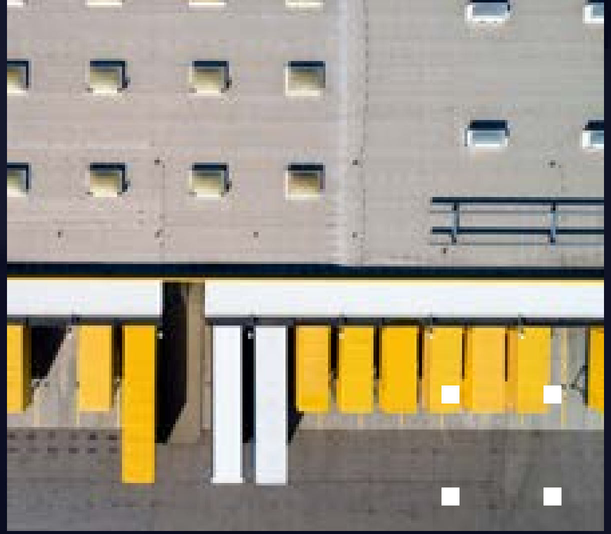
Savills Takes Stock

Global Capital Markets Logistics Q1 2025



savills

Savills Takes Stock: Q1 2025

Global outlook

Oliver Salmon

Director, World Research

Taxing times as global economic outlook deteriorates

The current global economy as we know it can be divided into two states of being; pre- and post-'Liberation Day'. In the first, growth was steady, if unspectacular, as falling inflation and robust labour markets supported rising household real incomes, creating a virtuous cycle in activity. In the second, volatility and uncertainty are the prevailing characteristics, following a series of tariff announcements from the US Administration, disrupting a status quo that has persisted for the last 80+ years.

The extent of the economic impact remains highly uncertain, not least because the tariffs are changing on an almost daily basis. The IMF expects a hit to global economic growth of around 0.5%, incorporating tariff announcements up to mid-April (and so not including the deal with China), with the US economy seeing the most significant damage. But the initial hit to sentiment data could lead to a more severe downturn. In the US, for example, consumer confidence has fallen sharply since the tariffs were first announced.

What we do know is that President Trump has now blinked several times due to various external pressures, first providing a 90-day reprieve to most trade partners from his 'reciprocal tariffs', and then exempting some consumer electronics and automobiles from the most punitive of duties. This would indicate that he does indeed have a pain threshold, which should rule out the most extreme downside scenarios. But tariffs are also ideological to the President, which means that while he remains in power, they are here to stay. Even with a temporary deal with China, the average US import tariff has risen from 2.5% at the end of 2024 to nearly 18%, according to the Budget Lab at Yale. So we are not returning to the pre-Liberation Day steady state either.

Until there is some clarity over where we land in the wider spectrum of possible scenarios, a period of caution will grip global real estate capital markets.

> "Discretionary vendors have a tried and tested gameplan from recent years: sit tight and wait for better times ahead"

Real estate is a GDP-linked asset class, so it stands to reason that many investors would prefer to sit on their hands, and their cash, rather than deploy into this economic environment.

Ultimately, weaker global growth will feed into the outlook for occupational demand and rents across all sectors. Investors underwriting new deals will need to consider the impact on their tenants. This will impact expected returns, and therefore yields may need to rise. But real estate is not a liquid market, and with few motivated sellers to support turnover and price discovery, discretionary vendors have a tried and tested gameplan from recent years: sit tight and wait for better times ahead. In the interim, expect more deliberation over the prevailing 'bid-ask' spread.

This comes at an inopportune moment for the real estate market, after finally showing signs of emerging from a two-year period of malaise, underpinned by a surge in global interest rates. Global real estate investment rose by nearly 20% in the second half of last year, compared with the with same period in 2023. The first quarter of this year, while not quite hitting the same heights, was encouraging in other ways, for example, there was continued growth in the market share of domestic institutional and cross border investors.

