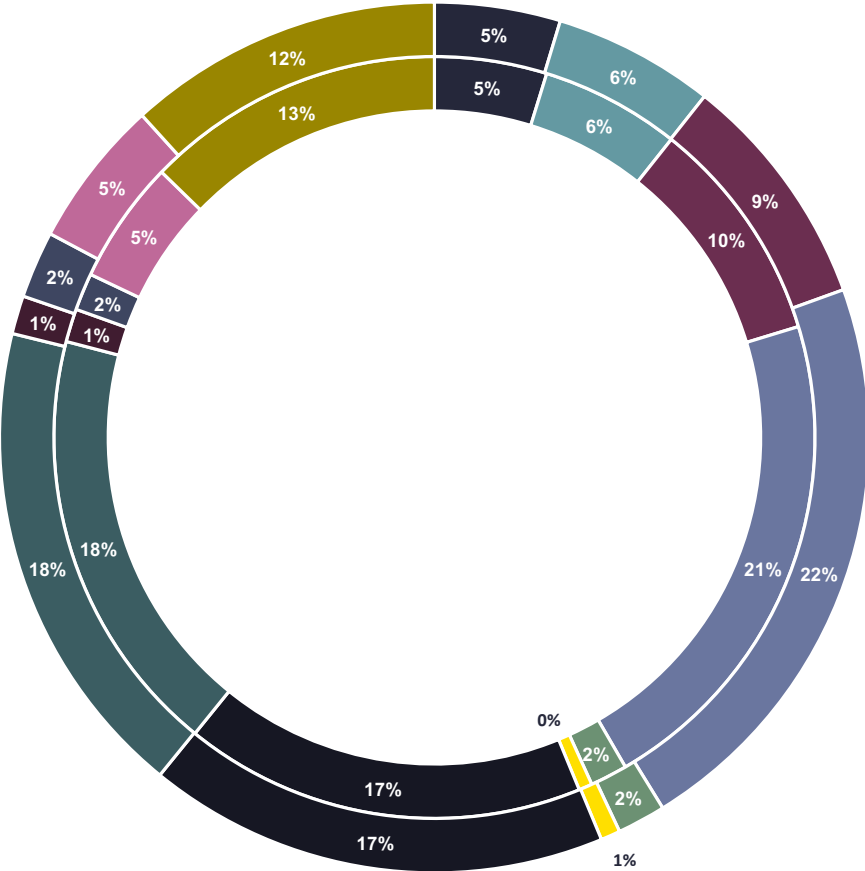
- While it is clear that the market has slowed in the first quarter of the year, several markets are still outperforming historic averages
- Italy (+38%), France (+26%) and Ireland (+25%) all outperformed their five-year averages
- Declines in larger markets including Germany, the Netherlands and Poland have driven the European average lower.



Source: Savills Research.

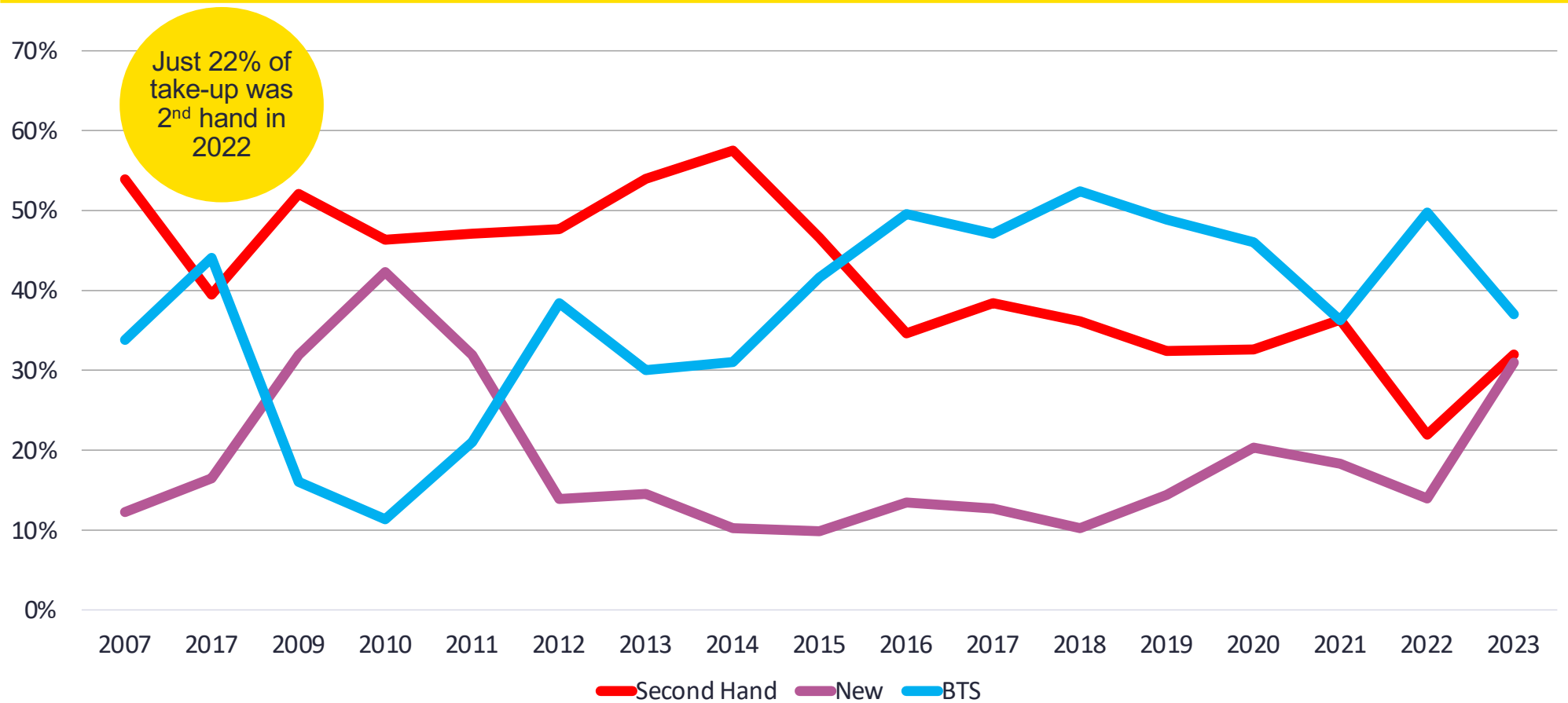
The more things change the more they stay the same

- There were only marginal changes in the share of take-up by region.
- Modest declines in the shares of the UK and France were made up in gains by Germany and Dublin.
- This shows that the slowdown has been relatively even in its impacts.



