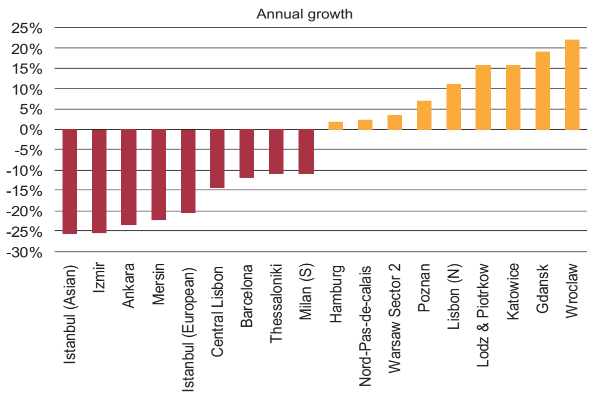
European Warehousing Markets

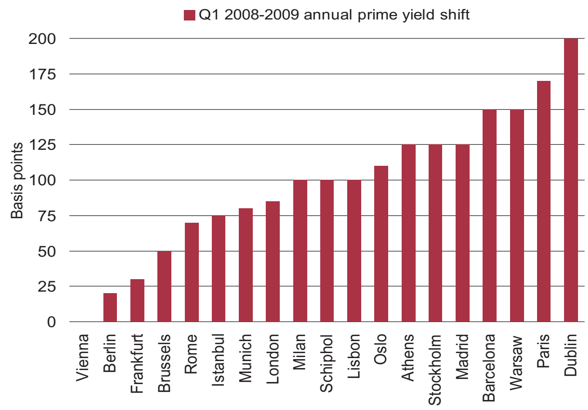
Summer 2009

Highest/Lowest annual prime rental growth



Source: Savills Research

Annual prime yield shift



Source: Savills Research

"Industrial companies will refocus their strategy to their core business by outsourcing their distribution needs and selling their properties. Distributors will restructure the supply chain to secure gains. Activity in 2009 will remain driven by the growing need to reduce operating costs."

Lydia Brissy - European Research

- According to the European Commission, GDP is forecast to contract by 4% in the EU in 2009. The downturn is projected to be broad based, with export-oriented countries more affected by the collapse in global manufacturing. Exports are set to contract particularly sharply this year by 12.6%
- Due to the sharp drop in global trade flows and significant difficulties in major European manufacturing companies, occupier demand reduced significantly in most European markets.
- Weaker demand means more vacancies on the market. However, developer activity reduced significantly as a result of the market uncertainty and the lack of finance. Most of the development in the pipeline is purposed build.
- On average, prime rents declined by 6% and secondary rents by 7%. Nearly all countries covered in the report recorded negative or stable prime rental growth with the exception of Poland and Portugal
- Warehousing rents historically relatively stable declined less markedly than the activity slow down. This difference indicates strong pressure on landlords that concretised through significant amount of incentives required by tenants.
- Overall investment volumes are decreasing and the share of investments dedicated to the warehousing sector is down in most countries.
- Prime yields moved out by 94 basis points on average from 0bp recorded in Vienna to 200bps in Dublin.

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Trends and outlook

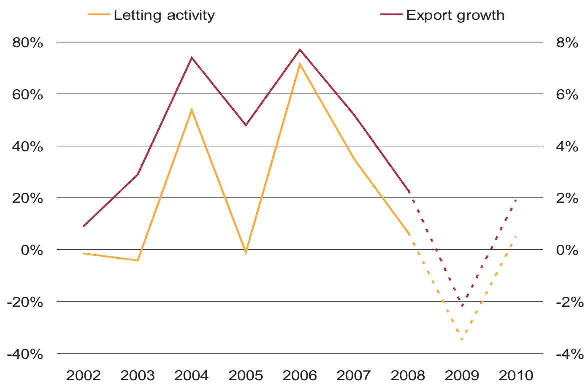
A restructuring phase

Under the current global economic situation, the demand for warehouses is driven by the growing need to reduce operating costs. Manufacturers are seeking to reduce their property costs. Some renegotiate their current leases, which often leads to lease extension, some reduce their production units and try to sublet part of their space, others choose to move to cheaper locations. Distributors are currently restructuring the supply chain to secure gains, which lead to consolidation and optimisation of distribution centres. All together demand from both manufacturers and distributors is mainly generated by the food industry with a growing interest from the low-cost specialised retailers or low cost second brands' supermarket.

