CABOT

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Structural Drivers and Supply Constraints

Why European Logistics Real Estate is Poised to Perform

While returns in the logistics asset class have historically been highly correlated to economic performance,[1] the European and UK logistics markets may soon diverge from the macroeconomic trajectory and continue their steady growth.

Europe and the UK are in the middle of a challenging economic cycle. The two largest economies, the UK and Germany, are either amid or in recovery from technical recessions. The macroeconomic outlook is mixed. The backdrop of a global trade war paired with recent announcements of significant public expenditures in defense and infrastructure make it challenging to underwrite the prospects for growth.

Despite this stark macro outlook, European markets present a strong opportunity for growth in logistics real estate. As a result of several converging, sector-specific fundamentals, the logistics asset class is poised to decouple from the trajectory of the European economy and continue its upward climb. Major western European logistics markets offer the right structural drivers to benefit from the rapid rise of eCommerce and outperform both the regional economy and competing asset classes.

Note: This report focuses on critical logistics markets within Europe and the UK, where large economies and dense population bases provide the necessary infrastructure for strong logistics asset performance. Throughout this report, 'major western European logistics markets' refers to Germany, the Netherlands, the United Kingdom, France, Spain, and Italy.

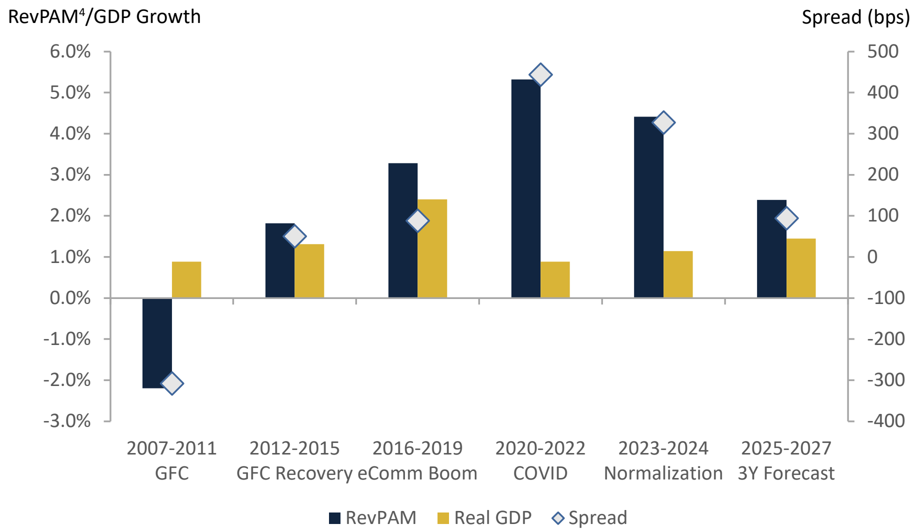
[1] Blake, N. and Hollies, R. (2020). What the past relationship between GDP growth and property total returns tells us [...]. *CBRE Insights & Research.* https://www.cbre.co.uk/insights/articles/what-the-past-relationship-between-gdp-growth-and-property-total-returns-tells-us-about-the

Logistics Performance Poised to Diverge from Overall Economy

For at least a decade, the logistics sector has benefitted from persistent tailwinds from eCommerce and strong consumption growth in the top urban centers in western Europe. Following the Great Financial Crisis, logistics property values from 2012-2015 had been growing roughly on pace with GDP in the major western European logistics markets (Figure 1). However, the rapid rise in online consumption, which requires three times the amount of warehouse space as conventional retail,[2] has upended traditional market cycles in the sector, and warehouse demand has since outpaced economic output in major western European logistics markets by an average of 238 bps.

