



European Distribution Report



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Global Real Estate Solutions

OVERVIEW

Introduction

An improvement in the liquidity and maturity of the industrial and distribution market over the last couple of years, facilitated by an expanding and increasingly sophisticated logistics sector, has resulted in good property market performance. Despite the downturn in the European economy witnessed over this period, the sector has remained reasonably buoyant. Nevertheless, there has been some evidence of stabilisation in the market during 2003.

A number of influences are being brought to bear on the industry that are leading to further structural changes in the sector and which have direct implications for the property industry. As the outsourcing market continues to grow and evolve into third and fourth party logistics suppliers, the sector is becoming increasingly sophisticated. Further change is expected, driven in part by the increasing complexity of retail supply chains and increasing reliance on third party logistics operators, while companies concentrate on core businesses. Logistics operators are adapting to this and huge technological advances have taken place to help improve the efficiency of distribution.

The weakness in the manufacturing sector has to some extent been offset by demand from retailers particularly as they enter into newly emerging markets. This is tied into preparation for the expansion of the EU and new patterns of distribution are becoming evident as new consumer and producer markets are accessed. Nevertheless, many logistics companies are under

increasing pressure to deliver shareholder value and are looking to reduce costs yet deliver value for money and improve efficiencies. There has been a spate of acquisitions by the larger logistics companies enabling them to establish wider European networks to pass on economies of scale and meet the needs of the customer, especially pressure from multinational companies who are looking to manage their supply chains on a pan European rather than national basis. Indeed there are now a handful of leading logistics companies who dominate the European and indeed the global logistics market.

Major Distribution Locations

Pan European distribution activity, for now, remains centred upon the well-established hubs of Western Europe. Nevertheless, as the centre of gravity of the European Union shifts eastwards it will only be a matter of time before the logistics sector follows. The main hubs in Western Europe are popular locations because of the market reach, they offer to the existing consumer base.

Road dominates the movement of goods within Western Europe and there are several communication axes which witness high rates of movement and this creates natural points for cross border distribution. However, the widening of the EU will bring another 74.5 million consumers in the realm and this will have a fundamental effect on patterns of distribution across the continent.

The matrix illustrates the relative strengths and weaknesses of the major European countries as distribution hubs. It uses several indicators as proxies for the criteria that a distributor may consider when deciding where to locate a pan-European distribution hub. Using a simple weighting system an overall ranking based on these measures is given. Property information and accessibility is at the key city/hub level, while labour cost and transport system data is at country level.

	Rents €	Land Prices	Labour Costs	Road Density	Road Congestion	Rail Density	Road Freight	Rail Freight	Air Freight	Sea Freight	Population Density	Access to the EU core	Access to the East	Built New Units >10,000 sq m	Land Supply	Score	RANKING
Austria	4	13	8	3	4	8	10	9	9	13	11	6	3	5	2	5.3	7
Belgium	1	7	12	1	2	4	12	12	8	4	2	1	8	3	5	4.1	1
Czech Republic	4	2	2	13	10	2	7	6	15	13	7	7	2	5	3	5.2	5
France	3	6	7	6	3	9	1	4	3	4	10	4	10	3	3	4.2	2
Germany	11	14	10	5	6	3	3	2	1	7	4	2	4	5	5	5.1	3
Hungary	4	3	2	4	12	1	15	11	14	13	6	9	5	3	3	5.4	8
Ireland	12	8	9	10	9	13	13	15	12	10	13	10	12	5	3	8.3	15
Italy	8	11	13	8	8	10	2	5	5	3	5	8	9	3	4	5.8	9
The Netherlands	10	10	15	2	7	7	8	13	4	2	1	3	7	5	5	5.2	4
Poland	4	1	4	11	14	5	6	3	13	11	8	11	1	1	3	5.3	6
Portugal	2	8	5	12	5	11	11	14	11	9	9	14	14	4	3	7.2	11
Russia	13	4	1	15	15	15	14	1	6	12	15	15	6	5	4	8.3	13
Spain	9	15	6	9	13	12	5	10	7	6	12	13	13	4	4	7.8	12
Sweden	14	5	14	14	1	14	9	8	10	8	14	12	14	5	1	8.3	14
UK	15	12	11	6	11	6	4	7	2	1	3	5	11	3	5	5.9	10

