

European Commercial - June 2022

SPOTLIGHT  
Savills Research

# European Logistics Outlook

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● Occupational ● Investment ● Outlook

# E-commerce is growing in Europe

Western Europe e-commerce sales have grown 128% since 2015

European e-commerce sales have increased rapidly over the past six years. As expected, this growth is largely attributed to the pandemic, where consumers went to high street shops less frequently, or in some cases, avoided them fully. Some businesses decided to completely close stores throughout the duration of the pandemic, which in turn meant that the only option for consumers was to purchase goods online.

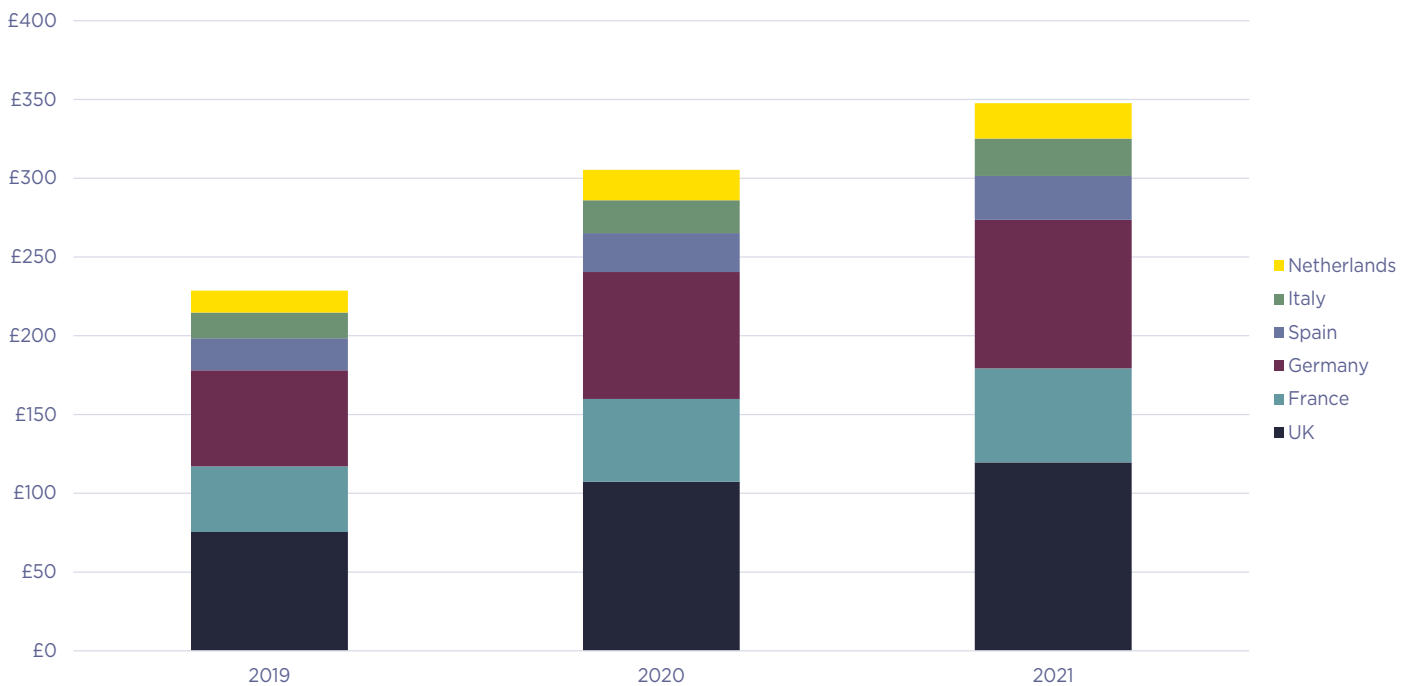
As a result, online retail sales in western Europe rose by an average of 31.1% in 2020

and a further 14.1% in 2021. The UK (34.4%) are the major contributors to this sector, followed by Germany (27.1%), France (17.2%), Spain (8.0%), Italy (6.8%) and the Netherlands (6.4%).

Online retail sales did fall back after each peak (when lockdown restrictions were in place), but have remained high as some consumers have changed their shopping habits and have continued to order goods online.

To further emphasise this, over 80% of all product searches in the UK and Germany are made using a smartphone. This shows that retailers have been successful in making websites that are easy to navigate, and consumers are taking full advantage of this by being able to search and order products whilst on the move.

