European Commercial – December 2019

SPOTLIGHT

Savills Research

Nordics Logistics Outlook 2020

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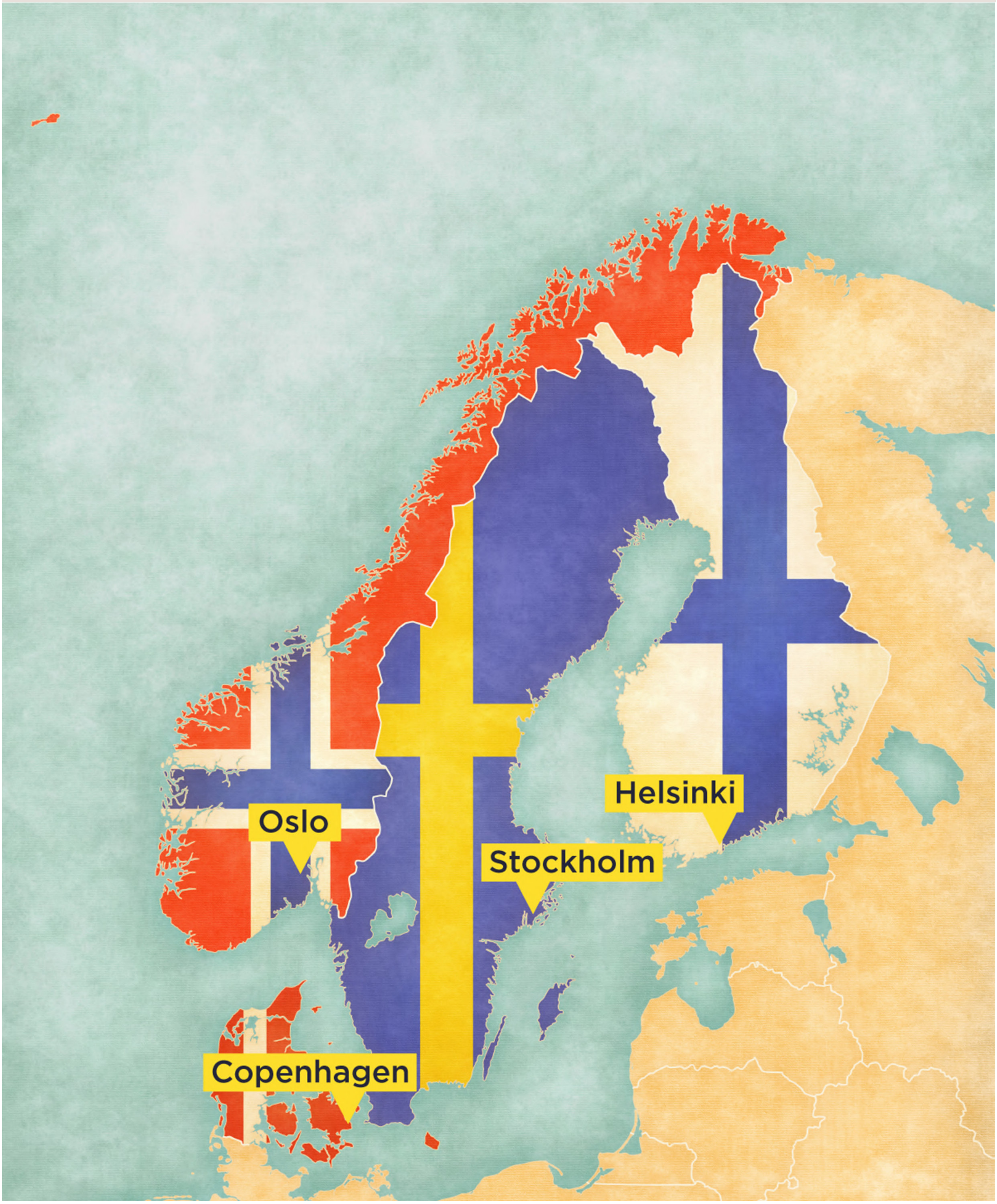
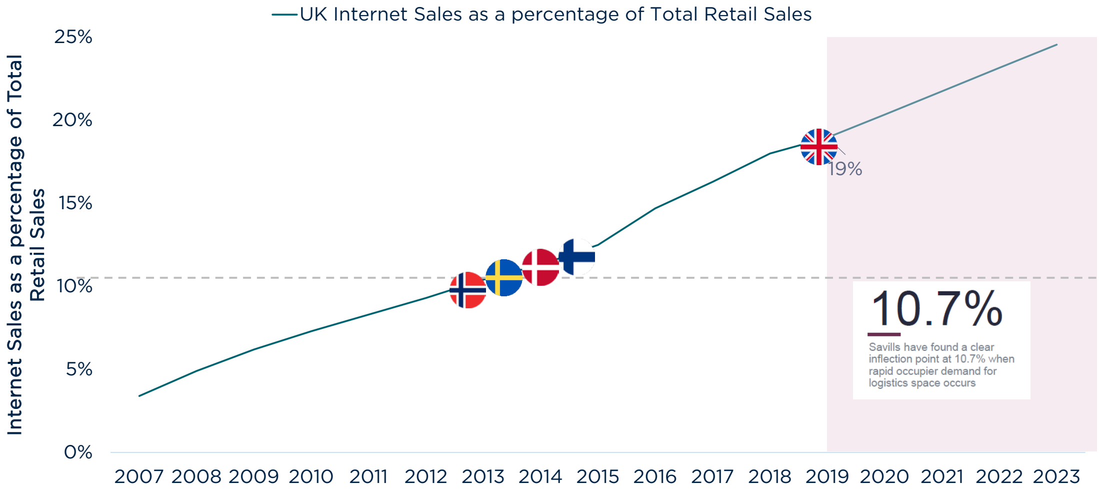