Costs
 1 = lowest cost location

Transport System
 1 = highest network density/low congestion
 1 = largest freight market

Accessibility
 1 = highest population density
 1 = greatest accessibility

Supply
 1 = high supply
 5 = no supply

OVERVIEW (continued)

Belgium retains its place at the top of the C&W/H&B comparative ranking. The matrix assembles and weights a range of cost:benefit factors to highlight the strengths and weaknesses of different European regions. There are several main elements that have been included to determine the optimum location for a distribution facility and thus the efficiency in getting products to the consumer, such as proximity to markets and labour forces and the quality, availability and cost of both transportation and property. What is interesting to note is that there have been some movements in the prominence of some destinations, in the main due to rising costs and improved conditions in other locations. This is the downside of their popularity and some occupiers are looking to more cost effective locations that still afford the same levels of accessibility.

France has risen up the ranking reflecting its importance as a distribution hub for Western Europe. It scores well on its strategic location and lower land prices compared to its neighbours. Germany has retained its position, as relative costs (particularly for labour) have fallen, while Spain has moved up the ranking at the expense of Sweden and Ireland. The peripheral areas of Europe have lower scores, in part reflecting their relative remote access and market reach. In spite of this, there are several important hubs in these areas such as the port of Barcelona, which provides a point of entry for traffic from Asia, and Helsinki which provides transport routes to and from Russia.

Of the CEE markets the Czech Republic performs best and maintains its 5th position in the ranking, while the other CEE locations have improved their position. The Czech Republic is an attractive distribution location, scoring well in terms of access and cost. Indeed the attraction of the CEE region as a whole is that greater cost savings can be made, in terms of both property and labour. Prague is the most mature of the CEE markets and is able to provide good quality product. The city benefits from its location on the more developed north south axis, stretching from Berlin down to Zagreb. The region lags behind the more traditional hubs in terms of accessibility and activity is being hampered by concerns regarding the road and rail infrastructure. Nevertheless, east/west transportation is improving and the momentum will gather pace as EU accession approaches. The other markets in CEE are expected to benefit and markets such as Warsaw and Budapest will become increasingly prominent.

European Distribution Property Market Review

Demand

Despite evidence that demand has eased over the course of the year, logistics take up continues to drive the wider industrial market across Europe. The moderation in demand is not unexpected, as the aggressive consolidation and rationalisation

amongst logistics operators over the past few years has now slowed, and this has taken its toll on the volume of space needed by the industry. In addition, low interest rates are affecting the desirability of leasing compared with owning property.

Demand continues to be polarised between large and small units, a trend that has been evident for some time. While letting activity has fallen (in part due to a lack available modern space), overall demand for large modern space remains firm. Retailers and third party logistics operators remain the most active sectors, followed by automotives and manufacturers. The influx of retailers into CEE and car manufacturing, which is mainly concentrated in Hungary and Slovakia, has driven the need for logistics space either through their own supply chain or third party (3PL) operators. Occupiers are paying more attention to areas with good labour supply and accessibility.

Cost considerations have been a major factor in patterns of activity, particularly in the light of the weakened global and European economy. Many outsourcing or 3PL operators have found clients less willing to disassociate themselves from the mechanics of the supply chain and in some cases companies are regaining control of their distribution arms.

Cost issues have also led to an outflow of demand to Central Europe, particularly from markets such as Germany and Austria. However, these markets do have other characteristics that may be compounding this situation, such as the lingering presence of a comparatively large number of owner-occupiers, dearth of modern leased stock and the especially poor economic conditions of the recent past. There is evidence that demand for logistics warehousing in Russia is strong, and many corporates are also seeking space in Bulgaria, Romania, the Ukraine and Croatia.

