

THE GLOBAL OUTLOOK – CHALLENGES AND OPPORTUNITIES

THIERRY MALLERET
Managing Partner



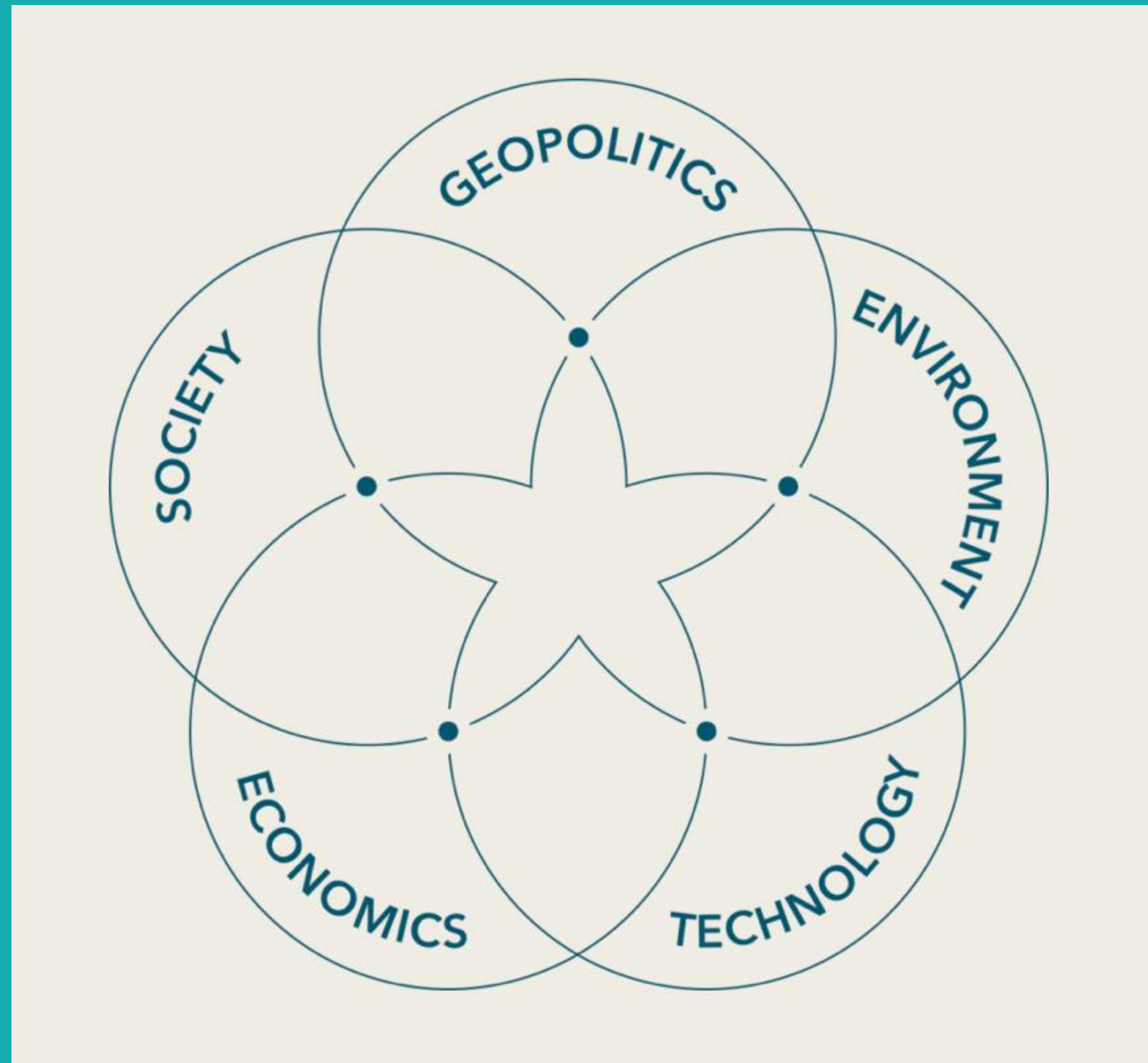
Monthly Barometer - Summit of Minds



ShedMasters

27 June 2024

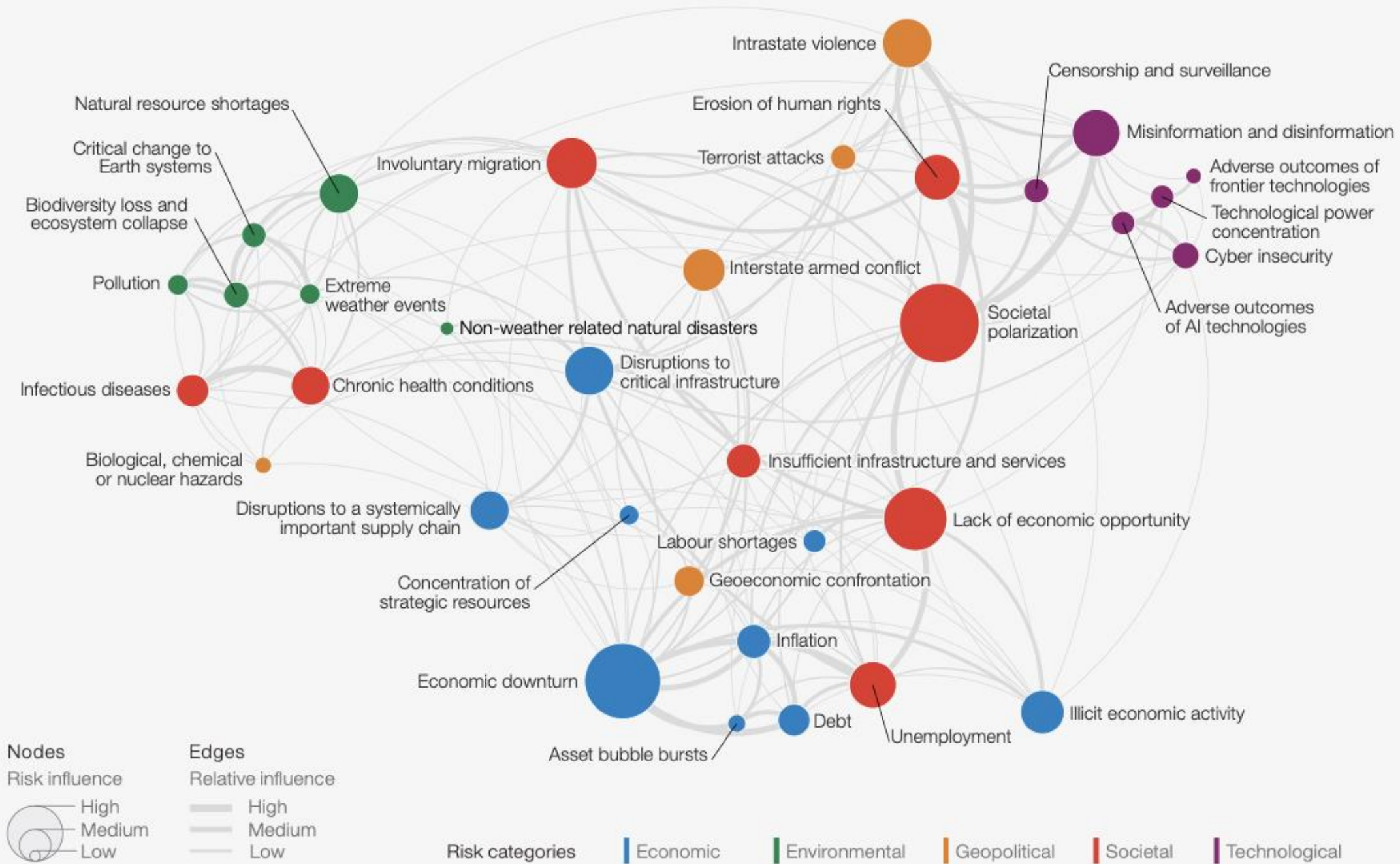
5 MACRO CATEGORIES THAT AFFECT ANY BUSINESS NOT A CRYSTAL BALL BUT A USEFUL PRISM



- Intertwined and interacting
- Conflating with each other
- Cascading effects

RISK LANDSCAPE

INTERCONNECTEDNESS IS THE DEFINING FEATURE



Source
 World Economic Forum Global Risks
 Perception Survey 2023-2024.

GLOBAL MACRO OUTLOOK

WHAT ARE THE TRENDS?

- **ECONOMIC:** good in the short-term, less so in the medium and long-term
- **GEOPOLITICAL:** conflicted and divisive
- **ENVIRONMENTAL:** worrying and disruptive
- **SOCIETAL:** fragmented, discord and retrenchment
- **TECHNOLOGICAL:** bright but disruptive

SOME CRITICAL TRENDS FOR THE LOGISTICS INDUSTRY

- Interest rates: UP (or rather “higher for longer)
- Near- and friend-shoring: UP
- Net 0 – green investment: UP
- Energy costs: DOWN (in the MT and LT)
- E-Mobility: UP
- Local and national governments: UP (rising importance, country and region dependent)

SELF-SUFFICIENCY IS THE WAY TO GO



Solar panels will power a hydrogen electrolyzer for clean transit buses in Montgomery County, Md. Computer rendering:
Courtesy of AlphaStruxure

PRACTICAL TAKE AWAY: LESSONS FROM COMPANIES THAT "EXCEL" AT DEALING WITH RISING MACRON VOLATILITY

- Understand that global risks develop and erupt in a non-linear fashion: i.e.: small causes can produce big effects
- Board and executive committee master "Contextual intelligence" and act as an effective "early warning system"
- Don't think in silos and value the power of networks as well as the strength of weak ties
- Diversity (of origin, of background of opinions) is valued
- Beware of pundits' opinion, seek the right kind of experts' judgement (Covid-19, Ukraine, Taiwan) - reputation matters more than information
- Think and act out of the box, like in Dubai's government with a Virtual Ministry of Possibilities
- Evidently, risks are considered both a threat and an opportunity!

The Savills logo, consisting of the word "savills" in a lowercase, sans-serif font, is positioned in the top right corner of the image. It is set against a solid yellow square background.

JUNE 2024

Logistics 2.0?



ShedMasters | 24
A M S T E R D A M

Our new LinkedIn Page



A screenshot of the LinkedIn profile header for Savills Industrial & Logistics. The header features a dark blue background with the text "SAVILLS INDUSTRIAL & LOGISTICS" in yellow. Below this, it says "Experts in providing an all-encompassing logistics and multi-let industrial service". The Savills logo is on the left. The profile name "Savills Industrial & Logistics" is displayed in large black text, with a bell icon to its right. Below the name is the tagline "Providing an all-encompassing logistics and multi-let industrial real estate service." and "Real Estate · 1,972 followers". A small profile picture of a woman is shown next to the text "Bridget & 980 other connections follow this page". At the bottom of the header are three buttons: "Following" (with a checkmark), "Visit website" (with an external link icon), and "More". The navigation bar at the very bottom shows "Home", "About", and "Posts" (which is underlined and highlighted).



Taking stock



Taking Stock:
Capital Markets Quarterly
Logistics Q1 2024



“The European logistics market is entering not just a new chapter, but something more akin to an entire new book in a series.

Logistics 2.0.”



Marcus DeMinckwitz
Head of EMEA logistics

“Providing there is little deviation in the outlook for interest rates, the pricing correction from a yield perspective is now likely done across much of Europe.”



Oliver Salmon
Global Capital markets
research

An improving outlook?



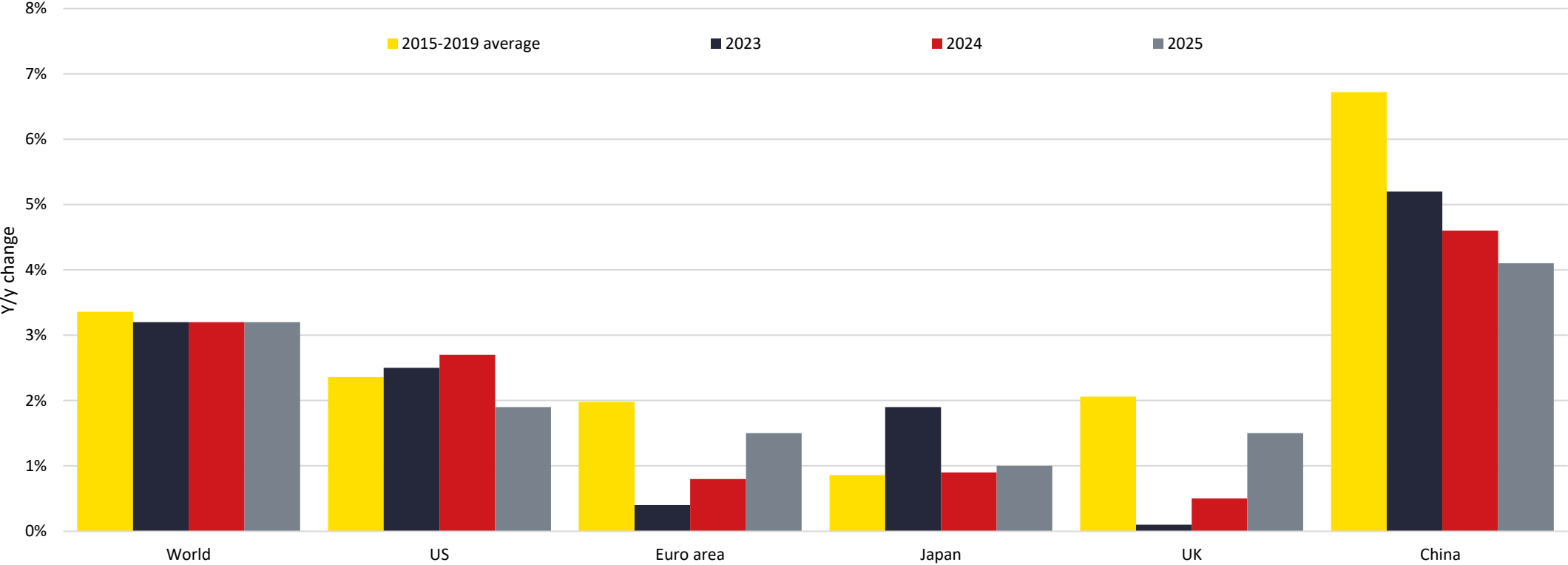
01 | Are the economics improving?