Chart 1: Total online retail sales 2019-2021 (billions)



Source: Centre for Retail Research

# Consumer confidence has weakened

## Inflation is the major driver for falling consumer confidence

Q1 2022 has seen a major decline in consumer confidence across the Eurozone, almost at levels as low as after the first lockdown. This time around, the decline is largely attributed to record high levels of inflation currently expected to reach 7.5% in 2022, with economists adjusting their forecasts upwards on a monthly basis. Energy inflation is a particular driver of the headline figure, which will reduce operational margins in the retail, manufacturing and 3PL sectors.

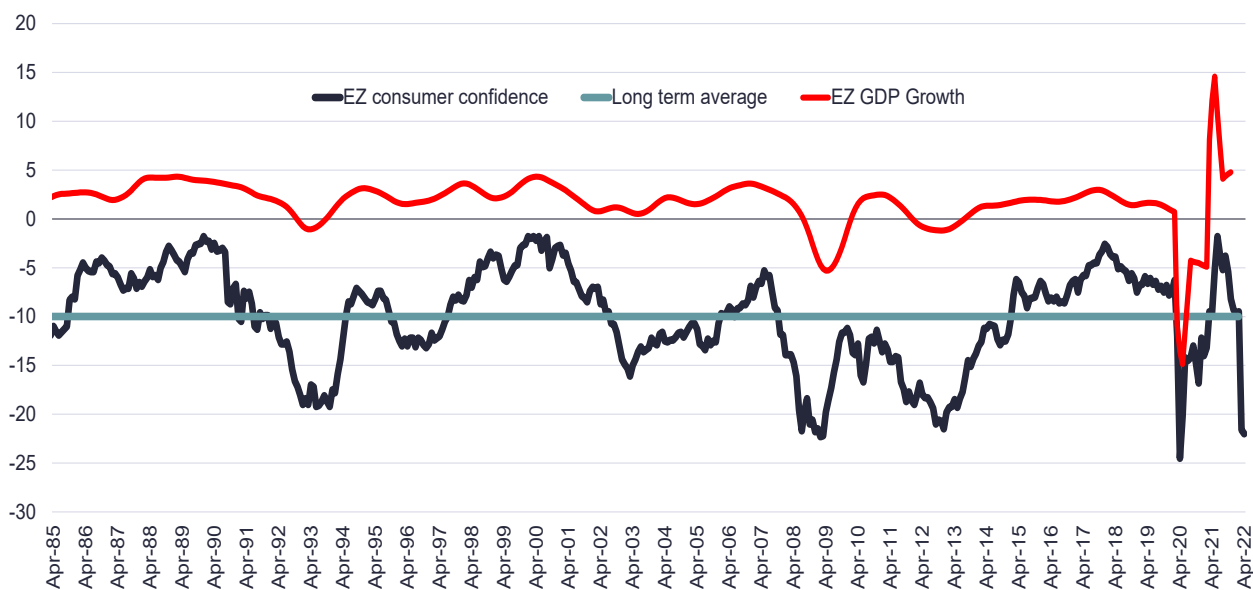
Whenever consumer confidence dropped to this extent in the past, a recession has followed. However, the positive post pandemic momentum, particularly across the late-cycle, southern European economies will help to support growth this year.

A direct result of this fall in consumer confidence is likely to be a decline in total retail sales as consumers feel that they have less disposable income as the cost of living increases. Groceries, utilities and petrol

are all also areas that consumers have seen price rises as we subsequently expect this to impact discretionary retail expenditure.

If we start to see declining retail sales it will be interesting to observe the impact on online retail percentages which were largely shielded from volatility in previous economic downturns.

Chart 2: Consumer confidence and European GDP growth



Source: Eurostat, Oxford Economics

# Take-up remains strong across Europe in Q1 2022

A solid start to the year has seen take-up reach almost 10m sq m across Europe, on track to match the record year of 2021, buoyed by diverse occupier requirements. Germany (2.4m sq m), the Netherlands (2.2m sq m), Poland (1.5m sq m) and the UK (1.3m sq m) have driven the majority of leasing activity to date in 2022. In Italy, take-up remained elevated too, recording 44 operations and 700,000 sq m (+15% yoy)

