SPOTLIGHT
Savills Research

Logistics Market

Economic Overview

Spain confirms the recovery of pre-pandemic GDP levels. Specifically, the latest data provided by the INE (National Statistics Institute) as of Q4 2023 are 2.9% higher than at the end of 2019.

The core CPI, excluding food and energy products, after reaching its peak in February of this year, stood at 3.8% in the month of December, confirming a continued deceleration in inflation.

However, inflation remains at levels above 3% (3.1% in December) from which it is not expected to fall until the first quarter of 2024 and to remain at levels close to 2% in the coming years.

In its fight against inflation, following its October meeting, the European Central Bank's Governing Council opted to give the economy a breather and keep interest rates steady, putting an end to the 10 consecutive interest rate hikes starting in July 2022. This policy was maintained at the January meeting, where the ECB left the three reference rates unchanged for the second time in a row.

The labour market data, although there is still some way to go, show a clear improvement. According to the EPA (Labour Force Survey), Spain had 21.25 million workers in Q4 (c. 785,000 above the figure registered one year ago).

Despite the good employment performance, unemployment remains at 2.8 million people, with the unemployment rate standing at 11.76% at the end of 2023.

E-commerce/AI

Artificial intelligence (AI) is having an increasingly significant impact on e-commerce by transforming both the customer experience and an organisation's own operational efficiency. As technology continues to advance, the importance of AI, not only in e-commerce, but in the entire environment around us, is expected to continue to grow.

According to the latest data published by the INE, 9.6% of companies with 10 or more employees were using AI in the first quarter of 2023; at the same time last year this percentage was around 8%. As organisations grow in size, the use of AI is increasing, with 20 per cent of companies with 50 to 249 employees using AI, while that percentage rises to 40% in organisations with more than 250 employees.

The services sector is the one that makes most use of these new technologies, with 11.2% of companies making use of AI and 22.1% using Business Intelligence.

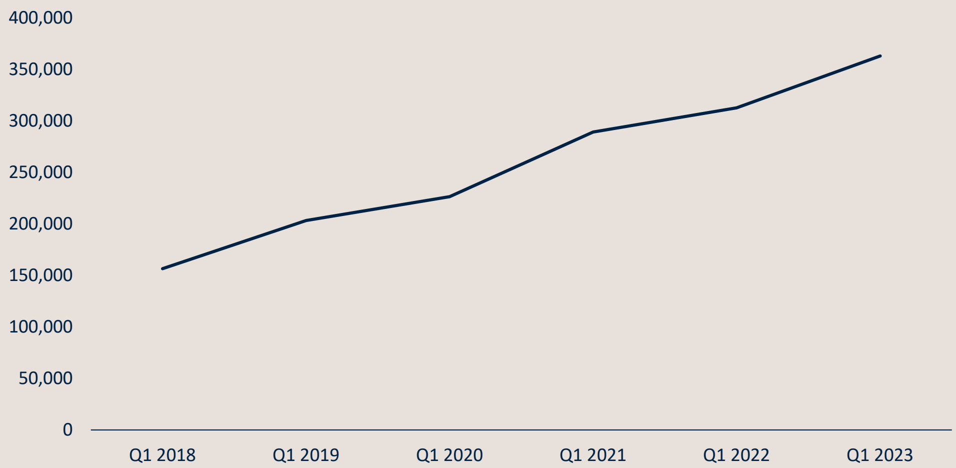
Other services related to this type of technology that companies use the most are the purchase of Cloud Computing (31.7%) and the use of CRM (29.7%).

The latest data from the Spanish National Markets and Competition Commission, corresponding to Q1 2023, confirm the growing trend in e-commerce, with a 22.7% increase in turnover compared to the same quarter of the previous year, €19.175 billion in Q1 2023 compared to €15.627 billion in Q1 2022. The number of transactions is following the same trend, with a 16% increase compared to the same quarter in 2022 (363,000 transactions compared to 313,000).

In terms of categories, retail activities (those requiring storage space) account for 35% of the volume transacted with €6.775 billion, with entertainment (7.9%) and fashion standing out. The remaining €12.4 billion is spread across the other categories.

Both e-commerce and AI will play a key role in automating logistics processes, creating a much more agile and efficient marketplace.