Internal: 2021
External: 2022

BTS transactions still dominate, yet demand is rising for existing units



Source: Savills Research

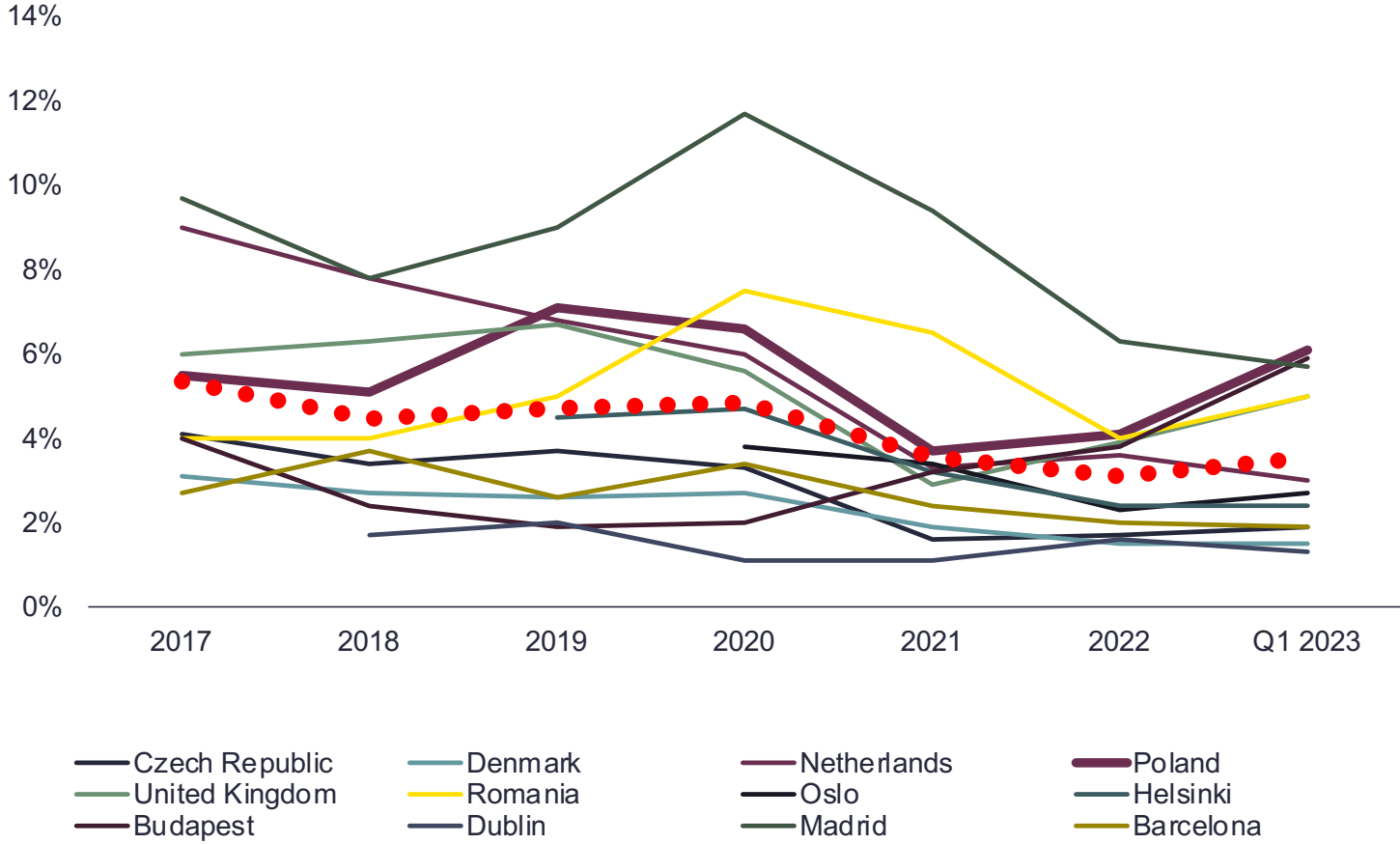
Where is take-up heading? Requirements data shows a H2 rise