FIGURE 1:

Industrial Rent Growth vs Real GDP Growth and Spread[3]



> **At present, there is insufficient existing logistics stock to support this growth.**

A similar dynamic has already played out in the United States. When compared to US markets, European eCommerce adoption is in earlier stages but accelerating at a faster rate: since 2016, online sales' share of total retail has grown by just over 5% annually in the US, while major western European logistics markets have averaged roughly 12% annual growth (Figure 2). At present, there is insufficient existing logistics stock to support this growth, especially in major markets where stock per capita is comparatively low. Compared to the US, where logistics stock per capita is above 3.5 square meters per person, the major western European markets trail significantly with just over one square meter per person.[6]

Although the current economic environment is proving challenging for most real estate asset classes, this supply/demand imbalance will likely put upward pressure on rental rates for well-located, modernized logistics assets as online consumption continues to penetrate the market.

FIGURE 2:

Online Sales' Share of Total Retail[5]
(CAGR, 2016-2023)

5%	12%
United States	Europe & United Kingdom

[2] Prologis, "Covid-19 Special Report #6: Accelerated Retail Evolution Could Bolster Demand for Well-Located Logistics Space," June 2020.
[3] Green Street as of 12/31/24. Reflects Green Street markets within 'major Western European logistics markets' as defined previously.
[4] RevPAM (Revenue Per Available Square Meter) is Green Street's proprietary growth metric, which combines rental growth with occupied space.
[5] EU and UK: Green Street, "2024 Pan-European Industrial Outlook," January 2024. US: Federal Reserve Bank of St. Louis as of 12/31/24.
[6] Population Data: US Population Data is CoStar as of 12/31/24 and European data from Eurostat as of 1/9/25. US and UK industrial stock: CoStar as of 12/31/24. European industrial stock: JLL as of 12/31/24.

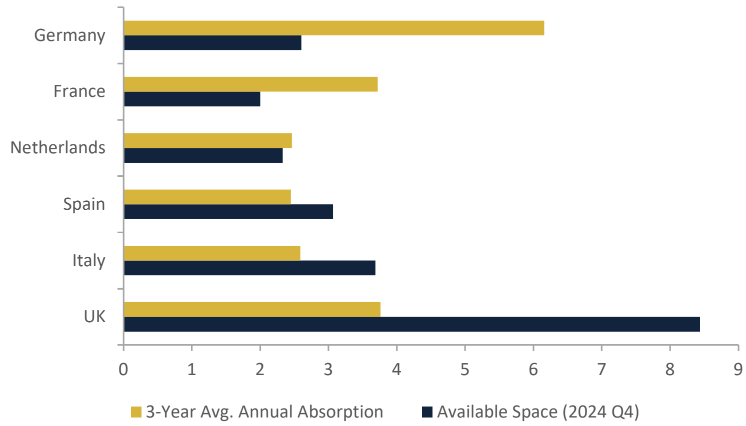
Attractive Market Fundamentals, Significant Barriers to Entry

Major western European logistics markets are displaying attractive leasing fundamentals. Gross absorption remains in line with the 10-year average and continues to increase annually by roughly 4%, on average (Figure 3). Strong leasing velocity has consistently outpaced new completions since 2015, keeping vacancy rates low as supply fails to keep pace with demand.

This dynamic has become even more pronounced over the past three years as demand for logistics space has spiked in response to the global pandemic and the resulting eCommerce boom. These fundamentals suggest that quality logistics properties in major consumption centers could see persistent demand, particularly when compared to competing regions around the globe where leasing velocity has softened back to 10-year averages.

FIGURE 3:

Available Space and 3-Year Average Take-Up[7]
(Square meters in millions)



Limited availability also strengthens investment prospects in European markets. Based on the trailing three-year leasing average, all top logistics markets aside from Spain and the UK have less than a year of available space (Figure 3), and when excluding older, functionally obsolete buildings these figures are even lower. With significant barriers to new supply, including a shortage of developable land, municipal hurdles, strict environmental regulations, and social initiatives that have curtailed new logistics projects, this inventory shortage is likely to persist.