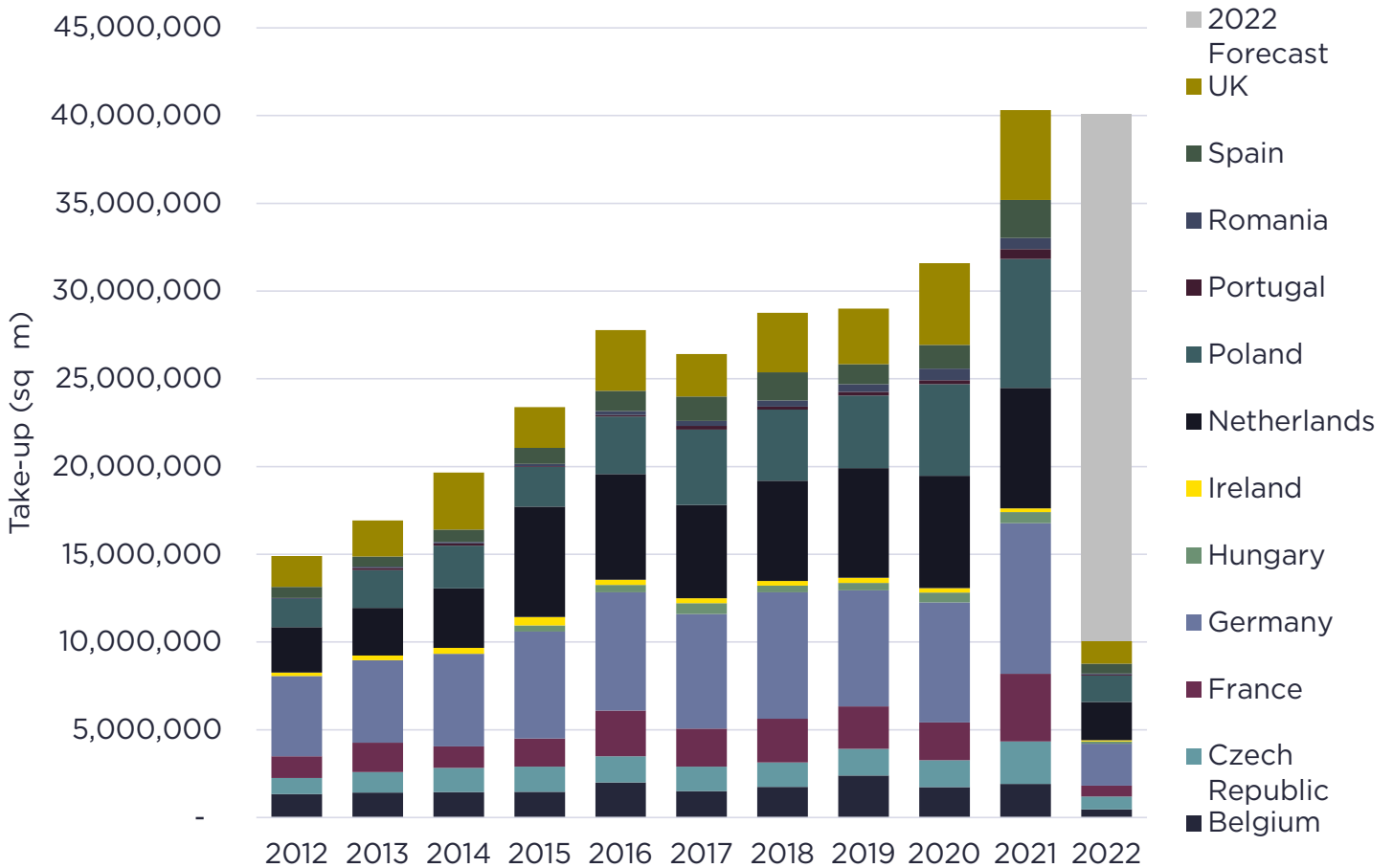
Savills European Logistics Census 2021 indicated that the biggest change occupiers anticipate as a result of the pandemic is the shortening, or reshoring, of supply chains to mitigate risk, which has helped to drive demand to record levels in Poland, for example.

The geopolitical conflict in Ukraine has further emphasised the need for shortening the supply chain across the

Eurozone, which will be a major factor in the coming months for an increase in demand. Companies are now looking to switch from operating with a lean, 'just in time' inventory to a more secure, 'just in case' inventory.

This will provide organisations with greater security and control over the supply chain and will mitigate the impact of any potential future disruptions.

Chart 3: European logistics take-up (sq m)



Source: Savills

# Vacancy rates continue to tighten leading to strong rental growth

The availability of space continues to be a major issue across Europe as vacancy rates continue to fall even further in Q1 2022, to an all-time low European average of 3.3%, following a record decline in 2021. Dublin (1.1%), Denmark (1.5%), Barcelona (1.7%), Czech Republic (2.0%), the UK (2.7%), the Netherlands (3.2%) and Poland (3.1%) continue to be among some of the most undersupplied markets.

