EURO LOGIX

CREDIBLE THINKING

MIPIM & the European Logistics Market

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On the back of our most successful and well attended Eurologix event, with over 550 market participants mingling alongside our co-sponsor clients Prologis, Tritax and Oxenwood, we thought it would be fitting to summarise our view on the current dynamic of European Logistics market.

Amid announcements about the collapse of SVB and the offer of a bailout for Credit Suisse, Investor sentiment at MIPIM felt surprisingly buoyant, with a mood of "purposeful optimism," especially when compared with last year's EXPO conference when sentiment was overshadowed by the fallout from the 'Kamikwasi' mini budget and a sudden increase of 75bps in the ECB interest rate to 1.50%.

Rates in Europe have since climbed to 3.00% but compared to last October there seems to be less interest rate anxiety and more clarity about the likely future condition of the funding market albeit Credit Suisse and SVB are testing this theory.

The MIPIM consensus is that this is not 2008 replaying itself. There is adequate liquidity in the debt market, the equity market is flush with firepower, and logistics vacancy rates continue to fall. The strength of demand in the occupational market is unlikely to change given the lack of new development and record levels of take-up, driven by the clear structural change in the way we consume products and services.

Against this backdrop DTRE strongly believe that logistics rents in Europe are structurally "under-priced" especially in the major European conurbations. For example, London logistic last mile prime rents are 5x higher than equivalent Paris prime rents.

Despite the health of the occupational market, the volume of tradable stock remains very low. With c.$45bn raised globally in the last two years specifically for Logistics there is a mismatch between supply of stock and capital demand, partly driven by Vendor reluctance to accept the new pricing norms driven by the shift in interest rates and Bond pricing.

This is perhaps a more acute issue in Europe than in the UK. European owners appear not as accepting of the changing pricing climate and are adopting more of a 'wait and see' approach. Consequently, pricing has not rebased as quickly as the UK and the USA where the brokerage community, which fosters data sharing and greater transparency, has enabled the market to reset more quickly. Additionally, over the last 6 months, increased redemptions from the UK Retail Funds required some tactical selling which quite brutally, exposed the rebased market pricing. This hasn't happened in Europe.

This temporary lull in the market, has given investors time to review their portfolio allocations, geographic spread and asses where the growth opportunities lie. European logistics markets are broadly less mature than the UK with lower online sales penetration, lower rents, and overall, less future proofed stock. We see these circumstance as a significant opportunity for our investor and developer clients to voyage into new markets.

In summary, DTRE's key takeaways from MIPIM are:

- Logistics, along with alternative sectors, including Life Sciences, are go-to sectors for our clients;
- This isn't 2008. We are not on the cusp of a new GFC;
- Yield compression in the UK for Prime product in Q1 23;
- Pricing in most European markets not rebounding as quickly as UK;
- Rents in Europe have some catching up to do;
- The pause in market is helping Investors re-strategise and explore new geographies.

DTRE, along with our sponsors, look forward to welcoming you back to Eurologix next year, where we see the sentiment and party improving once again.

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