In this gloomy context we believe annual take-up to contract by around 35% on average at year-end 2009. In line with export growth, demand should pick up slowly in 2010. To focus on their core business, manufacturers will tend to outsource their distribution needs. Demand will therefore come from logistics players mainly. Supply chains will be re-concentrated around the main consumption basins and restructure around the food industry and the low-cost sectors. Vacancy rates will increase although reasonably as nearly no speculative scheme will be launched in 2009. The main issue regarding supply will be the ageing of the vacant stock that might even further slow down demand in some locations. Rents will remain under pressure until the end of the year at least, although we believe they will not show very sharp decline as availability will not flood the European markets. Investment activity will remain limited notably due to restrained access to financing.

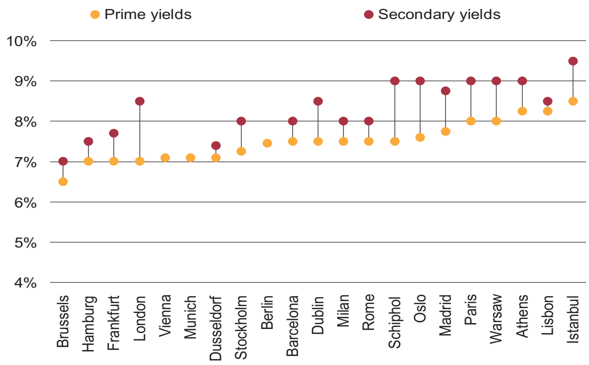
Having to face extremely difficult conditions, we believe some manufacturers will opt for the sale of their real-estate assets with the aim of raising capital. This could provide the market with good opportunities. Yields will continue to move out until the end of the year, notably for secondary warehouses.

Letting and export activities



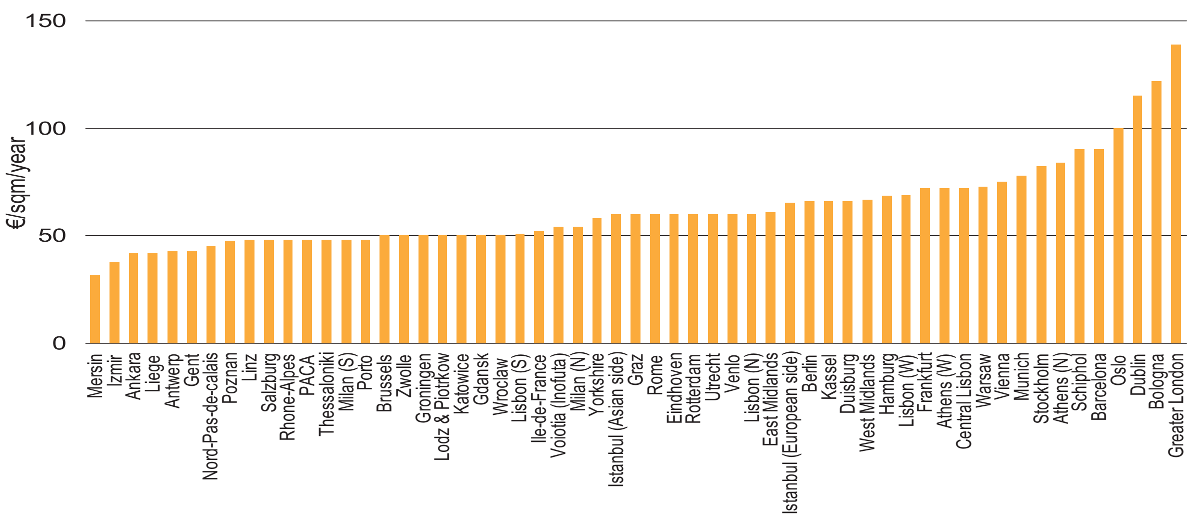
Source: Savills Research / Oxford Economics