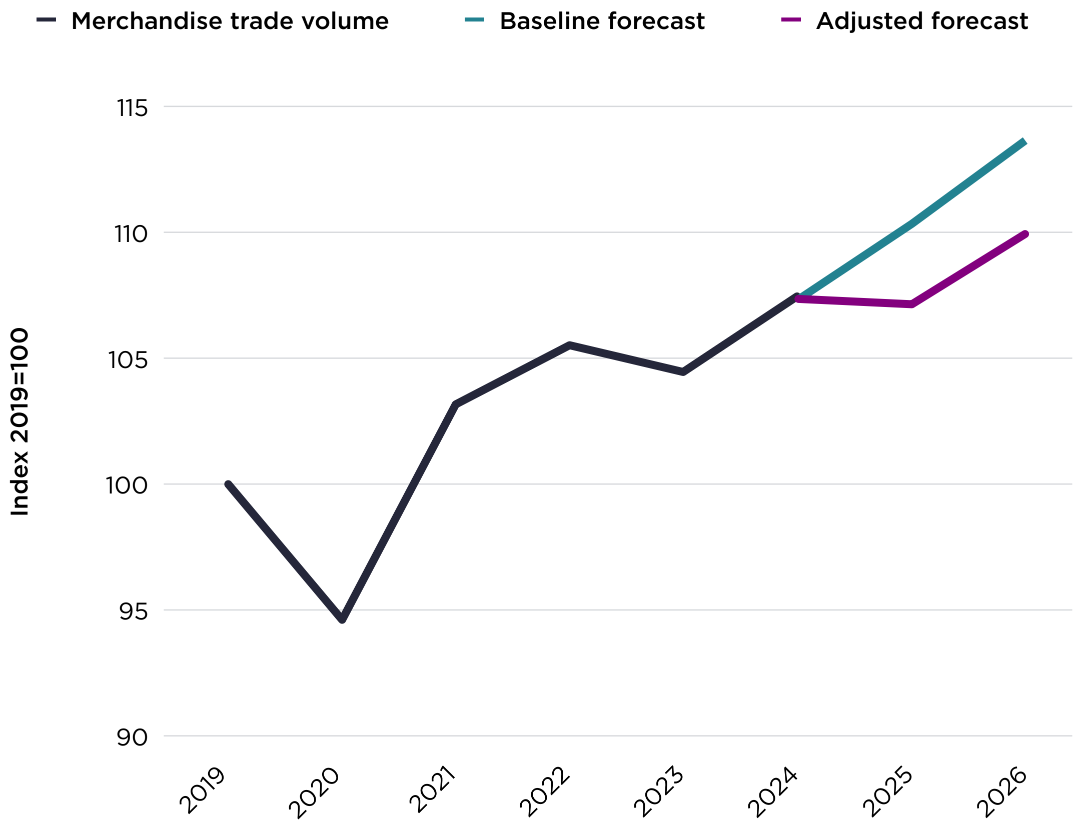
There may be some solace for investors, in the form of lower interest rates and less development. Outside of the US, where monetary policy is conflicted by the dual mandate of full employment and price stability, this is a deflationary demand shock. The major global central banks are expected to cut interest rates at a faster pace than in the pre-Liberation Day world. This could provide a mechanical boost to risk premiums and negate the need for any further yield adjustment. Meanwhile, if it is a risky environment in which to acquire a stabilised asset, then it is even riskier to break ground on speculative development. Scarce assets, with natural-monopoly characteristics in their location, or high quality of amenities, will be well placed to outperform. As the proverb goes, 'fortune favours the brave'.

Tariffs cloud the outlook for industrial and logistics

President Trump's 'Liberation Day' tariffs are set to disrupt the sense of normalcy that had descended over global industrial and logistics markets. In many major markets, occupational take up had returned to pre-pandemic levels in recent quarters, and vacancy rates were beginning to peak out as development activity slows. Meanwhile, global investment of around US$41bn, while not building on the momentum of the second half of 2024, was still 3% up on the year.

From an occupational perspective, the industrial and logistics sector has to be at risk from tariffs, with demand driven by a combination of foreign trade and retail sales. Forecasts from the World Trade Organisation (WTO), based on announcements up to 14 April, predict global trade volumes to fall by 0.2% this year, a near three percentage point downward revision from previous expectations. The knock-on impact on consumer spending, from higher import prices in the US, general uncertainty and weaker economic activity globally, will feed into weaker retail sales, both online and in-store.

GLOBAL: WTO TRADE FORECASTS



Source: Savills Research using WTO. Based on tariff announcements up to and including 14 April.

