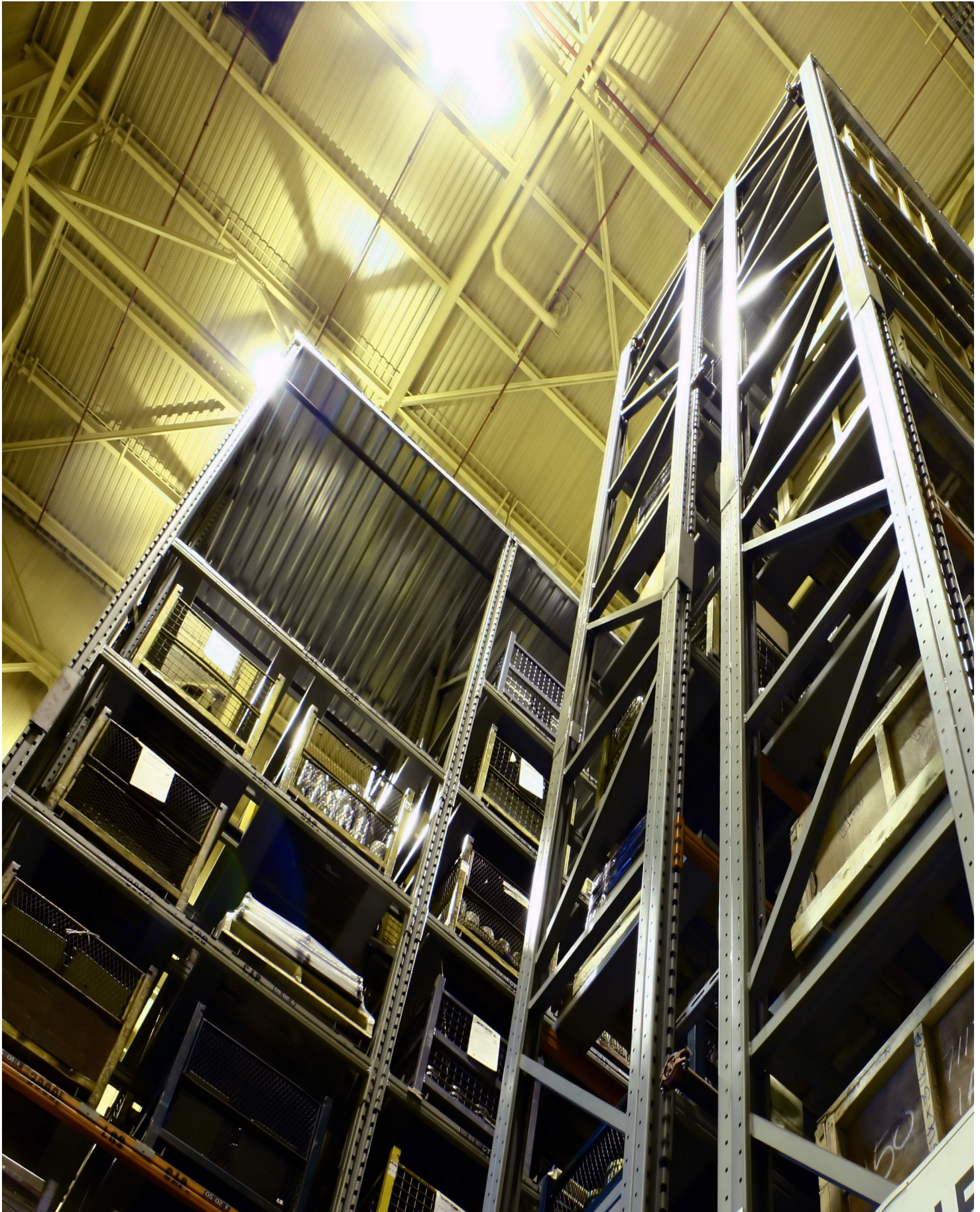


Logistics Market



Economic Overview

The Spanish economy is advancing positively despite macroeconomic uncertainty.

GDP in Q1 2023 grew by 0.4% compared to the previous quarter but showed a robust year-on-year increase of 3.8% (INE). It is worth highlighting that the base figure is only 0.2% below the level of Q4 2019 (the last figure prior to the global health crisis).

On the other hand, several economic institutions have improved Spain's economic growth forecasts for 2023. According to Oxford Economics, it would close the year at 1.62%, placing it in the top five growth rates across Europe (with Malta, Romania, Cyprus, and Ireland) and well above the 0.5% average for Europe (excluding the UK) or 0.6% for the Eurozone.

Rising prices have led to a dramatic decline in private consumption in recent quarters, although latest figures point to a slowdown in CPI growth. The general index stood at 4.4% in March (INE) and is expected to close 2023 at 3.82% (Oxford Economics). Notably, core inflation (which excludes unprocessed food and energy products) recorded its first moderation in April (-0.9%) to stand at 6.6%.

