Low Vacancy  •  Yield Compression  •  Rental Growth
One of the challenges to the fulfilment of online retail orders in the Nordics is the availability of cheap labour. However, with the Benelux countries already looking to attract more warehouse workers, there will be stiff competition.
Record low vacancy rates will apply upward pressure to logistics rents

Occupational market

Strong ecommerce fundamentals and rising trade have ultimately created more demand from operators for logistics space, lowering vacancy rates across the Nordics. On the European stage, vacancy rates in Oslo (5.2%), Stockholm (4%), Helsinki (3%) and Copenhagen (2.1%) feature among the lowest rates of the European cities as at Q3 2019 (Chart 2).

Thus, we have witnessed some considerable rental growth across the key logistics markets in recent years. Over the past 12 months, prime rents have grown by 16% in Stockholm (to €103 per sq m), 2% in Helsinki (to €107 per sq m) and 4% in Copenhagen (to €87 per sq m) (Chart 3). With such low availability in Copenhagen, we have also witnessed an 11% increase in secondary rents over the same time period. Prime rents have remained stable in Oslo at €126 per sq m, though a weaker Norwegian Krone indicates rents have decreased in the second half of 2019.

Fortunately for occupiers, new logistics development in Sweden is at record highs, with 650,000 sq m of new logistics space on course for completion in 2019, and the development pipeline remains strong into 2020, with a further 605,000 sq m set for delivery. However, land availability in Stockholm and Gothenburg is decreasing as a result of development which could impact the pipeline of new stock in the future.

Investor demand for logistics space strategically located near container ports in the Baltic and North Sea including Bergen, Gothenburg and Helsinki has been resilient. Likewise, smaller distribution sites located in close proximity to road and rail networks, benefitting from the inflow of goods from mainland Europe are in strong demand. For example, Malling & Co’s investor survey indicates that 50% of investors are looking to increase their exposure to Norwegian logistics over the next 12 months, whilst 40% will maintain current levels.

![Chart 2: Logistics vacancy rates: Nordics vs rest of Europe (%)](source: Savills Research)

![Chart 3: Nordics prime logistics rents (€ per sq m)](source: Savills Research)
Further potential for yield compression in 2020

We have seen aggressive inward yield movement for prime logistics space over the past 12–18 months across Europe, however the Nordics markets still appear relatively cheap compared to their European counterparts.

Prime yields in Copenhagen stand at 5%, although we are seeing some signs of inward movement, with potential for 25 bps inward movement over the next 12 months, whilst rents are on course to increase by c. 4% in 2020 (Table 1). As a comparison, prime yields in Hamburg, 320 km away are currently priced at 3.80%. There is a severe shortage of tradable stock in the Copenhagen market and any new supply we expect to be absorbed immediately by pent up demand.

In Helsinki, we expect resilient occupier demand and the prime vacancy rate to remain low around the current level of 3% in 2020. Logistics construction is usually purpose built with little speculative product, with 1.2m sq m of logistics space delivered since 2010. 60,000 sq m of new stock will be completed next year and there is approximately 238,000 sq m of space at the planning stage. We expect this will contribute to prime rental growth of c. 4% in 2020 and off the back of this, we expect further yield compression of 10bps to 5.00% by end 2020. Strong investor demand in search of yield compression will continue, though this will rely on willing vendors for transactions to take place.

In Stockholm, prime vacancy is close to zero, with available space in secondary locations also on the decline. Although prime logistics rents appear nearly fully priced, there will be more potential for rental growth in the light industrial sector, with growth forecast at between 5–10% over the next 12 months. Likewise, good quality space in secondary locations could see rental uplift of around 10% over the next 12 months. Prime logistics yields now stand at 4.5%, in 30bps over the past 12 months, and we forecast yields to be stable over the next 12 months, though there is potential for inward yield movement for assets in secondary locations. Following a record 11bn Krona logistics investment in the first half of 2019, we have seen resilient investment throughout the year as the spread between bonds remains attractive. Into 2020, we expect a weak Krona relative to Euro to ensure further inbound capital.

Oslo prime yields remain at 4.8%, having moved in 10 bps over the past 12 months and a similar neutral yield outlook is expected for the coming 12 months. Rents however are not expected to increase dramatically, given the 150,000 sq m of additional space to be delivered in the next 24 months. Despite the weight of capital targeting Norwegian prime assets, any further capital growth is less likely.

Table 1: Nordics prime logistics rents and yields outlook 2020

<table>
<thead>
<tr>
<th>Market</th>
<th>Prime rents outlook</th>
<th>Prime yields outlook</th>
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<tbody>
<tr>
<td>Copenhagen</td>
<td>Increase</td>
<td>Harden</td>
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<tr>
<td>Oslo</td>
<td>Stable</td>
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<tr>
<td>Stockholm</td>
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<tr>
<td>Helsinki</td>
<td>Increase</td>
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Chart 4: Nordics average prime logistics yields (%)
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