E-commerce quarterly turnover (Mill. €)



Source:INE

"At the end of the fourth quarter, cumulative take-up volume stood at 995,000 sq m, spread over 68 deals"

Madrid

Take-up and Demand
The nearly 250,000 sq m gross take-up recorded in Q4 took the annual figure to 995,000 sq m. Although this represents a year-on-year decline of 21%, it is worth noting that it is the third best take-up since records have been kept.

Also noteworthy was the 304,000 sq m of take-up in Q3, which was also in the top 3 of the historical Q3 data, and which managed to break for a quarter the adjustments recorded in H1, surpassing the take-up volume of Q3 22 by 33%.

There were 68 transactions, a year-on-year decrease of 26%. Transactions >15,000 sq m gained relative weight in the historical series, rising from 15% to 24% in 2023, while transactions of less than 2,500 sq m declined by 7%.

The average transaction size stood at 14,600 sq m, 7% higher than in 2022 and the second highest in the historical series, behind only 2020's record of 15,700 sq m..

Geographical distribution of activity
With regard to the distribution of take-up by ring, the third ring accounted for 58% (542,700 sq m), followed by the first ring, with 33% (313,700 sq m). The Central Zone and the second ring share the rest of the take-up with 8% and 1% respectively.

However, the large take-up volume in the third ring is not due to the number of transactions, which was 22 (33% of the total), but to their size (24,700 sq m on average in 2023 and 21,200 sq m in the historical series). The first ring, as usual, came first, with 42% (28 transactions) compared to 21% (14 transactions) in the Central Zone and 3% (two transactions) in the second ring.

In the analysis by zone, the Southern Zone and the Henares Corridor concentrate most of the activity, with 97% of the take-up and 93% of the transactions. The South Zone is the most active area in terms of take-up (51%), while the Henares Corridor is the area with the highest number of transactions (also 51%), followed by the South Zone (41%).

Main deals
The second half of the year saw the four largest deals, all in excess of 50,000 sq m.

The biggest transaction (68,000 sq m) took place in Getafe. It was the only major deal in the first ring. The others were recorded in various locations in the third ring: Chiloeches (Henares Corridor), Ontígola and Noblejas (both in the Southern Zone).

Rents
Prime rents for logistics warehouses that meet the highest standards of quality and sustainability in well-established areas in Madrid continues their upward trend and stands at €5.95/sq m/month with a year-on-year growth of 1%.

It is worth noting that the increase in starting rents of the projects continued to grow in a context that continues to be marked by rising construction and financing costs.

Stock and Current Supply
In 2023, more than 980,000 sq m came onto the market, an all-time high, leaving the total stock at 12.92 million sq m.

Of the total new floor area, 64% (680,900 sq m) was vacant. At the end of Q4, the market had 1,184,000 sq m of available space, which placed the vacancy rate at 9.16% at the end of the year. Vacant space is concentrated in the third ring, where 56% of the available space was located (664,000 sq m). Of the total available surface area, around 25% is in warehouses that are more than ten years old.

Similarly to the geographic distribution of take-up the two areas of the market with the largest available surface area are the Henares Corridor with 547,900 sq m (46% of the total) and the South Zone with 476,500 sq m and 40% of the total; this puts the availability rate in these areas at 7.9% and 9.2% respectively.

The remaining surface area was distributed between the A-3 Axis with 5.7%, the West Zone with 4.1% and the North Zone with 3.6%, although all have availability levels of more than 10%.