Despite the slowing growth of this key variable, the Consumer Confidence Index (ICC) recorded a downturn in the upward trend it had maintained throughout the second half of 2022. The March figure published by Centro de Investigaciones Sociológicas (CIS) stood at 67.40.

E-commerce

Online activity is transforming consumer behaviour and has been gaining ground over traditional shopping, due to its convenience and the ability to save on travel. According to the latest data from

the Survey on Equipment and Use of Information and Communication Technologies in Households (INE), in 2022, 55.3% of individuals aged 16-74 made online purchases for private use in the previous three months. This represents a modest growth of 0.1%, but it should be noted that this percentage has maintained its upward trajectory from 2020, when circumstances made online shopping a primary purchase method, resulting in a 7% increase in just a year (from 46.90% in 2019 to 53.80% in 2020).

In the context of Europe, with a focus on the Mediterranean region, Spain holds the second position in online shopping, trailing only Malta, which has a participation of almost 59% (Eurostat).

Data released by the Spanish National Commission for Markets and Competition (CNMC) indicates that e-commerce experienced a 14% growth in the number of transactions and a 29% increase in turnover volume in Q3 2022 compared to the same period in the previous year. Retail sectors also demonstrated growth, albeit at a slower rate of 4% in transactions and 13% in turnover volume. Compared to 2020 data, the online retail sectors showed a remarkable 35% rise in transactions and 33% in sales volume.

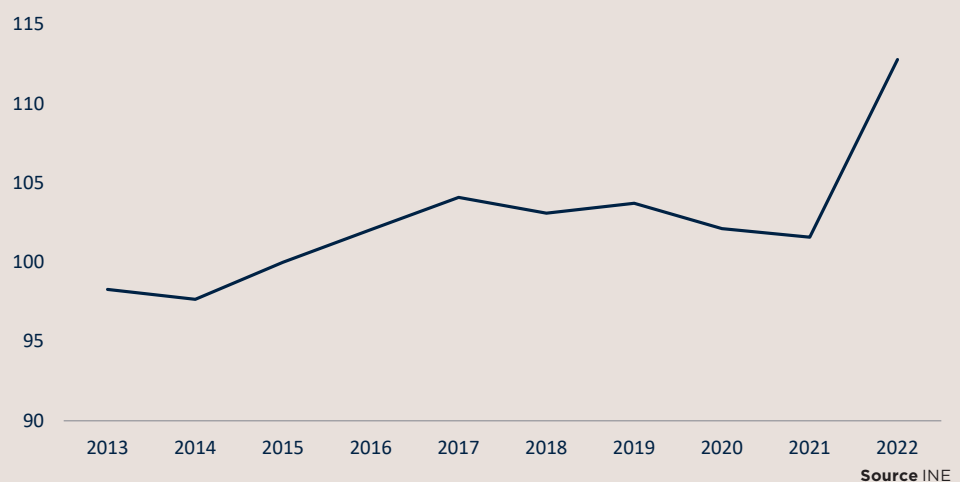
The average price per online purchase climbed to €47.85 during January-September 2022, reflecting an 8% increase compared to 2021 levels.

Consequently, e-commerce continues to be a major market driver, though it is not the sole influencer.

In response to supply chain challenges and the demand for consistent and fast service, operators have increased the stock of goods to promptly cater to the surge in online orders, which in turn necessitates increased storage space. The Short-Term Stock and Inventory Survey (Encuesta Coyuntural sobre Stocks y Existencias) recorded an 11% year-on-year growth in 2022.

Furthermore, to mitigate the damage caused by the disruption in the supply chain of products manufactured in remote locations, some companies have opted to move part of their production to closer areas. This strategy ensures a shorter supply chain and operational reliability, which likewise requires more extensive warehouse space.

Short-Term Stock and Inventory Survey



“ The 265,600 sq m of take-up in Q1 2023 is the third best Q1 in the historical series. The average deal size remains at around 12,000 sq m despite deals of >10,000 sq m seeing a decrease in their market share (36% in Q1 2023 vs. 41% in 2022)”

Madrid

Take-up and demand

With Madrid as the epicentre of activity, the logistics market in Zona Centro saw 265,600 sq m of gross take-up in Q1 2023. This marked the third best Q1 in the historical series, only behind Q1 2021 and Q1 2022, both of which exceeded 300,000 sq m. The strong start in these previous years also culminated in record-breaking annual take-up (>1.20 million sq m).

As a result, the year-on-year comparison is negative (-14%), but in line with the three-year average (272,000 sq m).

In terms of number of deals, 22 were registered in Q1, three fewer than in Q1 2022. This proportionate decrease across both metrics left the average deal size at approximately 12,000 sq m, a figure consistent with that of Q1 2022.

Geographical distribution of activity

As usual, the concentration of big box product in the municipalities further from the centre meant that the third tier accounted for most of the logistics take-up space, reaching 67%, well above the 50% in the historical data and the three-year average of 57%. In the distribution of the number of deals by tier, the third tier also led the way, constituting 45% of total deals, surpassing the usual share of 26-28% seen in recent years and the historical series.