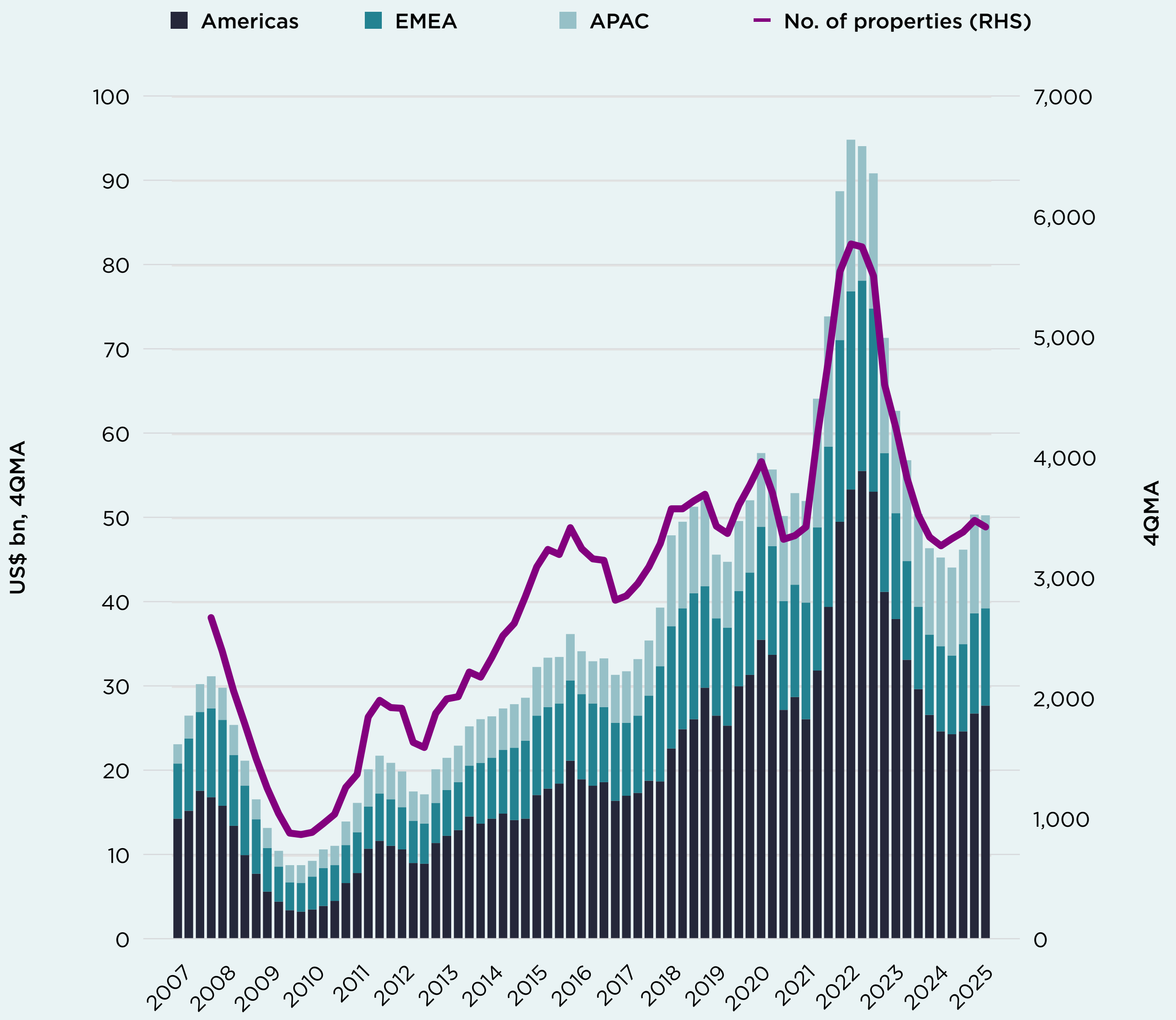
The US market can expect to see the most disruption. In raising the average effective tariff rate to nearly 18%, the current administration is trying to reshape the US trading relationship with the rest of the world. But the benefits, if any, resulting from an increase in nearshoring activity, will only accrue in the very long term. In the interim, according to the IMF, the US economy is expected to experience the greatest hit to GDP over the next few years.

In particular, the tit-for-tat escalation in tariffs between the US and China will have a material impact on trade flows. In 2024, around US$580bn of goods were exchanged between the two largest global economies, according to the US Census Bureau. Even after the recent deal, the average US tariff on Chinese imports is greater than 50%, according to the Peterson Institute for International Economics. This impact will disproportionately affect US West Coast port markets, such as Los Angeles, which handle the majority of these goods.

Elsewhere, major export markets in Asia-Pacific appear vulnerable, especially East and South East Asian markets operating large trade deficits with the US. Any associated weakness in occupational demand – accompanying a slowdown in exports to the US – will exacerbate concerns over excess supply and rising vacancy in markets such as China, Japan, and South Korea. Australia, by comparison, looks relatively better off, owing to a more balanced trading relationship with the US, and a tightly supplied domestic industrial and logistics market, with Sydney boasting a vacancy rate of below 4.5%.

Europe, also looks to be relatively resilient to rising trade tensions, with total exports to the US accounting for less than 3% of GDP, albeit with some regional variation. For investors, Europe's various land and planning constraints should provide an important backstop to returns, should occupational demand weaken in the coming quarters. It is still generally a tenant-friendly market, with an average regional vacancy rate of 6% nearly double the recent cyclical low. But a scarcity of opportunities remains a key differentiator in the market, and explains why we continue to see downward pressure on prime yields in core markets, as buyers compete for the best assets.