Prime / Secondary yields



Source: Savills Research

Prime warehousing rents



Source: Savills Research

Austria, Belgium, France

Austria

The Austrian market has proofed comparatively stable during the current economic crisis albeit recording a slight weakening demand. In spite of recent fears of substantial relocations from Vienna region to nearby low-price competitor Bratislava, the Vienna region still makes up for half of the national take-up. The vacancy rate remains unchanged (3%), however development activity shrunk due to cautiousness toward future prospects. Large logistics projects are put on hold, such as ProLogis Logistikpark Himberg. Rental level remained stable in an annual comparison, comprising between €4 to €6/sqm/month. However, the most significant consequence of the difficult economic situation is the shortening of lease terms. Around the Vienna International Airport, the sale of Austrian Airlines and the following speculations on the company's property portfolio is putting high pressure on rents, which can reach up to €10/sqm/month in this submarket.

Belgium

Take-up at Q1 2009 performed quite well in Belgium reaching 242,000 sqm which represents an increase of almost 18% compared to Q1 08. However, demand is expected to slowdown over the course of 2009 and therefore, rents are now starting to ease down in prime locations. In Brussels, prime logistics rents now stand at €50/sqm/year, down 1% compared to the five-year average and 6% compared to Q1 2008. However, in the major secondary cities, prime rents increased compared to a year prior, by 2.5% in Antwerp, 3% in Liege and over 8.5% in Ghent.

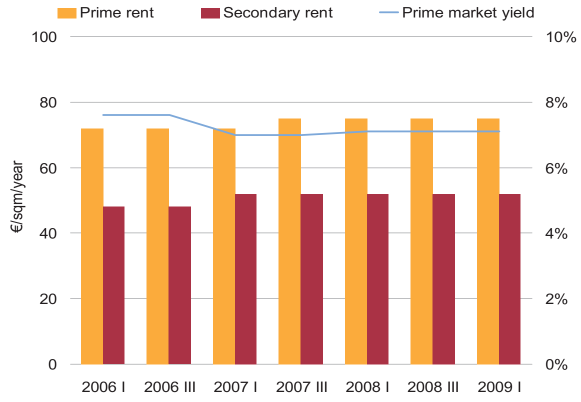
The investment market has seen almost €90mio invested this year, proving to be remarkably strong compared to other asset classes. Yields however are moving to between 7-7.25%, up 100bps compared to a year prior and may continue to soften, especially for B-graded properties. At their highest point, yields reached almost 8.5% in 2004.

France

The French warehousing market dropped significantly during the first quarter of the year. Take-up reached 350,000 sqm at the end of March 09 representing a drop of around 50% compared to the same period last year. Due to reduced transportation costs and the growing need for optimisation, distributors are moving back to the main consumption basins. The transactions volume in IDF represented 50% of the total take-up compared to 26% last year, whereas secondarily areas represented 19% of the total demand this quarter against 31% last year. Due to weaker demand and strong development activity in the past years, availabilities are increasing significantly. Rents remained relatively stable over the period but the amount of incentives is rising and lot of lease renewals have been renegotiated off market.

Industrial investments amounted to 90m which is 12% of the total investment volumes. Prime yields increased by 170bps to 8% over the past year.

