Creating Resilience

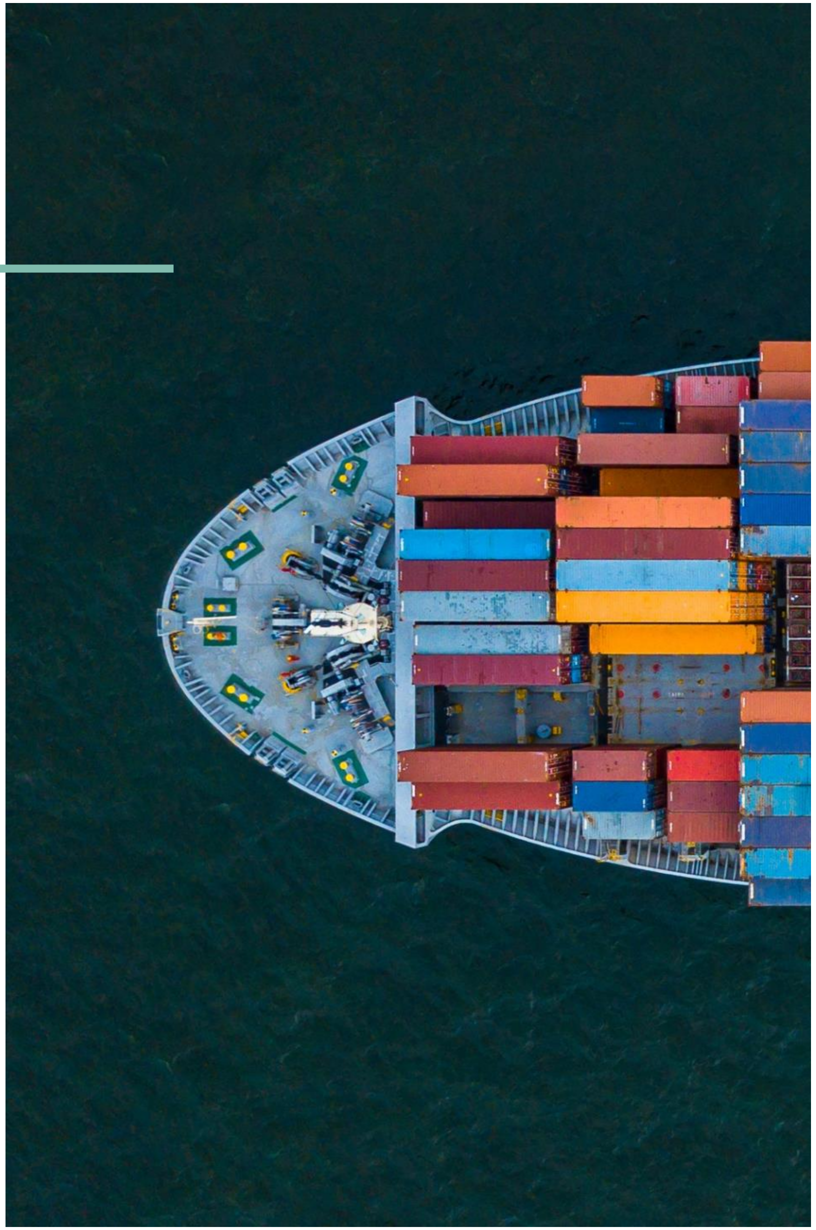
European Logistics Occupier Survey 2024

REPORT

CBRE RESEARCH

JULY 2024

Key highlights



100+

Respondents: the largest pan-European occupiers from all sectors

70%+

Respondents occupy at least 300,000 sq m

85-95

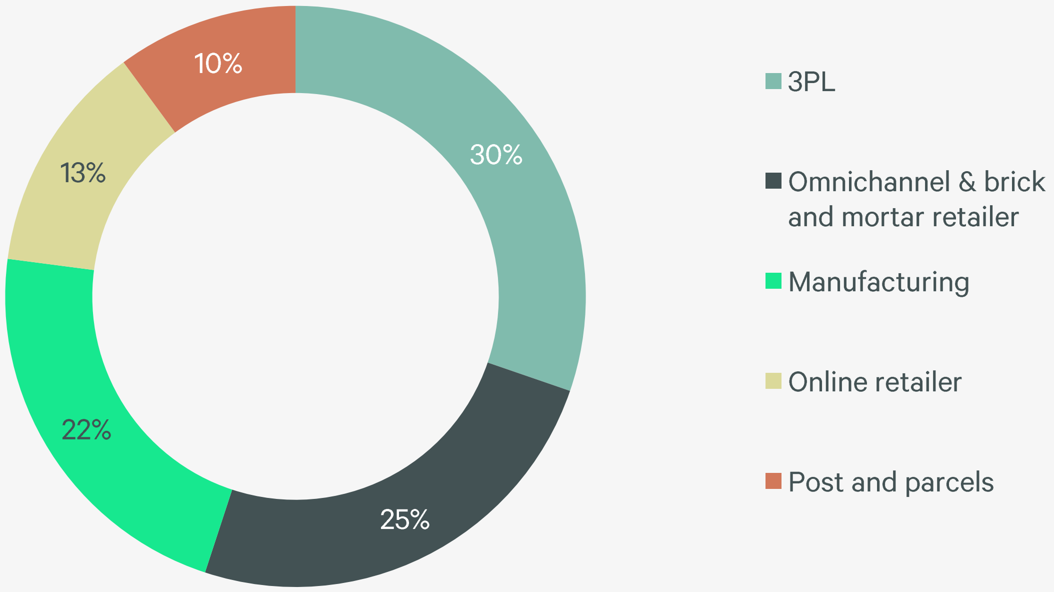
Million sq m of estimated total logistics footprint in Europe

- Short and medium-term expansion plans
- Occupier challenges (general and real estate-related)
- Location and building preferences
- Sustainability considerations

CBRE Analytiqa

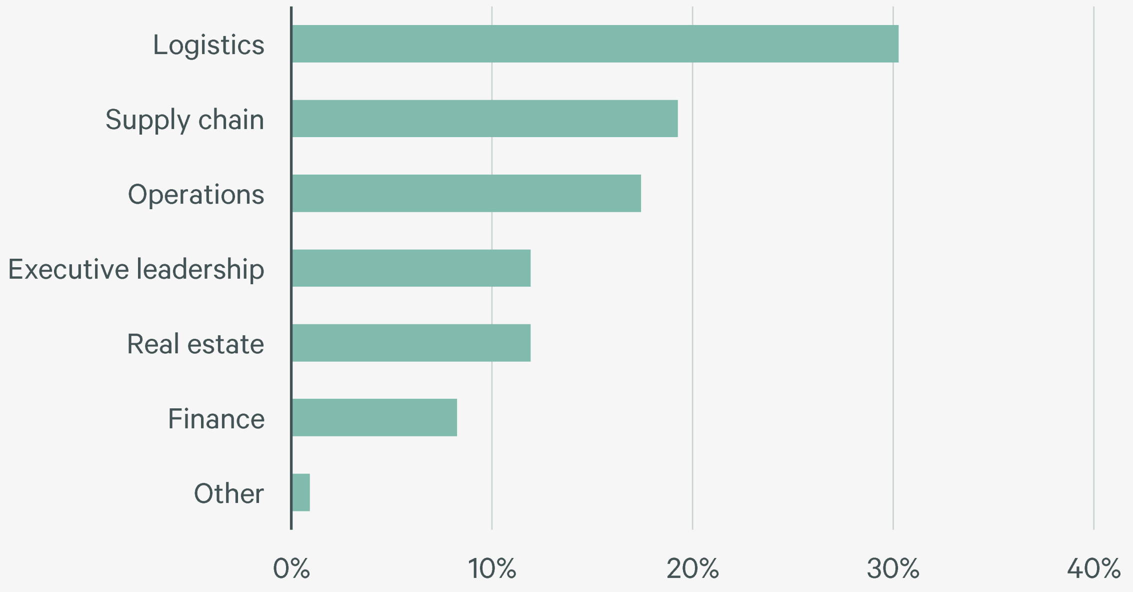
Respondent profile

Figure 1: Company sector



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Figure 2: Job title/function