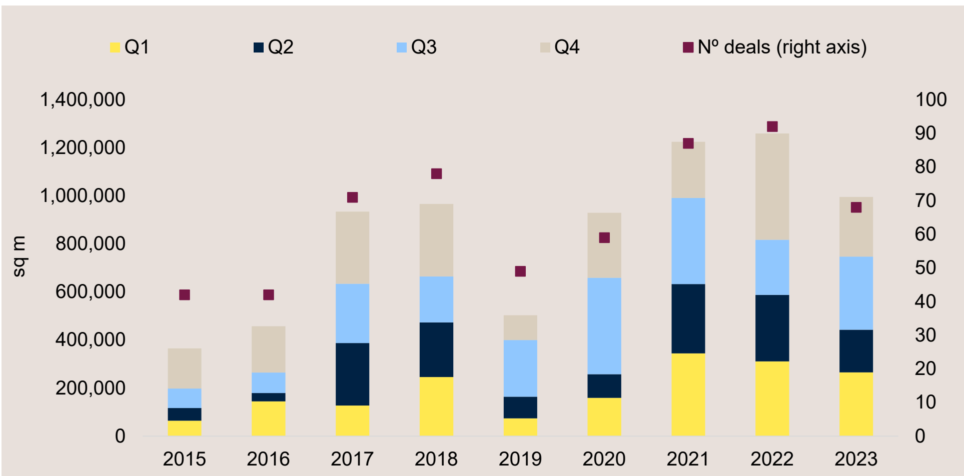
The municipalities with the largest available surface area in the Henares Corridor are Alovera and Torrejón de Ardoz with 25% and 20% respectively of the total available surface area in the region. Within the Southern Zone, Illescas (46%) and Getafe (16%) account for 62% of the available surface area.

Future Supply
Over the next two years, 1,638,000 sq m of new floor space is expected to be added to the market. Looking ahead to 2024, almost one million square metres is expected to come on stream, of which 21% is already committed.

For 2025, an inflow of 679,000 sq m is projected, with 15% committed by Q4 2023. High financing costs and construction cost-price inflation are expected to mitigate against further increases in the speculative development pipeline going forwards.

The availability of the new developments planned for next year will be mostly distributed between the Southern Zone with 47%, the Henares Corridor with 47% and the remaining 6% in the Northern Zone. San Agustín de Guadalix will accommodate the first logistics project in the vicinity of the A1 in the last six years (38,000 sq m). The new surface area already committed will be divided between the South Zone (80%) and the Henares Corridor (20%).

Take-up and deals by quarter



Source: Savills Research

“ Strong development activity in response to the shortage of available supply will make 2023 the year with the largest area delivered in the historical series with 769,000 sq m ”

Barcelona

Take-up and Demand
The volume of take-up at the end of 2023 stands at 504,000 sq m, with the year-on-year comparison showing a decrease of 38.5%, with significant variation in the rate of declines between the four quarters.

The first half of the year accounted for 64% of the annual total thanks to the good results in Q1 (49%), while in the second half the reduced activity in Q3 (14%) weighed down the final figure.

The analysis in terms of number of deals showed an improved performance. 55 letings were signed during 2023, showing a 8% yoy increase

The imbalance in the evolution of take-up and transactions affected the average size per transaction, which stood at 9,176 sq m. The year-on-year comparison shows an average decrease of 33%.

The quarterly performance was always negative, with softer levels in H1 (average -15%). The weakest quarter having the biggest drop is self explanatory.

The absence of large transactions during the year has had an impact on the annual take-up figure. The biggest deal in 2023 involved a 42,000 sq m warehouse, while the largest in 2022 was close to 100,000 sq m.

Extending the analysis to the top 5 for each year, the average size in 2023 was just over 30,000 sq m, compared to 60,000 sq m in 2022.

However, larger transactions (>20,000 sq m), which accounted for 13% of the total in 2023, gained one percentage point compared to the historical average, but the best performing size-band was the 10,000-15,000 sq m segment, which, with 22% of the total, was nine points above the historical average.

Transactions between 2,500 and 5,000 sq m continue to be the most frequent in the market (31%) and remain stable compared to historical data, gaining one point over the historical series.

Geographical distribution of activity
With regard to the geographical distribution by rings in 2023, as usual, the first ring accounted for the greatest share of leasing activity with 41% of the total, followed by the third ring with 30% and the second ring and the Central Zone with 14% and 15% respectively.

Future supply evolution

Source Savills Research

In terms of the number of transactions, 23 of them were signed in the first ring, representing 42% of the total. The rest of the transactions were evenly distributed among the other rings.

At the regional level, Vallès Occidental saw the three lagest transactions, registered in Cerdanyola del Vallès, Sabadell and Castellbisbal.

In total, the area accounted for 24% of the total take-up (146,000 sq m), compared to 13% the previous year (almost 140,000 sq m). In terms of transactions, Vallès Occidental and Vallès Oriental together accounted for 40% of the total, with eleven deals each.

Rents
Prime rent for state-of-the-art logistics warehouses that meet the highest quality and sustainability standards remained stable compared to Q3 at €8.50/sq m/month, which reflects an increase of 10% year-on-year.