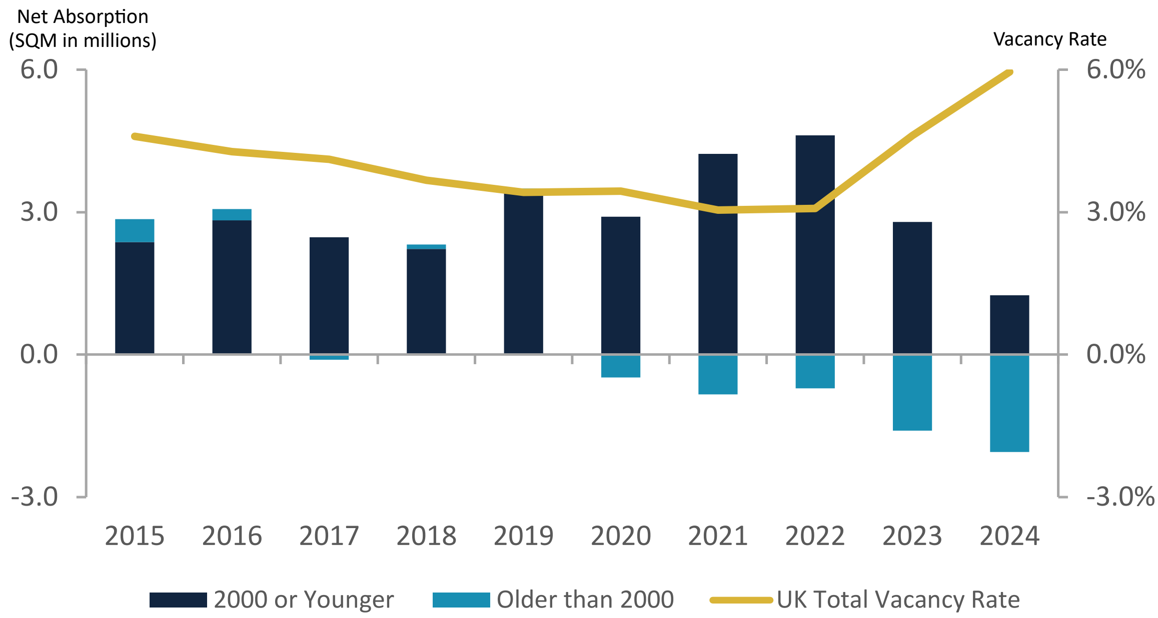
[7] European data: JLL as of 12/31/2024. UK data: CoStar as of 12/31/24 (excludes buildings smaller than 5,000 SQM and buildings built before 1985).

Favorable Structural Drivers for Modern Infill Assets

As in other asset classes, the newest logistics buildings in the best locations are outperforming their older, more distributed peers (Figure 4). Tenants are increasingly looking for modern warehouses in infill locations that allow them to meet consumer expectations for delivery timelines, minimize transportation costs with shorter drive times, accommodate the latest supply chain technologies, and advance ESG initiatives and requirements. In the UK, the building data shows that when vacancy rates rise, tenants demonstrate a clear preference for functionality: buildings constructed in 2000 or later see robust net absorption, while older inventory displays net negative absorption from occupiers vacating secondary space in favor of modern builds. This trend has been progressing since 2020 and accelerated over the past three years as the record-low vacancy rate of 3.0% in the UK began to rise. Net absorption in older stock has decreased by an average annual rate of 60% since 2022.[8]

FIGURE 4:

UK Net Absorption by Vintage and Vacancy Rate[8]



Toward the same end, the UK's energy performance certificate (EPC) ratings are also serving to widen the performance gap between modern logistics buildings and older assets. **Warehouses with EPC ratings of A and B have seen rent premiums increase from 13% in 2019 to over 34% by 2023 year-end,**[8] underscoring the strong demand for modern warehouses built to high environmental standards. All indicators suggest this shift toward functional, responsible logistics assets will continue as tenants look to meet the evolving requirements of modern logistics and distribution operations.