It would seem there is a path to a “soft landing”



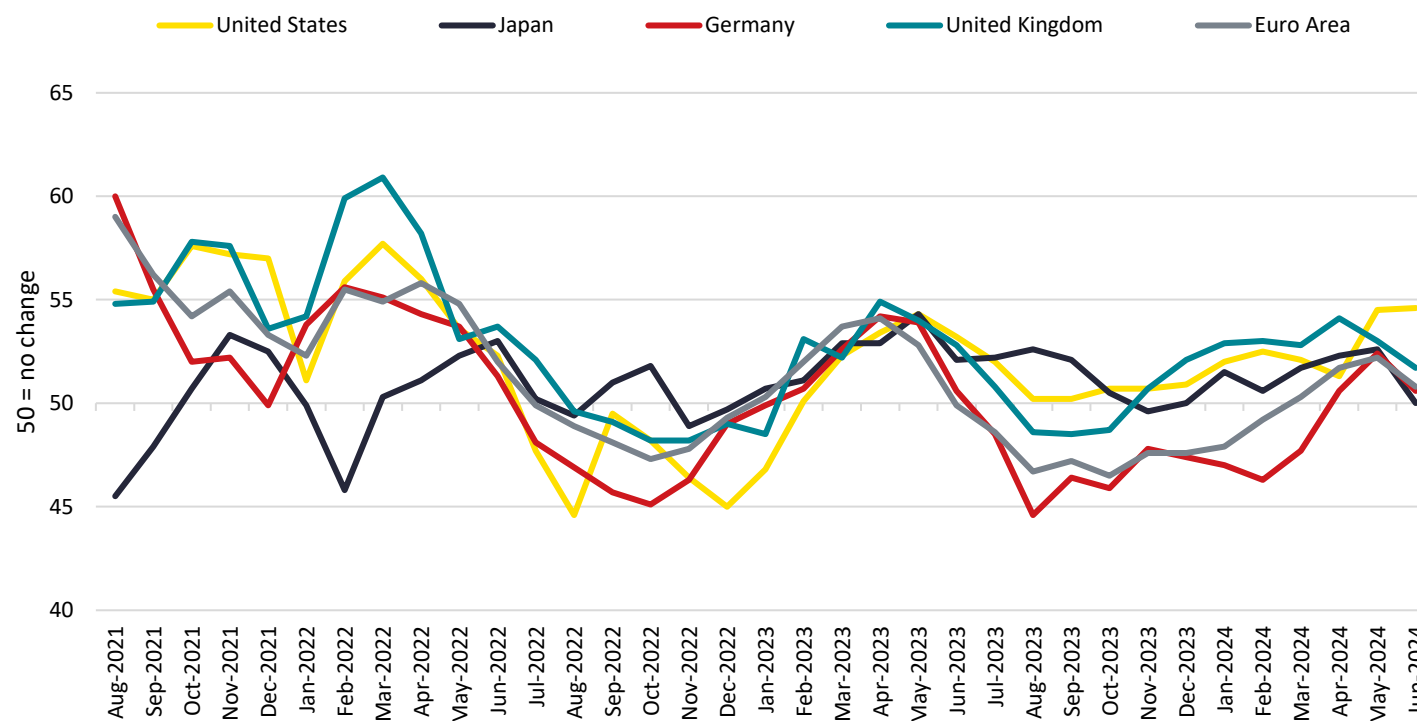
IMF economic growth forecasts



Source: Savills Research using Macrobond



The global economy remains resilient, with PMI data providing evidence of a momentum shift in the first quarter

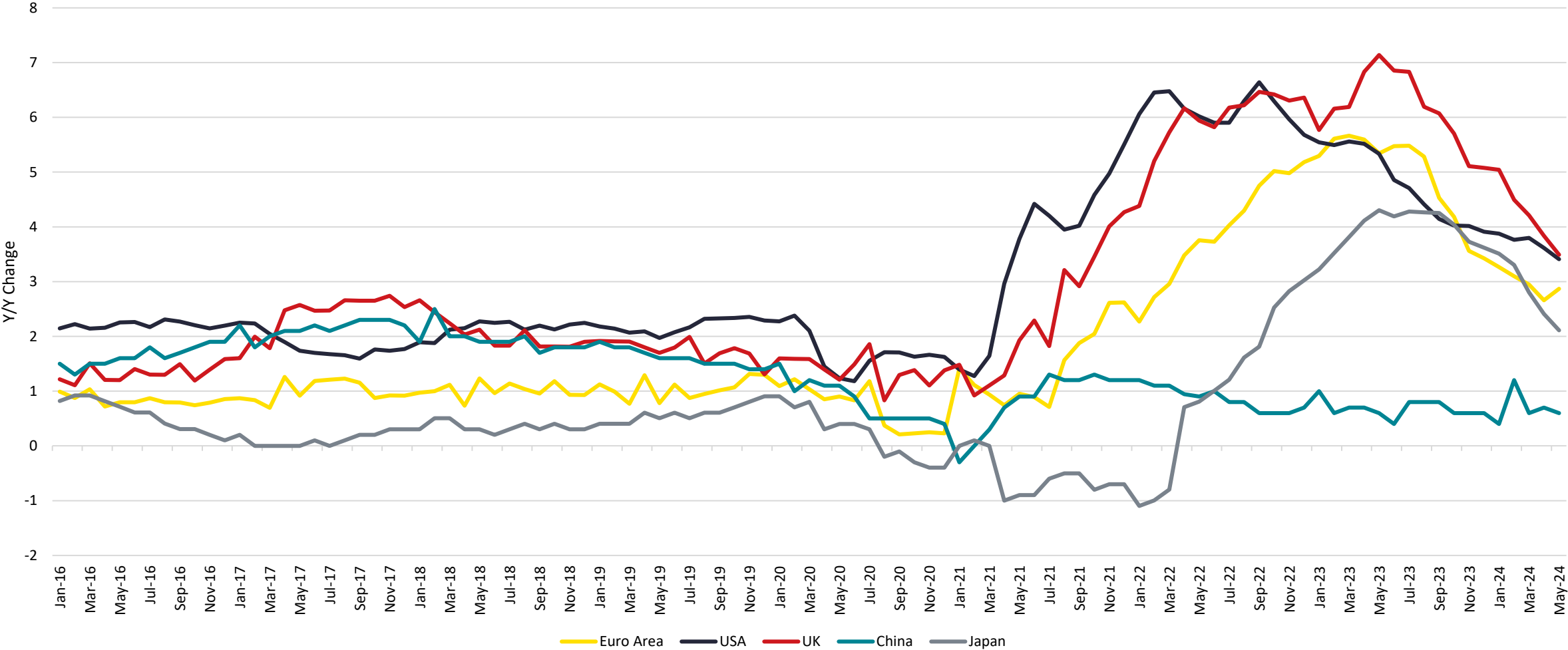


- PMI data now provides evidence of a momentum shift in the first quarter.
- Stronger-than-expected growth, primarily in the US has tempered expectations of rate cuts.
- Markets now expect fewer cuts this year, starting later than previously anticipated.

Inflation is trending back to target

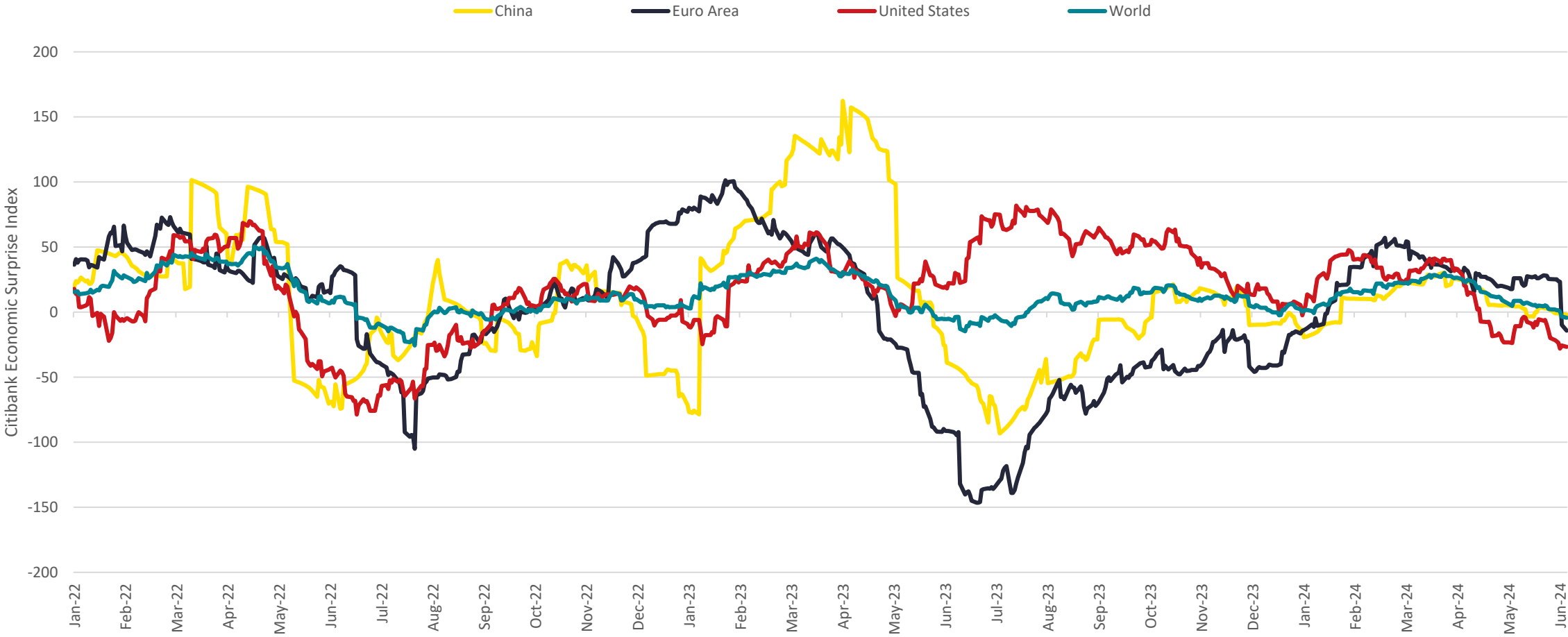


Core Inflation



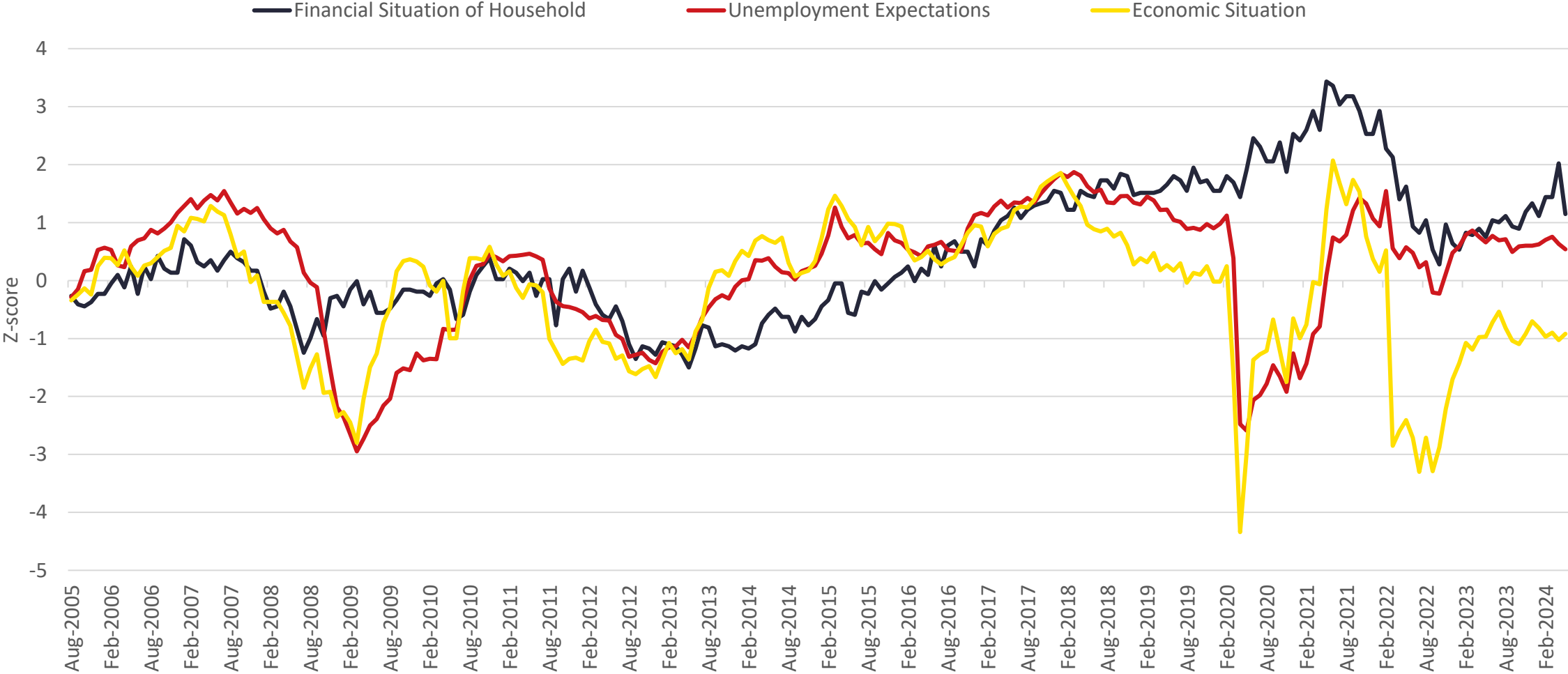
Source: Savills Research using Macrobond

There has been more positive economic surprise in 2024



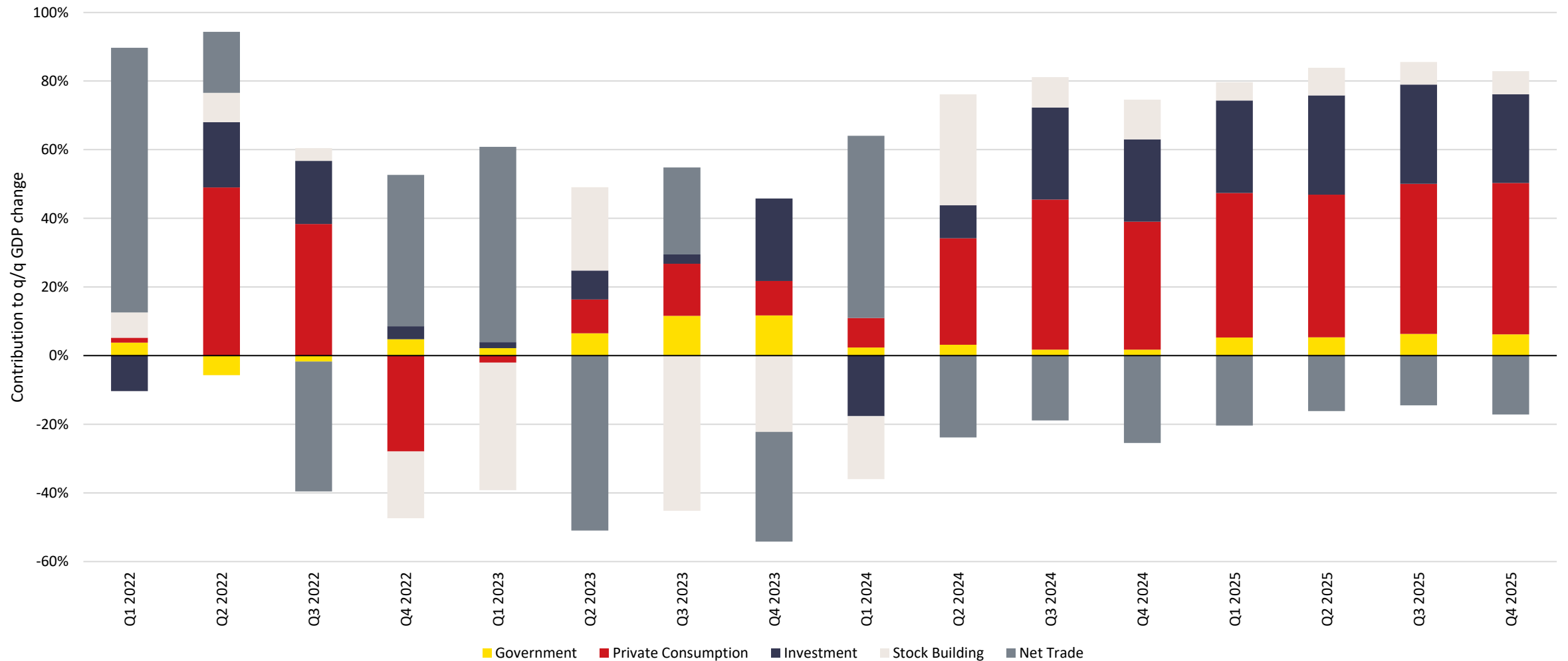
Source: Savills Research using Macrobond