With such a shift in production from Western Europe to cheaper areas of the world (including Asia), having an efficient distribution system becomes yet more important to a firm's ability to serve consumers. New routes for transporting goods to the consumer base are emerging over a much wider geographical scale and demand for space in new markets is increasingly evident.

The pattern of ownership remains varied between countries meanwhile. There are still a large number of owner-occupiers generally, particularly in larger units that have been built to suit. Whilst in the current market owner-occupier demand has been good, a stronger leasing market is still steadily emerging, particularly in the western half of Europe where the market is more mature, in part led by 3PL operators who require shorter lease terms to match their distribution contracts. We are also seeing some companies outsourcing their logistics operations but leasing space to house their chosen 3PL operator.

Supply

Construction activity has remained relatively low, as the cautious stance of developers' remains. The majority of projects both underway and in the pipeline are or will be pre-let before construction commences.

The supply of new product is therefore demand-driven and tends to be less speculative than other property sectors. Competition from other land uses, the price of land and lessons learnt from oversupply in the 1990s has generally created a dearth of speculative development across Europe. Development activity for large-scale units is primarily conducted on a design and build basis, particularly as construction timescales tend to be much shorter than other property types. Cost competitive design and build solutions are being provided to cater for the occupier's specific need, which minimise the floorspace but maximise the cube content, internal layout and the design of the racking systems.

Nevertheless, the amount of distribution space available to let has improved across Europe, as demand from tenants with increasingly good covenants has become stronger. Indeed, as the large international logistics companies and major retailers' who predominantly take the prime space in each market have increased their market share, this has led to an increase in the amount of modern stock in almost all markets. While supply levels are increasing, what is apparent is that there is an undersupply of product at strategic locations. Much of the available space is secondary in terms of location or specification, and in fact vacancy rates for new built space remain low.

Investment

The increasing maturity of the sector and the growing leasing market is creating demand for more investment products and the distribution sector is emerging as a distinct asset class. Stability and the higher yields associated with the sector are attracting interest but suitable stock is limited. Many of the major funds have all recently set up specific logistics funds to exploit this sector of the market.

Investors are still placing emphasis on location and covenant, and demand is focussed on the core western markets and increasingly on the emerging markets of Central and Eastern Europe. Competition for product has intensified, with increasing numbers of investors entering the sector coupled with increased activity from owner-occupiers. Demand from the latter has been boosted by lower interest rates and this has underpinned values in the market. Nevertheless, it only really becomes economically viable for third party logistics operators to buy property when the logistics contract is in excess of 10 years.

Prime warehousing yields remain high in comparison to other property sectors but have hardened over the last two years and average 9.7%. Headline yields are between 6.5% and 7.5% in both Germany and UK, whereas they are over 10% in the central European markets of Prague, Budapest and Warsaw.

Rents

Rents for European distribution space have fallen by an average of -1.5% per annum over the last five years and by -1.9% over the last two years, slightly below all industrial growth of -1.5%. This decline was arrested by a return to modest growth in late 2003.

Rental falls at the end of the last decade were confined to Central and Eastern Europe, while most of Western Europe recorded positive growth. However, recent rental movement has been downwards in most Western markets, while Central European rents are now stabilising after a strong upturn in late 2002. The steepest rental decreases over the last two years were seen in Dublin and in Amsterdam, where rents declined by an average of more than 8% per annum. In contrast, the largest rise was in Moscow; buoyed by strong Russian

economic growth this city has experienced a jump of around 5% per annum since 2001.

Despite declining rental levels, London (M25) remains the most expensive location to rent space, with prime space letting for €132 per sq m per year.