Source: Savills Research

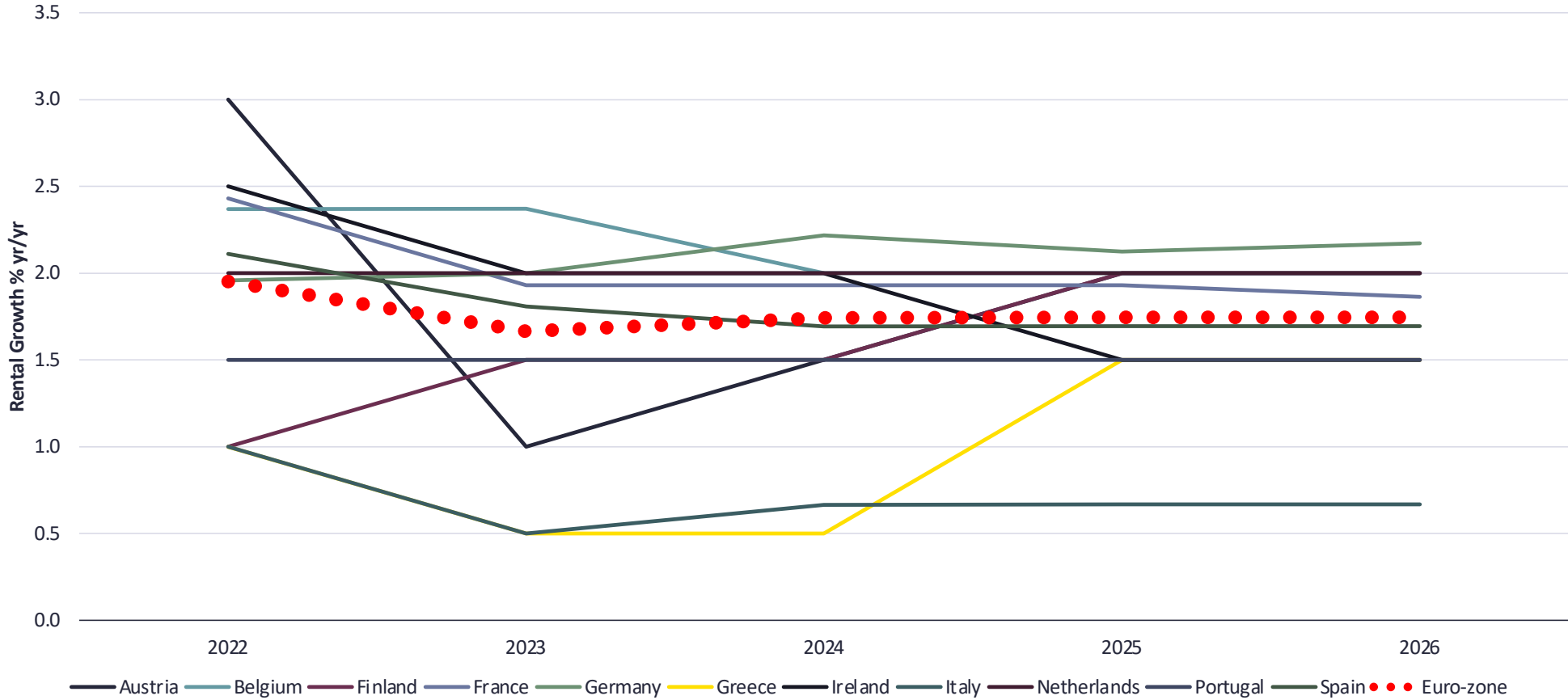
Vacancy rates have risen to 3.5% in the first quarter of 2022

- After gradually declining in recent years, slower leasing activity is starting to be reflected in the average vacancy rate which rose from 3.1% to 3.5% in Q1 2023.
- While continued increases in vacancy are likely we would note that vacancy rates are rising from record lows in many markets which remain constrained in terms of supply.



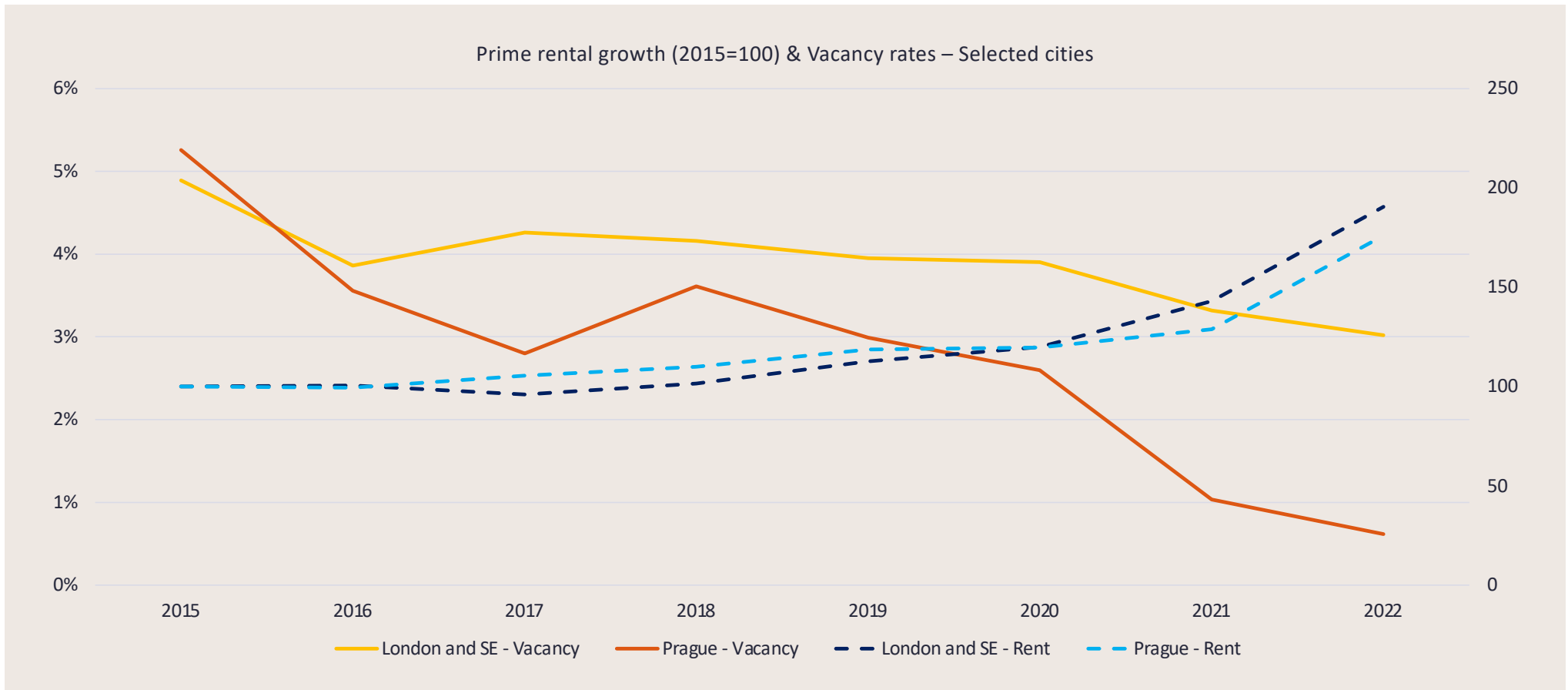
Source: Savills Research.