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

01

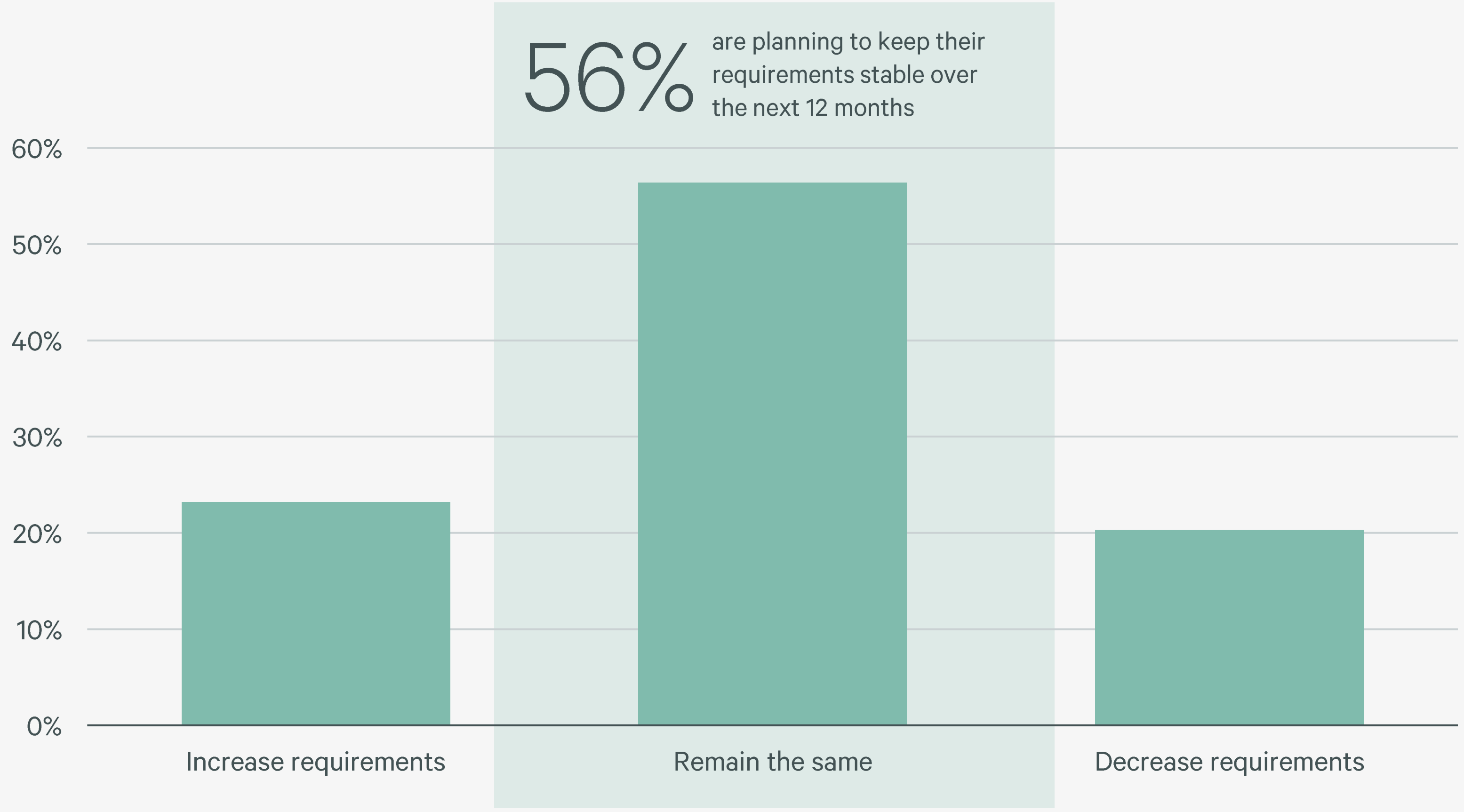
Short and medium-term expansion plans

Expansion plans: short-term

How do occupiers see their **requirements for space over the next 12 months** compared with the previous 12 months?

Demand for space is expected to remain stable during 2024, although the improved macroeconomic landscape offers a more supportive outlook for occupiers looking to resume their expansion strategies.

Figure 3: Expansion plans, next 12 months vs previous 12 months



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Expansion plans: short-term

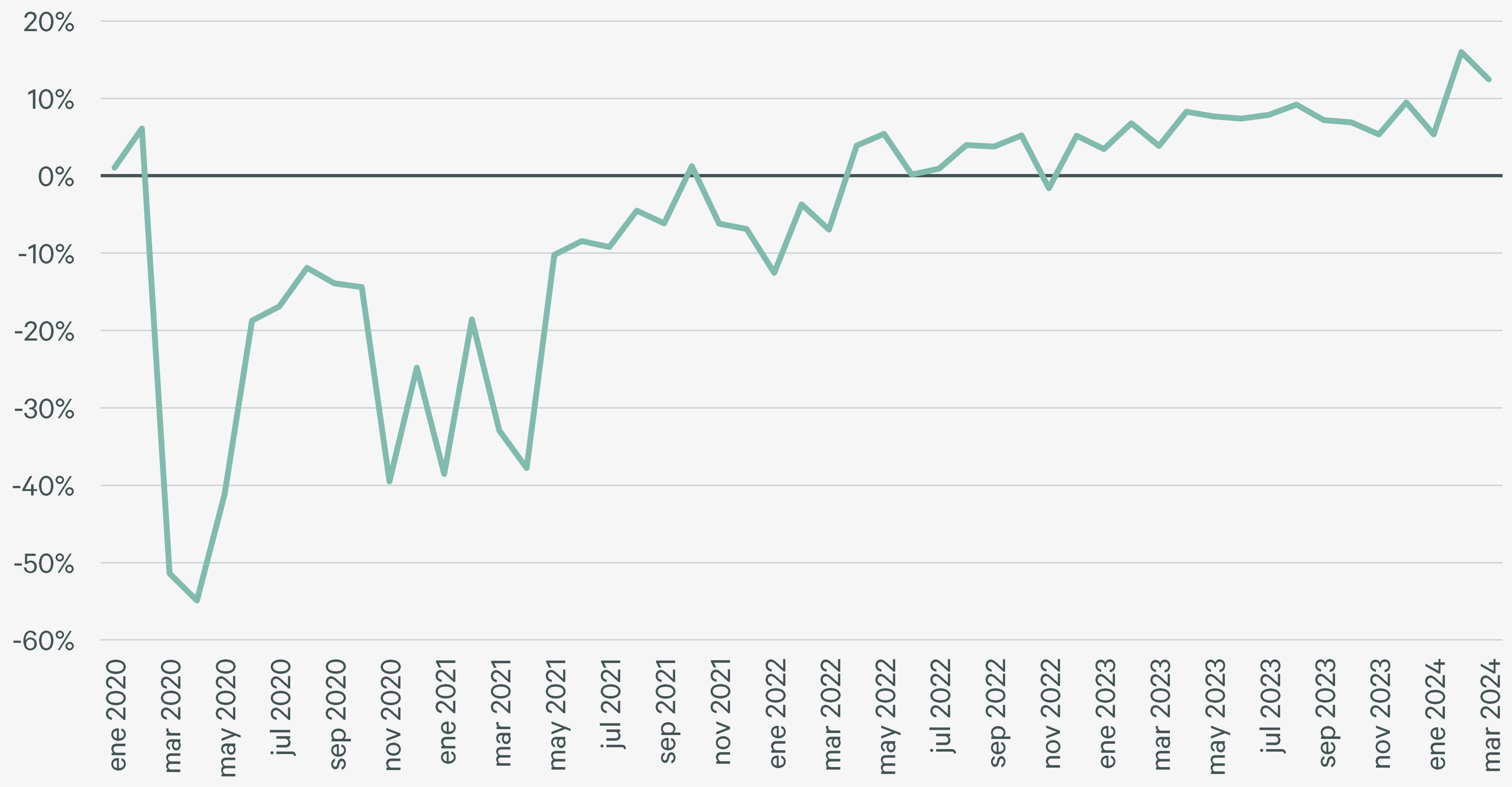
Omnichannel and **brick and mortar** retailers are the only sectors expecting to launch more requirements over the next 12 months compared with previous 12 months.

Retailers are seeing a renewed wave of optimism and expansion plans as the post-pandemic landscape has become clearer and physical retail performance has shown strong improvement.

While expectations of demand over the next 12 months are subdued across sectors, omnichannel and brick and mortar retailers lead. Almost a third of these occupiers plan to take more space in 2024 than in 2023, as real incomes have recovered for consumers, and physical retail sales rebound across Europe.

CBRE's European Shopping Centres Performance Index has recorded robust growth in 2024, with tenant sales in Q1 growing by 6% year-over-year, well above the rate of headline inflation.

Figure 4: Tenant sales at CBRE managed retail assets, European average, % of 2019 levels



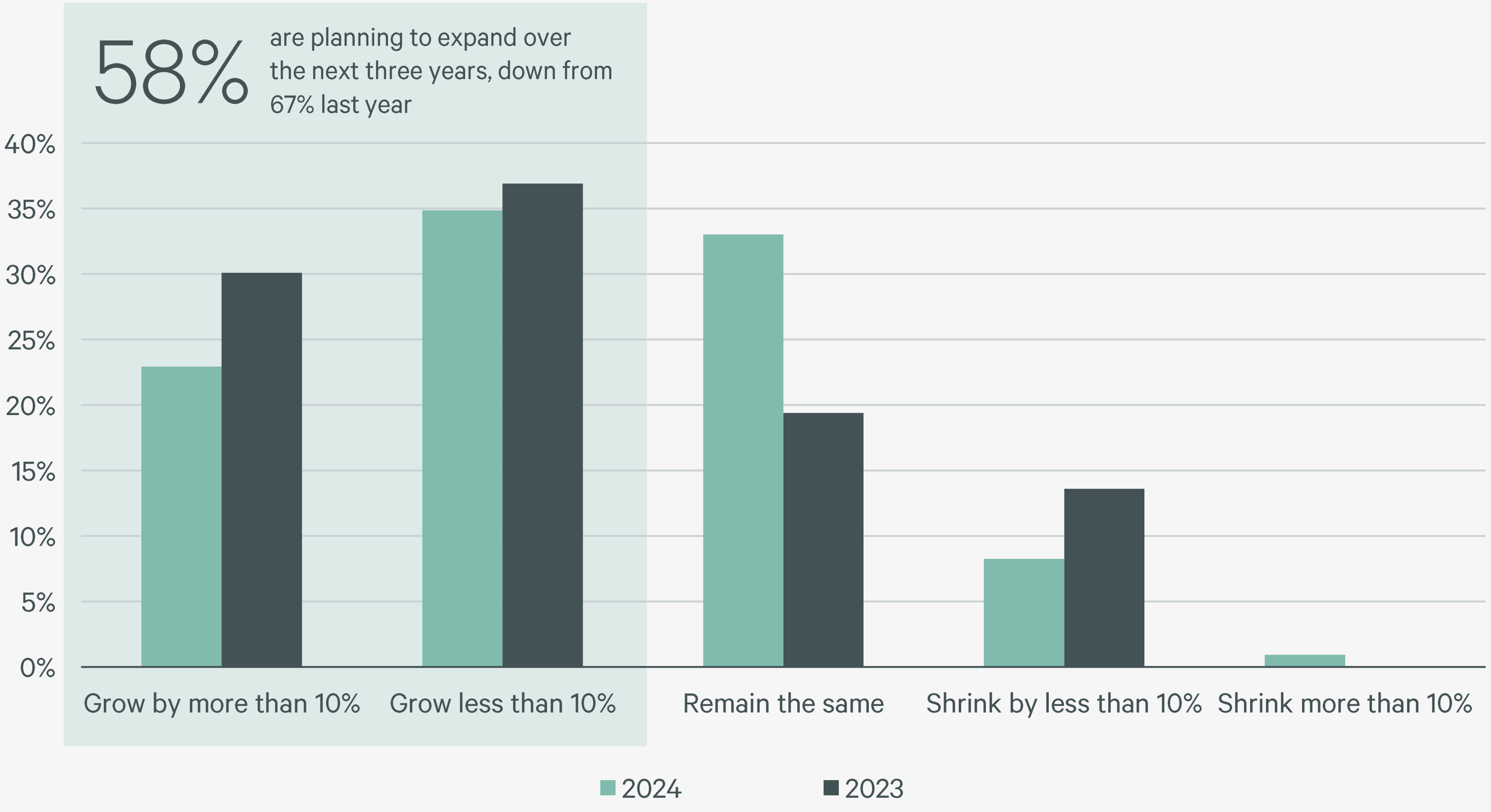
Source: CBRE European Shopping Centres Performance Index

Expansion plans: medium-term

After the current slowdown, **expansion is poised to continue over the medium-term.**

The outlook over the medium-term is weighted towards expansion, with a majority of occupiers planning to take additional space during this period. However, this is a slight decrease on 2023, when two-thirds of occupiers signalled their intention to expand. On the positive side, fewer occupiers plan to reduce their space, given the clearer macroeconomic outlook.