Consumer confidence remains robust



Source: Savills Research using Macrobond

The good news is that private consumption is a strong driver of GDP growth

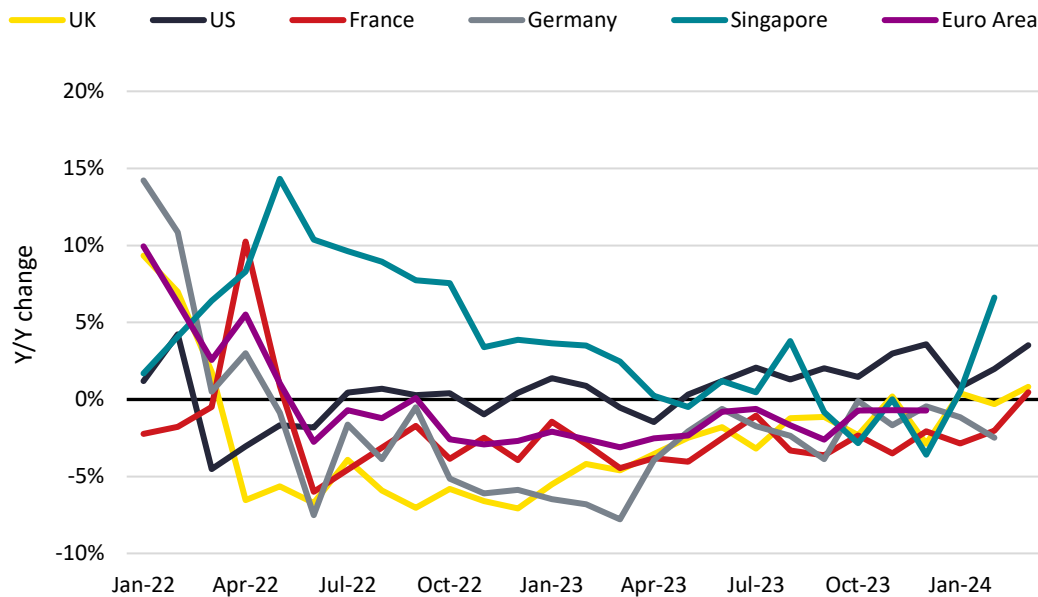


Key logistics indicators are heading in the right direction

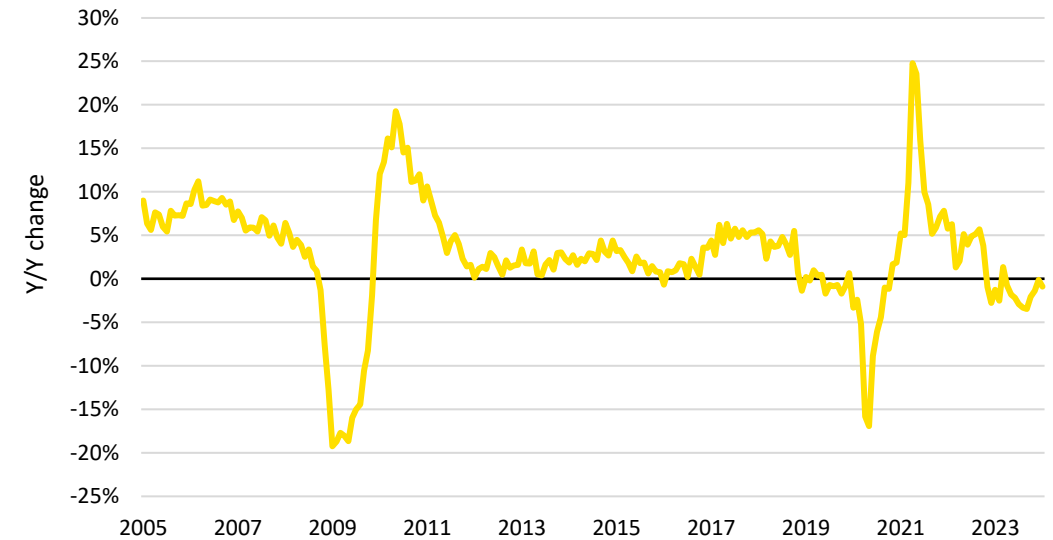


Retail sales are trending upwards

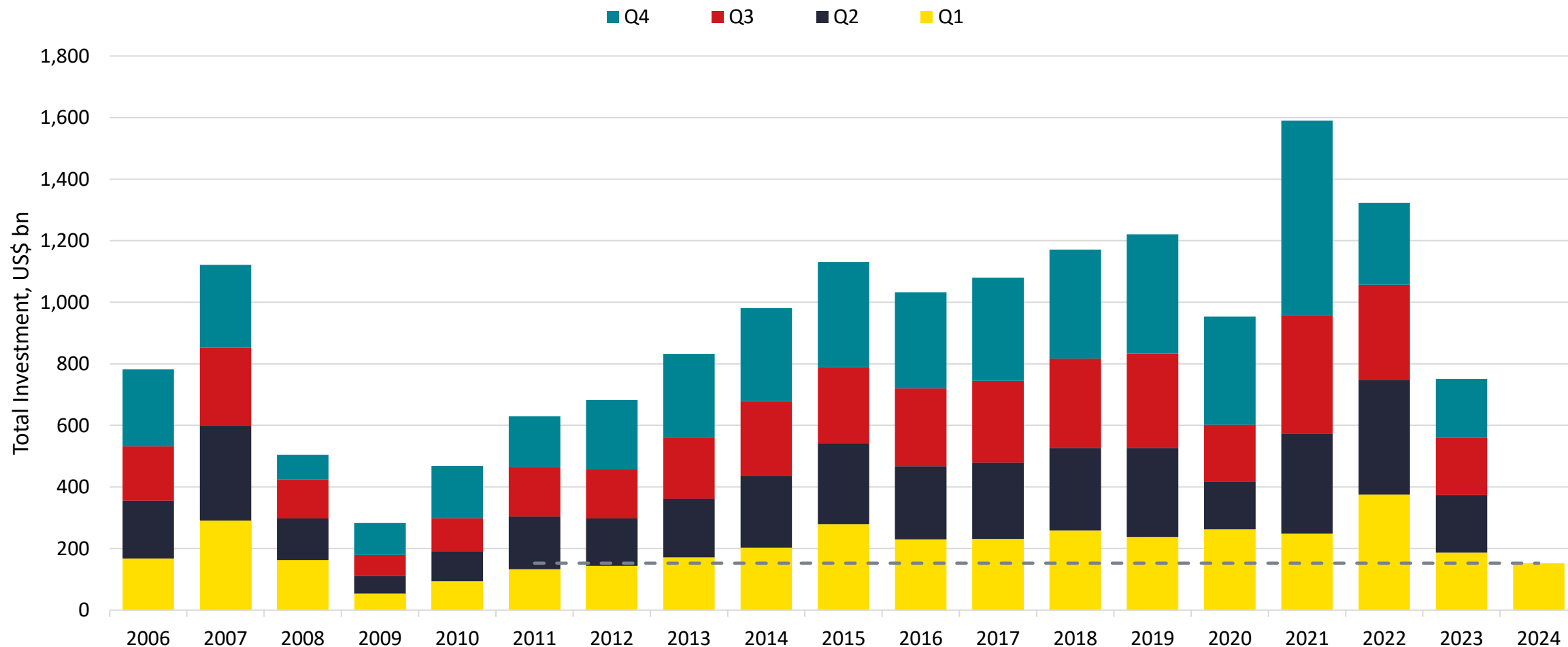
As is global trade



World Trade Monitor, Global Trade Volumes



Despite all of this it's the **slowest start to a year since 2012** for global capital markets



Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.

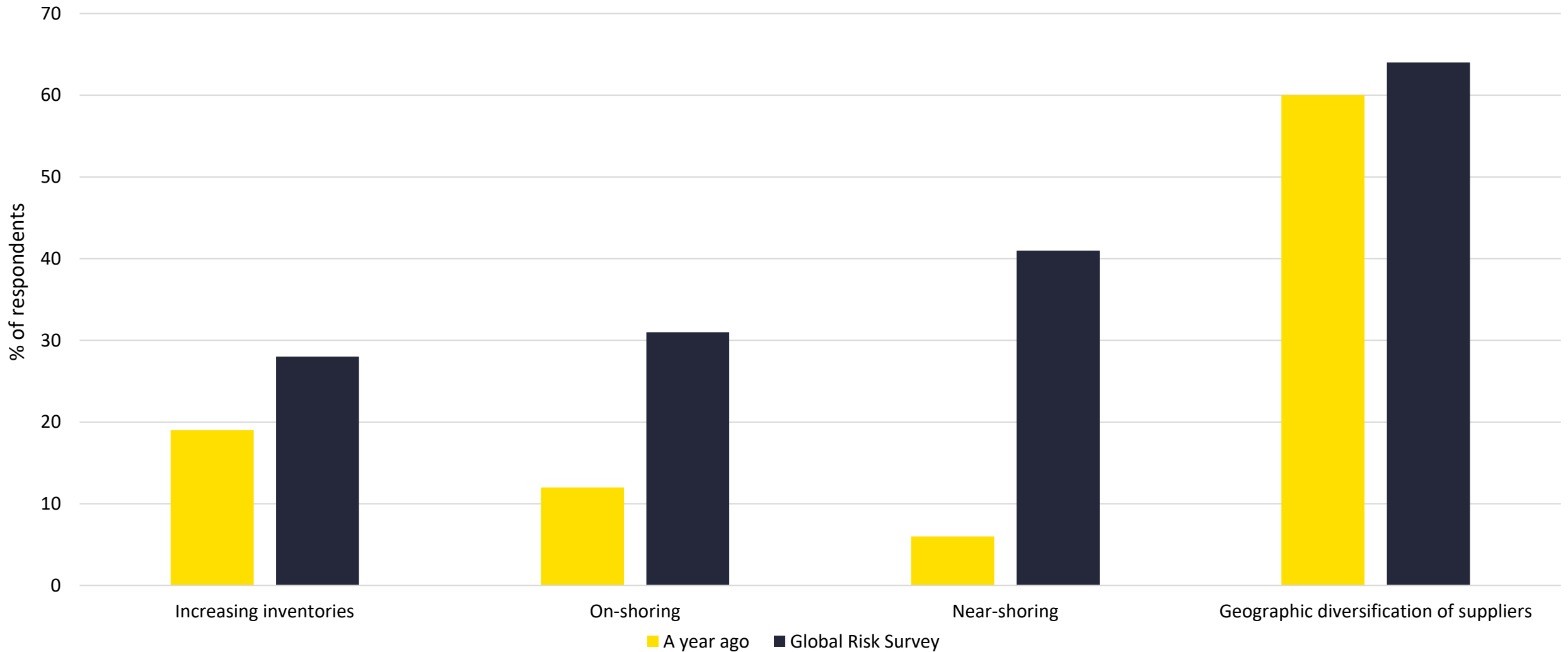
02 | Market drivers



Global Supply Chain Disruptions



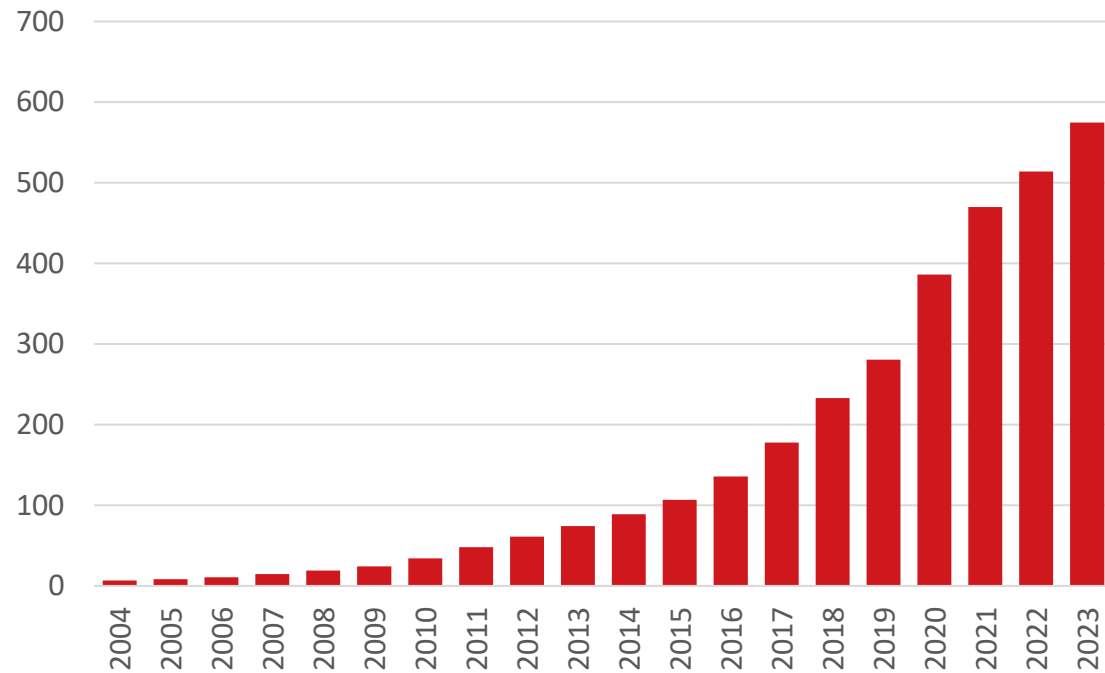
What steps are you taking to improve supply chain resilience?