• Low Vacancy • Yield Compression • Rental Growth

Nordics ecommerce hovers around the 10.7% tipping point

Chart 1: Nordics online retail sales as a proportion of total (%)



Source: Savills Research, Forrester

Macro overview

The fundamentals of the logistics market in the Nordics remain attractive to investors. Inflation sits safely below the 2% target level and latest wage growth data has been in excess of 3% in Finland and Norway. This is ultimately having a positive impact on retail sales across the Nordics, with Sweden up 3.3% yoy and Finland up 3.9% yoy. However, both global and domestic macroeconomic headwinds remain- which have had a recent negative impact on consumer confidence, though largely in line with the long term averages. Amid generally slower economic growth across Europe, the Nordics is set to outperform over the next five years (1.7% pa vs EU28 average of 1.4% pa).

Ecommerce fundamentals

A resilient consumer economy has led to impressive online retail sales growth. Online retail sales is estimated to reach a total of €22.9bn across the Nordics in 2019, up 12% from 2018, and Forrester forecast this to grow a further 11% in 2020. Online retail sales as a proportion of total retail sales in the Nordics currently hovers around the 10.7% mark (Denmark 11.3%, Sweden 10.5%, Norway 10% and Finland 11.4%) - the inflection point at which in the UK, we observed a rapid acceleration in occupier demand for logistics space. At end 2019, Forrester forecast that 19% of the UK's retail sales will be made online. Chart 1 indicates that if the Nordics see the same growth trajectory as in the UK, similar online retail penetration levels will be achieved within 5-7 years' time.

Not only has online retail been a driver, but consumers are also demanding faster delivery times. Postnord's data indicates that Swedish consumers expecting same day deliveries rose from 35% in 2017 to 55% in 2018, creating new demand for logistics space covering the last-mile.

One of the challenges to the fulfilment of online retail orders in the Nordics is the availability of cheap labour. A highly educated workforce and high wages will require a new source of labour from the rest of Europe, however, with the Benelux countries already looking to attract warehouse workers there will be stiff competition. Forward thinking tenants will seek to automate jobs to drive efficiencies by developing robotics, and increasing electric vehicles, however this will of course bring higher energy requirements.