Most expensive distribution rents by submarket 2003 (€ per sq m per year)

1	London (M25)	132
2	Stockholm	109
3	Moscow	107
4	Dublin	92
5	Frankfurt Airport	90
6	Schiphol Airport	85
7	Barcelona	83
8	Midlands	83
9	Munich	78
10	Glasgow/Lanarkshire	78

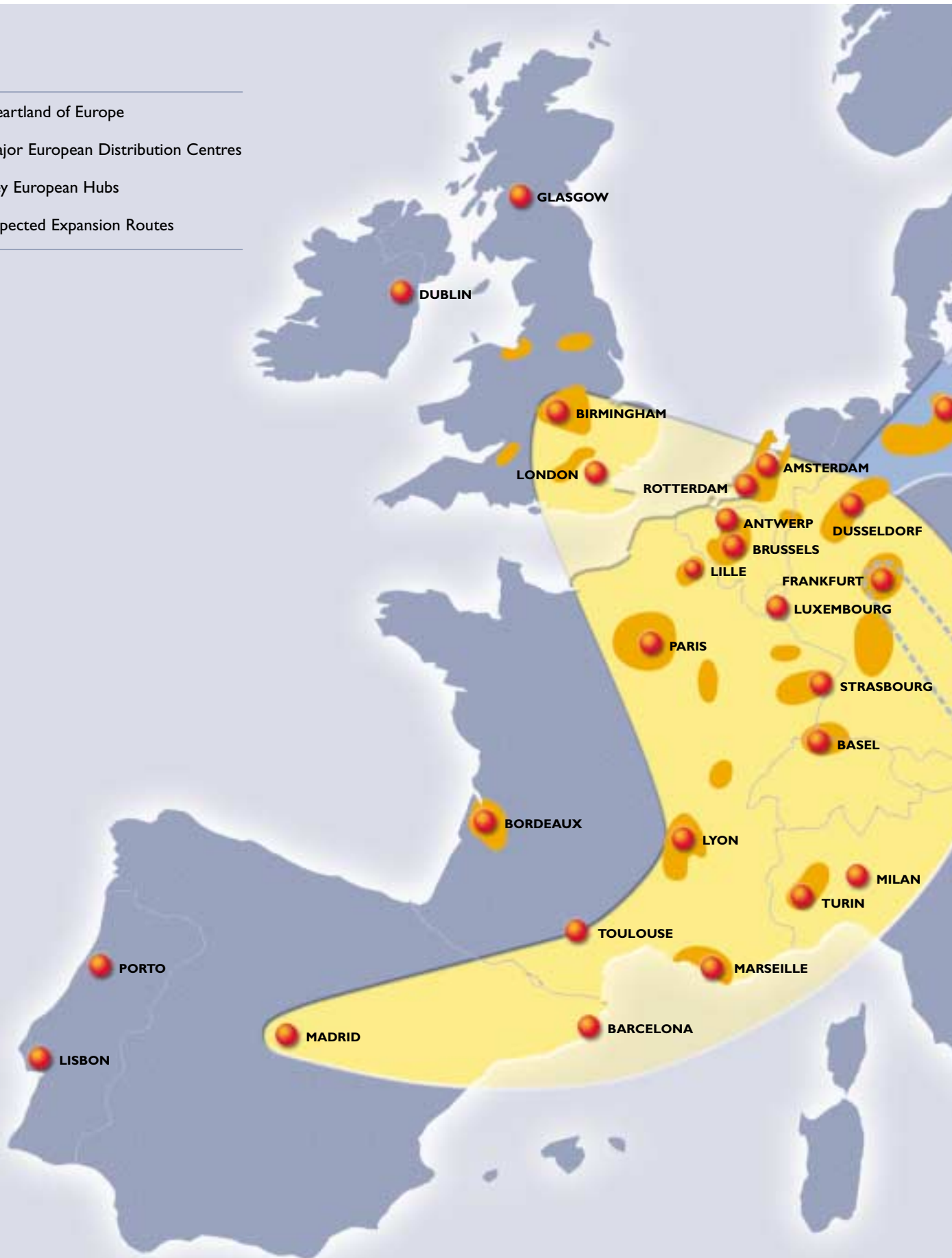
Average Annual Compound Rental Growth by country 2001-2003