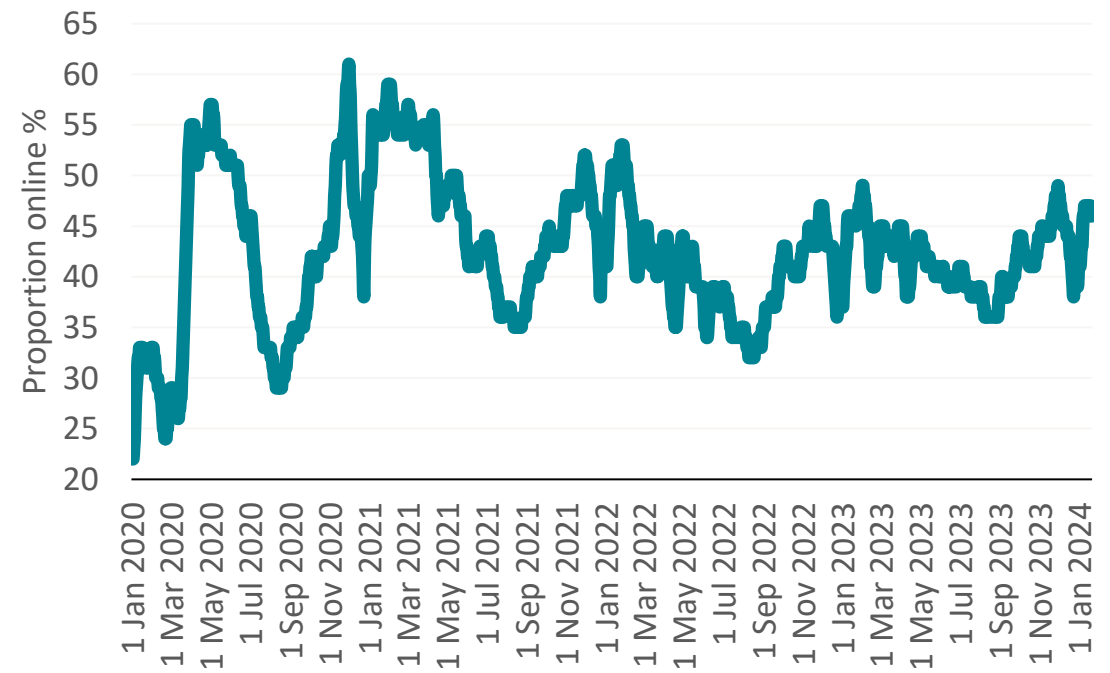
eCommerce is set for sustained growth due to demographic trends



Amazon retail sales continue to grow, Q124 was 12.5% higher yr/yr

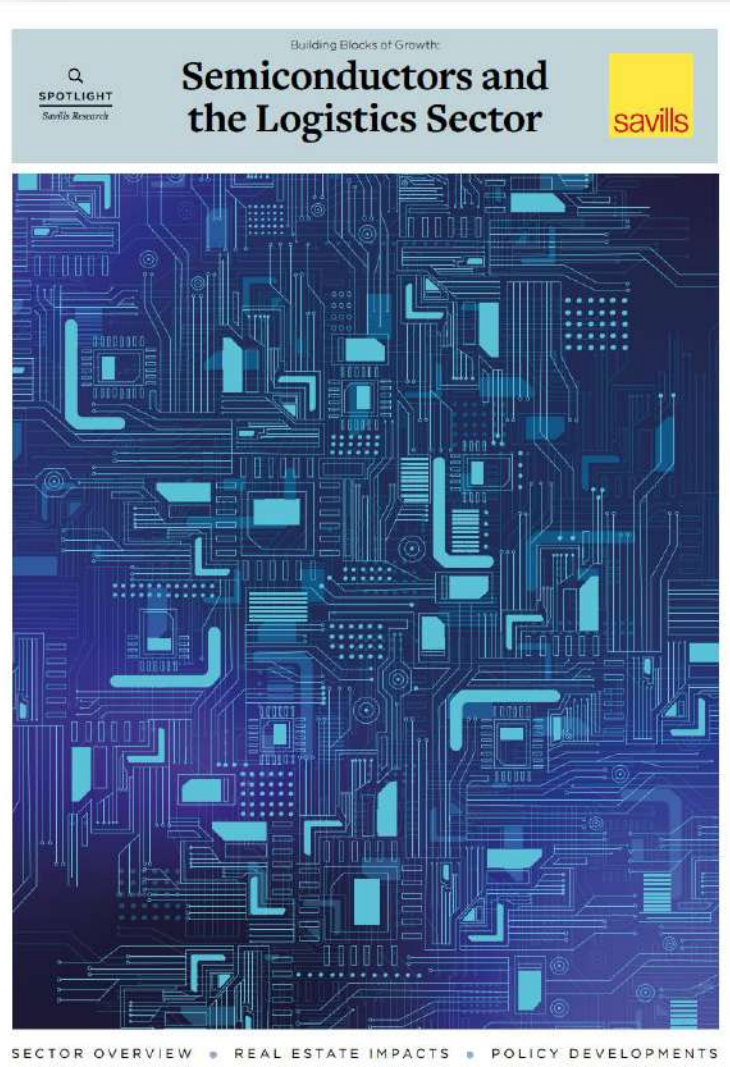




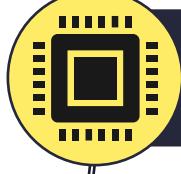

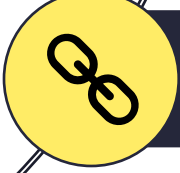
Data from Revolut shows greater eCommerce penetration



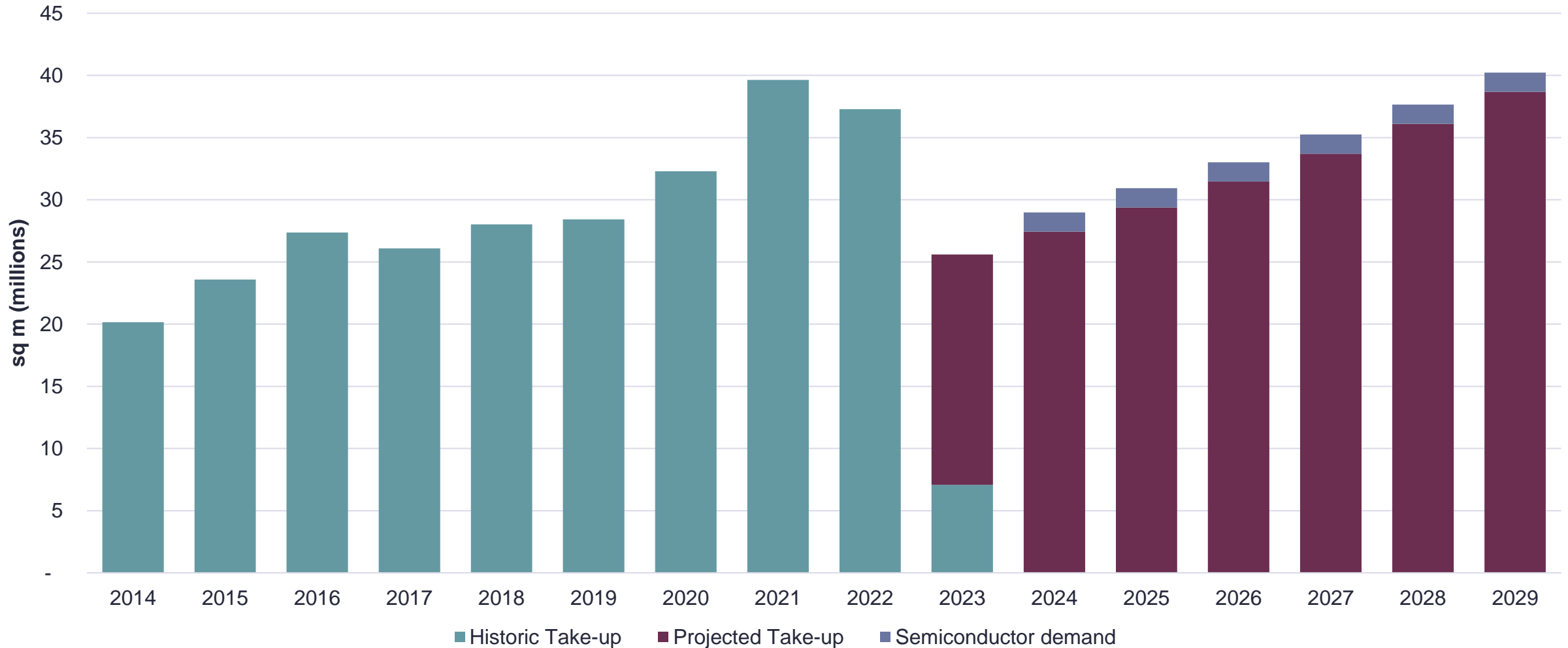
Source: Savills Research using Statista and ONS

How will semiconductor production impact the sector?



-  Strengthen Europe's R&D Leadership towards smaller and faster chips
-  Put in place a framework to increase production capacity to 20% of the global market by 2030
-  Build and reinforce capacity to innovate in the design, manufacturing and packaging of advanced chips
-  Address the skills shortage, attract new talent and support the emergence of a skilled workforce
-  Develop an in-depth understanding of the global semiconductor supply chains

How will this affect the logistics market? **11m sq m of new demand by 2028!**



The data-centric frontier



The European AI market will reach €76.5bn this year, up by 25.9% compared to 2023, then 16% growth p.a to 2030

Power capacity is projected to rise to approximately 13,100 MW by 2027, reflecting a 27% increase.

Bandwidth usage in Europe is projected to rise by 31% until 2030.

AI's **meteorite** impact on the DC industry

- Cutting-edge facilities to host and manage deep learning and complex algorithms
- Heavier building infrastructure requirements such as increased floor loading capacity to house specialised hardware, taller floor height to accommodate specialised cooling system
- Larger facilities to accommodate larger server farms and enhanced storage capacities
- **Decentralised network facilities as AI data centres are location-agnostic.**
- AI can also enhance data centre management and improve cost efficiency by dynamically allocating computing resources based on real-time demand



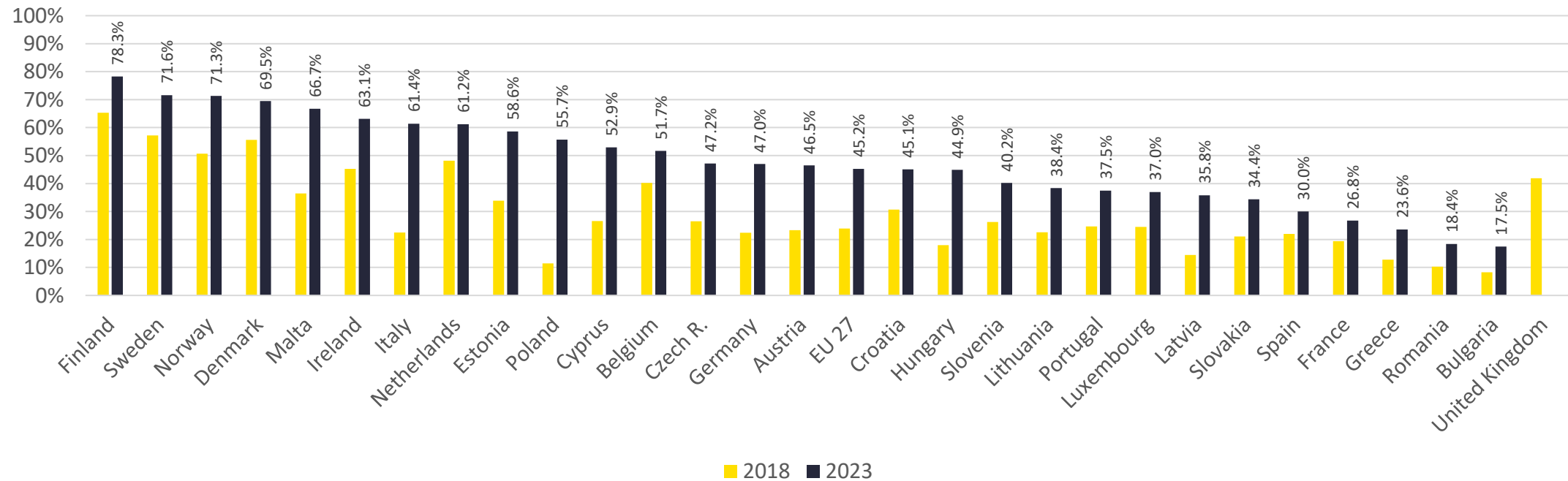
500 real estate professionals listening to a presentation on logistics from someone who looks like a hobbit



The cloud is delivering a digital transformation

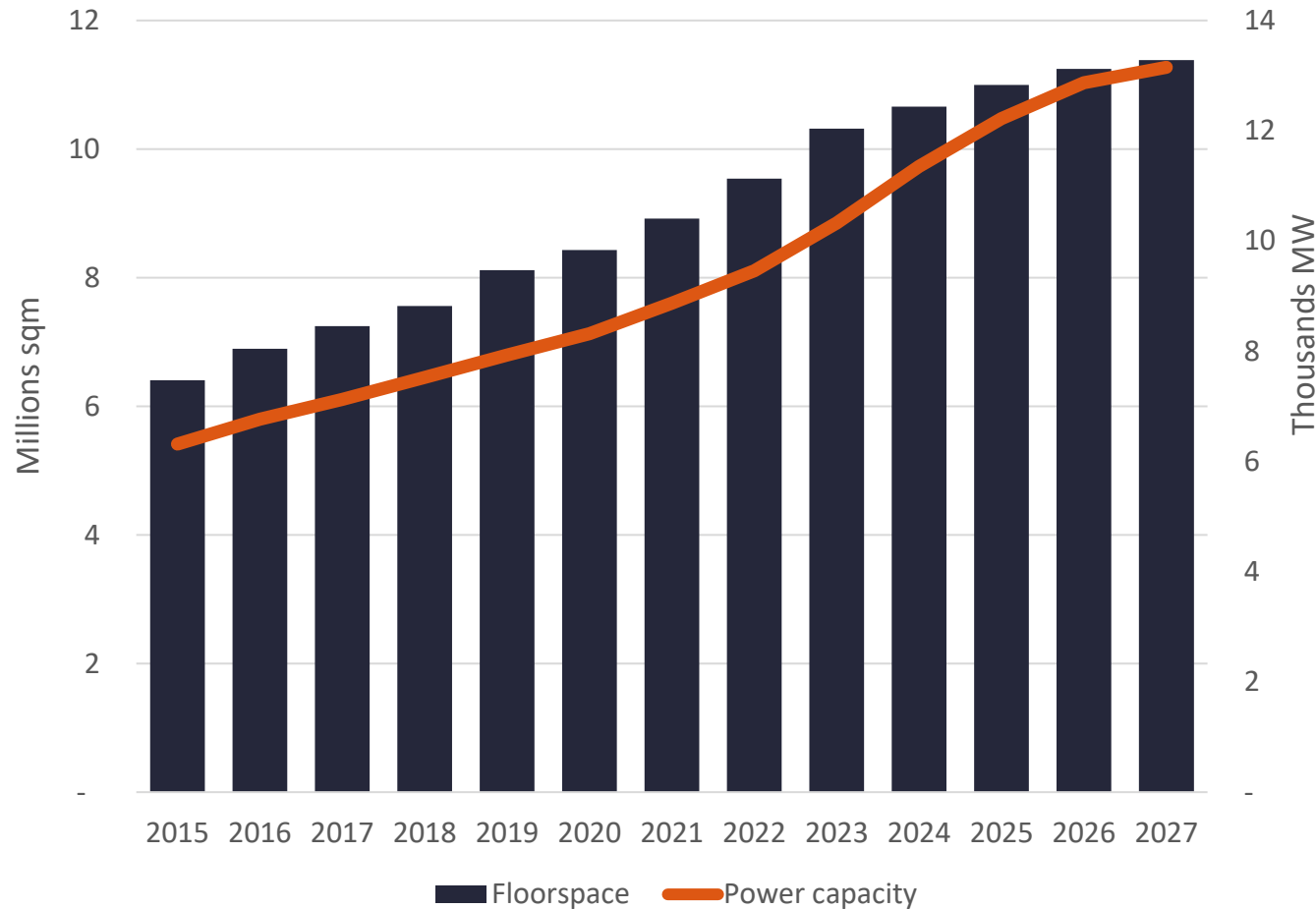


The adoption of cloud services amongst EU 27 enterprises* nearly doubled pre to post-pandemic. Last year nearly half of EU enterprises bought cloud services.



Source: Savills Research based on Eurostat / * Enterprises with at least 10 employees

But DC supply growth falls short of future demand



There are currently slightly over 1,350 data centre facilities in Europe, of which 1,250 are commercial data centres (excluding proprietary data centres).

This represents approximately 10 million sqm of space and around 10,300 megawatts.

94 European commercial data centre schemes are planned in the next three years, adding approximately 2,800 MW.

By 2027, the European DC power capacity is projected to reach 13,100 MW, reflecting a 27% increase.

Yet, internet bandwidth usage will nearly triple during the same period, falling short of the anticipated demand.