At 1.6% a year the European rental growth forecasts under value the relationship between supply and demand



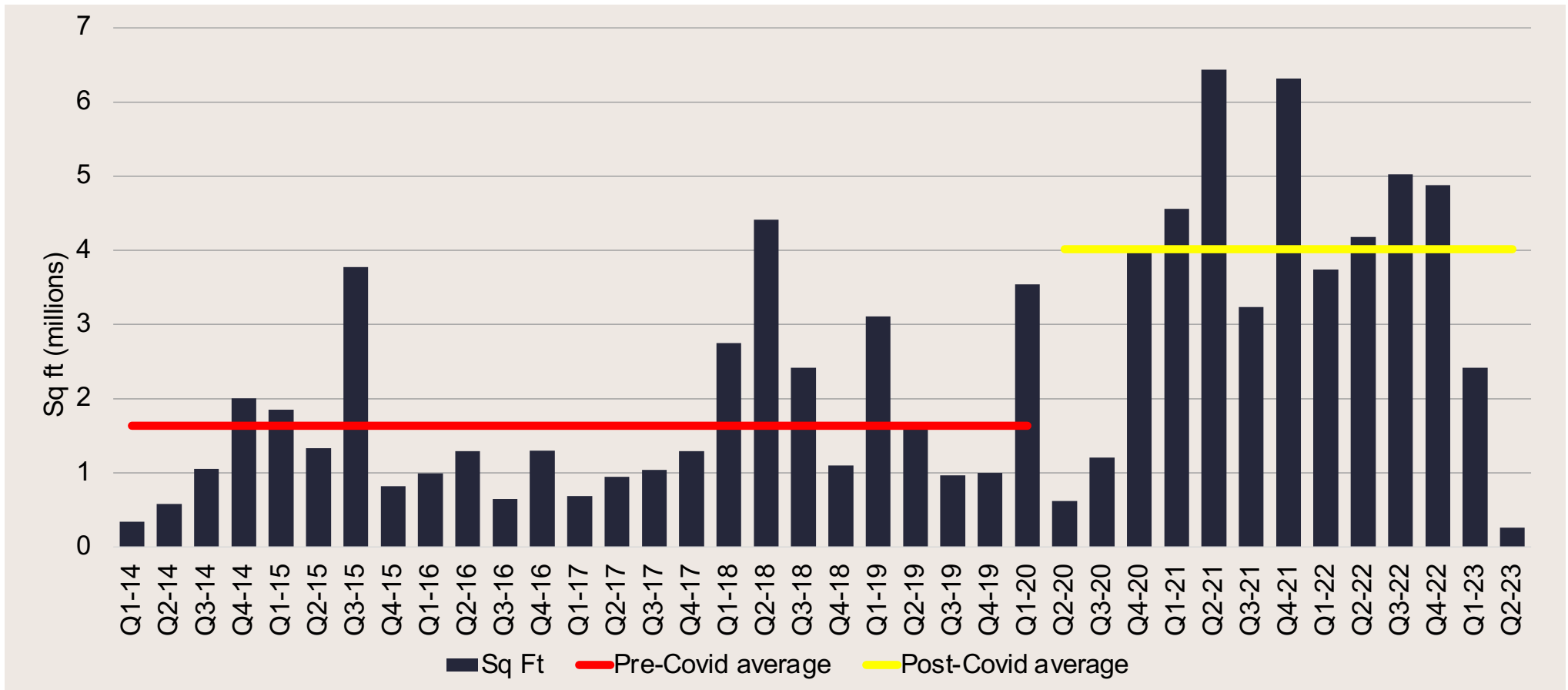
Source: Capital Economics

When vacancy falls rents rise....

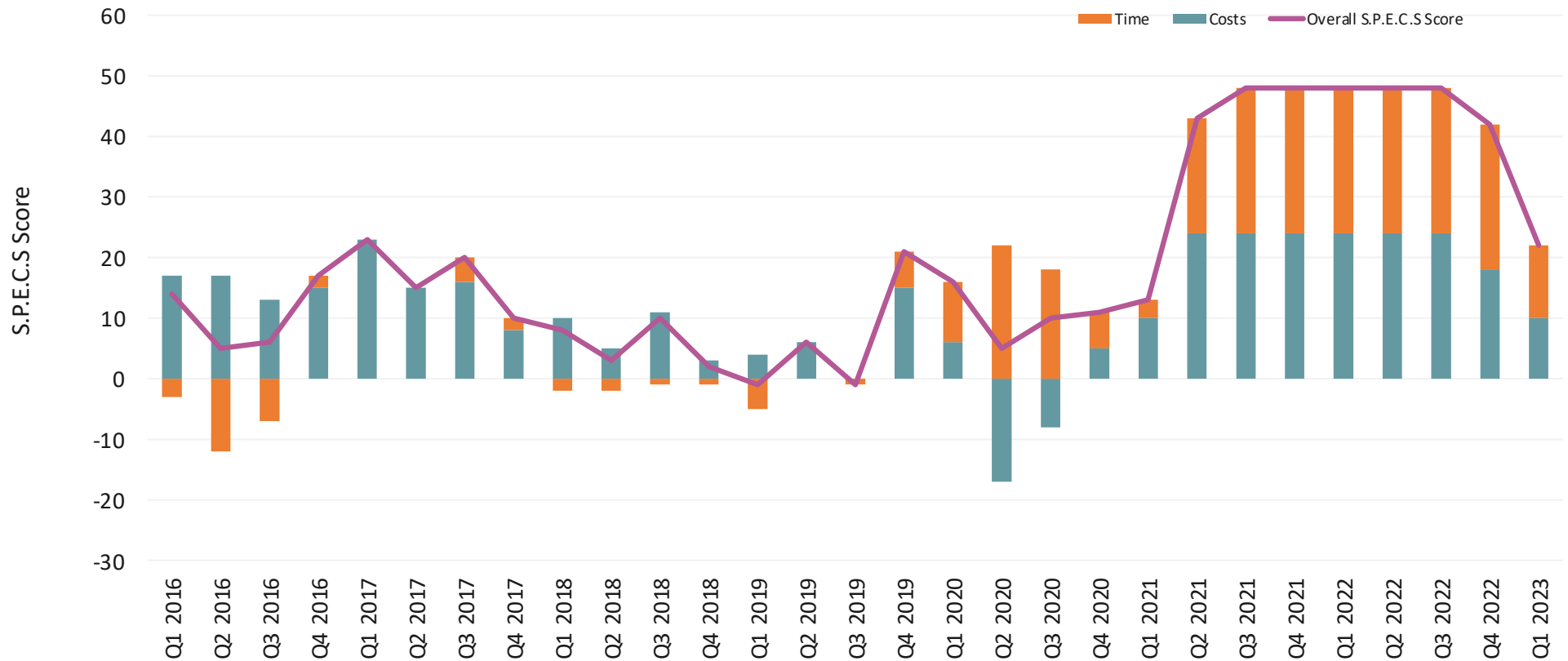


Source: Savills Research.