In the analysis by area, Corredor del Henares and the South Zone continue to dominate activity, with 97% of take-up and 95% of transactions. In Q1 2023, the South Zone led in terms of surface area distribution with 54%, exceeding the historical average of 41%. Conversely, Corredor del Henares, with a 43% share, dipped below its historical average of 55%.

The three largest transactions took place in the South Zone (all >30,000 sq m), significantly boosting the area's take-up figures.

Meanwhile, in terms of number of transactions, the A2 axis (Corredor del Henares) maintained its market-leading position with 68% of the total in Q1, showing an increase from its historical level of 61%.

Rents

Rents for top-tier logistics warehouses situated in well-established areas with solid market fundamentals continue to trend upwards. Prime rents remained stable compared to the last quarter (€5.85 per sq m/month), but increased by 2% year-on-year.

This upward trend in prime rents is evident across all market tiers, not confined to municipalities in proximity to the centre.

Stock and current supply

The first quarter saw an influx of nearly 250,000 sq m of new space, bringing the total market size to approximately 12.26 million sq m.

Of the total new space, 51% (127,000 sq m) remained vacant. At the end of Q1 the market had 822,000 sq m of immediately available supply, bringing the vacancy rate to 6.7%, a slight increase of 0.4% from Q4 2022.

While the take-up volume has slowed relative to the 2022 quarterly average (315,000 sq m), slightly altering the trend of declining availability that began in 2021, the vacancy rate still maintains a healthy balance, catering to the diverse needs of occupiers actively looking for space.

As in the case of take-up, the two large areas of the logistics market account for a large part of the available space. The 348,000 sq m in the South Zone reflects a vacancy rate of 7.2%, while the 333,000 sq m in Corredor del Henares represents 5%. The remaining areas, with moderate logistics activity, hold just over 140,000 sq m, but the average vacancy rate is 19%, with a range between 16-24%.

In terms of distribution by tier, the third tier accounts for 48% of the total market supply. In the analysis by zone, the municipalities in the last sections of Corredor del Henares and the South Zone also make up the largest share of availability, with 55% and 52% respectively.

Future supply

By the end of the year, 855,000 sq m of new space is expected to enter the market, bringing the total new space on the market to just over 1.1 million sq m, although, as has been the case in recent years, this figure could be adjusted as the year progresses.

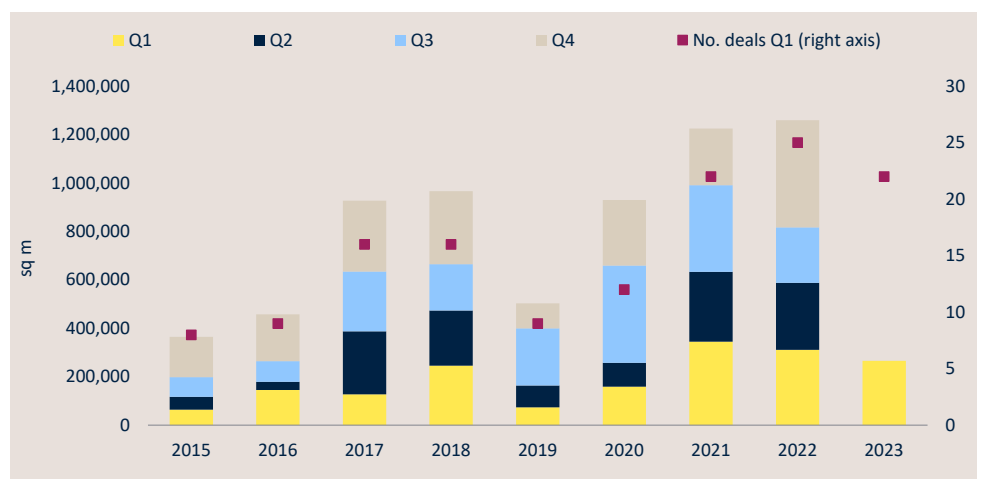
Of the projected new supply, 35% already has a confirmed tenant (300,500 sq m), leaving around 65% (554,000 sq m) of new space to be added to the supply.

The locations on the outskirts of the city of Madrid are becoming increasingly important as a strategic point for last-mile logistics. Until a few years ago, this was carried out in the municipalities of the first tier closest to the city, but the greatest concentration of new surface area is now located in the third tier.

By zone, Corredor del Henares and the South Zone will account for 93% of the future available surface area and 100% of the committed space. The remaining 7% of the new vacant space to be incorporated corresponds to a complex under development in the West Zone's first tier (Arroyomolinos).

The areas with the highest volume of new vacant space planned for 2023 (all >100,000 sq m) are, in this order: Getafe, Villaverde, Illescas, Alcalá de Henares and Cabanillas.