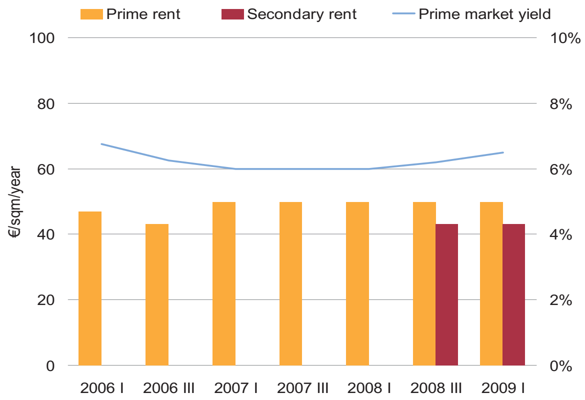
Vienna rents and yields



Source: CPB Immobilientreuhand / Savills Research

Vienna	€75.00/sqm	**Graz**	€60.00/sqm
Salzburg	€48.00/sqm	**Linz**	€48.00/sqm

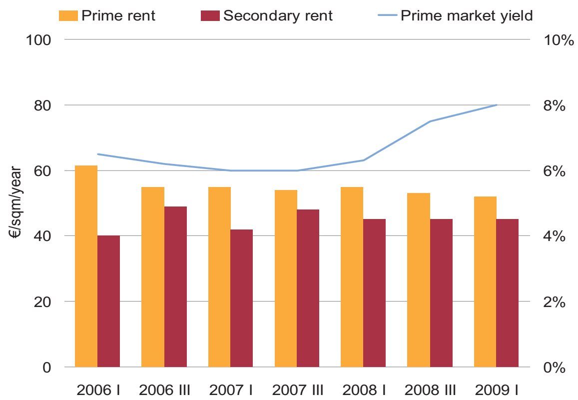
Brussels rents and yields



Source: Savills Research

Brussels	€50.00/sqm	**Liège**	€42.00/sqm
Antwerp	€43.00/sqm	**Gent**	€43.00/sqm

Paris rents and yields



Source: Savills Research

Paris	€52.00/sqm	**Lille**	€45.00/sqm
Lyon	€48.00/sqm	**Marseille**	€48.00/sqm

Germany, Greece, Ireland

Germany

Until the end of 2008, the economic recession, had no noticeable effect on the warehousing letting activity. Except in Frankfurt, which recorded a drop of 23% in take-up compared to the previous year, Munich, Hamburg and Berlin recorded a rise ranging from 13% to 38%. Due to the challenging economic situation since the beginning of 2009, rental values, historically stable, are expected to decline, notably for secondary warehouses. Prime rents should remain roughly stable.

The overall investment activity decreased sharply, from €64bn in 07, to €19.2bn in 08 to €1.75 million in Q1 09 and the interest for industrial warehouses also shrank. Last year, the share of investments dedicated to industrial properties was 10.4%, for the first quarter of the year it was 5%. Prime net yield for fully let, modern warehouses in Dusseldorf, Frankfurt, Hamburg and Munich is around 6.75%, whereas in the capital it stands at 7.25%.

Greece

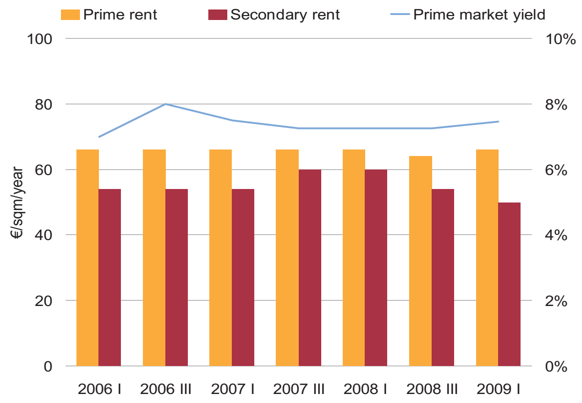
The total warehousing stock of 3PL companies in the beginning of 08 had exceeded 1.1m sqm, a 15% rise compared to the previous year. Almost ¾ of the 3PL companies are based around Athens. Additionally, a large additional amount of stock belongs to retailers, as outsourcing is still at the stage of expansion. Although a slowdown in demand and supply is expected in 2009 due to the unfavourable economic and trading conditions internationally, the expansion of 3PL services, the improvement of infrastructure across the country and the strategic position of Greece in the Mediterranean should remain the drivers of demand for warehousing. Investment activity in the sector is limited by high occupier ownership levels. Lately the mismatch of potential buyer and seller expectations is restricting further deal-making opportunities. Prime yields have moved out towards the end of 2008 and they are now 75 basis points higher compared to a year ago at 8.25%.