[8] CoStar as of 12/31/24.

Increasing Institutionalization

Ownership of Europe's logistics assets has historically been distributed and largely non-institutional: Green Street estimates that only 10% of European logistics real estate is controlled by public companies (Figure 5). This ownership profile remains fragmented in Europe, where only 11 owners manage portfolios of 5,000 square meters or greater. By comparison, the top 20 owners of US logistics real estate all operate portfolios of at least that scale.[9]

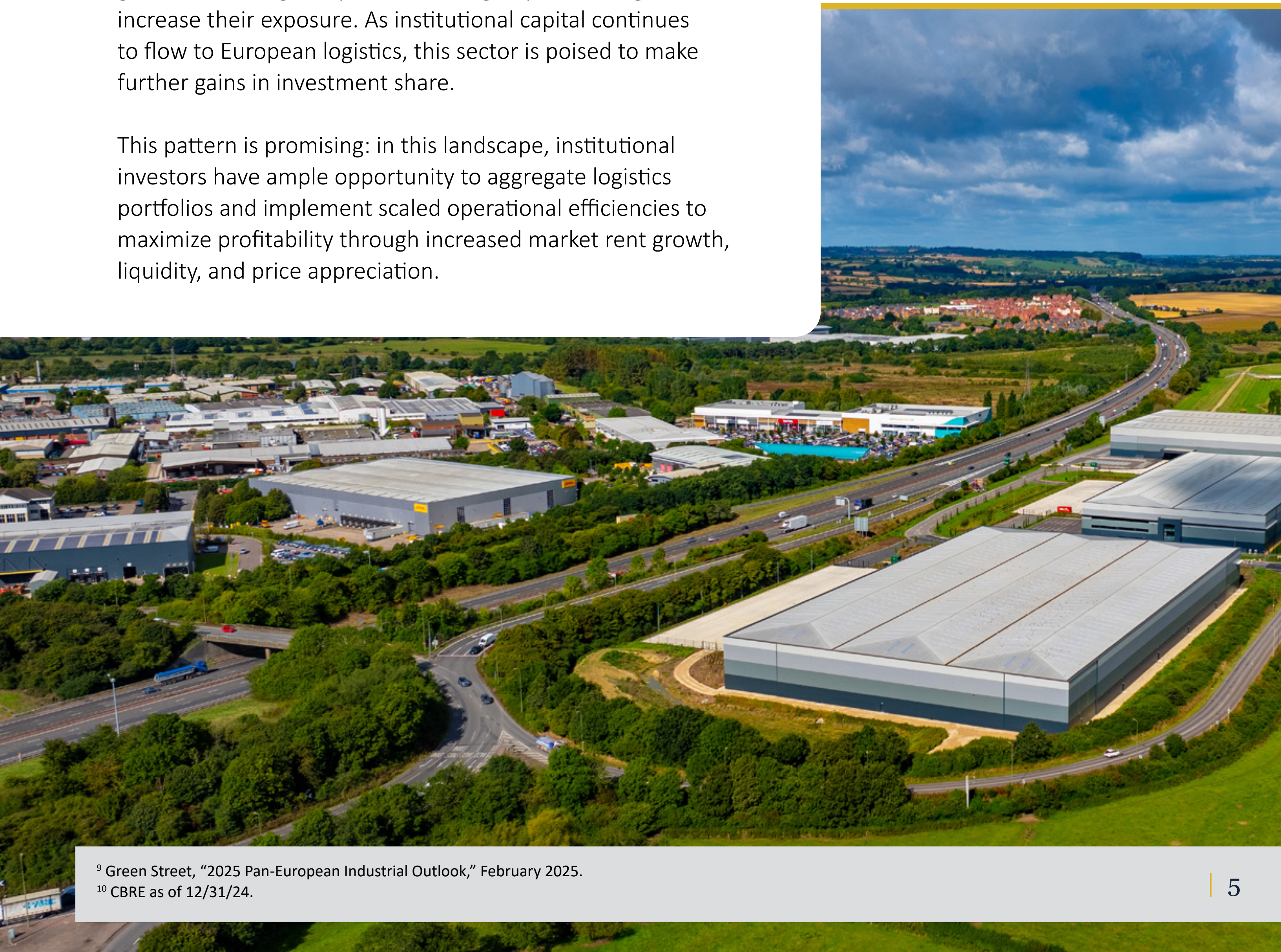
FIGURE 5:

Percent of Real Estate Controlled by Public Companies by Sector[9]

Retail:	30%
Tower:	20-30%
Office:	15%
Industrial:	**10%**

In recent years, the logistics sector has begun to gain traction with European investors, averaging 19% of total institutional investment volume since 2020.[10] In comparison, institutional investors accounted for roughly 48% of transaction volume in the US in the same period,[10] where logistics real estate was the darling sector to emerge from the pandemic and generated strong competition among buyers looking to increase their exposure. As institutional capital continues to flow to European logistics, this sector is poised to make further gains in investment share.

This pattern is promising: in this landscape, institutional investors have ample opportunity to aggregate logistics portfolios and implement scaled operational efficiencies to maximize profitability through increased market rent growth, liquidity, and price appreciation.



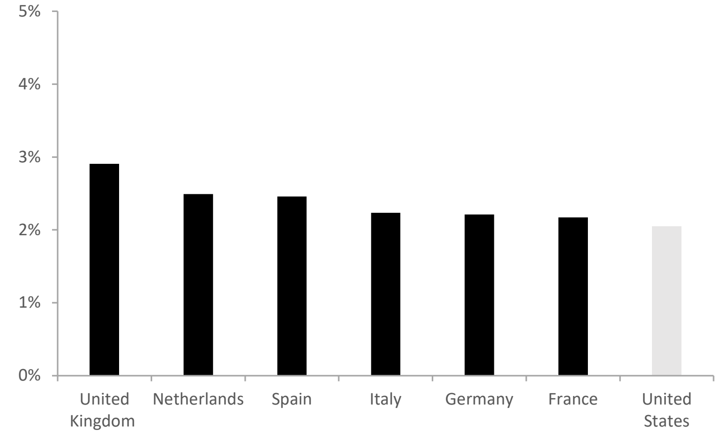
[9] Green Street, "2025 Pan-European Industrial Outlook," February 2025.
[10] CBRE as of 12/31/24.

Opportunity for Income Growth

Since 2015, European logistics assets have been starkly discounted in comparison to pricing in the US, where widespread online consumption took hold much earlier and institutional investors flooded the market. Over the same time frame, European real estate has displayed a swifter response to market price fluctuations, with lower peaks but far shallower troughs. The 150 bps-200 bps correction in pricing from the 2021 peak has been significant, and the current spread of roughly 70 bps in pricing between the US and Europe remains wide.[11]

FIGURE 6:

3-Year Forecasted Rent Growth[11] (CAGR)



Driven by the increasing demand for efficient supply chains and underpinned by strong sector fundamentals, top logistics markets in western Europe and the UK are well positioned to perform. The sector's anticipated divergence from overall economic performance underscores the power and prevalence of eCommerce adoption and the strategic importance of the logistics sector globally. Amid this market landscape, institutionalization presents a strong opportunity to generate rent growth in the near term and assemble dynamic portfolios for long-term growth (Figure 6). As distribution networks continue to expand and modernize to meet consumer needs, the logistics asset class is set to play an increasingly critical role across top global markets.

Cabot Properties is a global investor, developer, and operator of logistics real estate. Cabot is headquartered in Boston with offices in Atlanta, Chicago, Dallas, Los Angeles, Amsterdam, London, Sydney, Munich, Tokyo, New York, and Houston. For more information, visit **www.cabotprop.com**.

[11] Green Street as of 12/31/24.

Endnotes + Disclosures

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