Take-up and deals - Quarterly evolution



Source Savills Research

👉 With a vacancy rate of 2.1%, activity in the Barcelona market continues to be constrained by a shortage of supply. Pre-let of product under development or turnkey are proving to be viable alternatives, as shown by the total amount of new space delivered in Q1 2023 pre-committed 🏗️

Barcelona

Take-up and demand

Catalonia's logistics market has maintained the activity of recent years. In Q1 2023, the total area of commercial leases reached about 222,000 sq m, a 17% drop from the same period in 2022, but this figure outperformed both the 2022 quarterly average (205,300 sq m) and the Q1 average for the last three years (208,000 sq m).

In terms of transactions, there were 18 deals recorded in Q1 2023, slightly up from the 17 seen in Q1 2022, in line with the average Q1 figures since 2020.

The average deal size was 12,300 sq m in Q1 2023, 19% lower than in Q1 2022 (15,145 sq m), but similar to the average of the last three years (11,550 sq m). It should be noted that in the top 10 historical deals by volume (all >60,000 sq m), two took place in 2022 (with an average size of 93,000 sq m) and three in 2021 (with an average size of 114,000 sq m), indicating that the market is maintaining healthy figures without relying on megadeals.

Geographical distribution of activity

In terms of take-up by tier, after two years with a share below the historical average, the market's first tier is once again at the top of the analysis. The 105,600 sq m represents almost 50% of the total, far from the range of 20-30% recorded between 2021 and 2022 and also above its historical average of 40%.

This surge was largely driven by the two largest transactions of Q1 (42,000 sq m and 28,600 sq m) taking place in the first tier, resulting in the average deal size increasing from 10,400 sq m in 2022 to 17,600 sq m in Q1 2023.

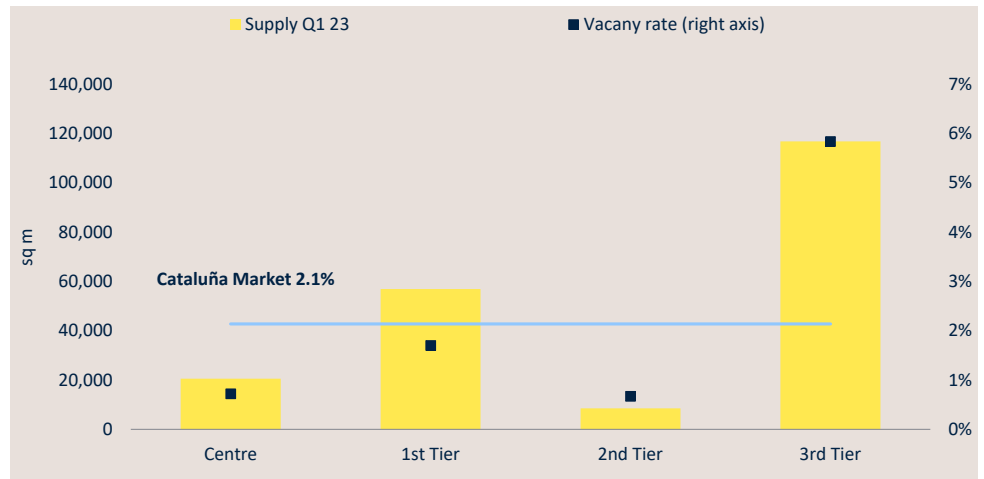
In terms of distribution by region, activity was concentrated in Vallès Occidental (33% of the total, 84,600 sq m), as the two transactions mentioned above were located in Cerdanyola del Vallès and Castellbisbal. Meanwhile, in terms of transactions signed, Baix Llobregat Sud accounted for 21% (with four deals).

The municipalities with the best quarterly results were Castellbisbal and Cerdanyola del Vallès (in the first tier of Vallès Occidental), both with 42,000 sq m signed, and El Prat del Llobregat (in the Zona Centro of Baix Llobregat Sud) with three deals.

Rents

The average market rent, calculated with all the available rental values of transactions registered in Q1, stood at €5.6 per sq m/month, just a few

Current supply by tier



Source Savills Research

tenths of a percentage point above the figure recorded in 2022. Overall, this indicates a stable market, but in the analysis by tier, Zona Centro and the third tier recorded growth of between 8-9%.

Prime rent for state-of-the-art logistics warehouses that adhere to top quality and sustainability standards rose to €8 per sq m/month in Q1, a 3% increase from the previous quarter and a 10% jump from Q1 2022.

The quarter's highest closing rents were found in Barcelonès (Zona Centro), with two transactions hitting the €8.25 per sq m/month mark.

Stock and current supply

With the entry of 70,000 sq m of new space in the Catalan logistics market, the size of the stock is now close to 9.48 million sq m.

All three newly delivered assets already have occupiers, leaving the total supply immediately available at 203,000 sq m, or 2.1% of the total stock. This indicates a tense market situation, posing challenges to stimulate activity.

The majority of available space (58%) is distributed across third-tier municipalities, also with the highest vacancy rate in the market, nearing 6%.

By region, Alt Camp and Tarragonès (both in the third tier) have the largest stock of vacant surface area, with 42,000 sq m and 62,500 sq m respectively, and vacancy rates of 10% and 18%.

Future supply

In the coming months of 2023, 734,000 sq m more is expected to be added to the logistics stock in Catalonia, bringing the total figure to 10.2 million sq m.