Figure 5: Expansion plans, next three years



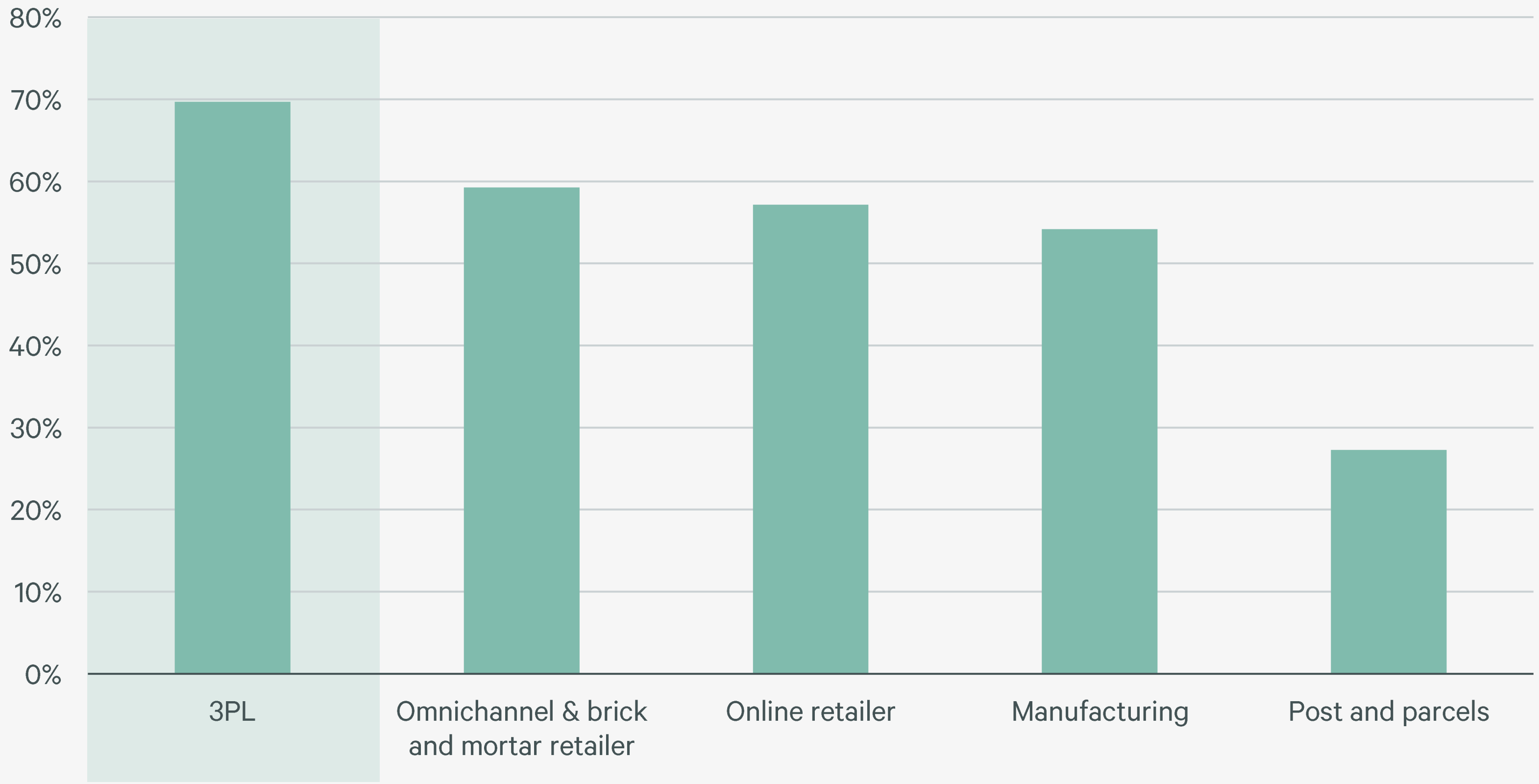
Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Expansion plans: medium-term

3PLs to continue to lead expansionary demand in the medium-term.

Third party logistics (3PL) companies remain the most bullish in terms of increasing their logistics footprint in the medium-term, having seen their share of total take-up increase significantly during the last few years. 3PLs and the outsourcing of supply chains are expected to continue to be a key component of demand for logistics space globally for the foreseeable future.

Figure 6: Expansion plans, next three years, expanding respondents per occupier sector



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

02

Occupier challenges

General challenges

What are the **greatest wider challenges** for logistics occupiers?

Top three challenges

= 01

Cost escalation (energy and labour)
Cost escalation is the primary challenge that logistics occupiers have been identifying since 2020. While year-over-year inflation rates have moderated, costs remain high.

▲ 02

Labour and skills shortages
Up from third place in 2023, labour and skills shortages stand out as a challenge in every edition of the survey. With warehouses becoming increasingly complex, a more extensive skillset is also required to operate them.

▲ 03

Economic uncertainty/softening of consumer demand
The macroeconomic headwinds experienced in Europe over the last few years have led to a fall in retail sales and consumer demand, though sales volumes are now recovering.

Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024). Arrows show movement from 2023

General challenges

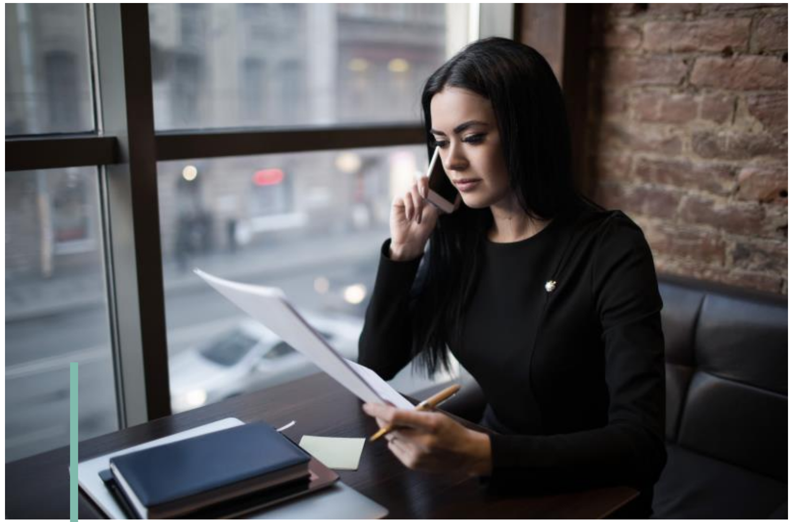
Other challenges

Environmental concerns

Uncertainty and lack of readiness generate unease

Supply chain disruptions

Increased again as a new crisis appears (Red Sea)



Geopolitical issues

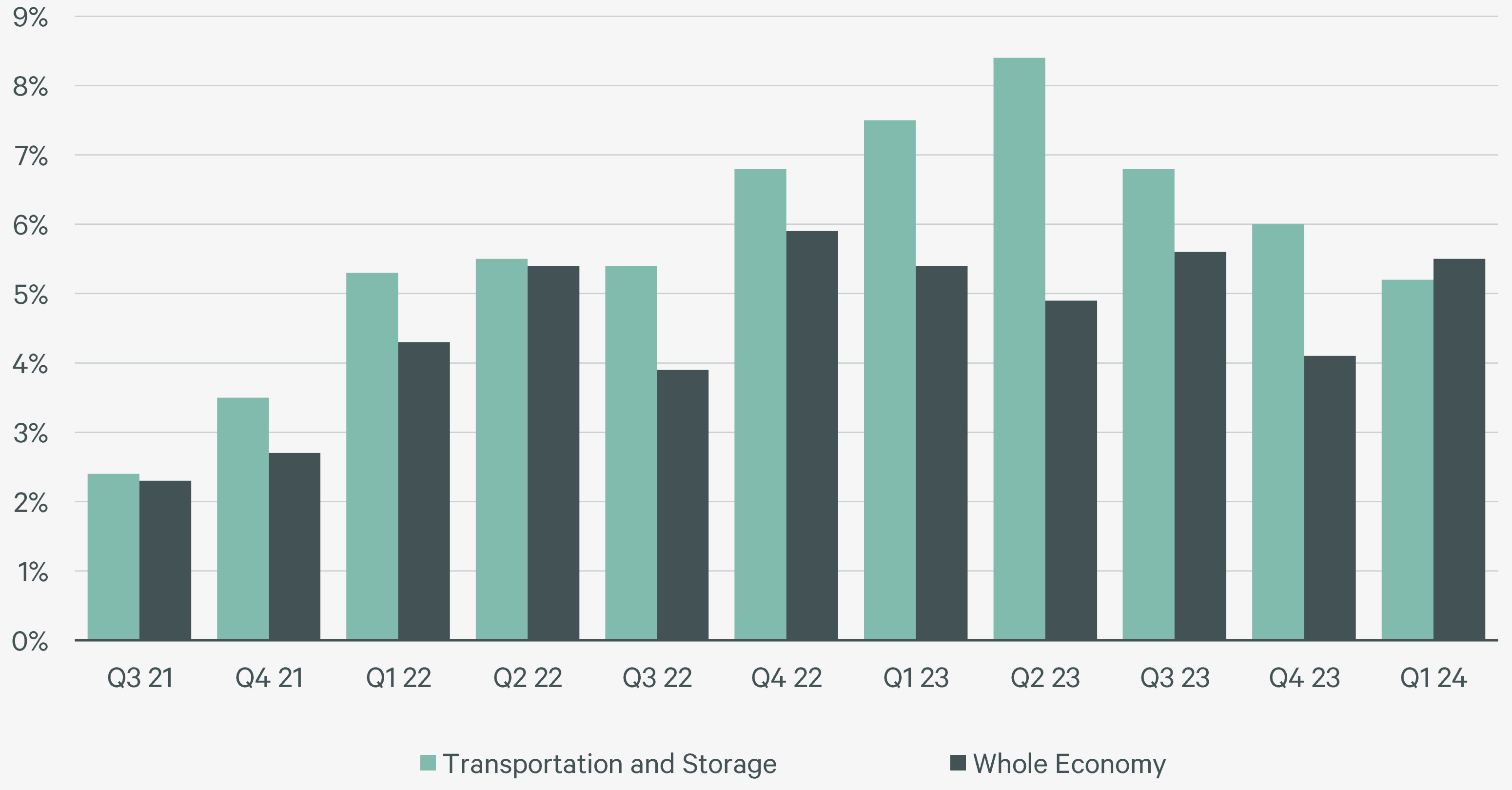
Trade disruptors, increasingly causing distress

General challenges: focus on labour cost

Labour costs in the **transportation and storage** industry have **grown faster** than for the whole economy.