Ireland

Approximately 147,000 sqm of space was taken-up in 2008, representing a 33% decline compared to the previous year. Since the beginning of the year nearly 40,000 sqm has been already taken-up is on a par with the levels achieved in 08 Q1. Availability levels increased dramatically in 2008 (+50%), as plans to redevelop many properties for higher-value use were postponed. This rising trend in vacancy levels has continued at pace in the first quarter of 2009 as the demand for industrial space continues to come under pressure. We forecast 2009 take-up will be less than 100,000 sqm. The overhang of vacant industrial space will drag on the market and there is already evidence of weakening lease terms.

Prime industrial yields have shifted significantly outwards, approximately 200 basis points in the last twelve months to 7.5% in the first quarter.

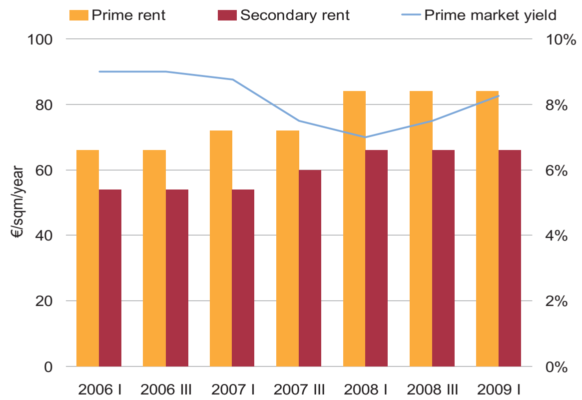
Berlin rents and yields



Source: Savills Research

Berlin	€64.00/sqm	**Frankfurt**	€72.00/sqm
Hamburg	€68.40/sqm	**Munich**	€78.00/sqm

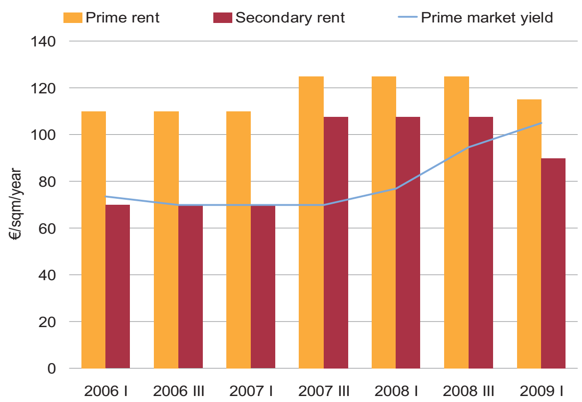
Athens (North) rents and yields



Source: Savills Research

Athens (N)	€84.00/sqm	**Thessaloniki**	€48.00/sqm
Athens (W)	€72.00/sqm	**Voiotia**	€54.00/sqm

Dublin rents and yields



Source: Savills Research

Dublin €115.00/sqm

Italy, Netherlands, Norway

Italy

Further savings are being sought by operators in their real estate expenses which, as a result, are falling to reflect tenant requirements. This is particularly so in the food industry, where the market is shifting towards low cost consumer products so that logistics demand is increasingly focusing on the locations from which such food products originate. Locations such as the Latina area to the south of Rome benefit from being close to the source of a range of agricultural products. The Shopping Centre market continues to be a significant driving force behind the food sector. Therefore, the occupier market is currently stagnant, with activity frozen until a new balance between the economic terms of today's supply and demand can be reached. Similarly capital markets in Italy are seeing very little activity indeed. Minimum asking yields for the purchase of prime logistics properties actually reflect more closely achievable market yields for secondary premises.