Of the total new space planned, 46% (340,000 sq m) is already committed, a further sign of the shortage of supply in the market, as occupiers opt for lease contracts in need of new space to meet their business strategies.

Of the remaining 395,000 sq m that will still be available, a large part is divided between the first and third tiers, with 130,000 sq m and 176,500 sq m respectively. The second tier will receive 73,000 sq m while Zona Centro will have 15,000 sq m of new space.

The new space planned for 2023 is spread across 25 out of nearly 90 total municipalities in the region. This reflects the highly fragmented nature of the Catalan logistics market, with differing levels of activity across various locations. Out of these 25, 16 locations have available space, the most significant of which are Constantí with 94,000 sq m (third tier, Tarragona province), La Bisbal del Penedès with 63,000 sq m (third tier, Baix Penedès, Tarragona province), and Santa Margarida i els Mojos with 39,500 sq m (second tier, Alt Penedès, Barcelona province).

“ The Q1 2023 take-up in Valencia represents 30% of the annual total for 2022. The market grew in the quarter-on-quarter comparison, in terms of both take-up and transactions. The year-on-year performance was distorted by the largest transaction in the historical series (50,000 sq m recorded in Q1 2022) ”

Valencia

Take-up and demand

The Valencia logistics market continues to gain presence at national level, with 114,260 sq m of gross take-up registered in Q1. Although the year-on-year comparison is negative (-15%), it should be noted that Q1 2022 saw the largest transaction in the historical series (50,000 sq m), accounting for more than a third of the quarterly take-up (135,000 sq m). Excluding this transaction, the market grew by 34%.

Nevertheless, Q1 2023 figure saw a 19% increase in take-up from Q4 2022 (95,675 sq m). Significantly, the take-up volume of Q1 2023 already represents 30% of the total for the entire year of 2022.

In terms of number of deals, the 16 identified between January and March 2023 also show a decline compared to the 22 deals in Q1 2022 (-27%). However, this figure marks a 60% increase from the 10 deals recorded in Q4 2022.

Furthermore, the average deal size of 7,140 sq m saw an increase in both the year-on-year comparison (16%) and from the total annual for 2022 (8%), despite being skewed by three deals of >20,000 sq m. Notably, no huge deals were recorded in Q1 2023, indicating a healthier market less reliant on large transactions.

Geographical distribution of activity

Market activity continues to focus on Valencia's first tier, which has steadily gained presence in recent years. In Q1 2023, it accounted for 86% of the total space taken-up, showing a significant increase from the 66% in the historical series.

The growth of activity within the first tier has negatively affected the participation of municipalities in the second tier. Locations in the first tier accounted for 14% of total take-up, a decrease from the average of 26% over the last few years (28% in 2022).

By region, Zona Centro remains the area with the highest take-up volume, almost 50,000 sq m representing 43% of the total. With 25,000 sq m, Pista de Ademuz accounted for 22% of the total, significantly increasing its market share due to two self-development projects (each with >10,000 sq m). Historically, this area has only contributed 7%, with an average size of 2,500 sq m (excluding the two megadeals). The South Zone and the North Zone, with 21% and 14% respectively, remained in line with the historical share.

In the analysis by municipality, Ribarroja (in the first tier of Zona Centro) and Sagunto (in the second tier of the North Zone) continue to make

up a large part of the take-up. In Q1 2023, Paterna (in the first tier of Pista de Ademuz) overtook Sagunto in terms of surface area due to the two aforementioned deals of >10,000 sq m.

Rents

The average closing rent for Q1, at €3.85 per sq m/month, remained stable compared to the figures for 2022, and only 1% below Q1 2022.

Additionally, the achievable prime rent now stands at €5 per sq m/month, corresponding to warehouses that meet the highest quality standards in highly consolidated areas, which is the main focus of demand.

The maximum rent of the quarter even surpassed the achievable level, taking place in one of the historic hubs of the Valencia market.

Stock and current supply

Between January and March, 93,000 sq m of logistics space was added to the market, which places the size of the Valencia logistics industry at 3.87 million square metres.

It should be noted that all new space entered the market with a committed occupier (via pre-let or self-development), leaving the supply around 45,000 sq m and the total vacancy rate at 1.2%.

The limited availability of alternatives has led to the incorporation of already occupied new warehouses, further restricting space options and influencing the assets' turnover.

The vacant surface area is distributed evenly

between the first and second tiers, with 51% and 49% respectively, although there is a notable imbalance in the total stock. The first tier accounts for 68% of the total logistics space (2.4 million sq m), while the second tier represents barely a third (1.3 million square metres), which leaves the second tier vacancy rate at the highest level in the Valencia market (1.7%).