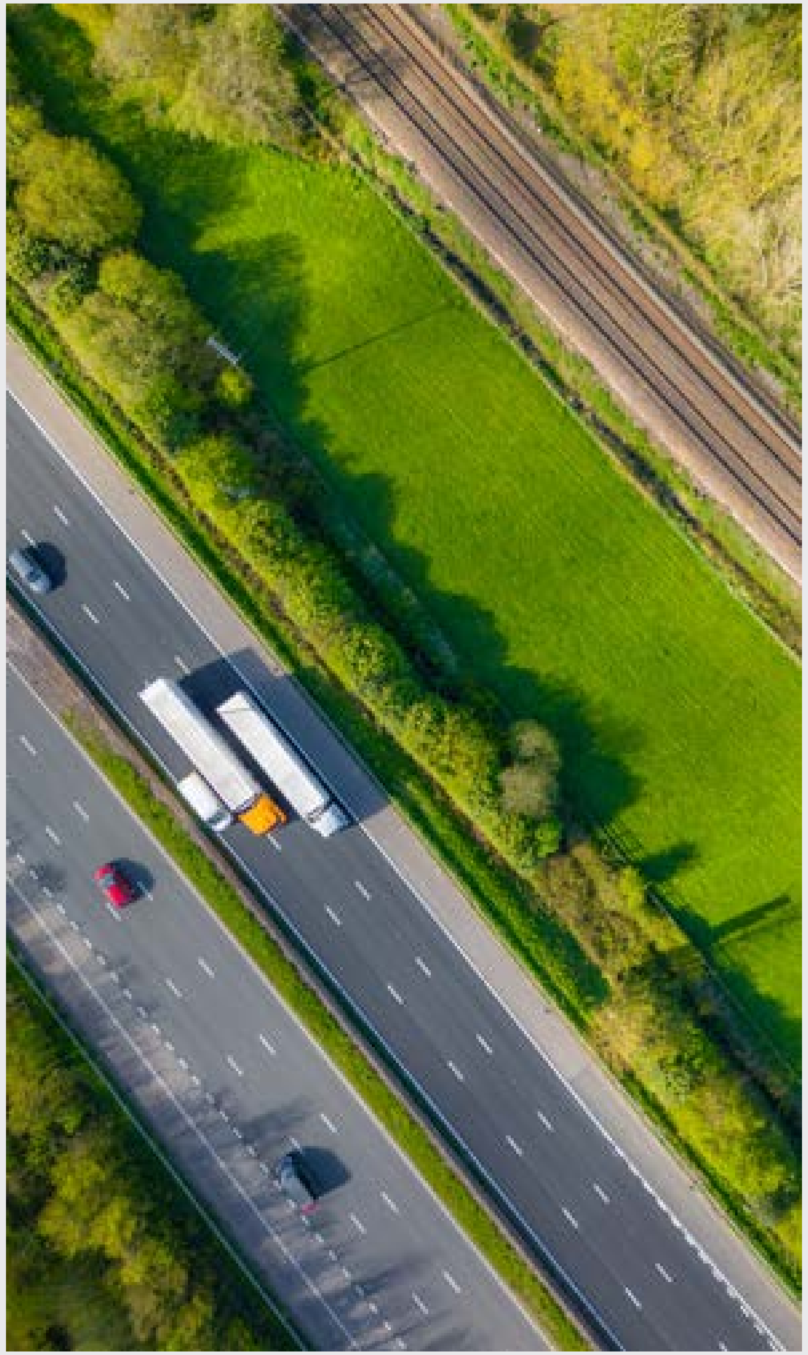
GLOBAL: INDUSTRIAL AND LOGISTICS INVESTMENT TURNOVER



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

Savills Takes Stock: Q1 2025

Regional outlook



EMEA (Europe, Middle East and Africa)

Total investment across the EMEA region of €9.3bn (US$9.7bn) represented a 1.5% rise on the year. This was supported by a solid increase in portfolio and M&A activity – including the completion of AustralianSuper's acquisition of a 50% stake in Oxford Properties' portfolio of 76 assets, located across the UK, Denmark, France, Germany, Netherlands, and Spain. Outdoor storage is a growing area of interest – providing more affordable options to meet tenants' warehousing and storage requirements and a low capital expenditure alternative to investors.

The UK remains the largest regional market, with investment of £2.3bn (US$2.9bn) in Q1 rising by 9% on the year. But in real estate markets, where the UK leads, continental Europe often follows, and this dynamic is supporting a recovery in the rest of Europe, boosted by attractive relative pricing. With the cost of debt falling to around 3.5-4% for prime assets in core mainland European markets, cash-on-cash returns are beginning to look tempting.

The German market is an obvious beneficiary from this process, and the near 120% y/y increase in investment in the first quarter was supported by the continued growth in portfolio deals. Cross-border investors backed around 70% of acquisitions in early 2025, with US institutions prominent. In general, there appears to be good liquidity for these multi-asset deals across the region, underpinned by the major specialist investors or 'aggregators' actively looking to build larger pan-European portfolios.