While the EU has seen significant wage growth across the whole economy, the transportation and storage industry experienced even stronger wage inflation, as a result of labour shortages. This has created additional cost pressures for occupiers.

Figure 7: EU labour cost index (% change year-over-year, calendar adjusted)



Source: Eurostat, CBRE Research

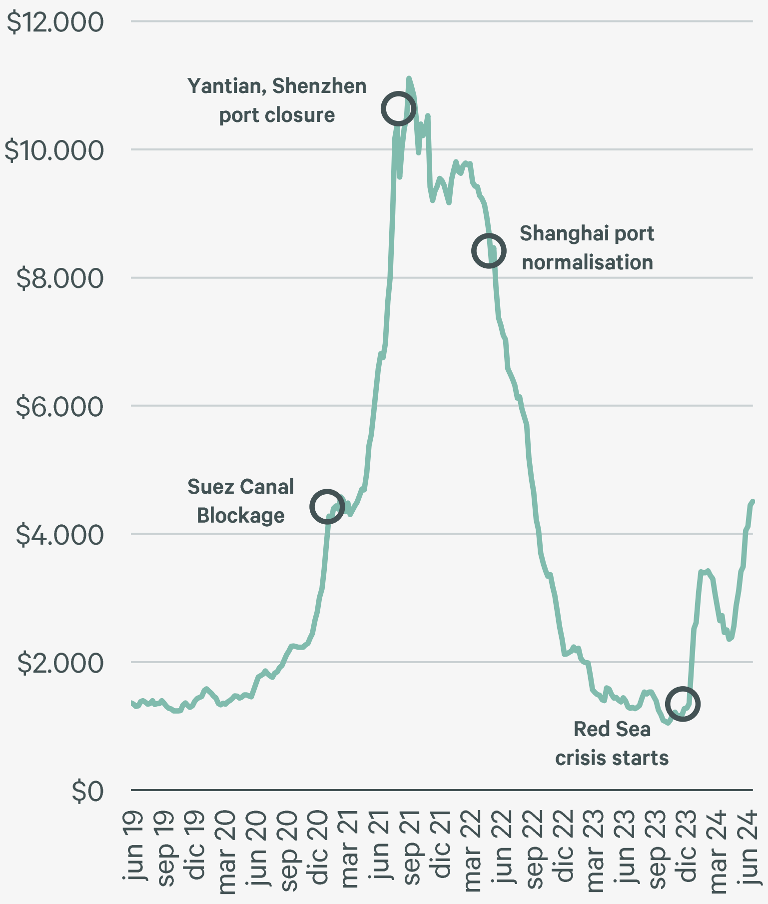
General challenges: focus on supply chain disruption

Continued trouble in the Red Sea is causing shipping lines **to avoid the Suez Canal**.

Instead, vessels are routed around the Cape of Good Hope, adding around two weeks to shipping times and directly impacting European supply chains and schedule reliability. Renewed disruption has led to an increase in freight rates, though they remain far below the levels seen during the height of the pandemic.

Figure 8: Global schedule reliability

Source: Sea-Intelligence, CBRE Research



Source: FBX Freightos, CBRE Research

General challenges: focus on supply chain disruption

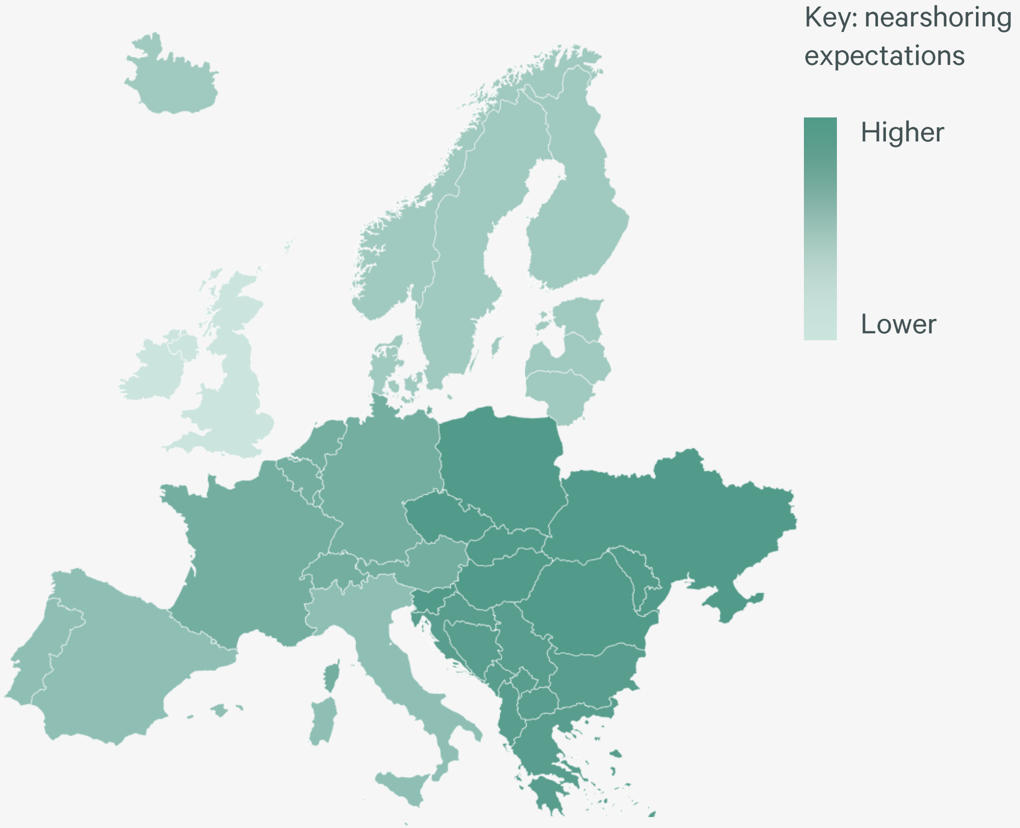
Occupiers see **nearshoring** as a **solution to supply chain disruption**, though Europe is less advanced in this regard than other global markets such as Mexico.

The **CEE** and **SEE regions** were singled out by occupiers as being most likely to benefit from nearshoring. However, due to the current geopolitical instability in Ukraine, some occupiers have put their reshoring strategies on hold in Europe.

Figure 10: Which European regions do occupiers expect to benefit most from nearshoring activity?

68%

of 2024 respondents believe nearshoring will have a significant effect on Europe's logistics take-up



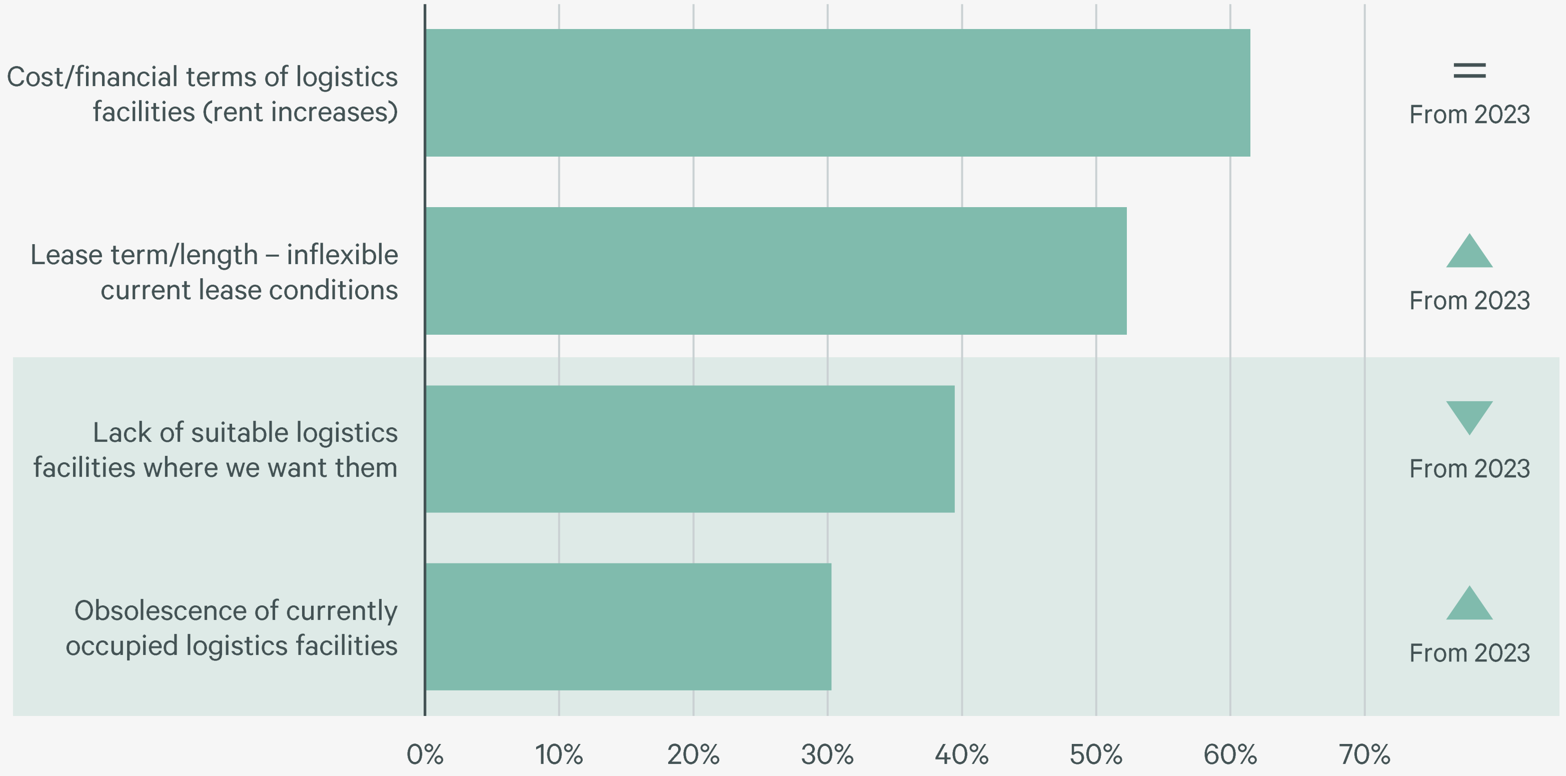
Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024).
Note: Darker colour represents higher potential impact of nearshoring according to occupiers.