03 | Occupier Market

28.8M Sq M

Of take-up in 2023

5.85%

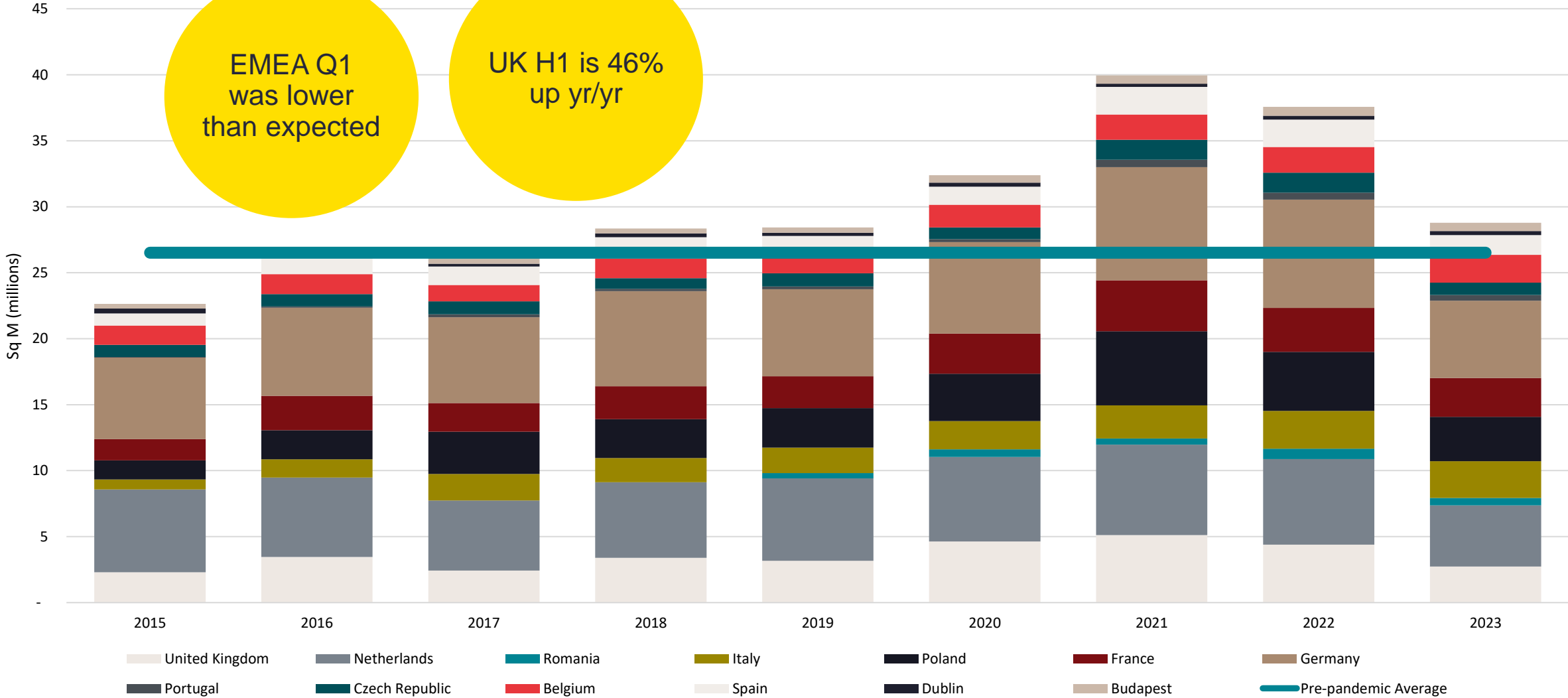
Vacancy rate, up from a record low of
3.2%

Occupier take-up is outperforming pre-pandemic levels



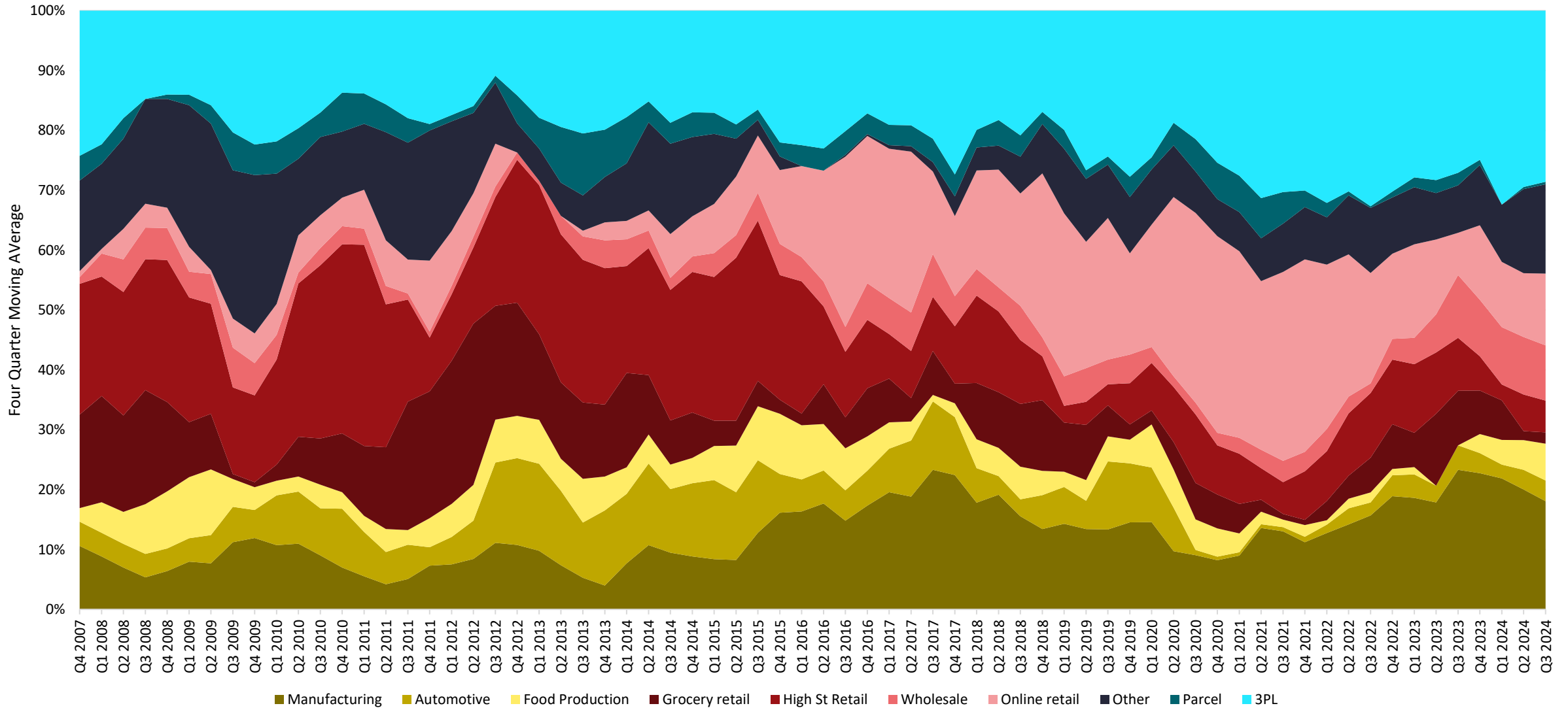
EMEA Q1 was lower than expected

UK H1 is 46% up yr/yr

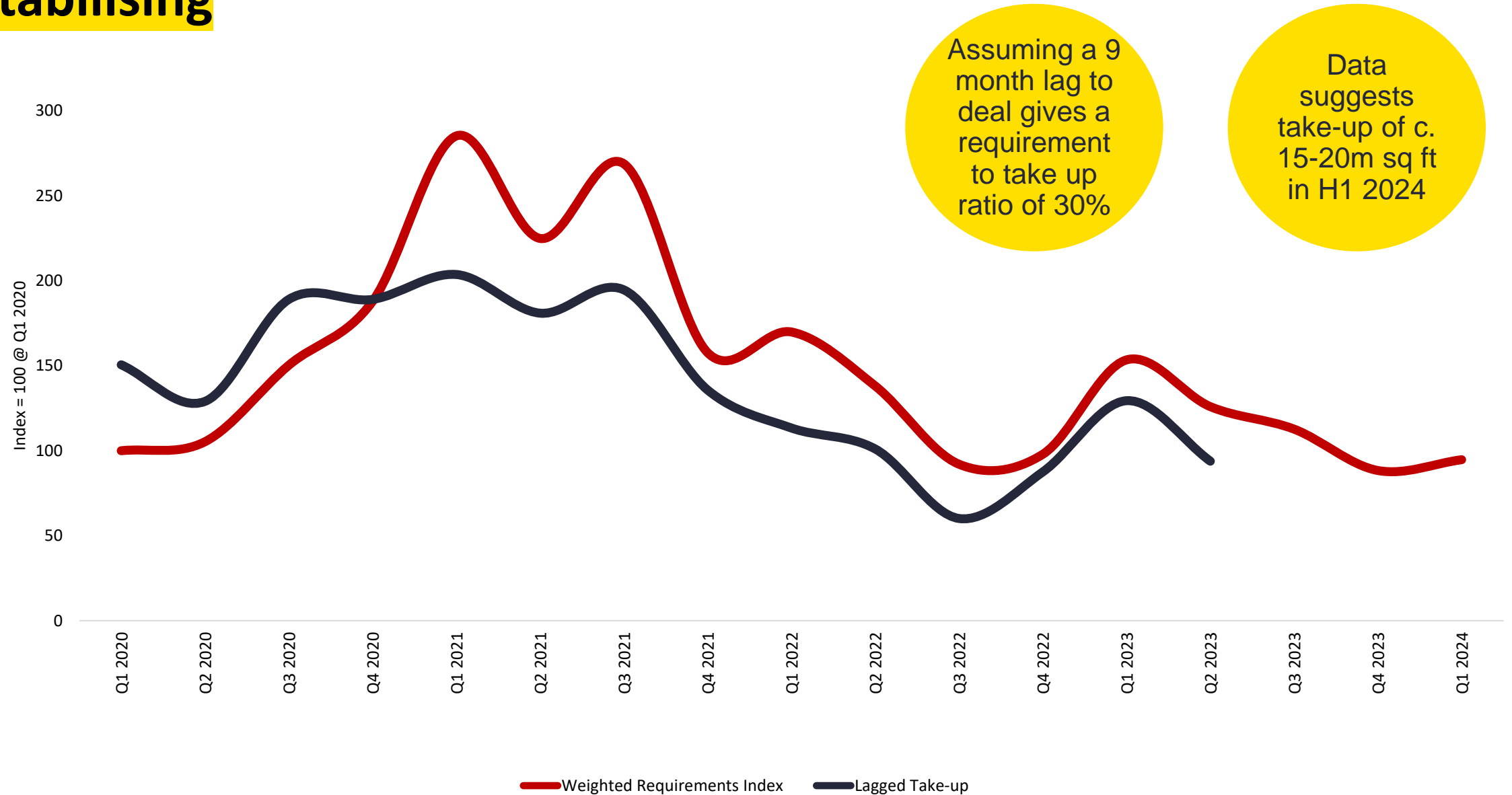


Source: Savills Research

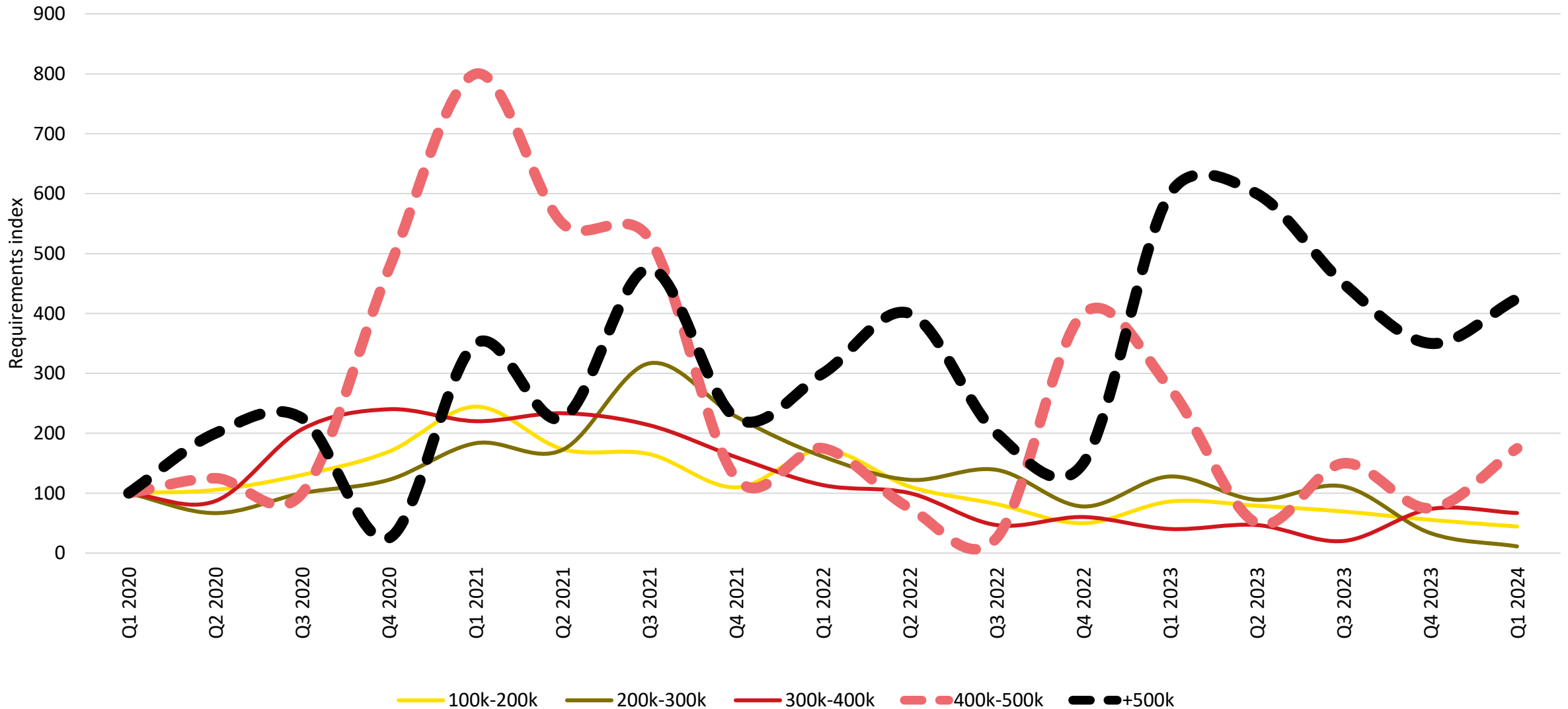
UK: Who's taking space? **Manufacturing** is really starting to have an impact