There has been strong levels of development in Q1 2022, with Poland's logistics stock increasing by 16.5% yoy, for example. Madrid (11.6%), the

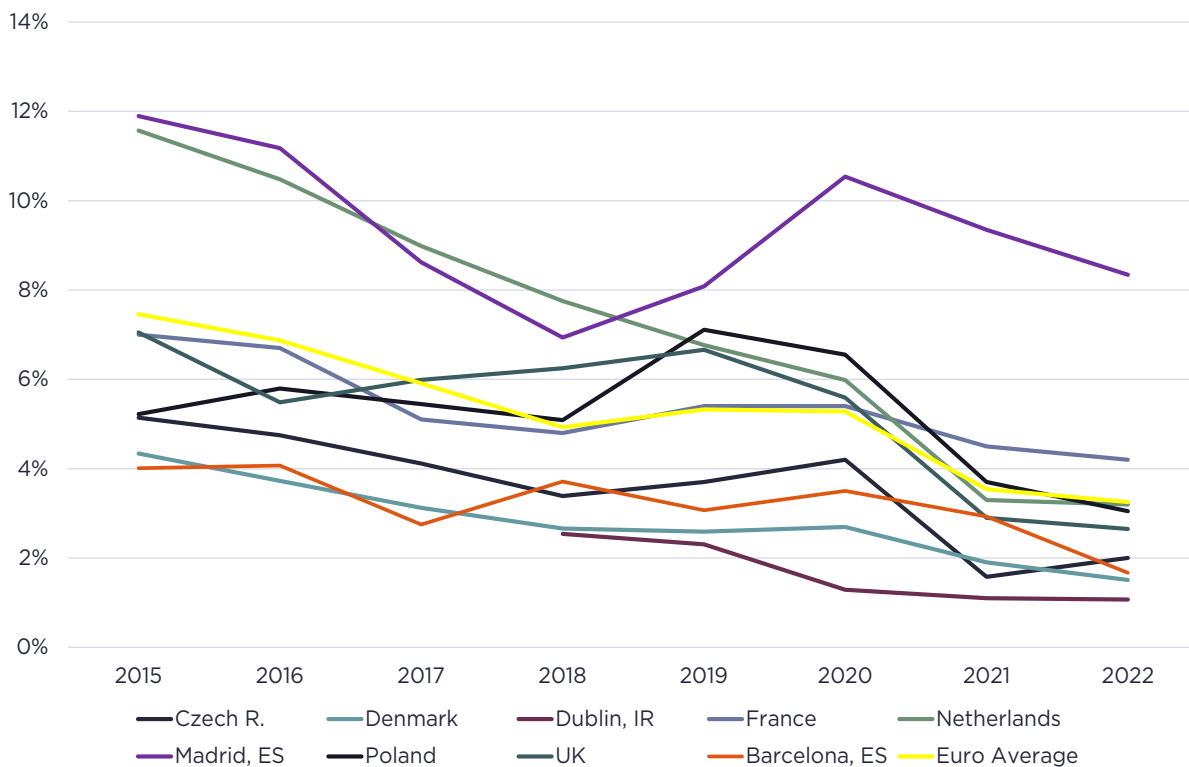
Netherlands (8.8%) and the UK (5.5%) have also observed strong levels of deliveries over the previous year.

Furthermore, there is 430,000 sq m of development expected to enter the market in Madrid in the coming months, although 160,200 sq m (30% of the total) has already been let.

In a similar manner to 2021, a shortage of prime stock has applied upwards pressure on prime rents, with an increase of 5.9% over the past 12 months, led by London (20%) and Warsaw (20%). As a result, leasing

incentives are decreasing and landlords are more open to shorter terms leases as there is an expectation that market forces will drive rents above already unprecedented levels of inflation.

Chart 4: European logistics vacancy rates (%)



Source: Savills

# Germany outperforms the UK in investment

European logistics investment has remained strong so far in 2022, reaching €14.3bn, following a record year in 2021. The largest investment transaction volumes have been observed in Germany (€4.1bn) outperforming the UK (€2.9bn) and together accounting for almost 50% of all activity in the first quarter. The Netherlands (€2.0bn) and France (€1.1bn) also recorded strong levels of investment in 2022 Q1.