Real estate challenges

What are the greatest **real estate challenges** for logistics occupiers?

For real estate-related challenges, the top three remained the same as last year. However, the percentage of respondents reporting that they struggle to find suitable logistics facilities in the right location has fallen, as **vacancy rates and availability of space have increased from record lows.**

Figure 11: Greatest real estate challenges for logistics occupiers



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024).

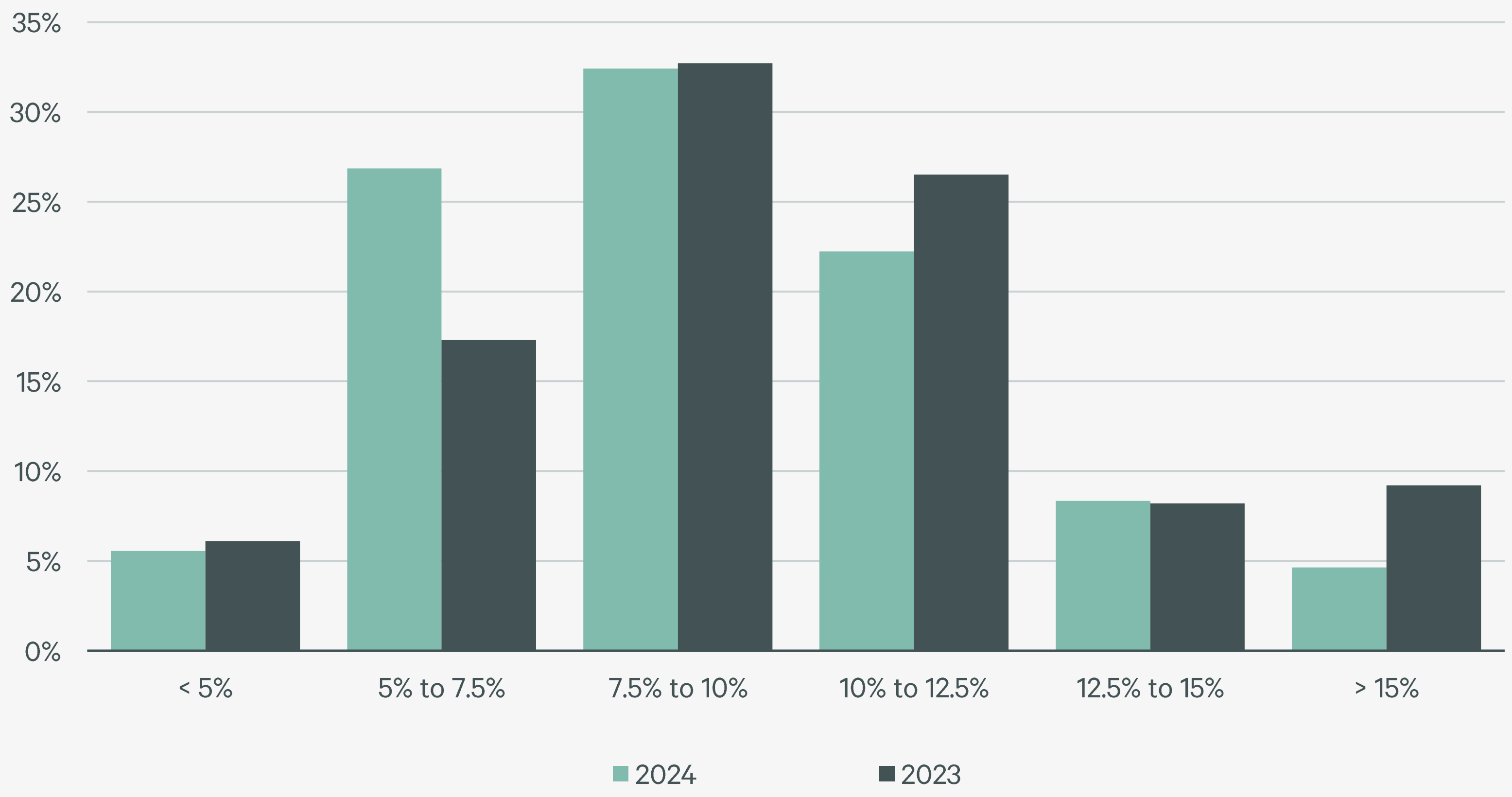
Note: Select all that apply question. Arrows represent change from 2023.

Real estate challenges: focus on rents

What is the estimated percentage of total **annual operating costs** related to **logistics buildings** (rent and service charge)?

Rent increases remain a concern for occupiers. However, the proportion of occupiers estimating their logistics building costs to be **more than 10% of their total operational costs fell from last year.** This is likely a consequence of occupiers acknowledging the moderation in logistics rental growth over the last year.

Figure 12: Logistics rent and service charge as a percentage of total operating costs



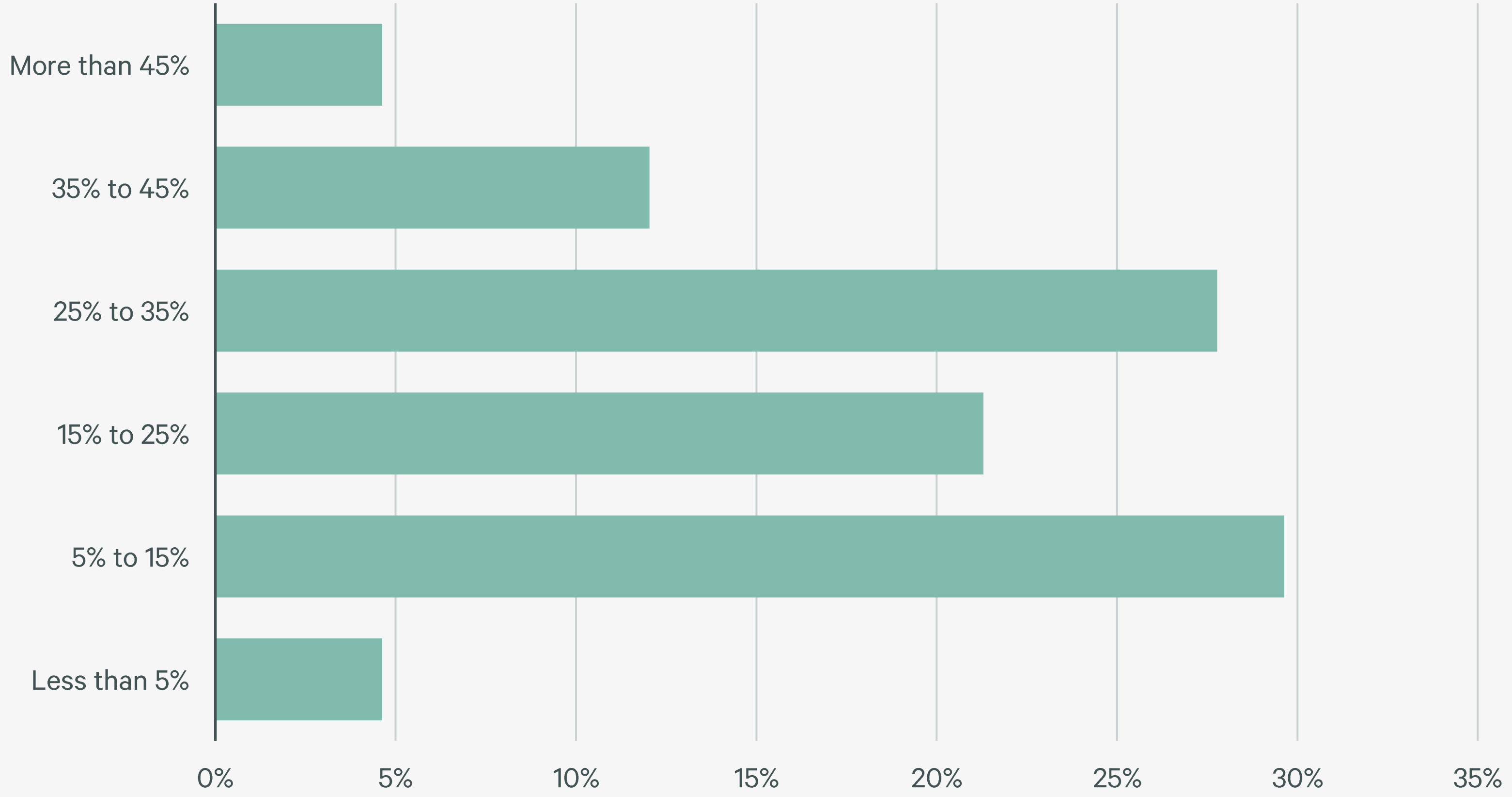
Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Real estate challenges: focus on obsolescence

What percentage of their current footprint do occupiers believe will be **obsolete** by 2030 without **significant investment?**

40% of occupiers believe 25% to 45% of their current portfolio will be obsolete by 2030 if there is no significant investment in upgrading it. Obsolescence might have been overlooked during the last few years due to very low vacancy, giving occupiers no other option than to compromise with what was available. However, now that occupiers have a choice, investors should take greater care to analyse and understand the risk that some of their units might no longer be attractive to the highest paying occupiers.

Figure 13: Percentage of occupiers' footprint that will become obsolete by 2030 without significant investment



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Real estate challenges: focus on obsolescence

Features that could affect how **future-proof** a warehouse is include (but are not limited to):

Power availability

To allow robotics and automation but also to charge electric vehicles. Independence from the grid is also a plus.

Sustainability credentials

Linked to tightening regulations and the zero carbon targets of occupiers.

Clear height and column spacing

Maximising use of GLA.

Floors

Increasingly demanding specifications on flat and level flooring to optimise operations and eliminate rack impact.

Amenities

To attract and retain talent.

Source: CBRE

03

Location and building preferences

Location preferences

What are the most important factors driving **general location decisions** for logistics facilities?

Source: CBRE and Analytiqa
(European Logistics Occupier Survey 2024). Arrows show movement from 2023

Top three location factors

▲ 01

Labour availability and capacity
Consistently one of the most highlighted factors for location selection, labour availability is the most important factor this year, and is particularly relevant for larger occupiers.