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Record low vacancy rates will apply upward pressure to logistics rents

Occupational market

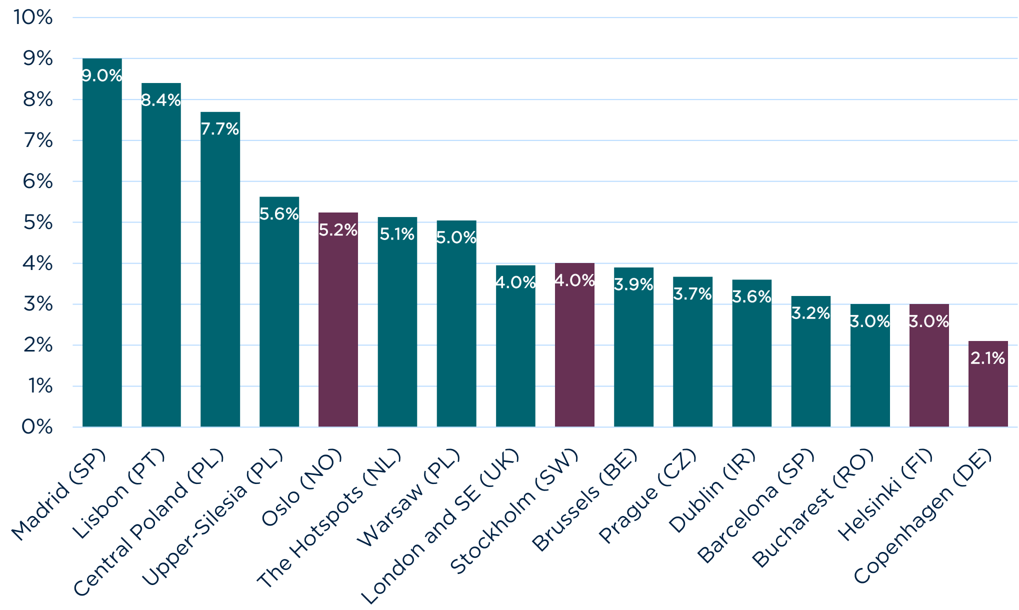
Strong ecommerce fundamentals and rising trade have ultimately created more demand from operators for logistics space, lowering vacancy rates across the Nordics. On the European stage, vacancy rates in Oslo (5.2%), Stockholm (4%), Helsinki (3%) and Copenhagen (2.1%) feature among the lowest rates of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

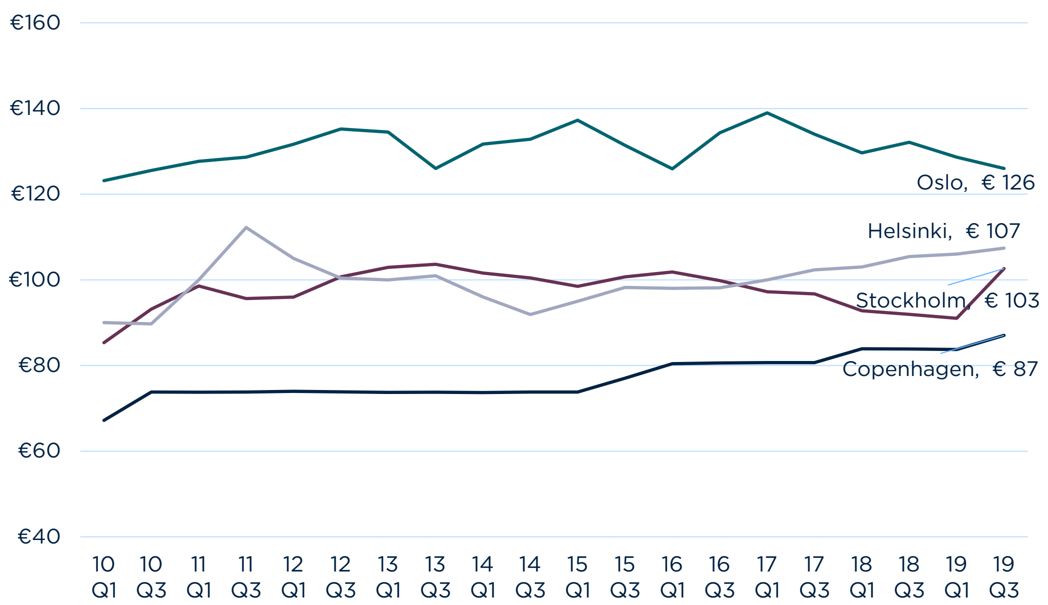
Investor demand for logistics space strategically located near container ports in the Baltic and North Sea including Bergen, Gothenburg and Helsinki has been resilient. Likewise, smaller distribution sites located in close proximity to road and rail networks, benefitting from the inflow of goods from 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.