The average closing market rent, calculated using all available rental values for the year, stood at €5.91/sq m/month, a 6% increase compared to 2022 and a record high.

Stock and Current Supply
In 2023, 769,000 sq m came onto the market, increasing the stock to 10.2 million sq m.

The entry into the market of 293,000 sq m of new available space during the second half of the year (45% of the total) brought the total supply to 489,000 sq m by the end of 2023, leaving an availability rate of 4.79%.

On the supply side the third ring stands out, accounting for 43%, with an vacancy rate up from 3.8% in 2022 to 11.9% in 2023. For its part, the second ring has gone from having no availability in 2022 to 61,500 sq m in 2023.

Future Supply
After a record 2023, 442,000 sq m of new floor space is expected to be added to the market in 2024. Of this figure, 71% is currently available while 29% is already committed.

Of the total planned new supply, 48% is concentrated in the first ring, followed by the central zone and the second ring with 23% and 21% respectively, while the remaining 8% is located in the third ring.

The largest projects will be located in Vallés Occidental, them exceeding 27,000 sq m. The largest project (77,000 sq m) is scheduled for delivery in Q3 2024 in El Prat de Llobregat, Central Zone.

“Valencia’s logistics market continues to grow in importance on the national scene with 362,000 sq m across 51 deals”

Valencia

Take-up and Demand
The logistics market in Valencia confirms the good results of 2022, closing 2023 with 362,000 sq m contracted.

Q4, in particular, stood out, with a record 168,000 sq m singed, exceeding the annual totals of both 2017 and 2018.

51 transactions were recorded throughout the year, 11% less than in 2022. However, the good performance in the second half of the year stands out, when 25 deals were closed compared to 18 in the same half of 2022, representing an increase of 39%.

The average transaction size grew by 8% year-on-year to 7,112 sq m, especially marked by the last quarter of the year when the largest transactions were closed.

Geographical distribution of activity
The first ring continues to be the focus of demand and has continued to gain share in recent years. In 2023, 77% of tak-up was located in this area, reaching more than 280,000 sq m, meaning the peak of the historical series.

In terms of number of deals, its participation reached 93%, with 43 of the 51 deals signed in the first ring.

With regard to the distribution of activity by zone, the Central Zone continues to be the most in demand with 168,000 sq m contracted in 27 transactions, representing 48% and 86% of the total take-up and number of transactions respectively. The South Zone gained market share with 27% growth over the previous year.

The two largest transactions took place in Sagunto (North Zone) and Alaguás (Central Zone), with 35,400 sq m and 31,450 sq m signed respectively.

Rents
Prime rents in Valencia continue their upward trend and now stand at €5.35/sq m/month, an increase of 13% year-on-year. This figure would correspond to a warehouse meeting the highest quality standards in a well-established hub that is the main focus of demand.

The average closing market rent, calculated with all available rental values for the year, stood at €4.19/sq m/month, up 4% from 2022 and the highest figure in the historical series.

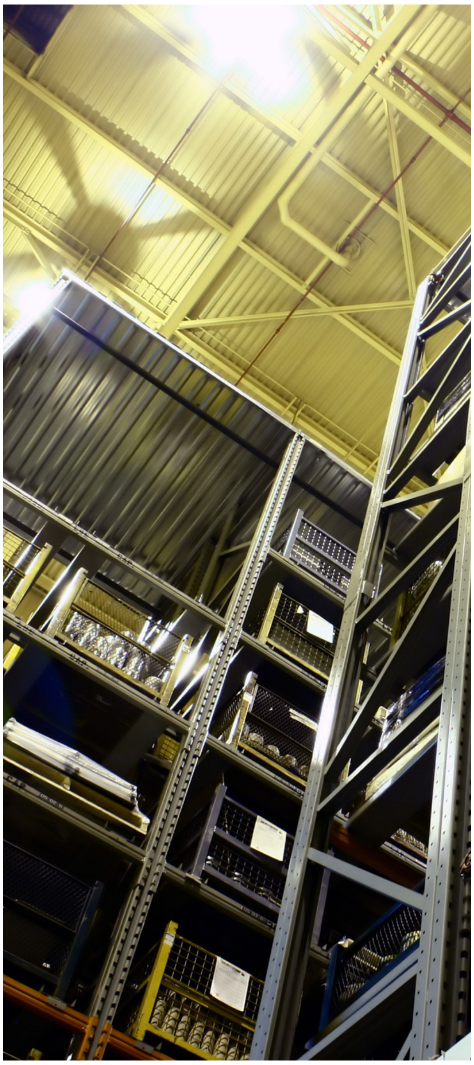
Stock and Current Supply
Throughout the year 2023, 254,000 sq m of new space was added to the Valencia logistics market, which brought total stock to 4.2 million sq m. 77% of new supply was already occupied.