Netherlands

After the strong figures recorded in the industrial warehousing letting market last year, the first quarter of 2009 has showed little activity. During the first three months of the year, take-up declined by more than 40% compared to the same period in 2008, resulting in a total transacted volume of 500,000 sqm. We expect the letting market not to pick up seriously before 2011. Rental levels as well as incentives remained relatively stable over the period, although pressures on rents are stronger than ever, especially in secondary locations.

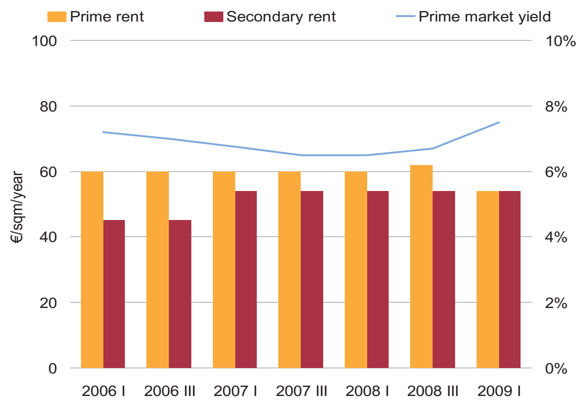
Investments in the warehousing and logistics market totaled only € 100 million, which is 5% of the total investments of 2008. Yields increased significantly during 2008, moving out from 6.5% to 7.5% in the Schiphol area. We believe the investment market to recover somewhat earlier than the letting activity.

Norway

The Norwegian warehouse market has so far been less influenced by the current market conditions. Development activity is low and prices on raw materials are falling. This market situation may create favorable terms for users seeking to rent industrial new buildings. Prime rents remain stable and currently stand at NOK1,000/sqm/year (€101/sqm/year)).

The total investment volume as of May 09 amounts to NOK 2,7bn, whereas 1/3 relates to warehousing. Compared to last year, the investment market has dropped by 75%. Banks are not lending to potential "single purpose" buyers and dept ratios of 50-75% are granted to well-established and equity rich players only. Prime industrial yields increased by 110 basis points over the past 12 months to 7.6%.

Milan (N) rents and yields



Source: Savills Research

Milan (N) €54.00/sqm **Milan (S)** €48.00/sqm

Rome €60.00/sqm

Amsterdam (Schiphol) rents and yields

Source: Savills Research

Schiphol (W) €90.00/sqm **Rotterdam** €60.00/sqm

Utrecht €60.00/sqm **Venlo** €60.00/sqm

Oslo rents and yields

Source: Heilo Eiendom / Savills Research

Oslo €121.00/sqm

Poland, Portugal, Spain

Poland

The letting activity during the first quarter of 2009 was much lower than the quarterly average during the past two years, 118,000 sqm against 350,000 sqm. Demand in the Upper Silesia region totalled nearly half of the national take-up. In spite of the slowing down demand, the level of completions in Q1 amounted to almost 670,000 sqm which is over 40% of the 2008 level. Additionally, 580,000 sqm of modern warehouse space are currently under construction. The highest development activity was recorded in Warsaw area and Upper Silesia with also strong level of completions noted in Poznan and Central Poland. The average national vacancy rate is 13.3%. It is 6.5% in Warsaw. Rental levels remained stable ranging from €45.00 to €73.00/sqm/year in Warsaw and from €41.50 to €50.00/sqm/year outside Warsaw.

Yields for modern warehouses range from 8% to 9%.

Portugal

The warehousing market in Portugal has slowed down due to limited trade flows and industrial activity. In 2009, we expect take-up to fall by 10-20% (from 240,000 sqm in 08). Demand is mainly driven by the reorganisation of supply chains and we believe outsourcing needs will increase, allowing companies to concentrate in their core businesses. Speculative supply is very limited, however, two major logistics hubs, part of the Governments Logistical Plan, will be lunched this year: LOGZ - Atlantic HUB in Poceirão and Abertis Logistics Park Lisboa. The very low logistic vacancy rate (4%) gives potential for secondary rents to increase in some areas. However, we expect prime rents to fall slightly, as we consider rents above €4.75 /sqm/year to be unsustainable during a recession.