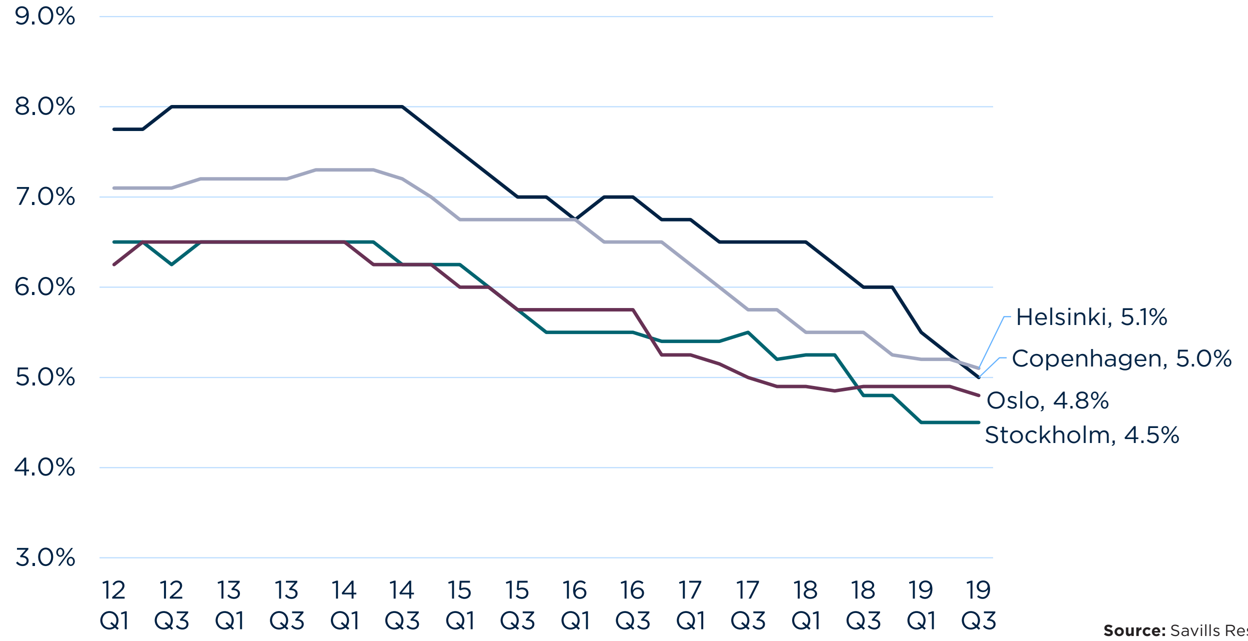
In **Stockholm**, prime vacancy is close to zero, with available space in secondary locations also on the decline. Although prime logistics rents appear nearly fully priced, there will be more potential for rental growth in the light industrial sector, with growth forecast at between 5-10% over the next 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

Market	Prime rents outlook	Prime yields outlook
Copenhagen	Increase	Harden
Oslo	Stable	Stable
Stockholm	Stable	Stable
Helsinki	Increase	Harden

Chart 4: Nordics average prime logistics yields (%)



Source: Savills Research

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