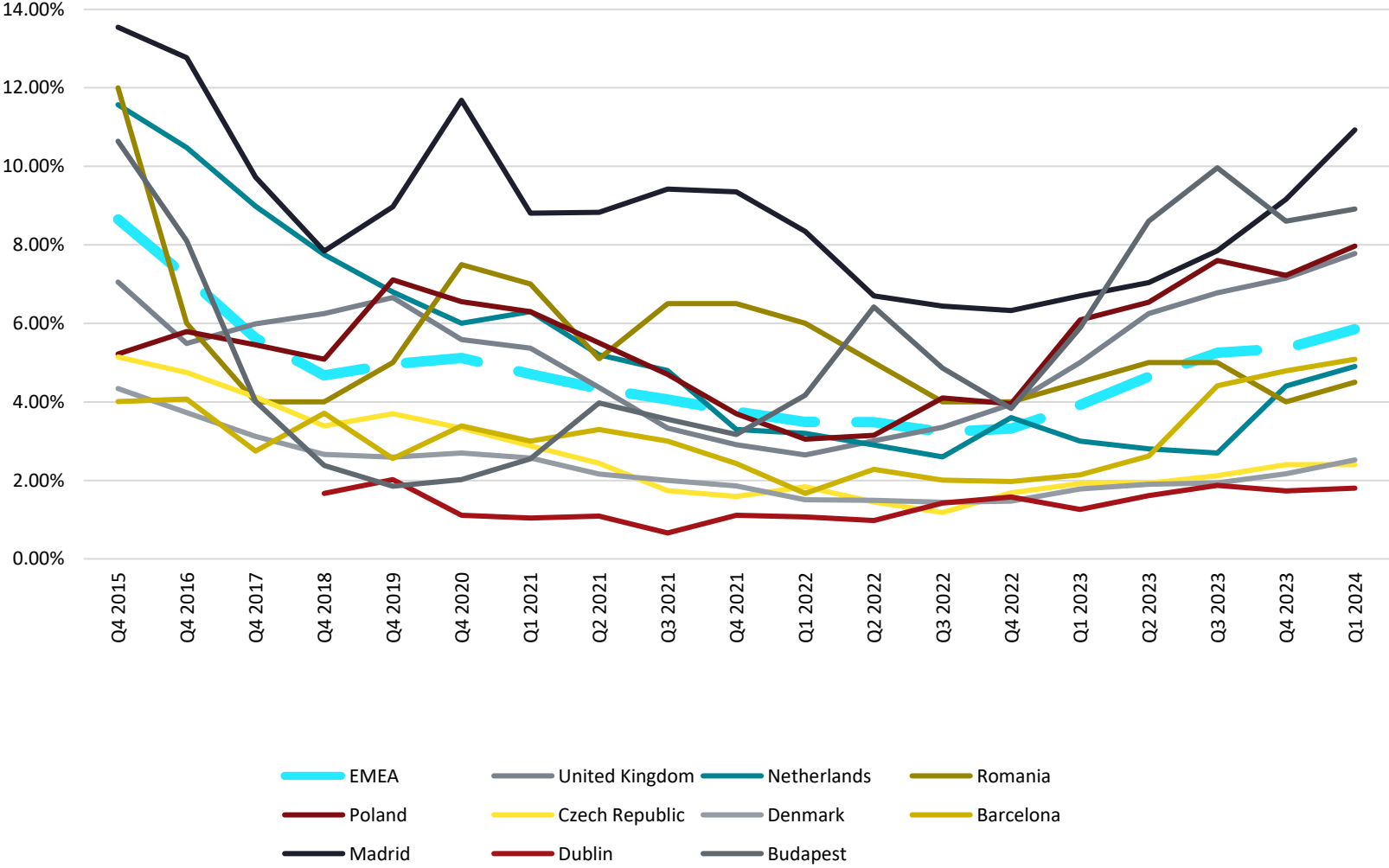
UK: Where is take-up heading? Requirements appear to be stabilising



Larger unit sizes are seeing a rise in requirements, and take-up is following this trend



Vacancy rates have risen to **5.8% in 2023**



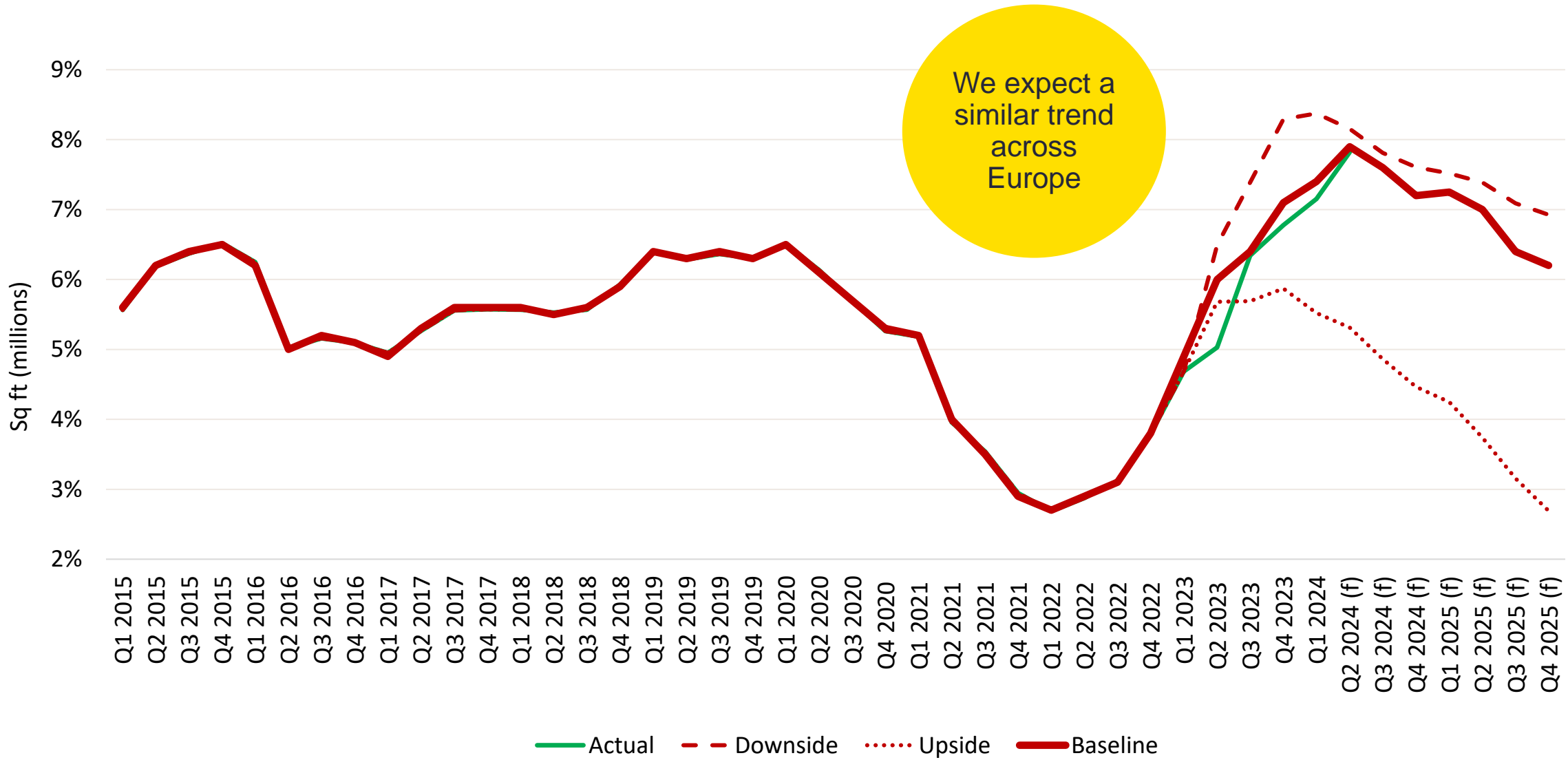
200bps increase in 2023

Significant Market Variation

Vacancy increased at a faster rate in Q1

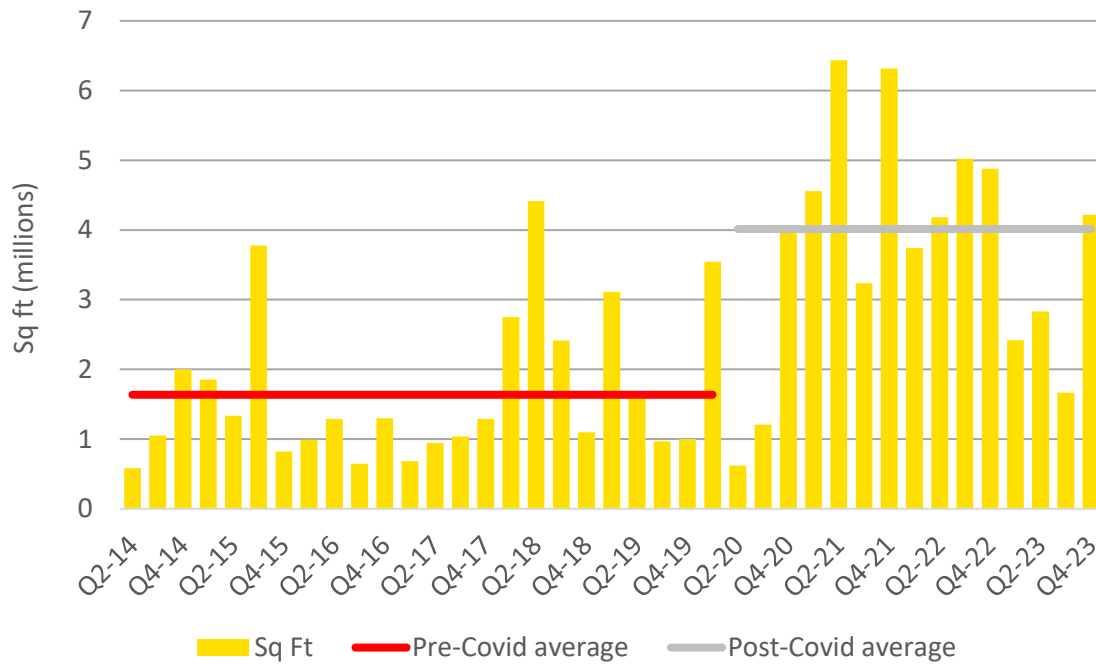
Source: Savills Research

UK vacancy has tracked our projection

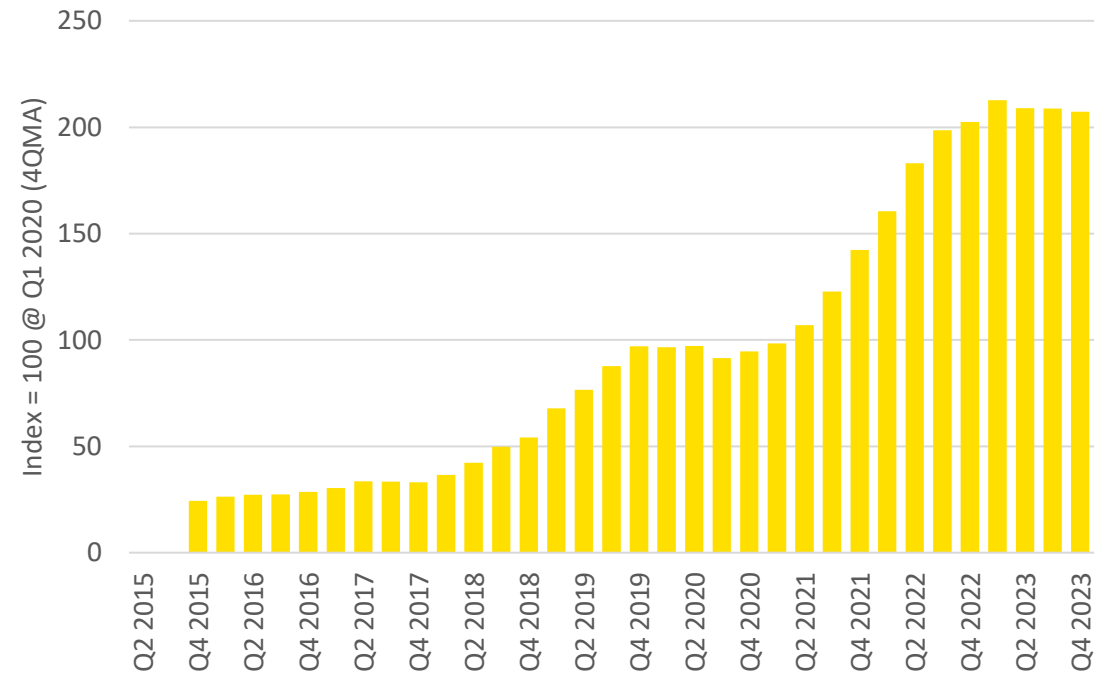


Is pipeline supply contracting?

Speculative development fell in 2023

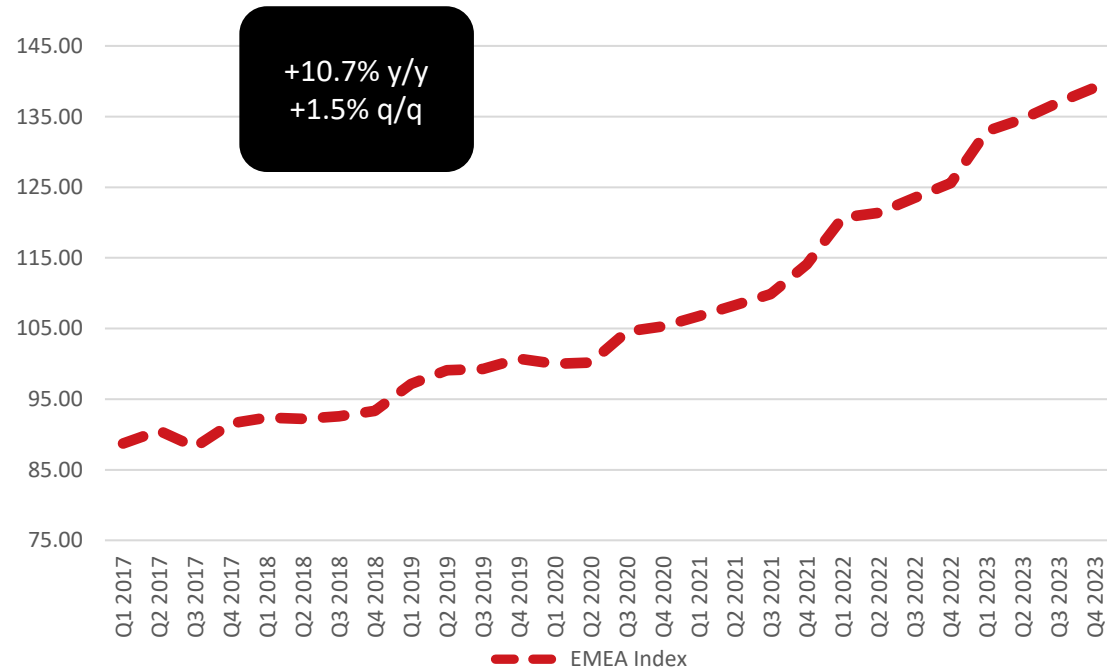


Savills European Pipeline Index appears to have plateaued

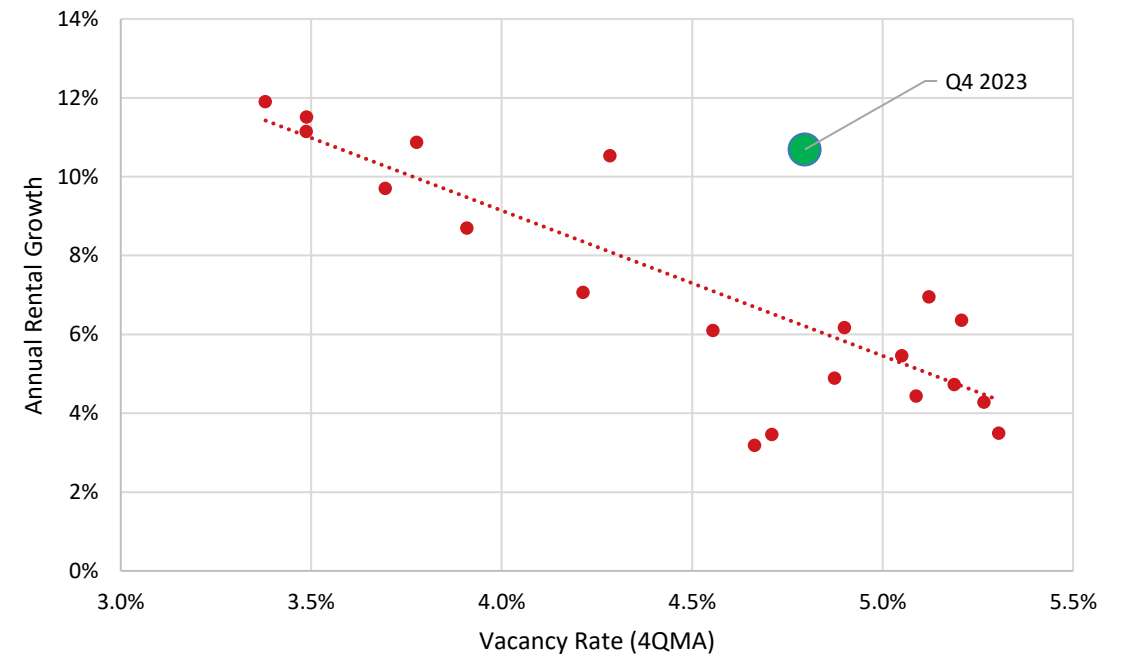


Are we set for slower rental growth?