Country	Distribution
Austria	-4.2%
Belgium	-2.4%
Czech Republic	-2.7%
France	-1.4%
Germany	2.8%
Hungary	-9.7%
Ireland	-8.5%
Italy	4.5%
The Netherlands	-10.4%
Poland	1.4%
Portugal	-5.7%
Russia	5.3%
Spain	1.1%
Sweden	-0.1%
UK	1.4%

PRINCIPAL DISTRIBUTION LOCATIONS

Key

- Heartland of Europe
- Major European Distribution Centres
- Key European Hubs
- Expected Expansion Routes





ROAD

Road transport remains the dominant mode of transport in Europe accounting for around three quarters of all freight transported within the EU. The volume of freight carried by road has increased by more than 40% over the last 10 years. However, whilst popular, in the main due to its flexibility and cost effectiveness, the EU road network is becoming increasingly congested. This has environmental and social impacts and the EU is actively discouraging road freight via its Marco Polo programme, which encourages other modes of transport. A number of road schemes are nonetheless underway as part of the Trans European Transport Network (TEN-T) project, aiming to improve intra-EU communications.



Country	Goods Transported 2001 (million tonne km)	Growth 1995-2001 %	Modal Split to Road %*
France	278,618	80.5	76.2
Italy	254,616	46.0	86.7
Germany	245,037	23.0	69.6
UK	144,084	-3.7	83.5
Spain	101,612	37.3	85.6
Poland	71,097	-0.7	n/a
Czech Republic	40,224	28.6	n/a

Source: EUCushman & Wakefield Healey & Baker European Research Group

RAIL

Rail transport is an important mode of distribution, but the volume of rail freight has declined by around 7% over the past ten years.



Rail is perceived to be less competitive than road, mainly because it is relatively unreliable and more difficult to move across borders, although remains popular for transporting heavy goods over long distances. The EU are currently overseeing a number of both legislative and engineering changes to encourage greater demand for rail transport, such as ongoing works for new high speed rail lines across Europe, as well as deregulation of the rail freight market and harmonisation of gauges and signalling.

Country	Total Cargo 2001 (million net tonne km)	Growth 1995-2001 %	Modal Split to Rail %*
Germany	80,864	18.8	14.5
Poland	64,710	-6.4	n/a
France	64,279	38.7	15.6
Italy	23,163	-3.8	8.0
Czech Republic	18,950	-25.4	n/a
UK	18,900	45.4	10.0
Sweden	18,748	-3.3	36.6

Source: EUCushman & Wakefield Healey & Baker European Research Group

AIR

Air freight has grown by an estimated 7% per year at the major EU 15 airports since 1993. Frankfurt remains the busiest airport in terms of cargo, followed by Paris CDG. Despite being one of the most expensive modes of distribution, the speed and relative ease of air transport is making it more popular. Delays caused by air traffic control systems have become a problem however and to ease this a "Single European Sky" has been proposed, in which national boundaries and airspace with their different controls will no longer be necessary. As environmental issues come to the fore, increased taxation for operators could result in further cost increases for air transport.



Europe's main airports for cargo	Total Cargo 2002 (000 metric tonnes)	Growth 2001-2002 %
Germany, Frankfurt	1,495	1.3
France, Paris Charles de Gaulle	1,399	2.8
The Netherlands, Amsterdam Schiphol	1,240	4.8
UK, London Heathrow	1,235	4.6
Belgium, Brussels Zaventem	510	-9.0

Source: ACI/Cushman & Wakefield Healey & Baker European Research Group





PORTS

The growth in sea transport has continued, as it remains one of the most effective ways of transporting heavy goods. Over 70% of EU external trade and approximately 30% of internal trade goes by sea. While the gross weight of goods handled in all EU15 ports increased by only 2.5% between 1997 and 2000, the major ports have consistently increased their total tonnage moved, with the German ports of Hamburg and Bremen showing the most significant growth in total throughput. Nevertheless, the port of Rotterdam retains its position as Europe's leading port, and, indeed, has the largest throughput of any port in the world.