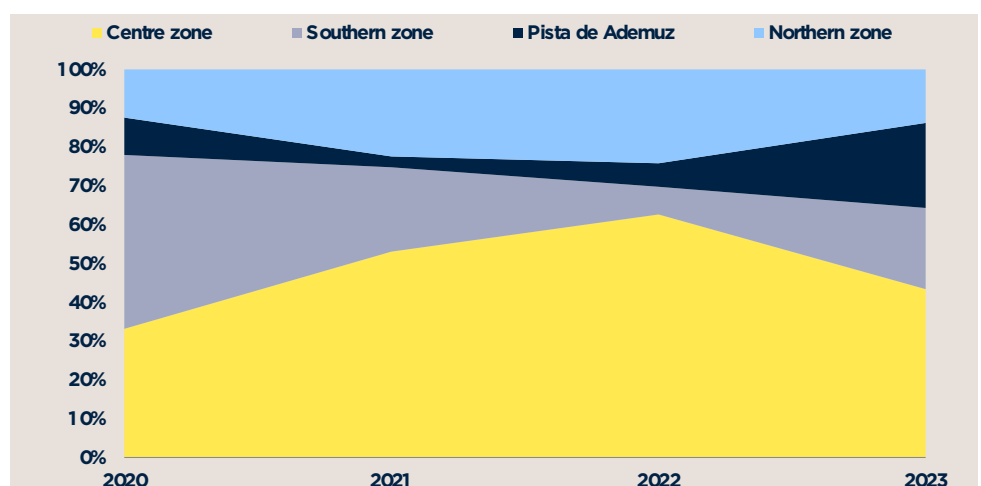
Future supply

By the end of the year, just over 370,000 sq m is expected to enter the market, of which 45% is currently available for lease (167,400 sq m).

Given the current scarcity of available supply, it is important to note that many occupiers are opting to purchase land for subsequent self-development. This strategy accounted for 72% of new surface area in Q1. In the coming months leading up to December, the share of self-development space is anticipated to decrease, but still represents 49% of the total.

Among the largest projects in the pipeline with available surface area are 44,600 sq m in Albuixec (first tier of the North Zone) and 35,600 sq m of another in Sagunto (second tier of the North Zone). The latter is part of an 86,000 sq m complex, with the remaining 50,000 sq m already committed to an occupier who signed a pre-let agreement in Q1 2022.

Take-up by market zone



Source Savills Research

“The main logistics hubs in Andalusia are still under pressure due to the scarcity of available space, restricting activity in the occupier market. The arrival of new, high-quality space that meets the standards of larger markets will cater to the rising demand”

Andalusia

With 8.5 million inhabitants, Andalusia is the largest autonomous region in terms of population, accounting for 18% of the national total. Population projections for the next 15 years predict that two of the eight provinces (Málaga and Almería) are expected to surpass the national average, with 15% and 17% respectively.

Data from the Spanish Regional Accounts shows that in 2021 the GDP amounted to €160.74 billion, contributing 13.3% to the national total (INE). In the provincial analysis, provisional data for 2020 demonstrates that Seville and Málaga are in the top 10 in terms of GDP contribution. Notably, Seville also places in the top five in the national ranking.

The region's production structure is primarily driven by the promising growth of tourism and the agri-food industry, which are determining factors in the performance of the logistics market.

For some time now, investors have been focusing their attention on the Andalusian market, which offers more attractive yields than the main logistics hubs at national level, although

shortage of available product limits transactional activity.

Activity in the occupier market is also influenced by the lack of available logistics assets, forcing the market to develop storage and distribution activities in industrial assets. Given the circumstances, these are adapted to the needs of local demand, although they do not meet the standards of other more professionalised markets.

The entry of new surface area is expected to ease pressure in the main markets. Seville had a vacancy rate of 2.5% at the end of Q1, while the city of Málaga currently has 100% occupancy, as the little supply that remains vacant is quickly occupied.