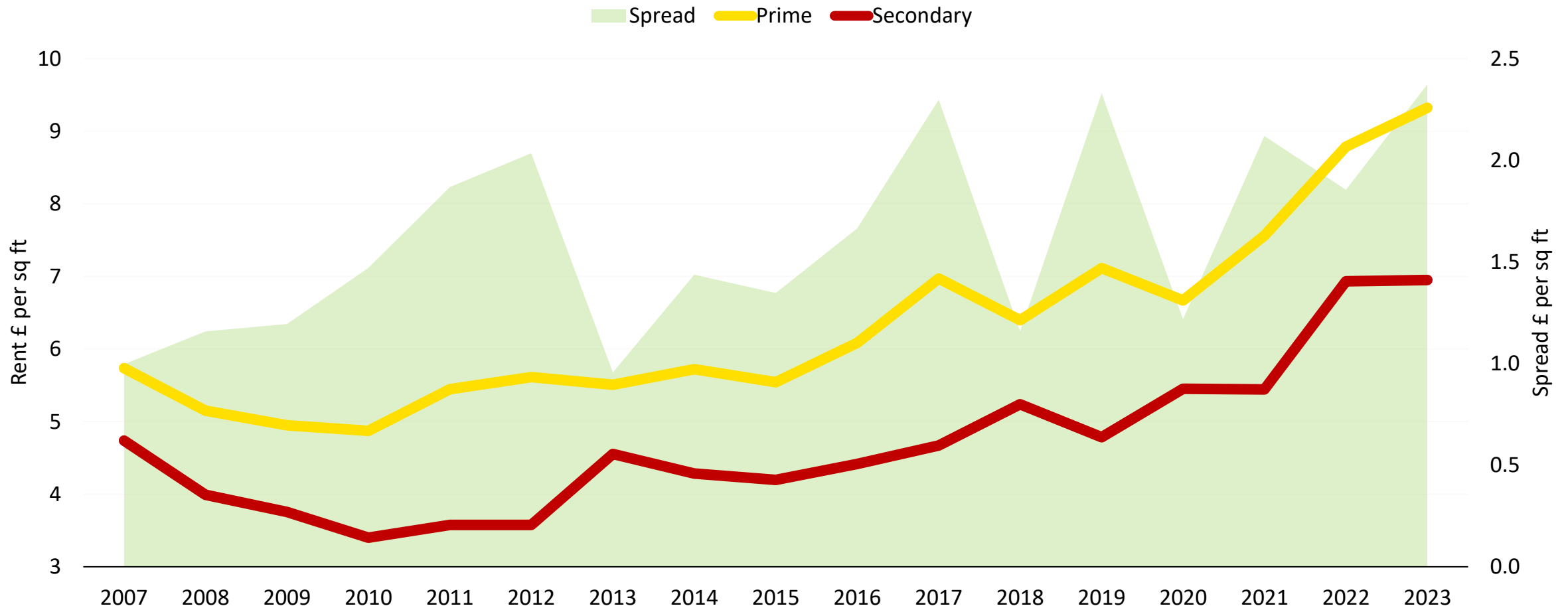
Rents continued to grow in 2023



The relationship between vacancy rates and rents

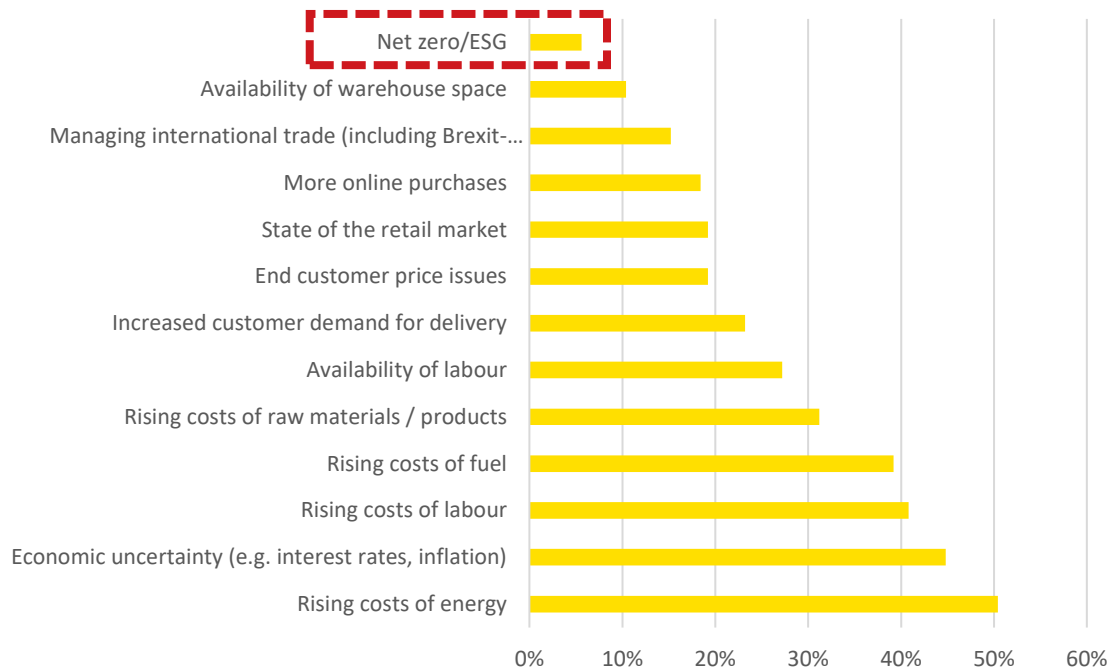


UK: Prime and Secondary rental growth is diverging

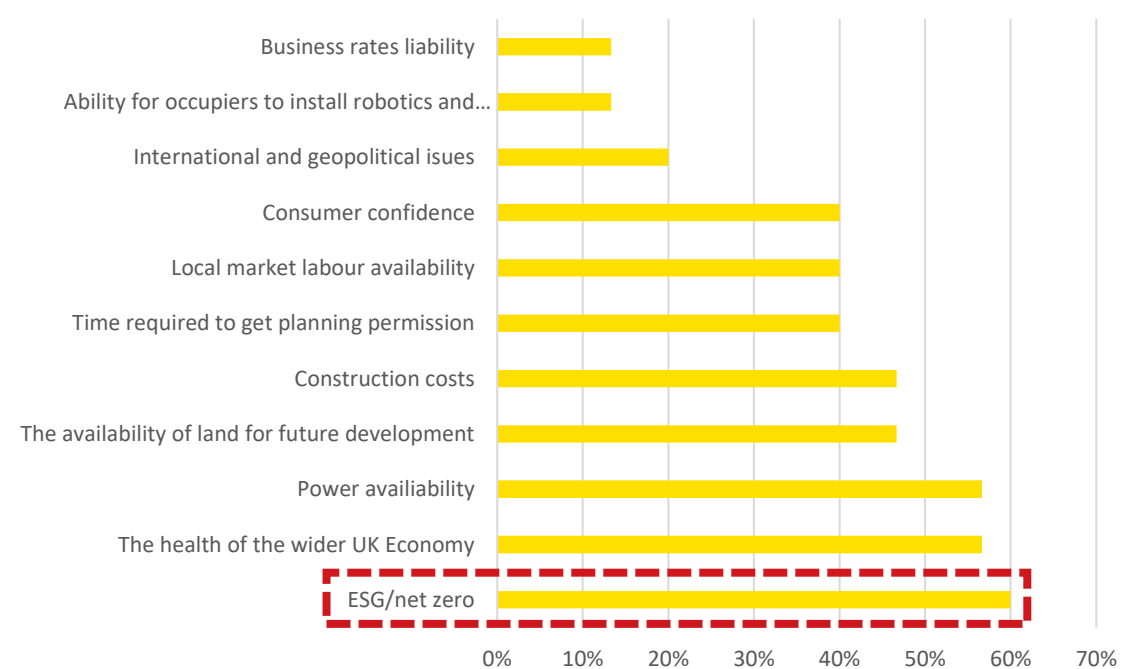


Is rental growth driven by ESG requirements?

Occupiers are worried about costs



But investors are worried about ESG



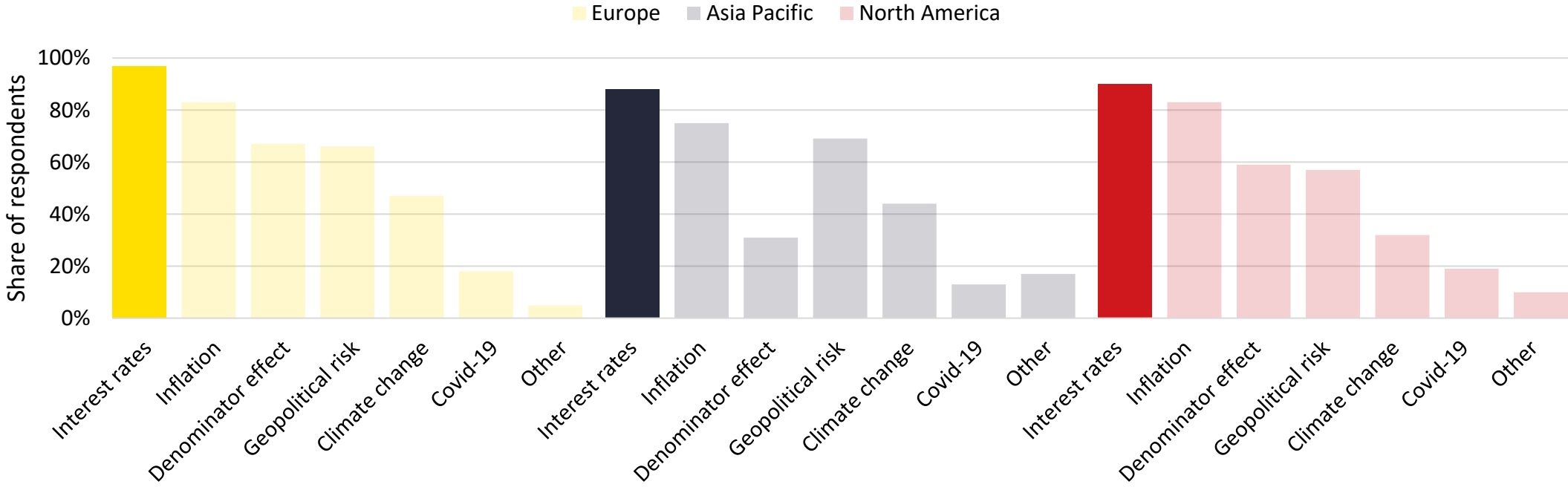
A low-angle, upward-looking photograph of several stacked orange shipping containers against a clear blue sky. The containers are arranged in a grid pattern, creating a strong sense of verticality and perspective. The lighting is bright, highlighting the metallic texture and the vibrant orange color of the containers.

04 | Investment Market

Will rate cuts provide a catalyst for recovery?



Factors affecting real estate investment in 2024

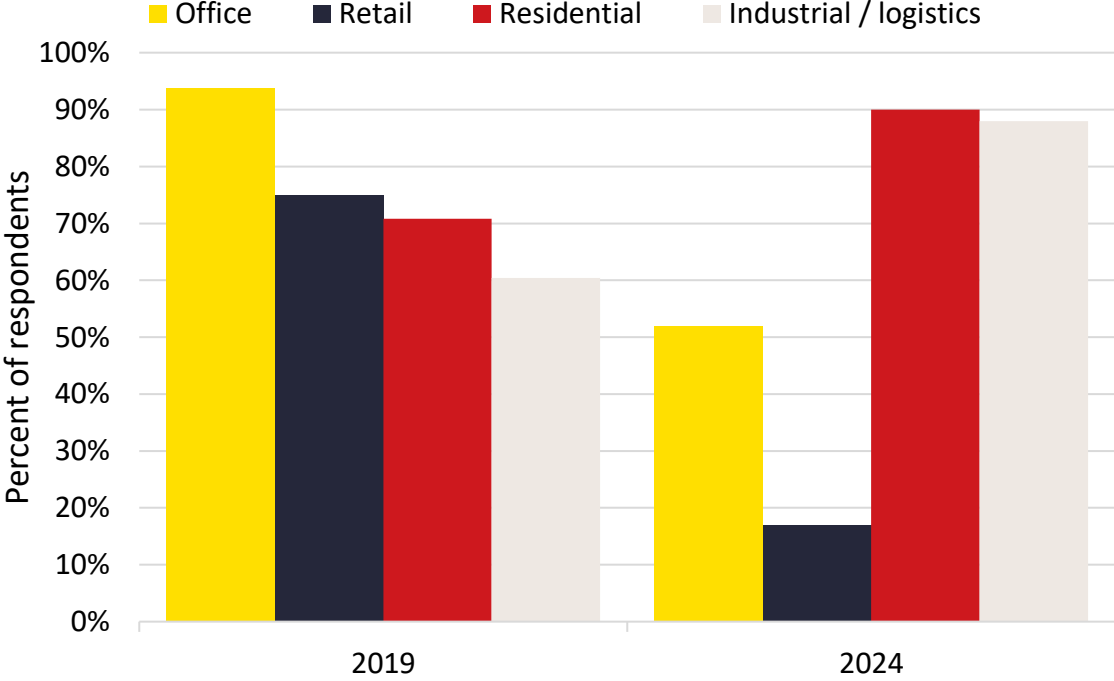
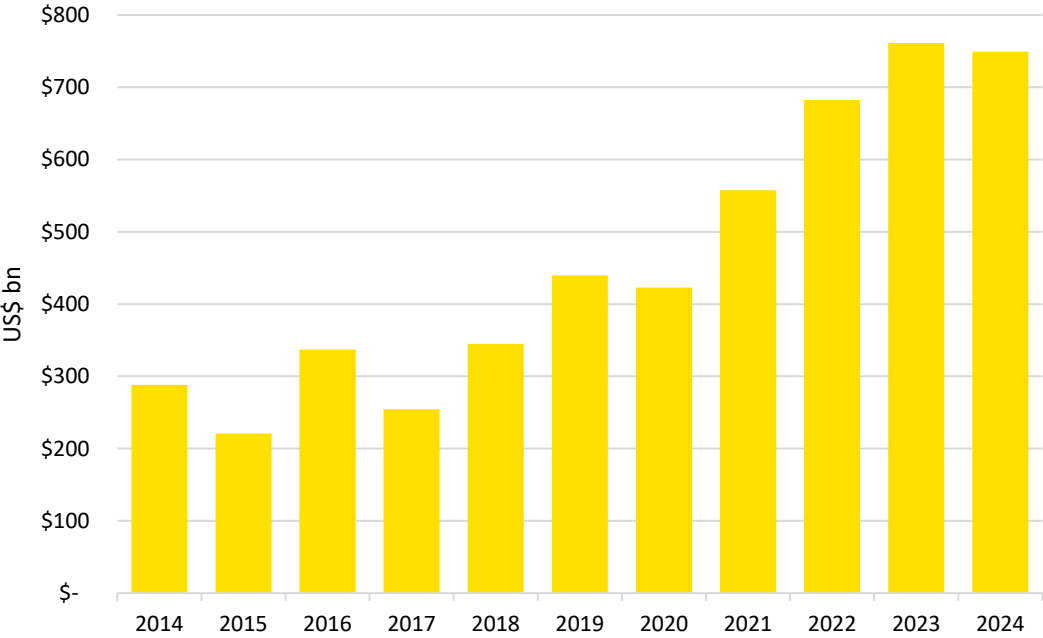