= 02

Labour cost
High wage inflation in Europe makes labour cost a key factor for occupiers once again in 2024. The skills required are also evolving, as warehouses become more technically advanced.

▼ 03

Real estate cost
Cited by occupiers as the top location factor in 2023, real estate costs still feature in the top three. However, robust rent increases over the past few years have been eclipsed by concerns about labour.

Increasingly relevant location factors

Regional power grid availability

Proximity to motorways and ports

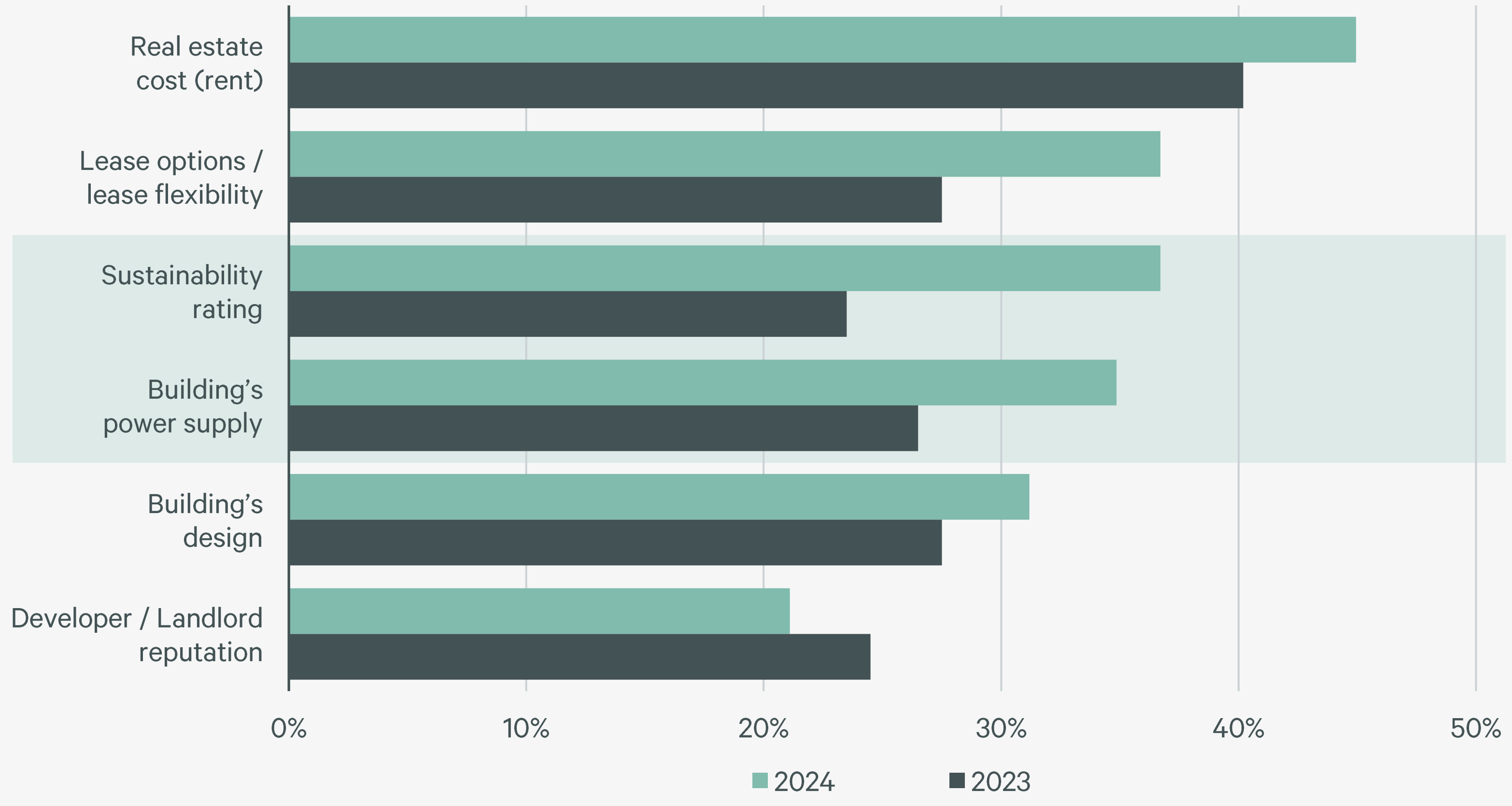
Drive time to commercially relevant locations

Building preferences

What are the most important factors driving **building selection decisions?**

Occupiers have increased their ‘tick-list’ when it comes to choosing facilities: more options are now considered key for their warehouse selection process. The ranking of sustainability rating has increased significantly, and is now the third most important consideration. Power supply also saw a significant year-over-year increase. Occupiers have become more demanding, as higher vacancy rates give them greater choice.

Figure 14: Main factors in occupiers’ warehouse selection



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024) . Select all that apply question

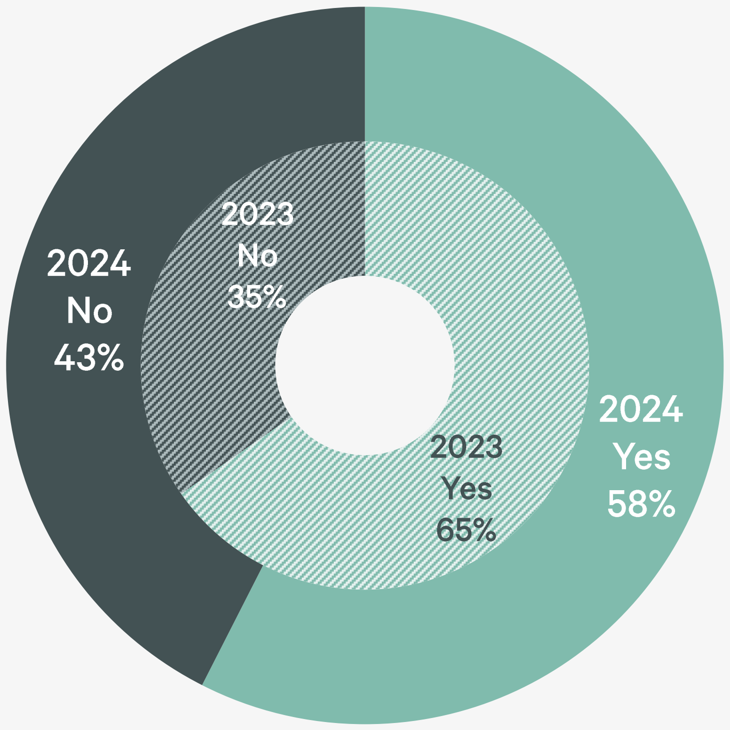
Building preferences: focus on availability

Real estate availability is still a challenge for occupiers despite the increase in vacancy rates.

Despite a decrease in respondents facing real estate availability issues, more than half of occupiers still indicate having had trouble finding warehouses in the last year. This is because several markets are still severely undersupplied, even with the overall increase in vacancy rates.

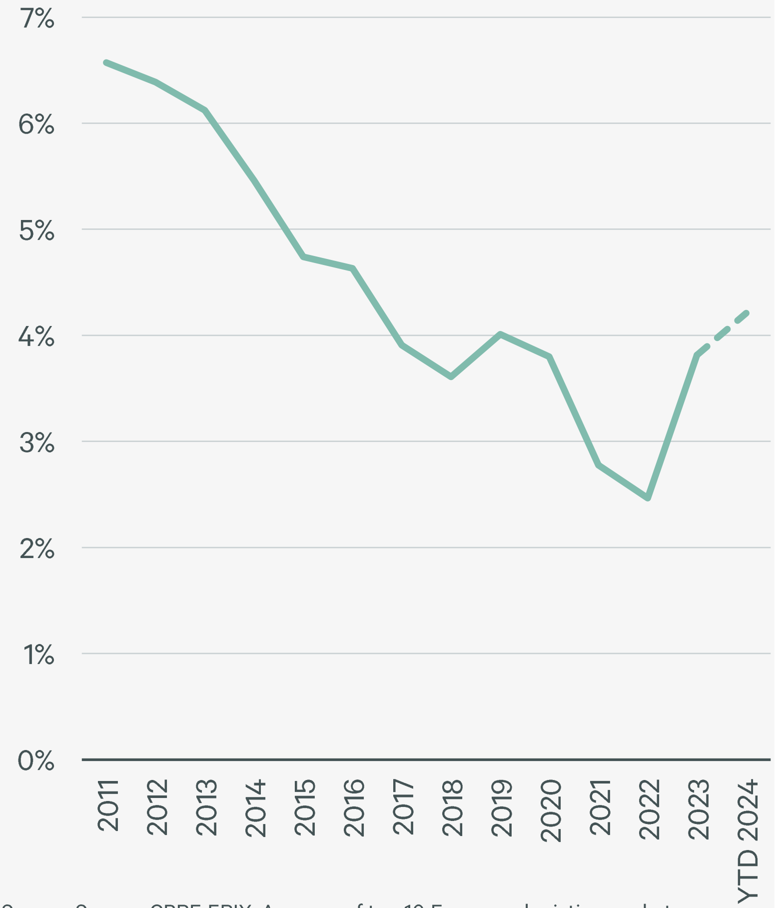
Combined with the increasingly demanding requirements from occupiers, the flight to quality in specifications and location is a trend becoming more visible in logistics. The trend is already mature in offices and is particularly linked with sustainability features. Consequently, the reported higher vacancy rates could disguise the fact that some of the vacant stock might no longer be attractive to all occupiers.