Supply has decreased by 7% during 2023 and, at year-end, stood at 66,800 sq m available, all located in the first ring, bringing the vacancy rate to 1.6%. Strong demand is keeping the market under pressure interms of supply, with the vacancy rate falling by 20bps from 1.8%.

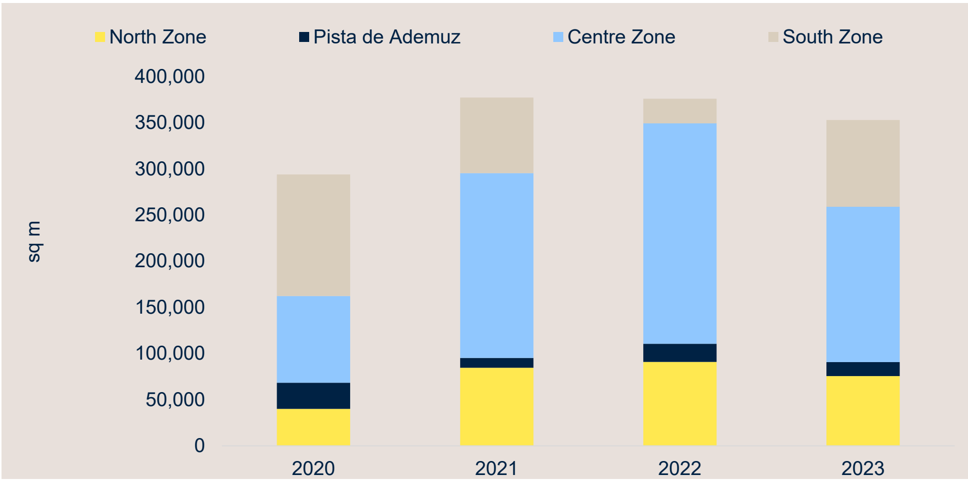
Future Supply
384,000 sq m of new floor space is expected to be added to the market in 2024, half of which will already be committed on completion.

Given the scarcity of supply available on the market in recent years, certain types of occupiers have opted to purchase land for subsequent self-development or for the construction of a turnkey product. In 2024, almost half of the new area already committed corresponds to this formula.

This leads to a situation in which the upward price pressure on the market is expected to continue due to the scarcity of product. Less than 200,000 sq m will reach the leasing market, maintaining the low availability rate of recent years.



Take-up by ring



Source: Savills Research

“ Investment activity is increasingly moving beyond the main logistics hubs. There are good opportunities for quality product in the best locations in secondary areas at higher yields ”

Investment market

Investment market
The uncertain macro environment, driven by the continuous increase in interest rates and, consequently, higher financing costs, has been one of the reasons for the general decline in investment activity in the tertiary market. Although some segments have managed to avoid negative developments (hotels and medium-sized retail outlets), the shadow of the slowdown has spread to the rest of the sectors.

The annual decrease of the total investment volume in the commercial market market has reached 45% (36% if corporate transactions are taken into account, which in 2023 increased the number of hotels considerably), although each segment showed its particularities.

The logistics market reached nearly €1.55 billion at the national level, accounting for 16% of the total amount transacted in tertiary investment, higher than the 13.5% share recorded the previous year.

In annual terms, investment volumes totaled €2.35bn, a decline of 35% year-on-year (second best year in the historical series), but the decline in transactions was just 4% year-on-year.

The big difference between the two years was in the portfolio sales. While twelve asset portfolios accounted for 60% of the volume (€1.38 billion) in 2022, eight deals totalling just over €400 million (less than 25% of the total) were recorded in 2023.