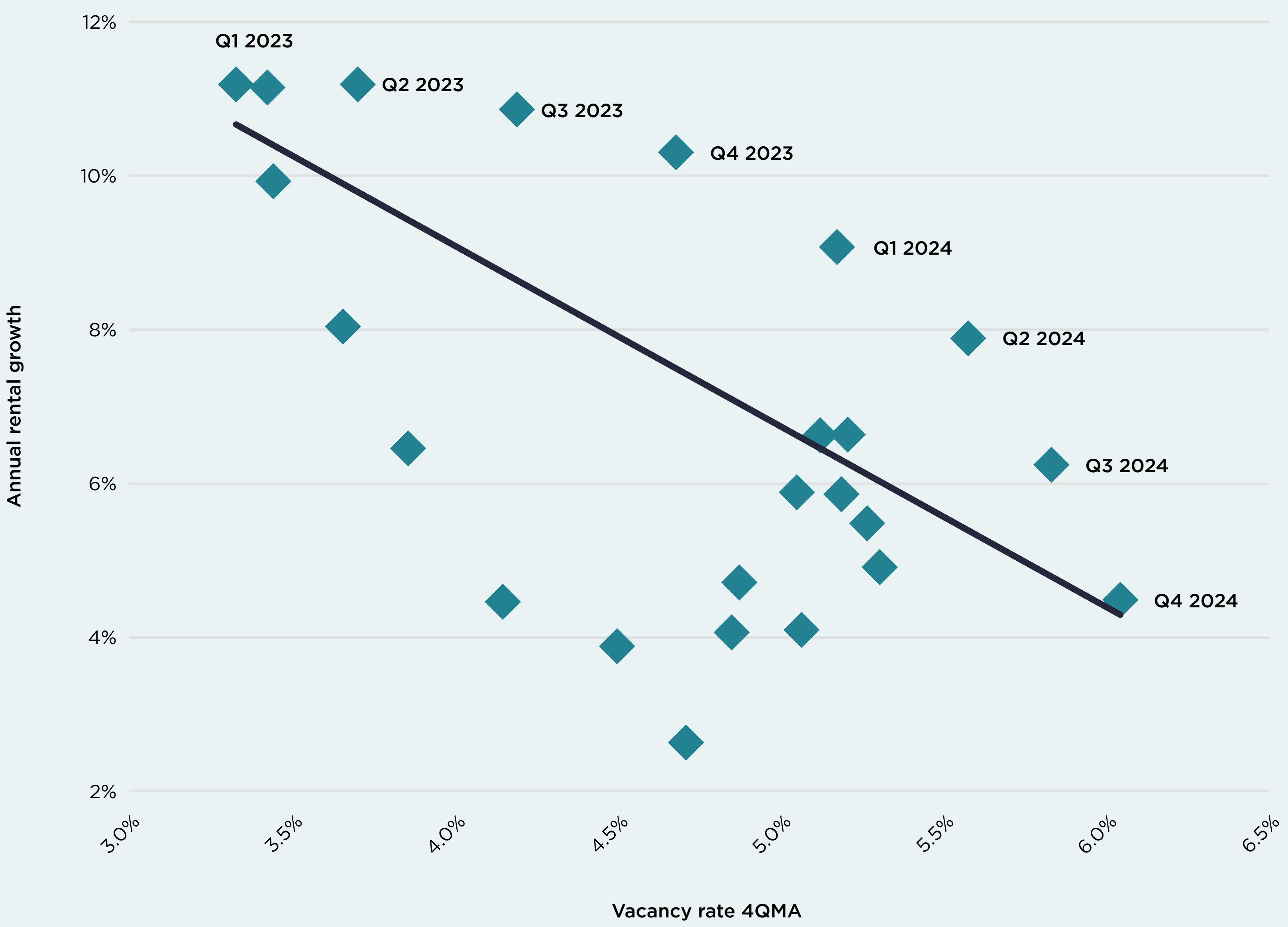
There is also plenty of interest in the Spanish market, and investors are having to compete more aggressively on prices to acquire assets and win processes. The benchmark yield for Madrid now stands at 4.75%, coming in by 30bps on the quarter. This is the same yield available in Paris and Amsterdam – both of which are facing challenges. The former due to a relatively weak economic backdrop, and the latter due to limited stock and tight pricing expectations.

The investment data broadly mimics occupational dynamics, with take-up across the EMEA region also broadly stable in the first quarter. The vacancy rate looks to have plateaued at around 6% on average, providing more tenant-friendly conditions in negotiations, with supply-demand returning to a more balanced relationship following several years of elevated rental growth. But this may not last – it remains difficult to develop on a speculative basis across much of the region.

Increased uncertainty due to the volatile macroeconomic environment will only make development harder to justify. Much of the region has limited direct exposure to US import tariffs, with exports to the US accounting for around 3% of GDP. But the sector remains exposed to a wider slowdown in economic activity and fall in consumer sentiment. Elevated uncertainty more generally will make it difficult for developers to break ground.

In general, there appears to be more activity, and more interest, in the market at the beginning of 2025, with a greater number of investors in the market looking to transact. If 2023 was a year lacking active buyers, and 2024 activity was held back by limited stock and few vendors, then the recent trend is indicative of a more balanced market, with liquidity returning to capital markets. The question now is whether a 'wait-and-see' mentality will return amidst increased uncertainty. The major investors often emphasise a philosophy of investing through the cycle and taking a long-term view, which should support a base-level of activity even if some investment committees are more cautious in the short term.