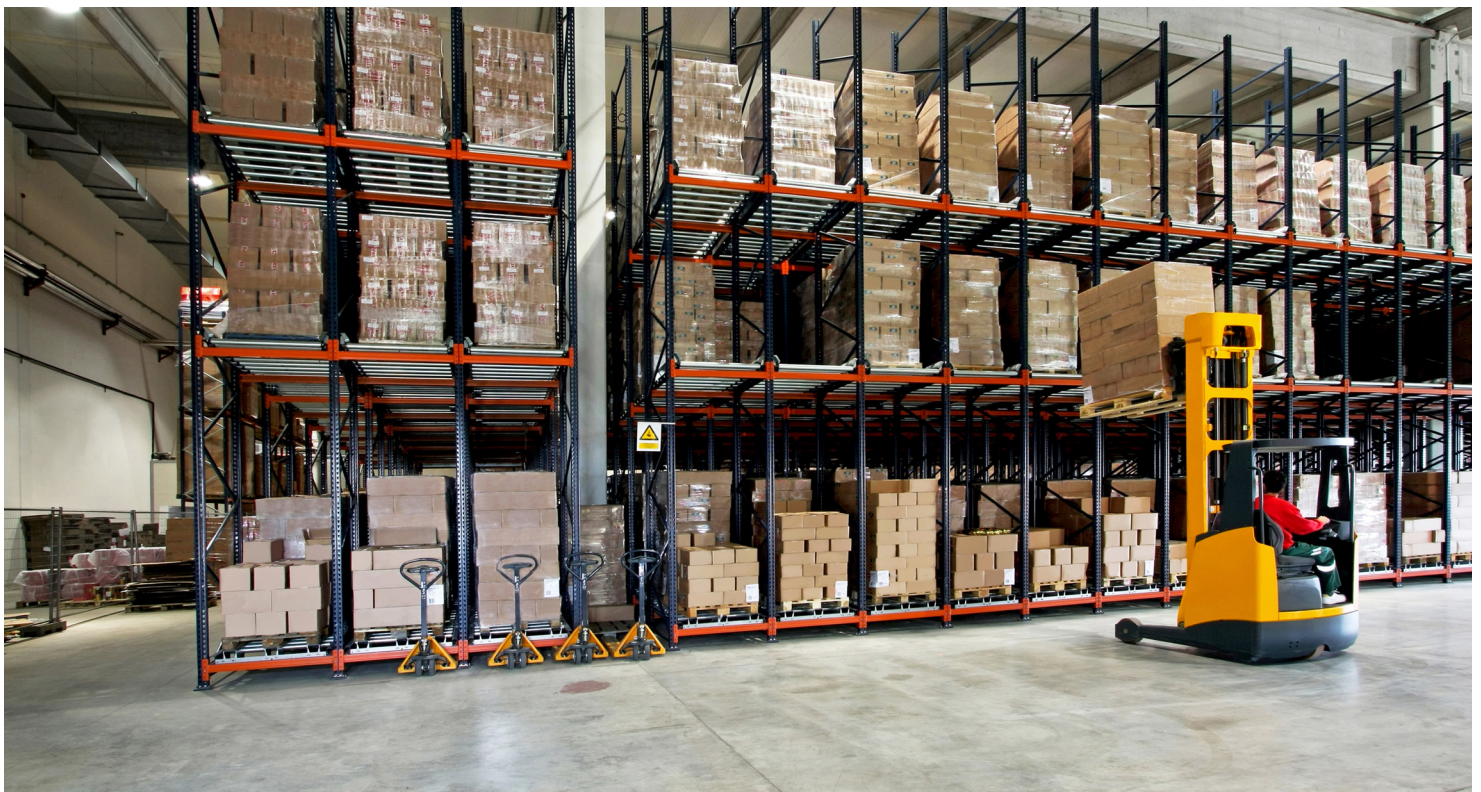
Aquila's upcoming project, the Málaga Green Logistics Park, on the site of the former Bacardí factory, will offer quality space in a market with a clear demand for logistics space. A pre-let contract with a courier and transport company has already been secured, and negotiations with other operators and companies from various sectors of activity are underway.

The average size of historical demand in Málaga has been between 3,500-5,500 sq m. However, the new development will cater to occupiers looking for larger spaces.

In Seville, demand for new development space usually emerges when the project is at a very advanced stage of construction (>80%) prior to any real commitment to occupancy. Nevertheless, the city offers more options for immediate availability, albeit limited.

It is worth noting the two transactions of 15,000 sq m in Seville and three in Malaga, including the activity in the Fahala Logistics Park, situated in Cártama (20 km from the city).

An important deal has also taken place in Guarromán (Jaén), attracting demand due to its prime position in one of Spain's premier logistics corridors. It is equidistant from the main national market (Madrid and the surrounding provinces) and the leading centres of population and economic activity in the southern part of the peninsula.



The commercial investment market ended Q1 2023 with just over €2.7 billion transacted, of which 12% (€325m) corresponded to the logistics segment. In the year-on-year comparison, investment activity saw a significant adjustment (around 60%) due to the transactions of two portfolios (Gemstone and Tiger) in Q1 2022, which made up 70% of the total. Excluding these transactions, the market would reflect a growth of 17%.

In the cumulative figure up until May, logistics investment reached €392m, increasing its share to 12.3%, which is still far from the average of the last five years (16%). However, this is 4% higher than the average in the historical series (8%).

In terms of geographical distribution, the central market (Madrid and the neighbouring provinces of Castilla-La Mancha), which represents almost 50% of the total in the historical series, contributed just 10%. Catalonia, with 25% of the volume (€100m), remains stable compared to historical data (24%). Other locations, which until now accounted for 28% (31% in the last five years), are now the major players in the market, accounting for two thirds of total.

It is worth highlighting the presence of locations in the northern part of Spain (the Basque Country, Navarre, Cantabria, Galicia and León); with almost €160m, they make up 40% of the total transacted so far this year. Another noteworthy aspect is that several of the warehouses that changed hands in the north were part of portfolios (9 out of 12). All were tenant-occupied, and 10 were sale and leaseback transactions, which provides confidence to investors in less consolidated areas.