Speculative development announcements have fallen



Build costs and project timescales are showing signs of stabilisation

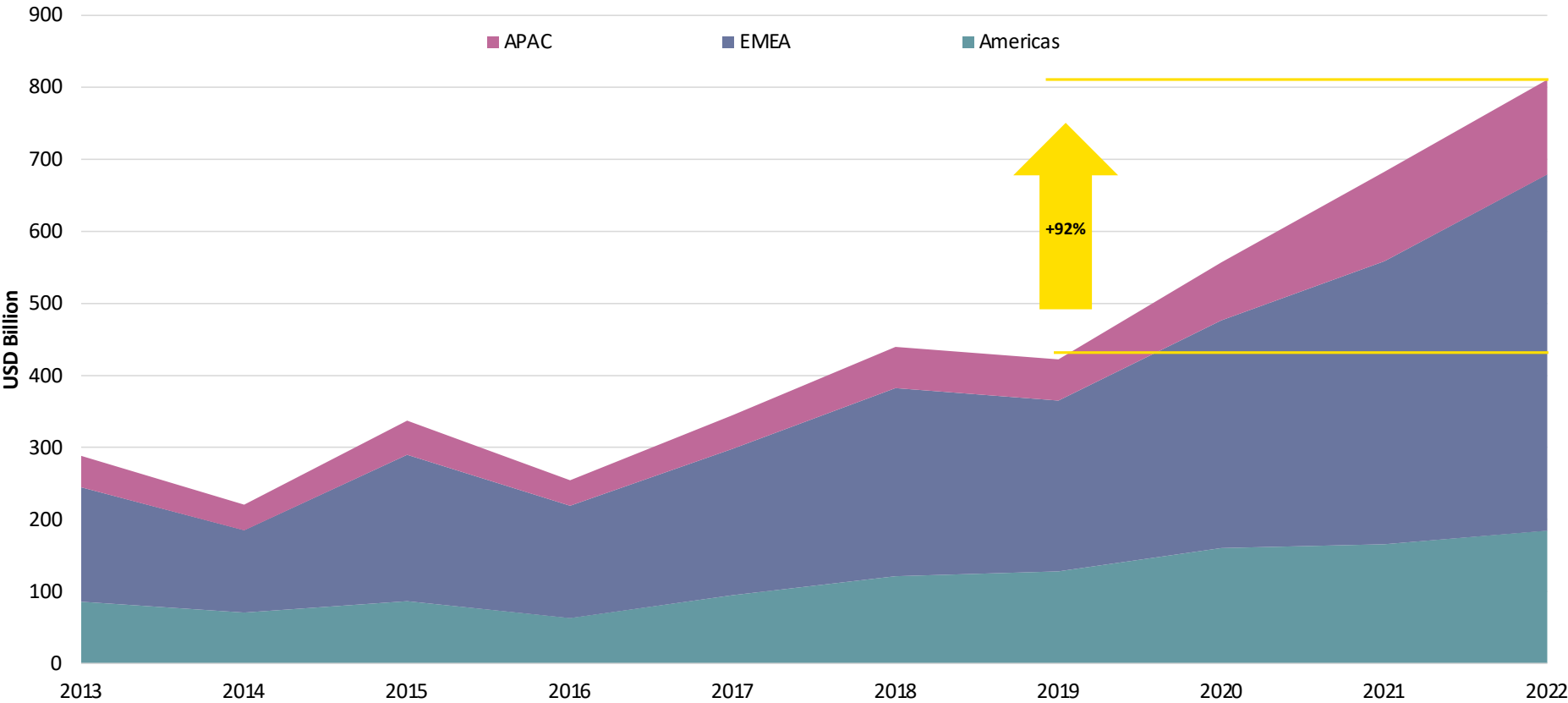


Source: Savills SPECS index

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Capital markets

There is plenty of dry powder waiting to deploy...