EMEA: AVERAGE PRIME INDUSTRIAL AND LOGISTICS VACANCY AND RENTS



Source: Savills Research

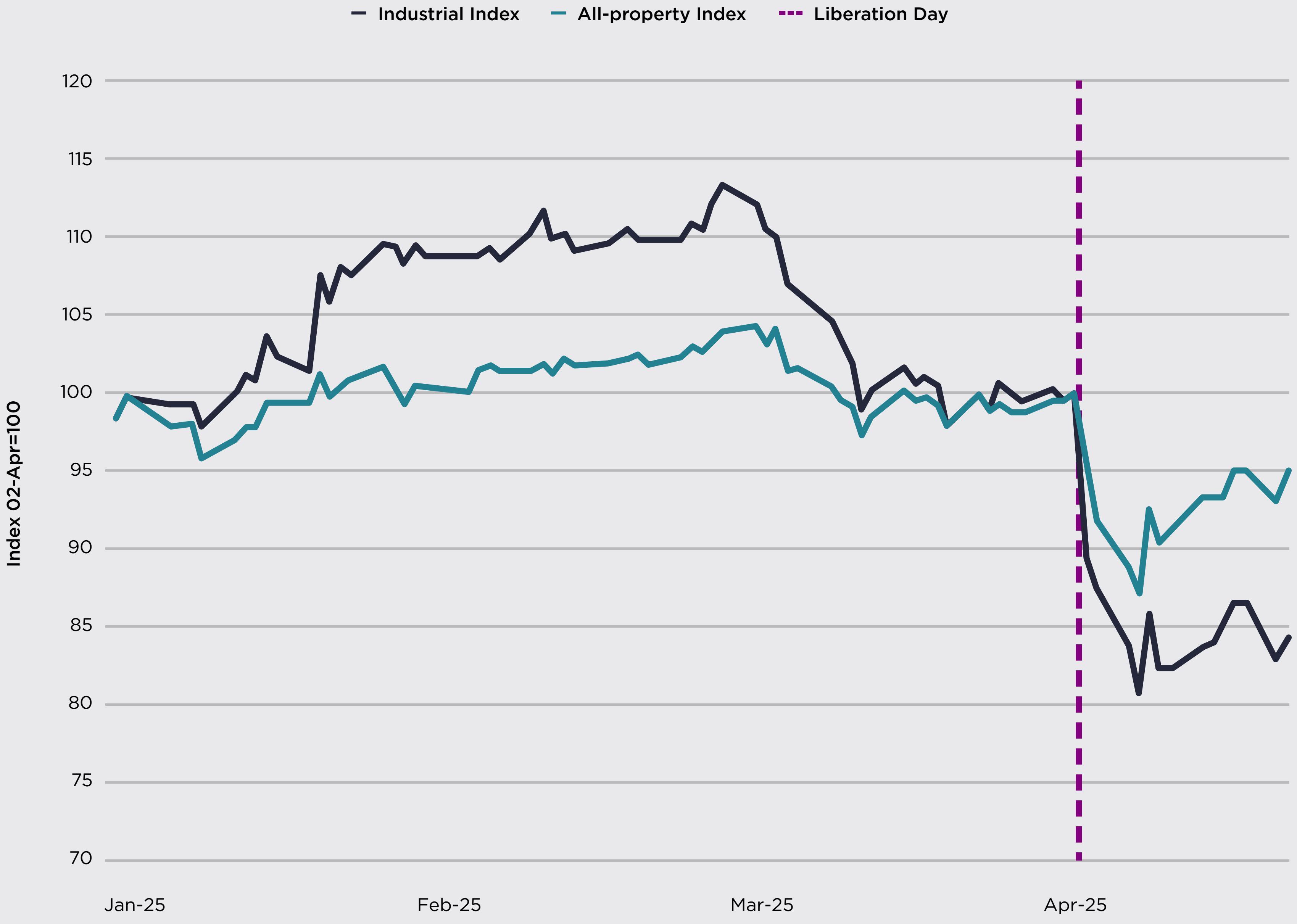
North America

The first quarter data was indicative of a market that is stabilising across both occupational and capital markets. Total US investment of US$24bn in the quarter was 18% up on the year, with the Norwegian SWF Norges Bank undertaking the largest deal of the quarter in acquiring a 45% stake for US$1.1bn in a 14m sq ft (1.3m sq m) portfolio – consisting of 48 buildings spread across Southern California, New Jersey, and Pennsylvania – from the Canadian Pension Fund CPPIB. Pricing has also stabilised since Q3 2024, supported by a decline in the cost of debt over the same period.

Meanwhile, total net absorption of 53m sq ft (4.9m sq m) was in line with recent quarters, and while the national average vacancy rate rose by 0.2% to 7.8% – the highest since 2013 – construction activity continues to slow, providing a backstop to the market that should keep any further increases in vacancy to a minimum. Average rents have been moving sideways for a while now, although remain over 60% up on pre-pandemic levels.

Looking ahead, there is a huge amount of uncertainty surrounding the outlook for trade policy and the economy. The US industrial and logistics sector is probably the most exposed to tariffs from a real estate perspective. This sentiment is reflected in the listed market, where the industrial and logistics REITs sold off by more than other sectors in the aftermath of 'Liberation Day'.

US: FTSE EPRA NAREIT UNITED STATES INDEX



Source: Savills Research using Macrobond

North America

Assuming the US and China remain at loggerheads, it is West Coast markets that are likely to experience the most significant disruption. Over half of all volumes handled at the Los Angeles and Long Beach ports are driven by imports from China, as well as 40% of traffic at the Northwest ports of Seattle and Tacoma. Assuming prohibitive tariffs remain in place, the surrounding areas are likely to see weaker demand for warehousing space, once the stockpiles of inventory are run down.