Figure 15: Proportion of occupiers that have experienced real estate availability issues in the last 12 months



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Figure 16: European logistics vacancy rate



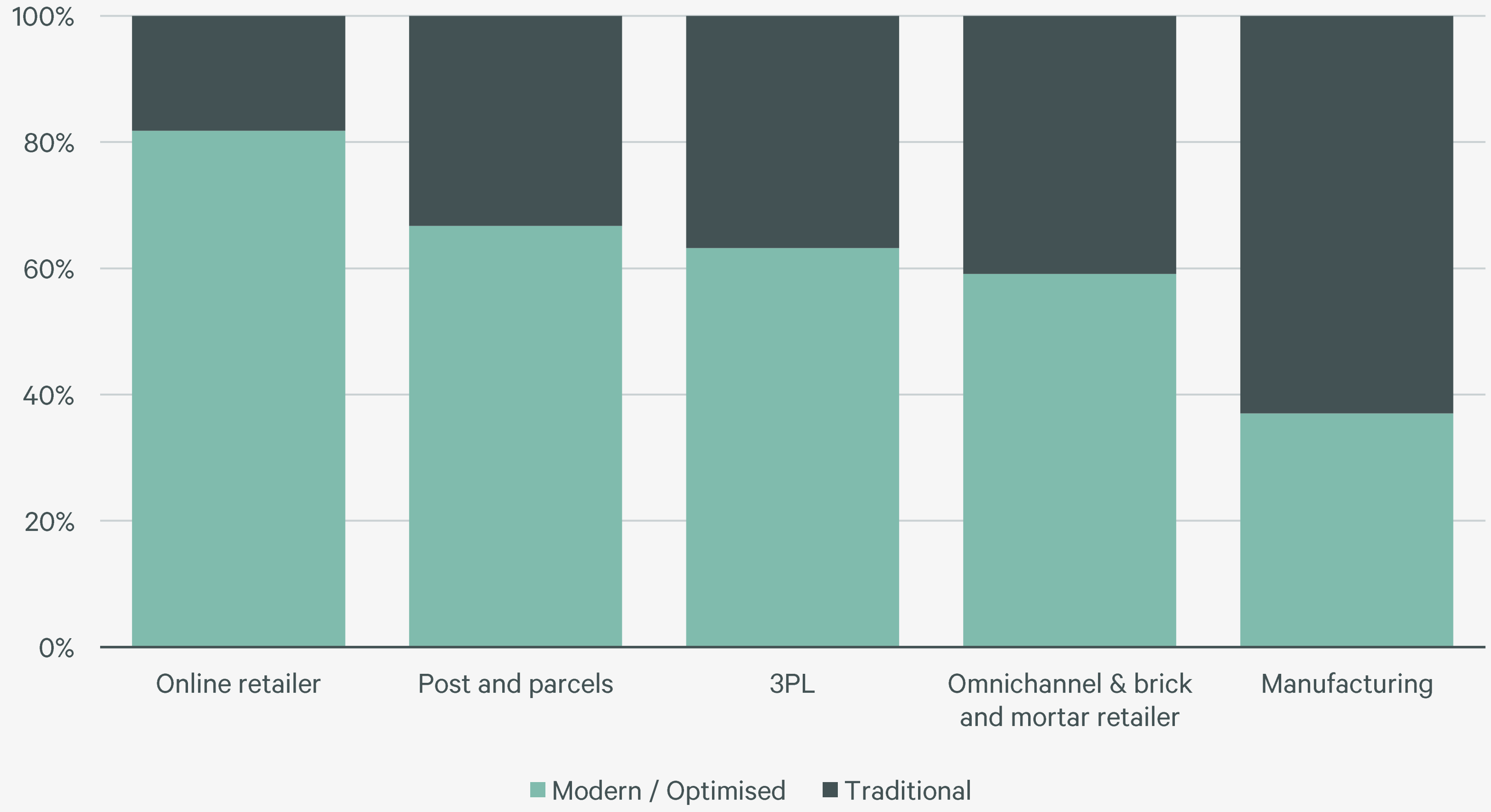
Source: Source: CBRE ERIX. Average of top 10 European logistics markets

Building preferences: focus on optimisation

Which **types of units** do occupiers prefer for their expansion in the next three years?

Logistics occupiers express a preference for modern and optimised warehouses over traditional sheds when it comes to their future space requirements. This preference is strongest among **online pure play retailers, post and parcel operators,** and **3PLs**. This preference links to the future-proofing of their logistics network, where modern and optimised warehouses are seen as more capable to adapt to future changes in their configuration, operations and needs. However, a majority of **manufacturers** prefer **traditional warehousing**.

Figure 17: Occupiers' preferences for expansion over the next three years: modern and optimised vs traditional facilities



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

04

Sustainability considerations

Sustainability considerations

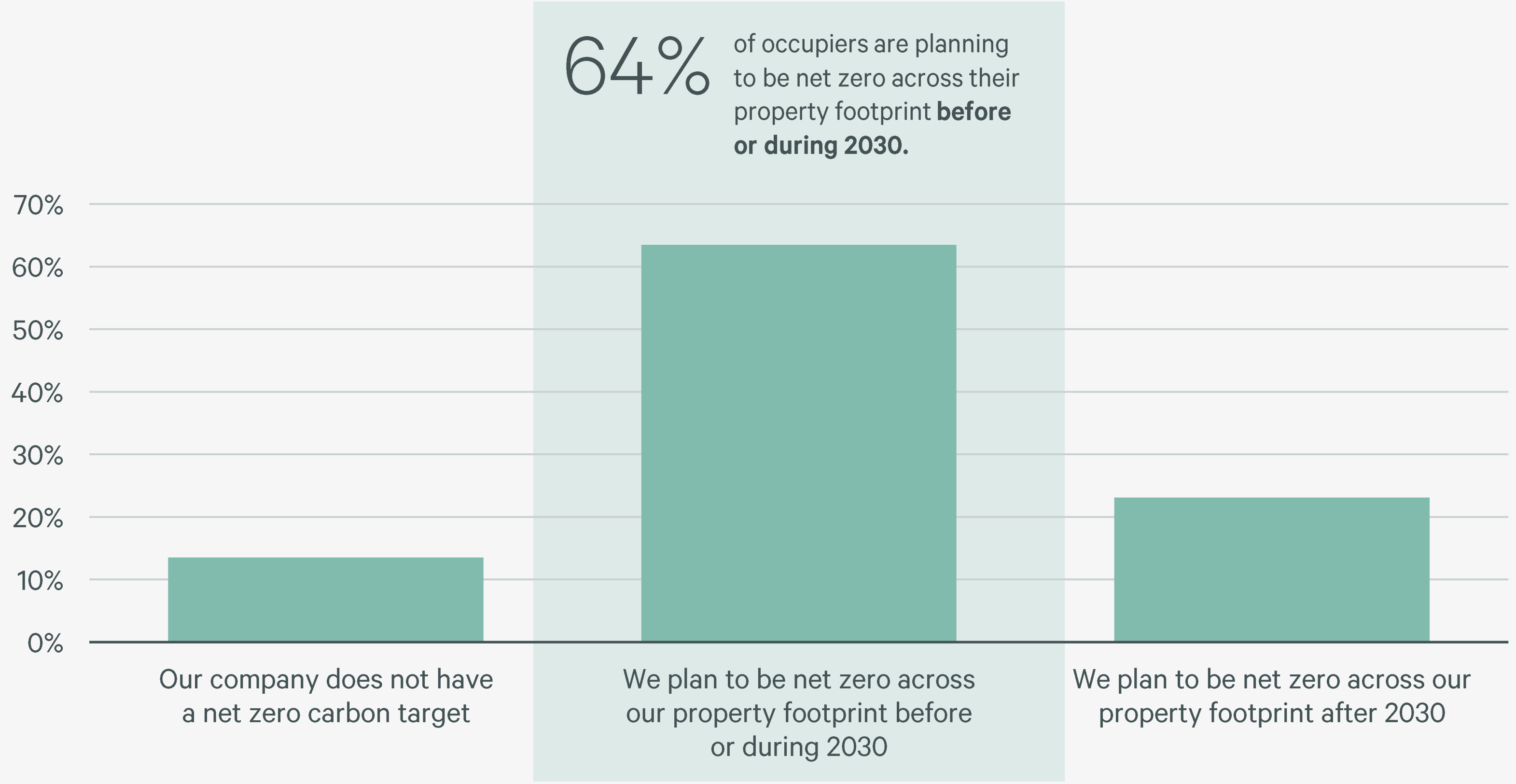
When are occupiers planning to reach their **net zero** carbon property footprint?

The results were aligned with other CBRE surveys in showing that occupiers have relatively ambitious timings for their sustainability targets. This might be aided by the fact that lease terms are generally shorter than the average holding period for investors.

> The short-to-medium-term availability of net-zero aligned warehouses could be largely driven by demand pressure from occupiers more than by investors' own sustainability targets.

Allan Wickham
Head of Occupier Sustainability, UK

Figure 18: Percentage of occupiers based on the timings of their net zero carbon targets



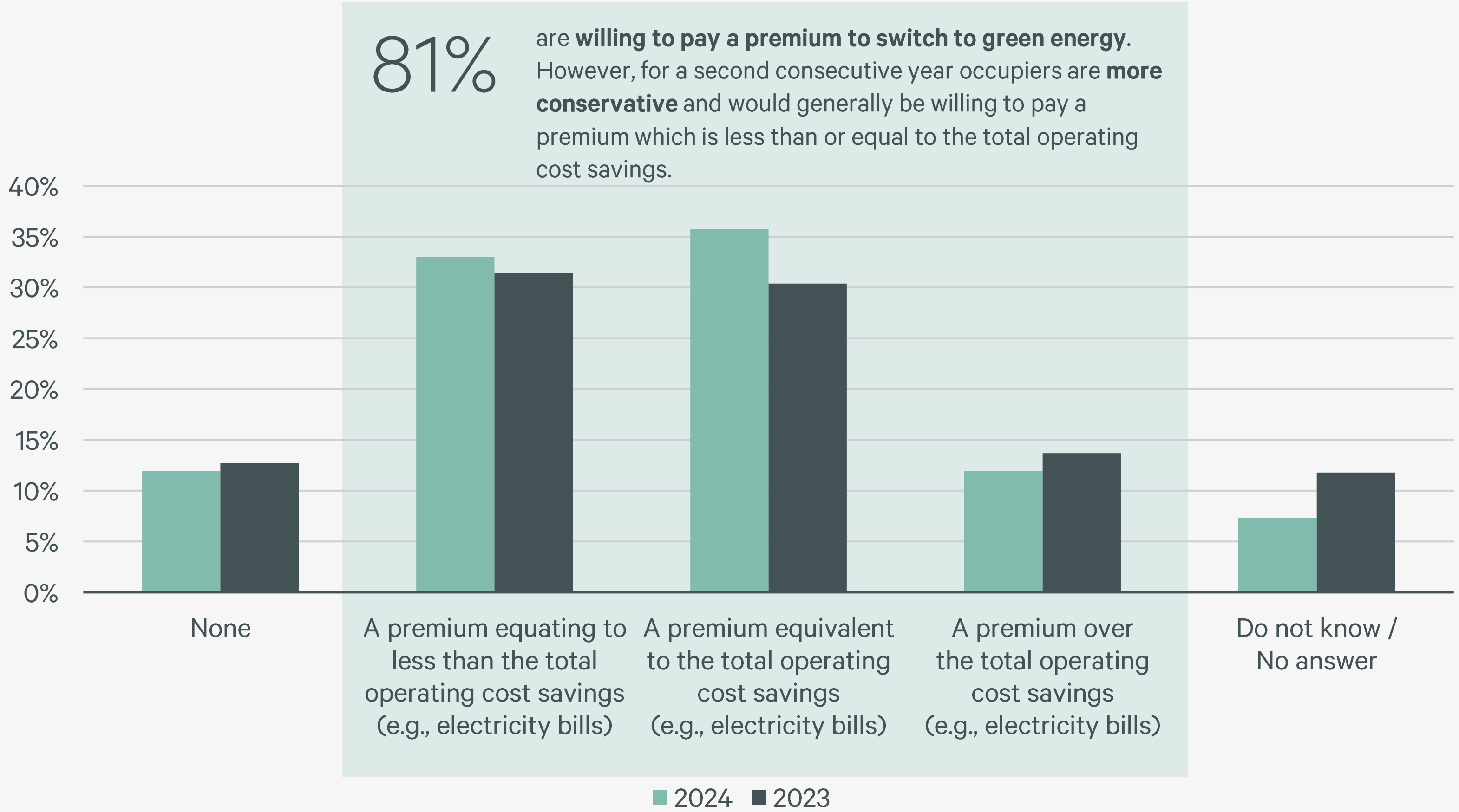
Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Sustainability considerations