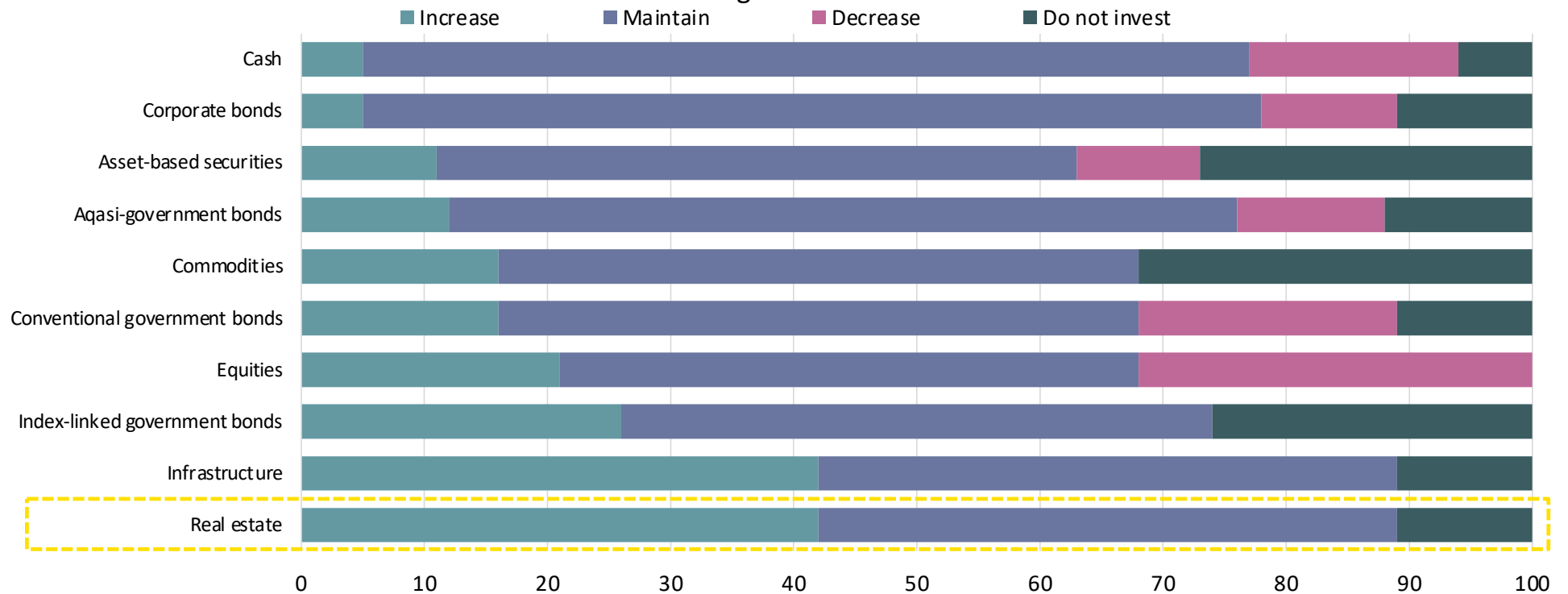


Source: Savills Research using Realfin

...and institutions continue to favour real estate

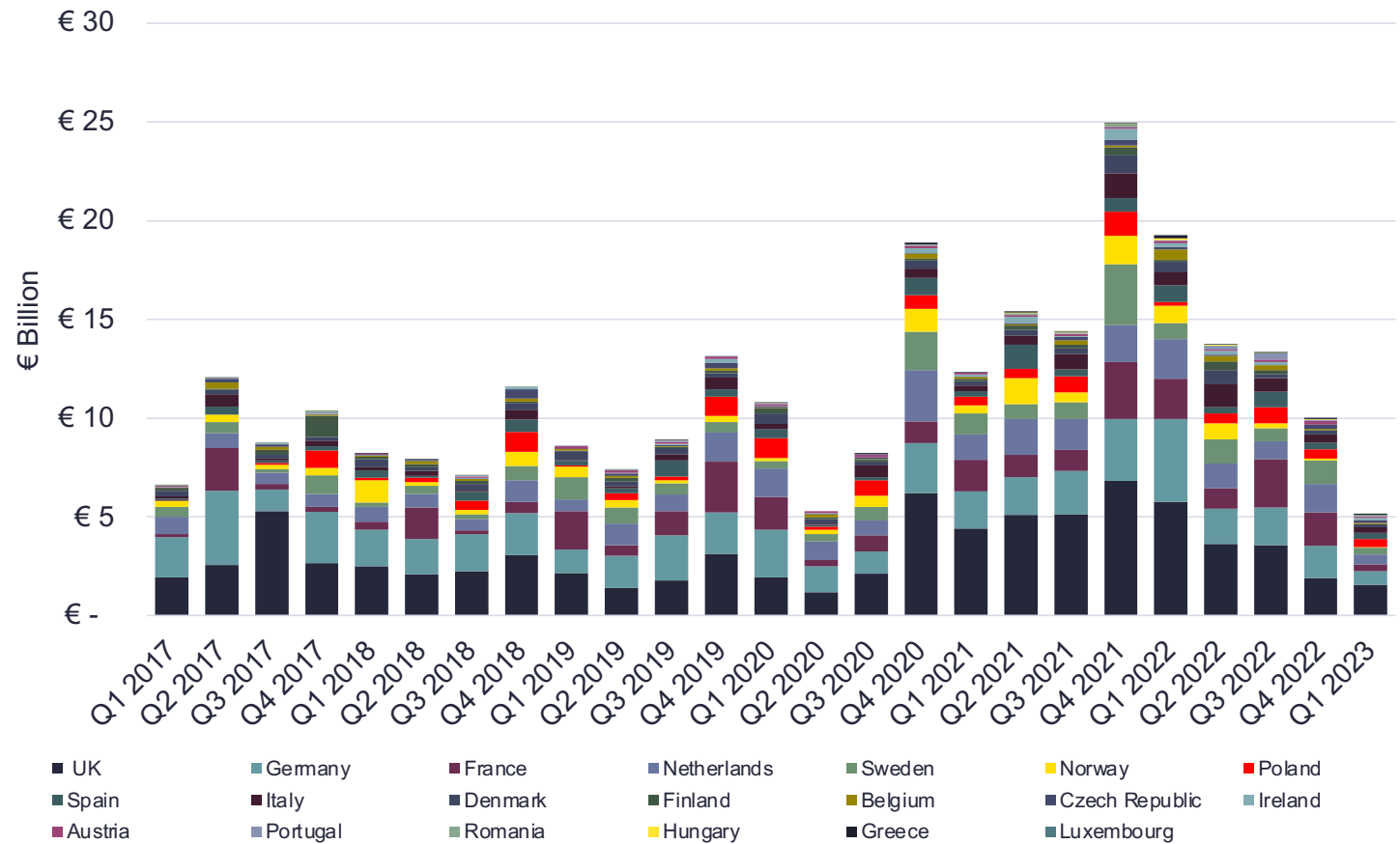


Over the next 12-24 months, do you expect to increase, reduce or maintain your allocation to the following asset classes?



However.....European logistics investment volumes fall sharply in Q1, with a rebound expected in H2

- European logistics saw a sharp drop in investment volumes in Q1 2023, totalling €5.1bn.
- This represents a decline of 73% from the record Q1 2022 when assets worth €19.2bn traded and is 57% lower than the five-year quarterly average for Q1.

