

PROLOGIS RESEARCH SPECIAL REPORT | June 2021

Logistics Real Estate Supply: The Forces Governing Supply

"This Special Report shows that barriers to new supply in Europe are significant and rising in the face of strong demand. These challenging market circumstances will pose opportunities for developers that prioritize added value including, labour future-proof solutions and ESG."

Dirk Sosef
 Vice President Research & Strategy



Research extract

Barriers to logistics real estate supply are significant and rising. Over the next decade, completions are expected to fall short of demand in most locations within Europe. The latest Prologis Research identifies significant geographic, economic and political barriers to new supply.

Notably land scarcity will be a key challenge, especially in the largest consumption centres like London and Paris and while replacement costs continue to trend upward urbanization is driving competition among real estate providers. As of first quarter 2021 replacement costs in Europe have risen an estimated 8-10% year over year. Land has risen around 10-15%, and in core Western European markets core land has risen between 50-100% in the last 12-18 months.

Permitting and entitlement processes have already become harder and are more expensive and time-consuming than ever. In Europe alone, Prologis Research has calculated that development lead times for projects in need of rezoning are roughly double that of projects already located in industrial zoned land.

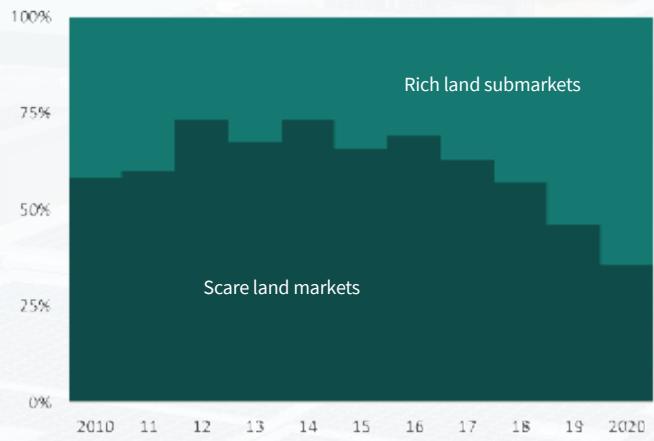
Proprietary data also points toward building requirements and costs continuing to rise. Concerns around labour remain and emphasize the need for facility improvements that focus on worker wellbeing, such as the WELL standard.

Ahead

While rising value in well located and well designed buildings will justify more 'creative' real estate solutions, the structural shifts in the logistics real estate development industry will likely continue to limit the amount of new supply delivered to meet the future supply chain needs of customers.

With this in mind, scale development and the benefits which arise from it, innovation and the ability to advance sustainability goals will continue to be differentiators for logistics properties.

Starts allocated by scarce and rich land markets¹

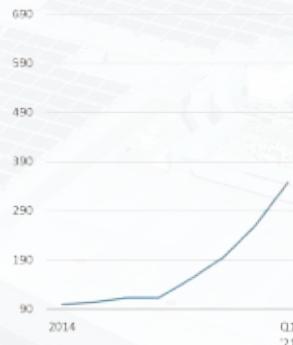


Source: Prologis Research, CBRE, JLL, C&W, Gerald Eve. Allocation based on market vacancy in given year for 'scarce' (below pan-EU vacancy) and 'rich' (above Pan-EU vacancy) markets

Spiking land values led to strong rent growth in key markets

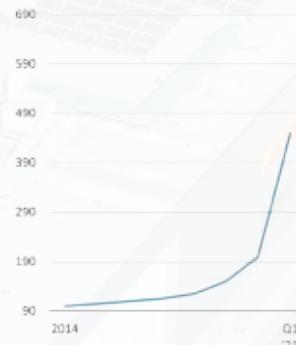
Duesseldorf (DE)

Land value, indexed to 100 in 2014



Rotterdam (NL)

Land value, indexed to 100 in 2014



Source: Prologis Research

Research key takeways

- Significant barriers to new supply are of geographic, economic and political nature
- Building requirements are increasing and as a result so are construction costs
- Differentiation among properties is widening and leading to rents becoming higher
- Importance of site selection is slowing functional obsolescence near end consumers
- Lack of logistics talent can constrain development in land-rich areas
- Buildings need to be labour-friendly
- Building design features need to accommodate new technologies
- ESG features are an emerging differentiator and add proven value
- Differentiation among properties is widening

Read the full research »

Further questions and interview requests?

Please contact:

David de Smit, Bright8, david@b8.nl