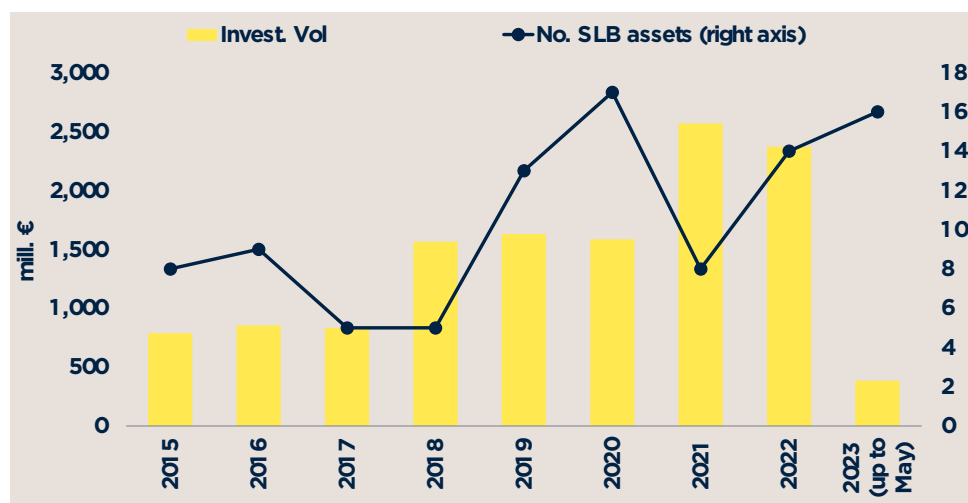
During uncertain times, a common financing mechanism is for asset owners to sell their properties and then lease them back from the buyer. This has led to a surge in such transactions. In 2020, 17 warehouses were sold in this way, with 14 in 2021, and up until May this year, there have been 16 such transactions. This represents nearly half of all assets transacted (33) and almost 90% of all sale and leaseback transactions in the commercial market.

By origin, capital continues to be dominated by cross-border investors, who are clearly committed to the Spanish market and its growth prospects. Since January, 83% of the volume registered has been from international investors, among which institutional investors and investment funds of US origin stand out (38% of the total and 45% of international investors).

US involvement in the Spanish real estate market is not limited to commercial products.

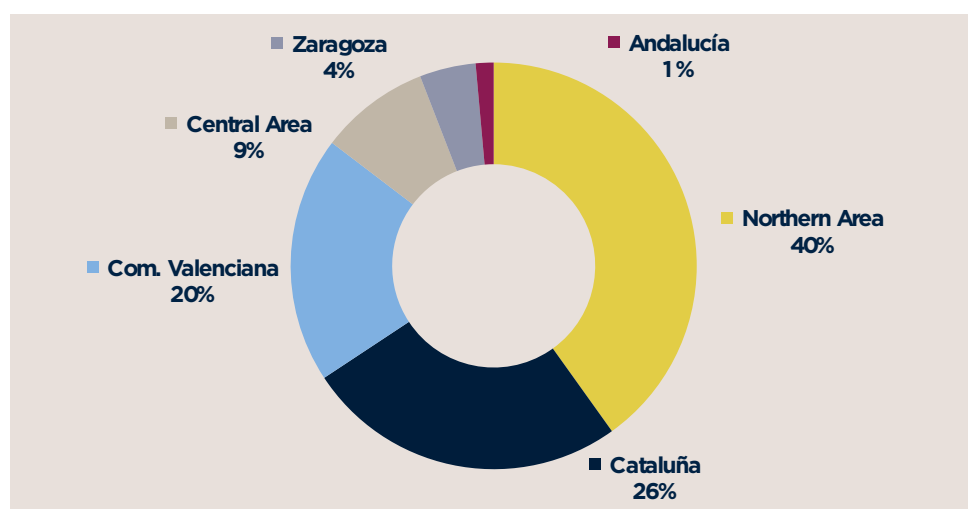
Investment market

Investment volume* and number of SLB assets



Source Savills Research *excluding corporate transactions, land and final user purchases

Investment volume* by region



Source Savills Research *excluding corporate transactions, land and final user purchases

The General Council of Notaries published in March that during H1 2022, Americans bought 1,162 housing units in Spain, an impressive 75.5% increase over the same period in 2021. This represents the highest volume of transactions in the entire historical series.

One driving factor of this increased participation is the favourable dollar/euro exchange rate.

Meanwhile, European funds accounted for 44% of international capital, led by French funds, primarily operating under the French Société Civile de Placement Immobilier (SCPI) or Sociedades Civiles de Inversión Inmobiliaria

francesas), a figure similar to the Spanish Socimi.

Yields

During its May meeting, the European Central Bank (ECB) alleviated pressure on interest rates, nudging them up by just a quarter point to 3.75%. This monetary policy will shape the evolution of yields in the investment market. In Q1, the achievable prime levels in the two main markets (Madrid and Barcelona) showed an increase over the previous quarter: 25 bps in Madrid and 10 bps in Barcelona, to 5% and 4.75% respectively (gross data).



Savills Research

We carry out a thorough and objective analysis of the real estate market in order to provide our clients with accurate information on the current situation in all sectors, helping them make the right decisions at each moment

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