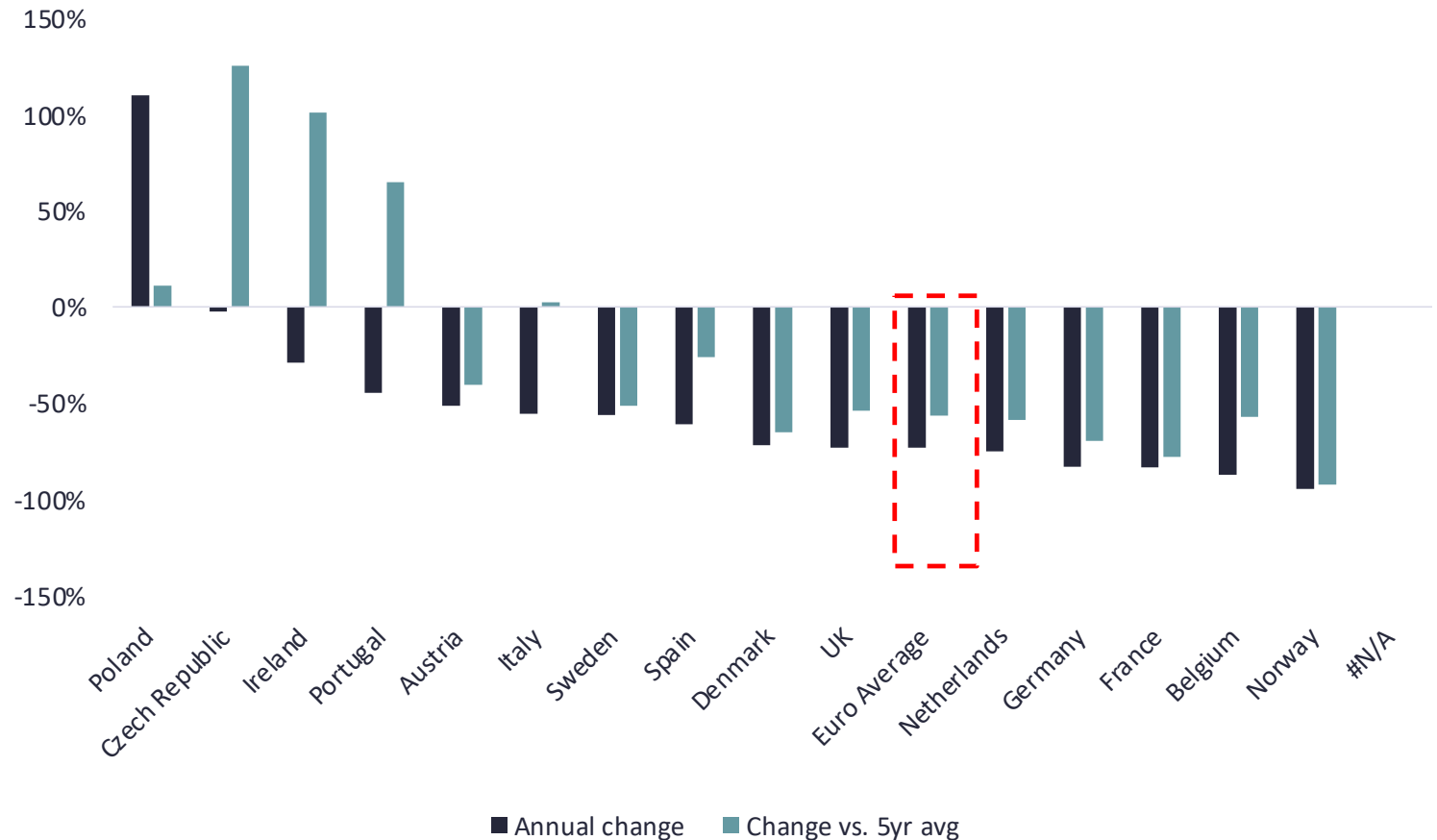


Source: Savills Research.

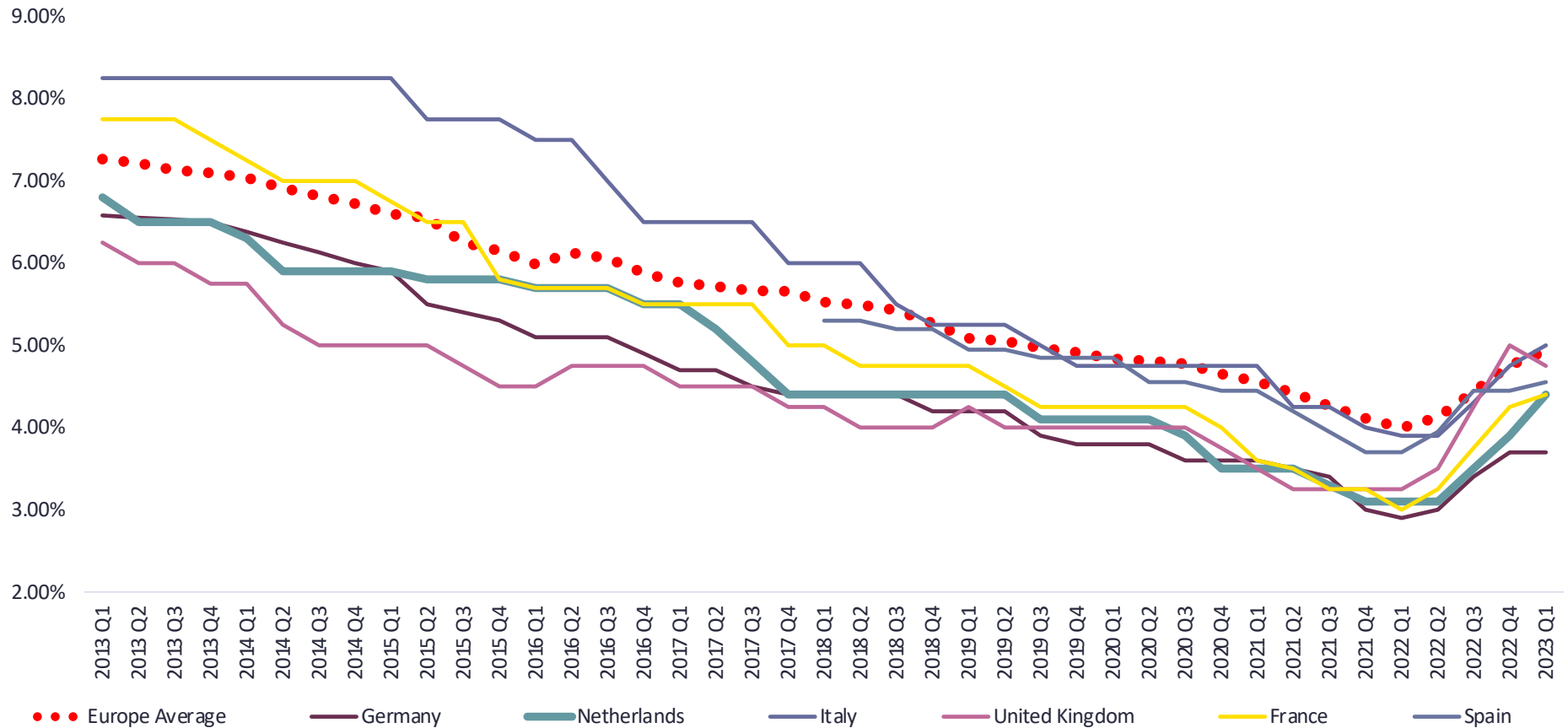
While some markets continue to perform well, the majority are seeing sharp declines