Europe's major container ports	Cargo volume 2002 (million metric tonnes)	Growth 1999-2002 %
Rotterdam	322	5.9
Antwerp	132	13.8
Hamburg	98	21.0
Le Havre	68	6.3
London	51	-1.9
Bremen	47	30.6

Source: Port of Rotterdam/Cushman & Wakefield Healey & Baker European Research Group

INLAND WATERWAYS

Despite accounting for a small share of freight movement, there has been steady growth in usage over the last 10 years. Not all countries have navigable inland waterways, but certain parts of Europe, in particular north western Europe, benefit from the advantage of international connections such as the Rhine, the Elbe and the Danube. As part of the Trans European Transport Network (TEN-T) project, the EU hopes to encourage this sustainable form of cargo transport by improving and standardising the existing network.

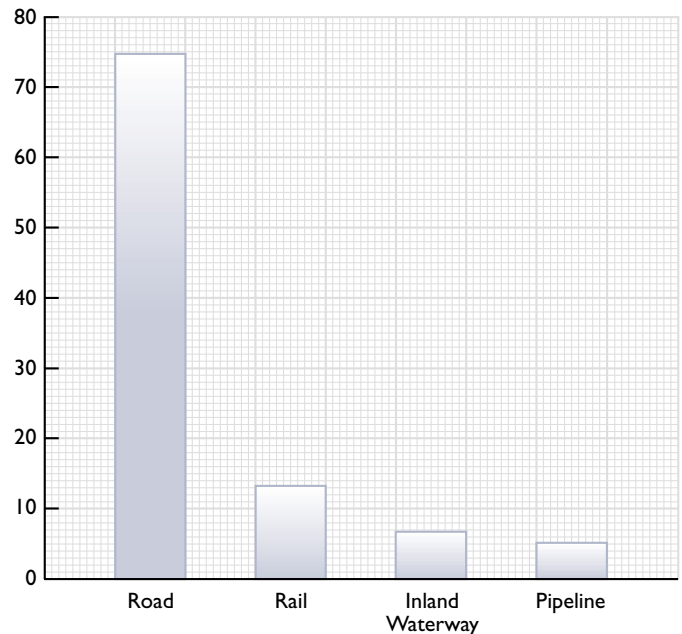
Country	Total Cargo	Growth 1990-1999 %	Modal Split to Inland Waterway %*
Germany	35,281	10	12.8
The Netherlands	23,988	5	41.6
Belgium	4,025	23	11.8
France	3,112	7	2.0
Austria	1,152	n/a	5.2

Source: Eurostat/Cushman & Wakefield Healey & Baker European Research Group

*1999 data based on tkm performed. Source: DG Energy & Transport

Goods Transport: modal split 1999

(based on tkm performed)



Distribution Market Outlook

Many of the recent trends experienced in the sector are likely to continue over the next few years, impacting on the optimal location for distribution hubs and on demand patterns.

The expansion of the EU will create new opportunities for both occupiers and investors alike. Fundamental changes to logistics operations in the CEE region will emerge as goods and services will be unhindered at borders and customs duty will be abolished. New trade routes will develop and additional hubs will emerge to facilitate efficient distribution.

Goods are already being transported over greater distances as production locations shift and new markets to the East open up. Improved infrastructure will fuel the pace of progress, in particular growth of multimodal distribution is expected and it is likely that more emphasis will be placed on a wider range of transport sectors, in particular the need for a more efficient rail network is evermore important.

Outsourcing will continue to expand and there will be greater emphasis not just on 3PL but also on 4th party logistics, as many larger operators look to provide an integrated end to end supply chain approach. The increasing focus on core competencies, globalisation and the growth of e-commerce and technology requirements will drive this trend.