For existing facilities, what **rent premium** would respondents be willing to pay **to switch to green sources of energy?**

An increasing majority of logistics occupiers are willing to increase their rent on existing buildings in order to switch to green sources of energy. At the same time, they are also increasingly pressurised by cost-saving initiatives and would like to see an overall saving out of the transition to green sources of energy. The appetite to switch existing facilities to green sources of energy is also connected with the potential obsolescence of warehouses previously highlighted by occupiers.

Figure 19: Rent premium to switch existing buildings to green sources of energy



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Sustainability considerations

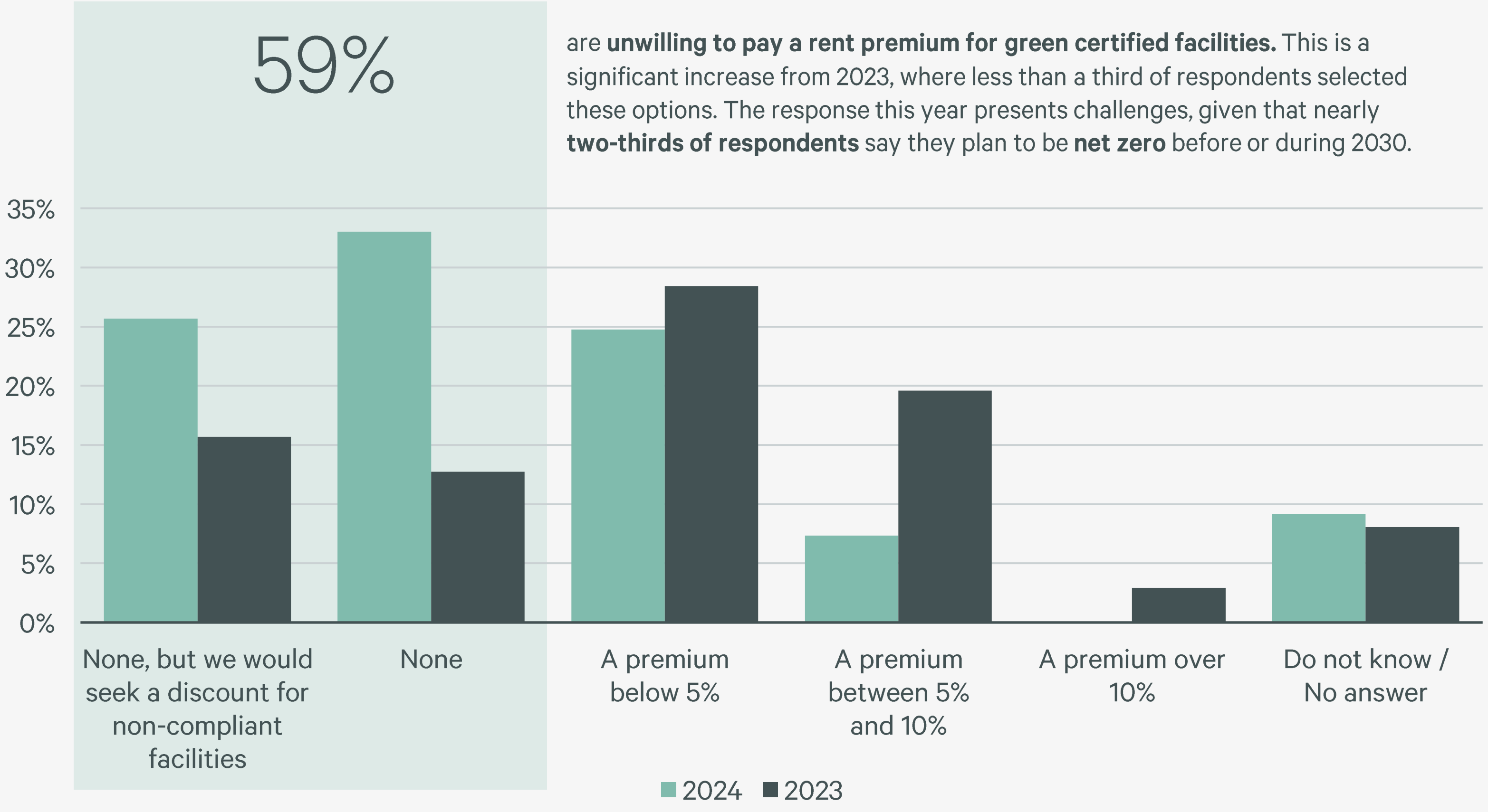
For new warehouses, what **rent premium** over regular market rent would respondents be willing to pay **for a green certified facility?**

Occupiers are increasingly unwilling to pay a rent premium over market rent for new green certified facilities, with over a quarter of occupiers now seeking brown discounts for non-compliant facilities.

> Occupiers are increasingly savvy in their search for sustainable buildings. This result could indicate that green building certifications are seen as a non-negotiable, and therefore expected to be incorporated in prime market rents. It could also indicate that occupiers are using more specific criteria in their property decision making, not just certificates.

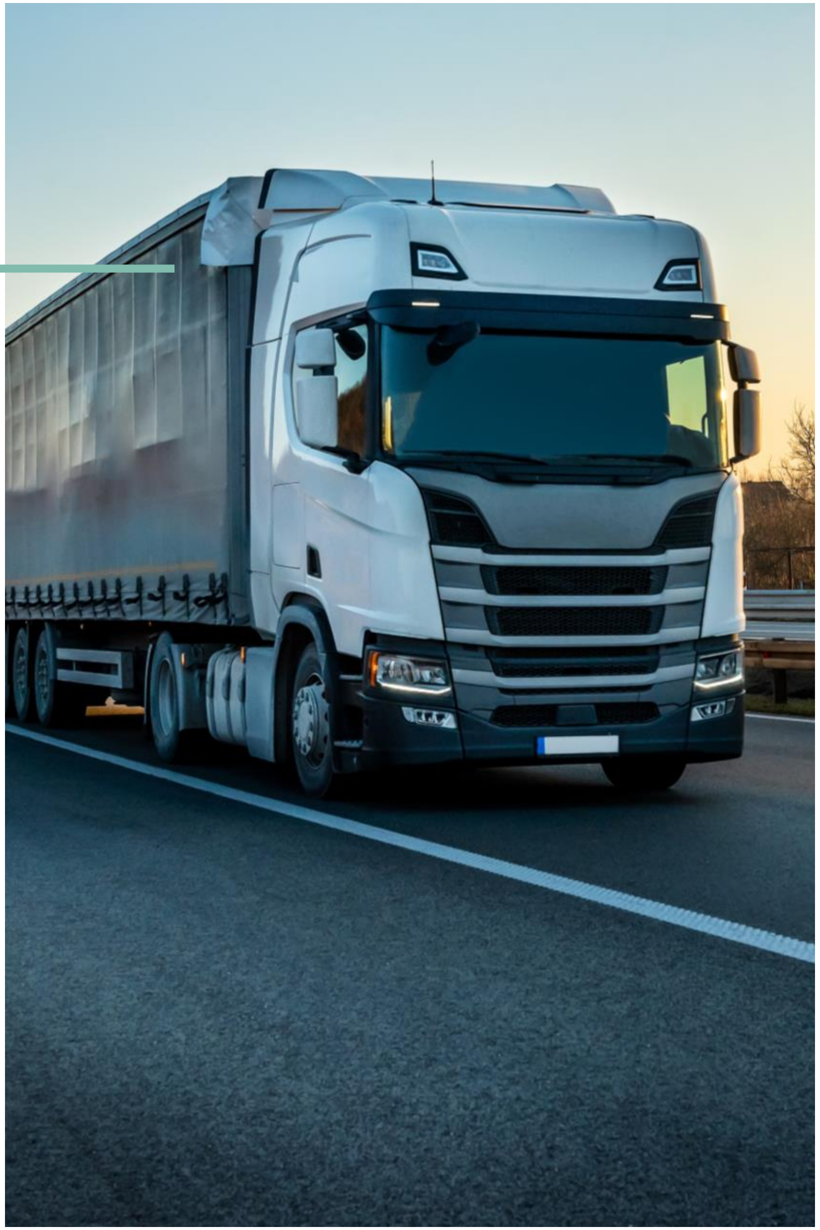
David Maguire
Head of Occupier ESG, CE

Figure 20: Rent premium over market rent for a green certified facility



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024)

Report summary



01

Space requirements will remain subdued during 2024, but more than half of occupiers plan to expand over the medium-term.

02

3PLs continue to lead medium-term expansionary demand, followed by omnichannel & brick and mortar retailers.

03

Cost escalation is the top challenge for occupiers, both in terms of real estate (rent) and broader business factors (energy and labour).

04

Occupiers have become more demanding in terms of building preferences, as a result of higher vacancy rates and increased availability.

05

Obsolescence is a pressing issue, with nearly a quarter of space expected to become obsolete by 2030 without significant investment.

06

Despite ambitious net zero targets, fewer occupiers are willing to pay a rent premium for green certified facilities amid cost pressures.

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