Source: Savills Research using INREV Investment Intentions Survey 2024

There is capital to be deployed and logistics is a key area of interest

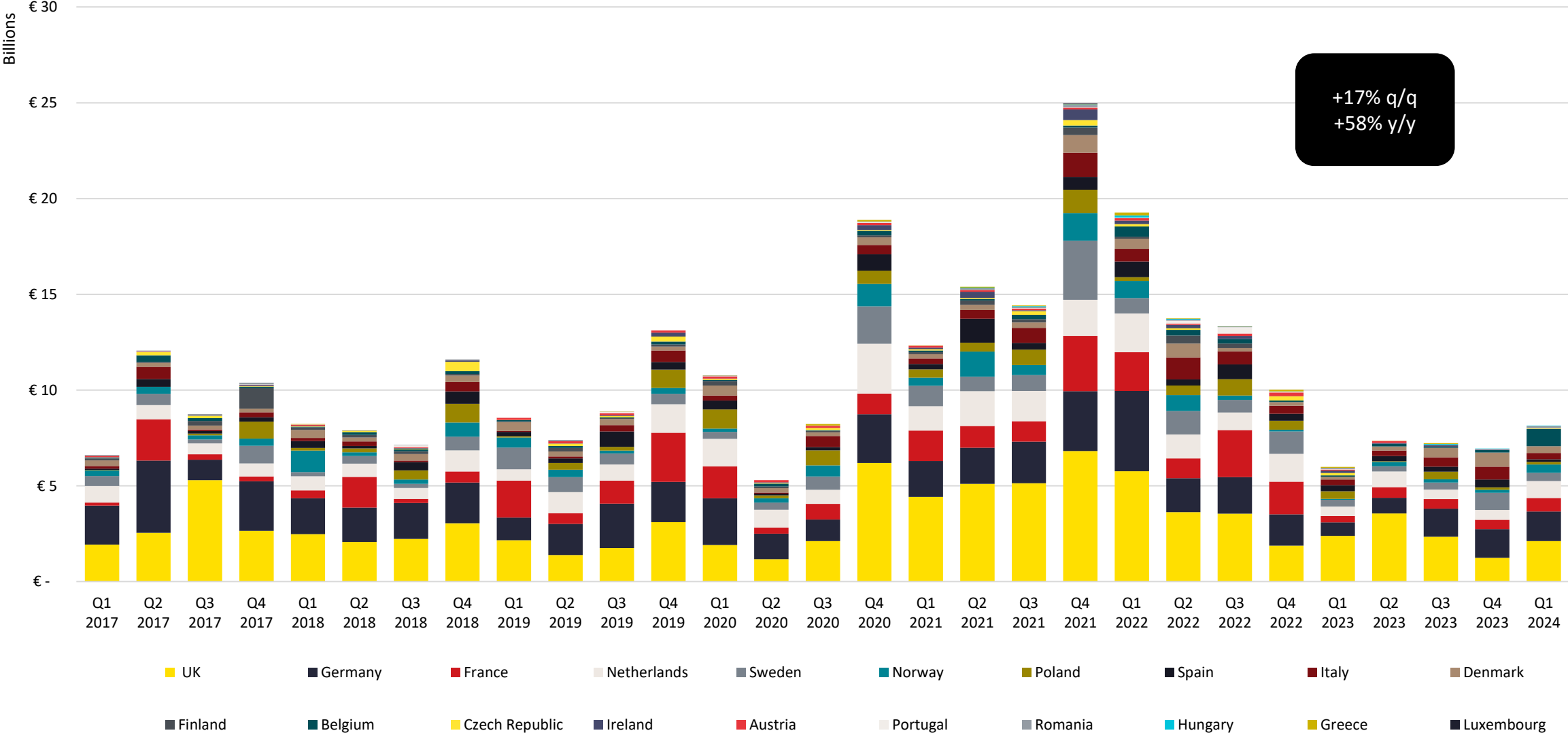
Global “dry powder” remains elevated

Investment intentions: Europe’s preferred sectors, next two years



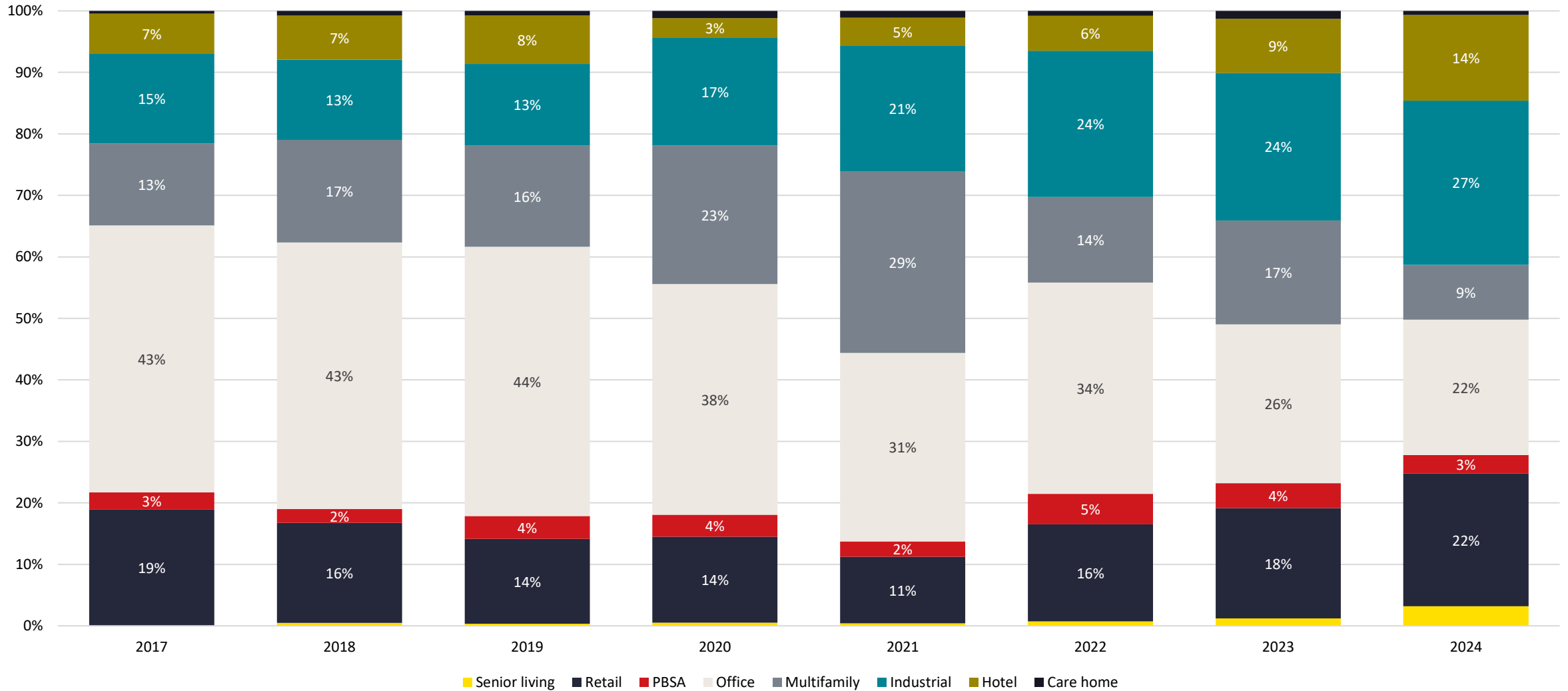
Source: Savills Research using Prequin and INREV Investment Intentions Survey 2023.

Investment volumes was 58% higher than Q1 2023



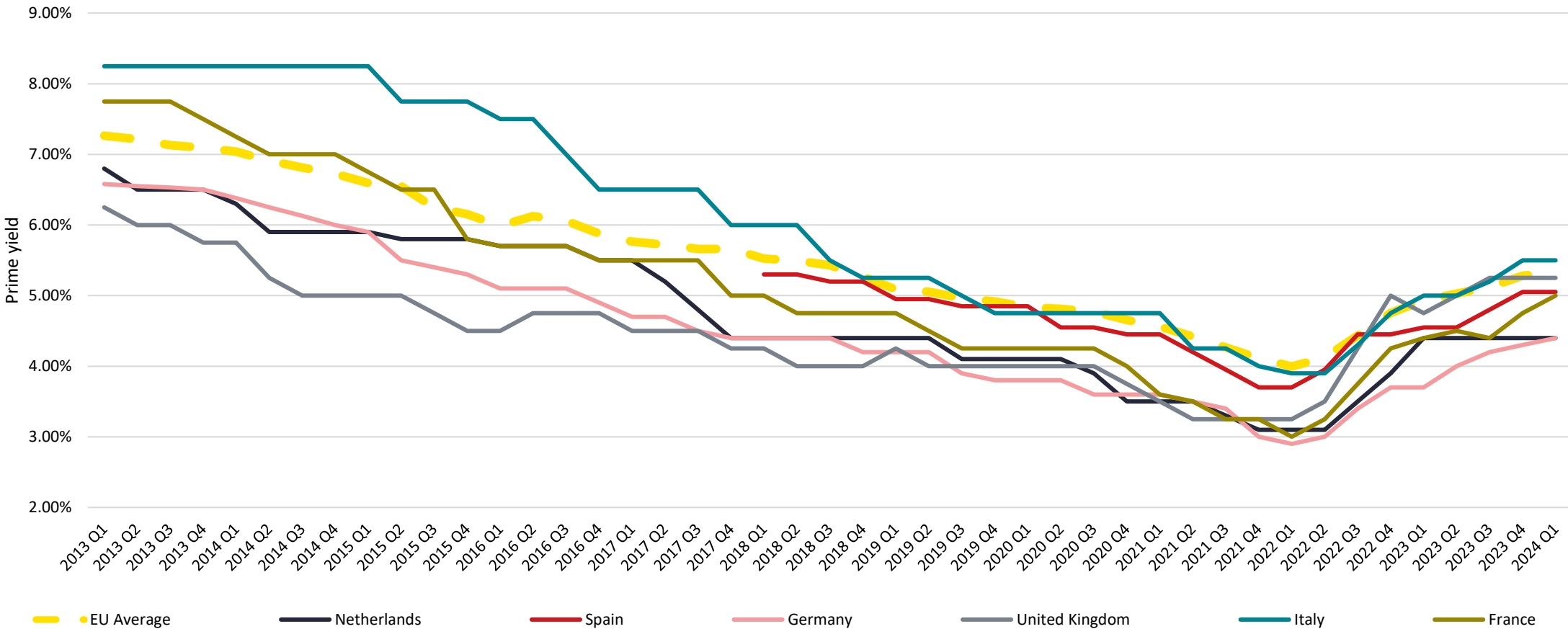
Source: Savills Research

Industrial share of investment volumes is at its highest-ever level



Source: Savills Research using RCA

Average prime yields moved out by just 5bps in Q1 2024



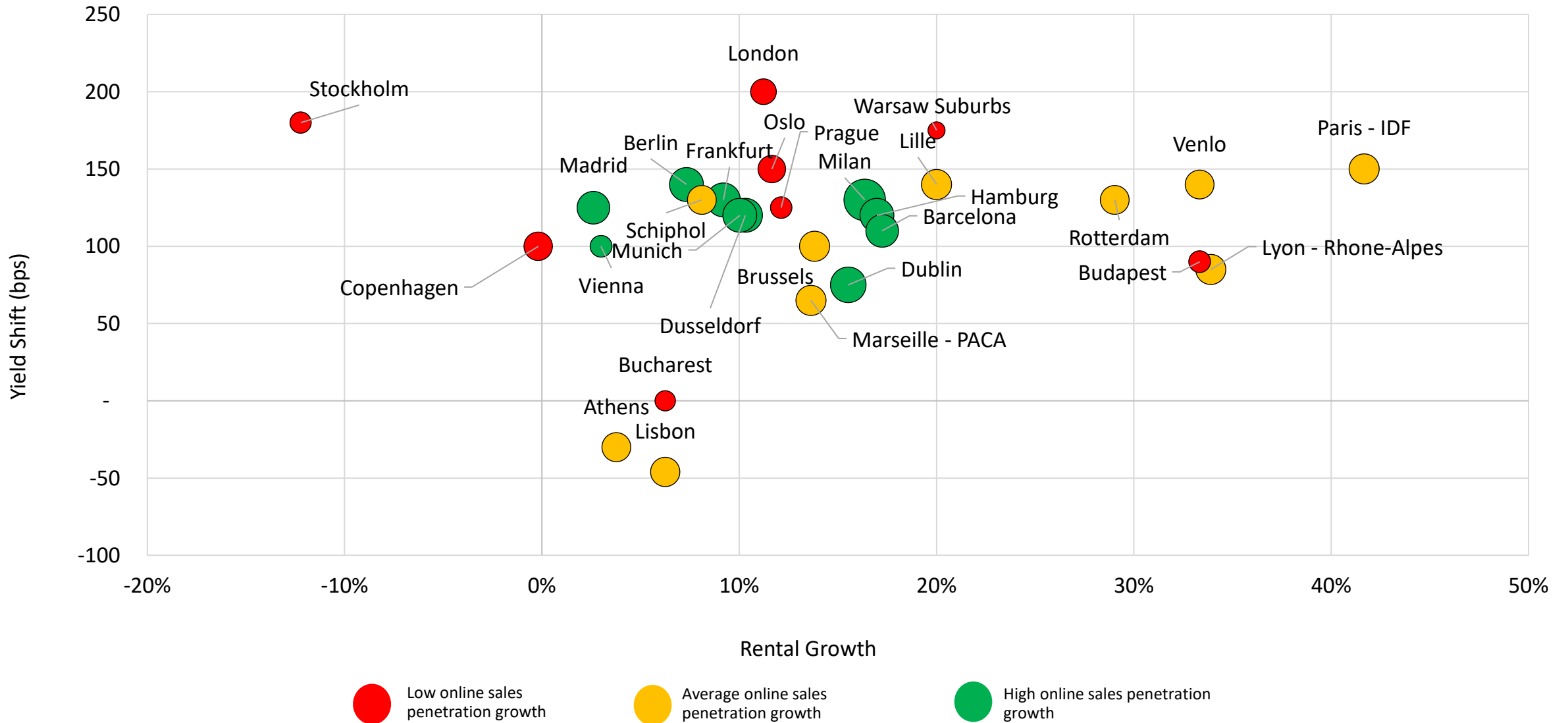
Note: European Average based simple average from shown countries + where available data for Belgium, Czech Republic, Denmark, Finland, Norway, Sweden, Portugal, Ireland and Romania.

Source: Savills Research.

06 | Final thoughts



Market opportunities?



Conclusions

1

Occupiers remain active, in certain markets take-up is rising rapidly

2

Vacancy will start to trend down into 25, helped by a contracting development pipeline

3

Structural drivers remain in place, data centre demand will ultimately constrain the total logistics supply

4

The stage is set for a capital markets rebound



Thank you

Kevin Mofid
Head of EMEA Logistics Research
kmofid@savills.com

 @kevtheshed

 @kevin-mofid

savills.com

Disclaimer: The material in this presentation has been prepared solely for informational purposes and is strictly confidential. Any disclosure, use, copying or circulation of this presentation (or the information contained within it) is strictly prohibited, unless you have obtained Savills prior written consent. Neither this presentation nor any part of it shall form the basis of, or be relied upon in connection with, any offer or transaction, or act as an inducement to enter into any contract or commitment whatsoever. NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, IS GIVEN AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN AND SAVILLS IS UNDER NO OBLIGATION TO SUBSEQUENTLY CORRECT IT IN THE EVENT OF ERRORS. Savills shall not be held responsible for any liability whatsoever or for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document or any errors therein or omissions therefrom.