A wider slowdown in economic activity will impact the market more generally, as higher import prices feed into inflation and weaker retail sales. Over one-third of national leasing activity over the last five years was driven by consumer retail and ecommerce tenants.

A sharp decline in consumer sentiment will only accentuate this dynamic by increasing precautionary savings behaviour. This will lead to weaker discretionary retail, either in-store or online.

A number of Sun Belt markets, which have had to absorb a significant amount of new supply following a recent construction boom, could be vulnerable to this shift in demand. This includes Phoenix, Austin, Dallas-Fort Worth, Atlanta, and Houston. Meanwhile, markets such as Northern New Jersey, where Chinese 3PLs have been actively taking space, could also be vulnerable should they exit the market, even though local ports have a more diversified exposure.

APAC (Asia Pacific)

Before recent tariff announcements, industrial and logistics markets across the Asia Pacific region were generally seeing improved conditions. Concerns of oversupply in South Korea and Japan were easing in line with a slowdown in development activity, and major cross-border investors were active in the region, with a weight of capital particularly evident in the Australian market. This is not necessarily reflected in deal activity, with investment across the region falling by 25% y/y in Q1, but this follows a strong second half in 2024.

However, trade tensions cloud the outlook for the region, given that the US Administration is focused on countries with large goods-trade deficits, which include many East and Southeast Asian economies. For much of Asia Pacific, a 90-day delay in 'reciprocal' tariffs was a welcome reprieve, but the threat will linger, as it is not obvious how governments can shift the conversation away from deficits in order to secure concessions. Meanwhile, China's refusal to back down underpinned a rapid escalation, with bilateral tariffs quickly rising in excess of 100%. This matters for the rest of Asia Pacific, even with a temporary de-escalation. A slowdown in China's economy will have wider implications for trade in the region, as will any policy response, particularly in relation to the value of the renminbi and how this impacts relative competitiveness of regional exports.

In China, domestic institutions are increasingly the only source of liquidity in real estate capital markets. Cross-border investors did not acquire a single asset in China in Q1, according to MSCI RCA data, and are instead largely looking to exit existing investments. Foreign investors were behind around two-thirds of disposals in the quarter, a trend typified by the sale by Blackstone of three logistics assets to Ping An insurance for CNY2.7bn (US$371m).

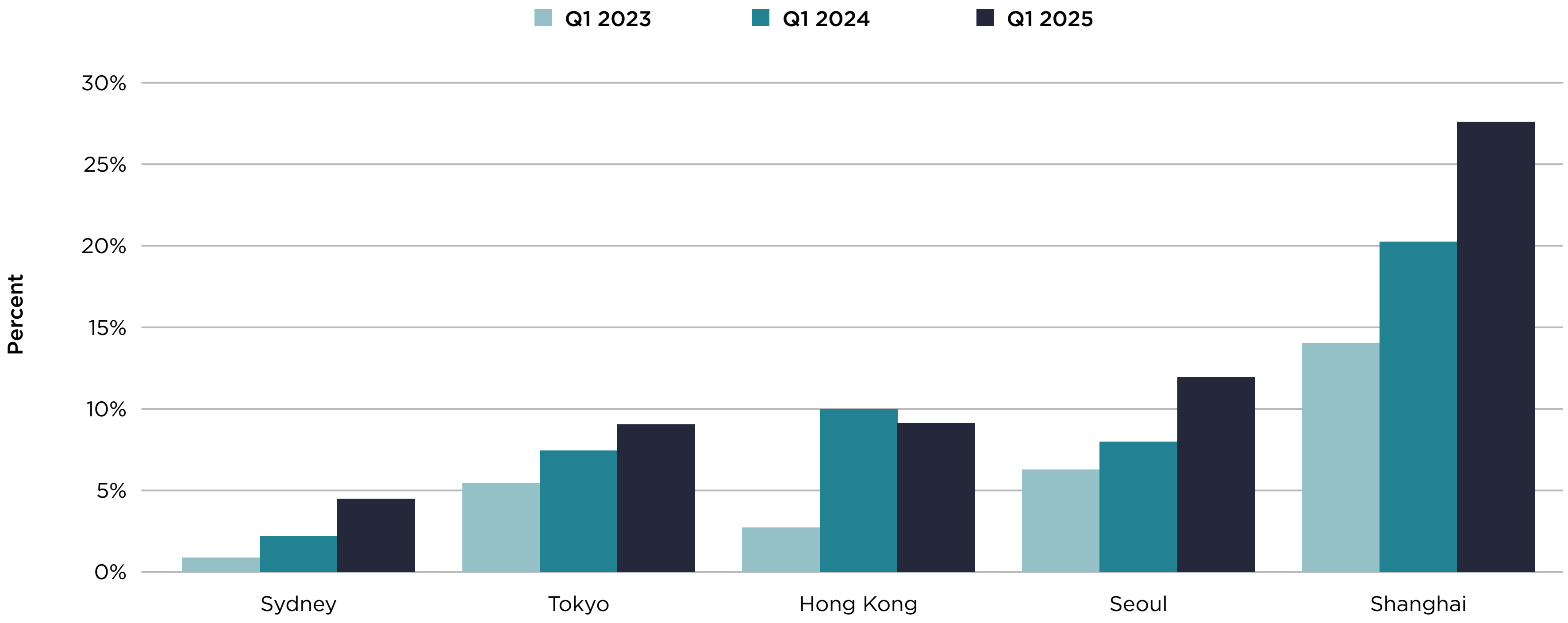
In South Korea, while the vacancy rate has risen to 12%, up from 8% a year ago, there are encouraging signs that the market is bottoming out. New construction of industrial buildings in South Korea was down by 20% y/y in the first few months of this year (by floor area), and landlords are converting excess cold storage space into dry storage, a strategy underpinning two of the largest deals of this quarter, backed by Brookfield and GIC (in an joint venture with the domestic investor Koramco). Indeed, foreign capital was dominant in Q1, accounting for over 80% of deal activity, with Warburg Pincus and Oaktree also prominent this quarter.