An analysis of the market by asset type (single asset or integrated in a portfolio) reveals that the single asset category strengthened its market share (increasing its volume and number of transactions from the previous year by 17% and 13% respectively), while the average ticket size also grew by 3%.

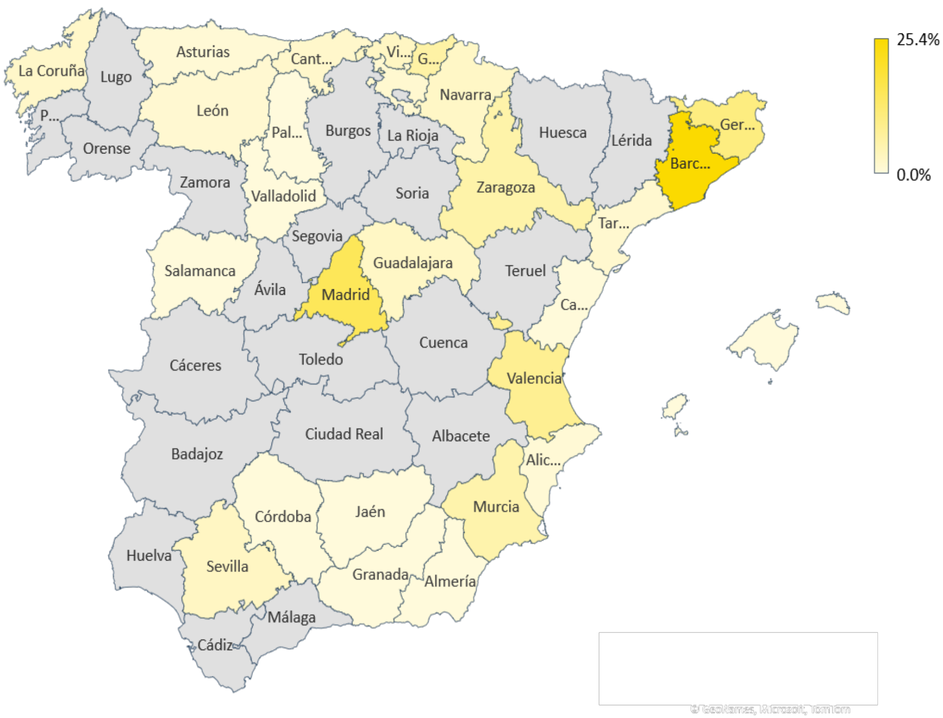
The country’s main logistics hubs (Madrid, including the neighbouring provinces of Castilla-La Mancha, and Catalonia) continue to account for the majority of investment activity - 56% in total in 2023.

Catalonia, usually ranking the second, occupied first place in 2023, accounting 38% of total investment (well above the 24% share of the historical series).

On the other hand, the Central Zone, with 18%, reduced 30 percentage points its average level in the past, placed second in the rank.

The podium was completed by the Basque Country, which took Valencia’s third place in 2022 with €162 million. In any case, the Autonomous Community of Valencia also managed to surpass the €100 million mark by a wide margin. The rest of the regions remained below this figure.

Distribution of transacted volume* in 2023 by province



Source: Savills Research *excludes corporate operations, land and purchases for own use.

Along with the Basque Country, the other northern locations (Galicia, Asturias, Cantabria, Navarra and some provinces of Castilla y León) accumulated a not inconsiderable 10% in 2023, having accounted for less than 2% since 2019.

Less consolidated markets attract investor interest because they offer higher returns. The key is to identify the right opportunity, often in the form of sale and leaseback transactions.

This type of deal was particularly prevalent in 2023, with 34 assets transacted under this format, compared to an average of six sale and leaseback deals in recent years. 53% of the transactions took place in secondary locations, but the main focus of sale and leaseback activity was in Barcelona, with 13 assets.

Yields
The steady increase in interest rates was reflected in rising yields. The achievable level of prime yields closed Q4 at 5.25% (gross), a level shared by both Madrid and Barcelona, which is an increase of 55 basis points (bps) on average since the end of 2022 and more than 100 bps since the beginning of the upward trend.

European regulators put the brakes on at the October meeting and since then rates have remained at 4.5%. Everything points to a period of stability, with expectations of a possible cut in the summer, which in the short term would lead to downwards pressure on yields.

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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