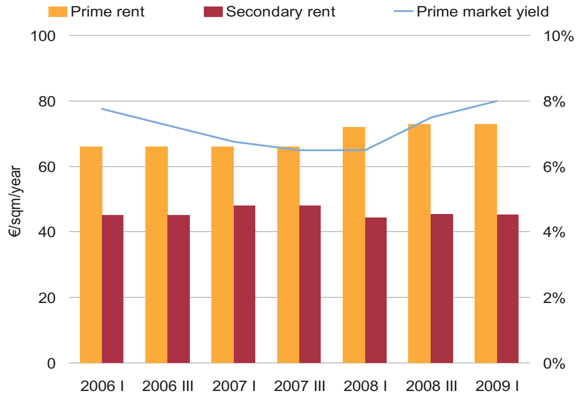
Prime yields have risen since last year to around 8.25% for the best schemes. Due to the lack of financing, the sale-and-leaseback market is likely to provide the majority of transactions in 2009.

Spain

The unfavourable economic environment has had strong impact on the warehousing market in Spain. Logistic operators are considering carefully strategic locations in order to optimise resources and time. The decline in consumption has led to a fall in demand from supermarkets. More generally, the short-term uncertainty is delaying negotiations or lengthening decision making. Finally, strict finance conditions have paralysed end users from their buying intentions. Rents are under strong downward pressure. Users are looking to limit costs and owners are willing to price rebates with lease extension condition.

International funds take on the buyer role while domestic companies are selling. Buyers are seeking well located long terms secured deals. Assets with less than five year fix lease terms have little candidates or very significant price penalty. Yields continue to rise and could reach double digit levels in secondary locations or platforms with short-term contracts.

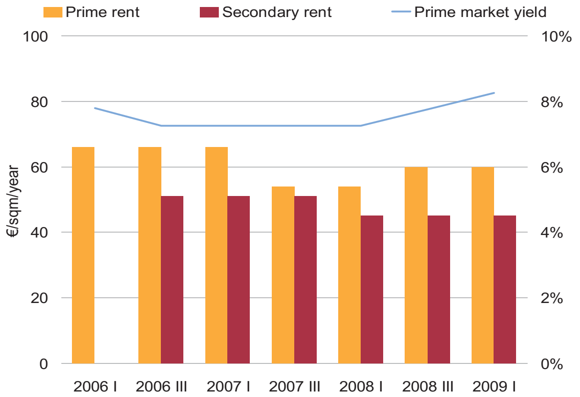
Warsaw (Sector 1) rents and yields



Source: Savills Research

Warsaw (Sector 1)	€73.00/sqm	**Poznan**	€47.50/sqm
Warsaw (Sector 2)	€46.00/sqm	**Lodz**	€50.00/sqm

Lisbon rents and yields



Source: Abacus Property / Savills Research

Lisbon (N)	€60.00/sqm	**Lisbon (S)**	€51.00/sqm
Lisbon (W)	€69.00/sqm	**Porto**	€48.00/sqm

Barcelona rents and yields

Source: Savills Research

Barcelona €90.00/sqm

Sweden, Turkey, UK

Sweden

The supply of modern logistics space is still scarce and almost no new developments are starting unless significantly pre-let. There is still demand for modern space, but the current market uncertainty has led to few new lettings in the last quarter. In 2008 close to 200,000 sqm of logistics space was completed, most of which was fully let. During the coming year some 500,000 sqm of logistics space will be constructed, almost all of it is fully let, with the largest project being the new ProLogis Park in Jönköping.

