

GERMANY

Industrial Market Snapshot

Second Quarter | 2017



MARKET INDICATORS

Market Outlook

Prime Rents:	Prime rents for large logistics assets are expected to hold firm across the key German hubs whereas rents for smaller distribution centres close to the cities will increase.	▶
Prime Yields:	Yields are expected to compress further, as demand is strong.	▲
Supply:	Speculative construction is increasing, availability of land is crucial.	▶
Demand:	Ongoing strong demand for good quality space, for letting and owner-occupation alike.	▶

Prime Industrial Rents – June 2017

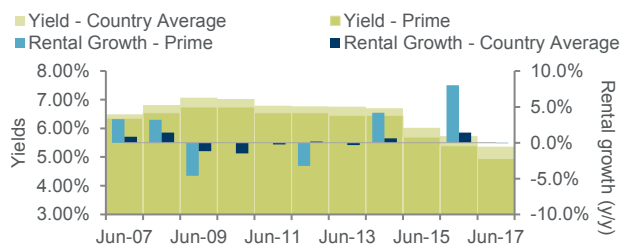
LOGISTICS LOCATIONS	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Berlin	4.70	56.4	5.85	0.0	-0.4
Frankfurt	6.00	72.0	7.46	0.0	0.0
Hamburg	5.40	64.8	6.72	0.0	0.0
Munich	6.75	81.0	8.40	0.0	2.4
Dusseldorf	5.40	64.8	6.72	0.0	0.0
Stuttgart	6.00	72.0	7.46	0.0	0.3
Cologne	5.00	60.0	6.22	0.0	0.0
Leipzig	4.00	48.0	4.98	0.0	0.0

Prime Industrial Yields – June 2017

LOGISTICS LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Berlin	5.35	5.45	5.70	7.25	5.35
Frankfurt	5.15	5.20	5.55	6.90	5.15
Hamburg	5.20	5.30	5.60	7.30	5.20
Munich	4.95	5.10	5.40	6.75	4.95
Dusseldorf	5.25	5.35	5.60	7.05	5.25
Stuttgart	5.35	5.50	5.85	7.40	5.35
Cologne	5.35	5.50	5.80	7.05	5.35
Leipzig	6.05	6.05	6.40	7.40	6.05

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Germany's economy is performing well with 0.6% y-o-y growth in GDP in Q1 and a buoyant sentiment among German businesses in Q2: The ifo business climate hit a new record at the end of June with companies also expecting business to improve further. Industrial output has increased month by month and from January to May, international trade was stronger than in the same period of 2016. Solid private consumption and growth in e-commerce are supporting the industrial sector. The occupational sectors report robust activity and investment activity is outperforming.

Occupier focus

Demand for industrial space remains at a high level, both from owner occupiers and tenants. As a number of speculative construction projects have been completed or are ongoing, supply of modern space improved, however, not every individual large-area requirement can be fulfilled and the majority of take-up is still via pre-lets and building for owner occupation. Availability of land for logistics purpose remains very limited and land prices are increasing. New large-scale distribution centres have to locate outside the main economic hubs whereas older stock and light industrial buildings close to or in the economic hubs attract occupiers requiring smaller warehouse and distribution spaces to ensure same-day delivery. Cosmetics firm L'Oréal signed the largest lease of Q2 for 90,000 sq.m to be built by 2018 south of Karlsruhe and close to the A5 motorway.

Investment focus

As expected, Q2 saw the largest-ever industrial transaction in Germany with Blackstone exiting from its Logisor platform whereby 74 light-industrial assets in Germany were sold to China Investment Corporation for almost €2 bn. Two other large-scale portfolios changed hands with an aggregated value of €900 mn reflecting the strong interest of investors in industrial assets. Yields compressed further and are expected to remain under pressure over the remainder of 2017.

Outlook

Industrial production and international trade are expected to keep their strong level in the second half of 2017 and e-commerce will maintain its strong upward trend pushing retailers and online traders to optimize their distribution networks. This will also offer opportunities for investors.

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