- Investment volumes in Q1 2023 fell by 73% compared to a record high for a Q1 in 2022.
- The quarterly change shows the sharpest drop since the start of the pandemic in Q2 2020
- Annual declines were sharpest in Norway (-95%), Belgium (-88%) and France (-84%)

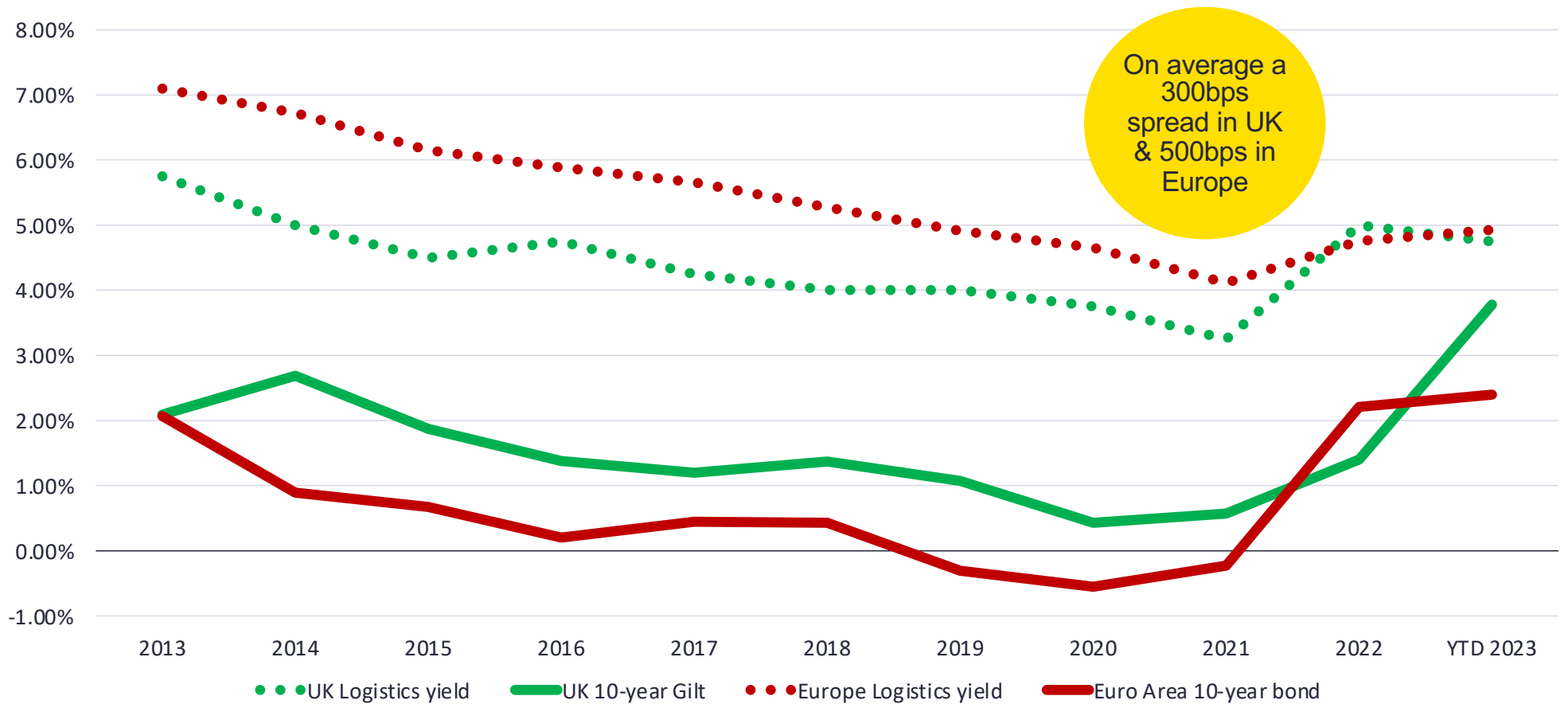


Prime yields reached all-time lows before rebounding in the second half of 2022



Note: European Average based simple average from shown countries + where available data for Belgium, Czech Republic, Denmark, Finland, Norway, Sweden, Portugal, Ireland and Romania.
Source: Savills Research.

The link between bonds and pricing



Source: Savills Research, Eurostat, BoE

Conclusions

1

Economic situation is uncertain and changing daily

2

Occupier demand is normalising but low vacancy and low void periods are keeping the market stable

3

Capital markets are stabilising, we expect a stronger H2

4

There remain strong structural drivers pushing the sector forward

Thank you

Kevin Mofid

Director: Research

Kmofid@savills.com

0203 618 3612

 [@kevtheshed](https://twitter.com/kevtheshed)

 [@kevin-mofid](https://www.linkedin.com/in/kevin-mofid)