The leasing market will expand, as reliance on outsourcing increases and flexibility remains a core issue. The increasing maturity of the sector should encourage developers to build and investors to diversify their portfolio offer via indirect vehicles to access expert managers. Demand will remain focussed on areas which are well located, but there will be an increasing trade off between cost and accessibility. In the short term, the sector will remain stable but steady improvement is expected to emerge in later 2004.

Distribution costs across Europe (September 2003)

For rents assume a 10,000 sq m unit, 10m eaves height, 35-40% site coverage, built to shell & core.
For land assume prime location with basic infrastructure in place.

Country	Location	Local Currency	Rent		Building Costs		Land Prices	
			€/sq m /year	\$/sq ft /year	€/sq m	\$/sq ft	€/sq m	\$/sq ft
AUSTRIA	Innsbruck	€/sq m/month	60	6.50	1450	157.00	435	47.00
	Salzburg		54	6.00	1450	157.00	363	39.00
	Vienna		60	6.50	1450	157.00	435	47.00
BELGIUM	Antwerp	€/sq m/year	42	4.50	300	32.50	75	8.00
	Brussels		47	5.00	300	32.50	125	13.50
	Ghent		37	4.00	300	32.50	75	8.00
	Limburg Province		31	3.50	300	32.50	30	3.00
	Liege		36	4.00	300	32.50	20	2.00
CZECH REPUBLIC	Brno	€/sq m/month	54	6.00	360	39.00	31	3.50
	Prague		60	6.50	360	39.00	34	3.50
FRANCE	Lille	€/sq m/year	42	4.50	300	32.50	23	2.50
	Lyon		42	4.50	300	32.50	30	3.00
	Paris		53	6.00	300	32.50	49	5.50
	Marseille		40	4.50	300	32.50	30	3.00
	Nancy		42	4.50	300	32.50	18	2.00
GERMANY	Berlin	€/sq m/month	72	8.00	500	54.00	140	15.00
	Frankfurt Airport		90	10.00	500	54.00	485	52.50
	Hamburg		72	8.00	500	54.00	150	16.00
	Munich		78	8.50	500	54.00	380	41.00
	Ruhr Valley		66	7.00	500	54.00	150	16.00
	Stuttgart		66	7.00	500	54.00	640	69.00
HUNGARY	Budapest	€/sq m/month	60	6.50	450	48.50	36	4.00
IRELAND	Dublin	€/sq m/year	92	10.00	650	70.50	150	16.00
ITALY	Milan	€/sq m/year	62	7.00	330	35.50	115	12.50
	Rome		62	6.50	330	35.50	130	14.00
THE NETHERLANDS	Amsterdam	€/sq m/year	60	6.50	450	48.50	300	32.50
	Rotterdam		55	6.00	450	48.50	150	16.00
	Schiphol Airport		85	9.50	450	48.50	350	38.00
POLAND	Poznan	€/sq m/month	52	5.50	414	45.00	18	2.00
	Silesia		50	5.50	414	45.00	18	2.00
	Warsaw		60	6.50	414	45.00	24	2.50
PORTUGAL	Lisbon	€/sq m/month	48	5.50	300	32.50	150	16.00
RUSSIA	Moscow	\$/sq m/year	107	12.00	429	46.50	370	40.00
SPAIN	Barcelona	€/sq m/year	83	9.00	300	32.50	750	81.00
	Madrid		58	6.50	180	19.50	360	39.00
SWEDEN	Gothenburg	SEK/sq m/year	65	7.00	654	71.00	44	5.00
	Malmo		65	7.00	654	71.00	44	5.00
	Stockholm		109	12.00	654	71.00	109	12.00
UK	Glasgow/Lanarkshire	£/sq ft/year	78	8.50	430	46.50	400	43.50
	London (M25)		132	14.50	520	56.50	361	39.00
	Midlands		83	9.00	455	49.00	108	11.50
	Warrington		74	8.00	433	47.00	94	10.00

All conversions rounded to nearest 0.5

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