The transaction volume for warehouses dropped significantly during 2008 and reached about a third of the volume in 2007. The investment volume during the first quarter in 2009 amounted to just under SEK500m. Yields are still softening and there is a much higher demand form potential investors on the tenants' creditworthiness and lease terms in order to minimize risks, which are otherwise priced to the full extent.

Turkey

As a result of the decrease in manufacturing activity and the slow down of trade flows, demand for warehousing has been declining and vacancy rate has risen. Istanbul and Ankara warehousing markets are relatively strong when compared to Izmir and Mersin that are mainly based on import and export transportation. Both the decrease in demand and the lack of finance has slowed down new developments from international developers. However, local developers and investors see the current situation as an opportunity and have not cut speed. Industrial land prices and rental levels have declined slightly in the last three months period. Prime warehouse rents are on the level of €5-5.5/sqm/month in Istanbul market, while this is app.€3.5/sqm/month in Ankara.

Prime yield has increased from 7.75% to 8.5% in the last year.

UK

2008 take-up reached 1.4m sqm, down 17% on 07 and in-line with our expectations. The majority of deals happened in 1H 2008. 0.6m sqm was transacted in Q1 but take-up in Q4 fell to just 46,000 sqm. Take-up is expected to fall by a third in 2009 with rents falling up to 10%. A recessionary UK is having a significant impact on the warehouse market. During Q1 09, supply has risen by 10% compared to the same time last year and now stands at around 7m sqm. Availability is expected to rise further during the year.

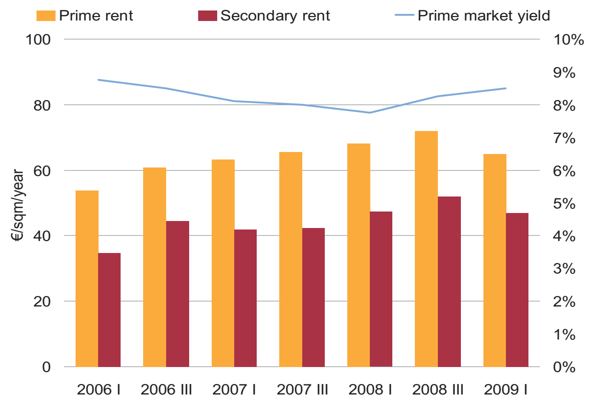
Prime yields moved to 7.5% at the end of 2008, representing a 150 basis point rise during 2008. The first five months of this year has seen yields remains at 7.5% to 8%. Investors will look at the distribution market as well let stock is showing a yield gap of 400bp to the 5-year swap.

Stockholm rents and yields

Source: Savills Research

Stockholm €82.00/sqm

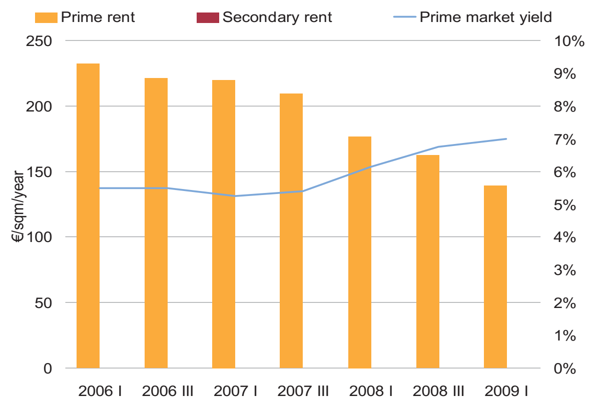
Istanbul rents and yields



Source: Kuzey Bati / Savills Research

Istanbul	€65.00/sqm	**Ankara**	€42.00/sqm
Izmir	€38.00/sqm	**Mersin**	€32.00/sqm

Greater London rents and yields



Source: Savills Research

London	€139.00/sqm	**E Midlands**	€60.80/sqm
Yorkshire	€57.90/sqm	**W Midlands**	€66.60/sqm

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Definitions:

Prime rents: Achievable rents for prime warehouses > 10,000 sqm

Prime yields: Achievable yields for prime warehouses > 10,000 sqm

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