Given the reduction in portfolio premiums and the rising cost of debt we expect investors to show greater levels of scrutiny to key metrics such

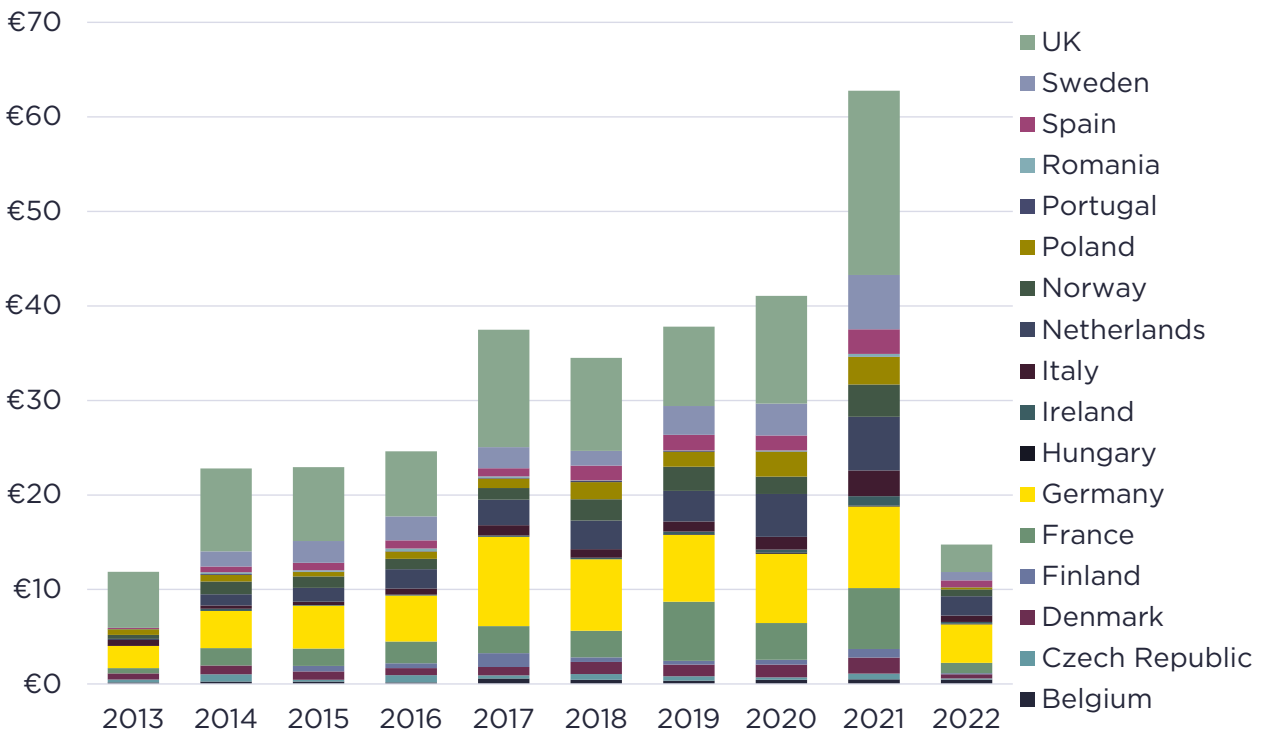
as expected rental growth. Therefore we expect that transactions may take longer to complete when compared to recent years.

This being said, Savills anticipate in the region of €60bn of logistics investment transactions to be completed this year, comparable with last year.

Logistics has accounted for 62% of omnichannel (combined retail and logistics) investment so far in 2022. This is largely due to omnichannel investors reweighting their retail allocation to logistics, although the Q1

2022 figure is a slight decrease from the 66% seen in 2021. However, this is still a significant increase from 2019 where just 47% of omnichannel investment was allocated to logistics.

Chart 5: European logistics investment volumes (€bn)



Source: Savills

# Rising debt costs begin to weigh in

## Prime yields have compressed throughout Europe

The weight of capital targeting European logistics saw yields continue to compress through the first part of 2022 with average prime yields comping by 23bps to 4.08%. Sweden hardened by 65bps, Finland and Italy by 40bps and 35bps respectively. Belgium, Czech Republic, Denmark, France and Norway hardened by 25bps. Germany hardened by 20bps and the Netherlands by 10bps. The UK, Ireland and Portugal were the only markets to remain stable.

strong, in most cases record performing, occupational markets are helping offset some of these costs increase with improved growth forecasts but not all. In the same breath though the amount of capital allocated to the sector as well as new funds being raised suggests any outward pressure on yields will be kept in check by the levels of demand.

That being said rising debt costs have meant that prime yields in core markets have reached their nadir point and some softening is to be expected as buyers look to manage the impact of higher costs. The

Chart 6: European prime logistics yields



Source: Savills



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