With greater deal momentum comes a more balanced outlook on pricing, with the prime yield of 5.5% no longer seeing upward pressure. This is supported by a cost of debt that has fallen by around 100bps over the last 12 months, in line with the prevailing interest rate, and investors are now able to enjoy accretive returns to debt financing. This could be challenged by a deteriorating economic outlook – business sentiment was already at a post-pandemic low before 'Liberation Day' following a period of domestic political turmoil.

APAC: MERCHANDISE TRADE BALANCE WITH THE US IN 2024

Source: Savills Research using Macrobond (US Census Bureau).

APAC: PRIME VACANCY RATE OF KEY INDUSTRIAL AND LOGISTICS MARKETS



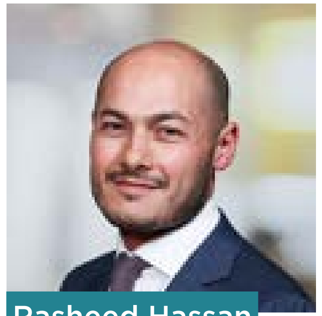
Source: Savills Research

Supply is also close to peaking in Japan, with new construction starts falling by 40% y/y in early 2025. This will allow more space for tenants to absorb excess space and return the market to equilibrium – the vacancy rate in Tokyo has risen to 9.0%, up from 5.4% just two years ago. Nevertheless, the industrial and logistics sector remains popular with investors, many of whom are instead frustrated by a lack of opportunity to deploy. This dynamic is supporting a stable prime yield of 3.3%, despite rising interest rates. In the largest regional transaction in Q1, Softbank acquired a former industrial site owned by the electronics company Sharp for ¥100bn (US$664m), located in Osaka, with a view to repurposing the site as a data centre.

In Australia, and particularly Sydney, there is a significant base of capital looking for opportunities to deploy, but the options are limited, particularly at the prime end of the market. Attractive, stable yields and low vacancy combine to provide encouraging market dynamics for those that can transact. Falling interest rates should give the market further momentum. The Reserve Bank of Australia cut the policy rate in February, the first time in this cycle, and markets are currently pricing in a 3.2% policy rate by the end of 2025, down from 3.85% currently. Australia is also more insulated from the direct impact of US trade tariffs, given it imports more goods than it exports to the US. But as a large commodity exporter that trades heavily with China, the spillover effects could still be notable.

Savills Takes Stock: Q1 2025

Market view



Rasheed Hassan

Head of Global Cross Border Investment
shares his view on the market

Are we on or are we off?
We remain in a start-stop market, struggling to recover the momentum we had pre-interest rate hikes. However, despite the various macro challenges, I believe that we are currently more 'on' than 'off'.

Unsurprisingly, 'Liberation Day' has been unhelpful and provided further justification for caution and procrastination, as well as driving some opportunistic, albeit largely unsuccessful, attempts at price adjustments.

Despite this, the market is being supported by rental growth, the falling cost of debt, and a dearth of truly actionable transactions. Pricing is improving for the best assets, and not just in the darling sectors.

In some cases where owners haven't liked pricing holding firm has borne fruit and buyers have come to them. Where this hasn't been the case, the debt market is offering better than expected pricing in many instances, providing motivation to extend hold periods in the hope of better bids in the next 12-24 months.

There's definitely a market out there, and I'm pleased to say that it feels like it's growing. Transaction volumes may not be showing positive growth in all areas, but the breadth of opportunities that investors will consider is certainly improving in terms of sector, geography and risk profile.

There is no let-up in the appetite for 'beds' of all types. The test for investors, however, is their willingness to underwrite the necessary rental growth and exit pricing to be competitive. Industrial and logistics, for the first time in a long time, has shown some signs of vulnerability. But this doesn't seem to be turning investors away. Instead, they are approaching the sector with a little more discernment. Office demand is strengthening, even in the US where it feels like things are finally turning a corner. Yes...US offices. We are also witnessing a similar story in retail.

In recent years, the combined impacts of rising inflation, higher interest rates, falling property prices and Covid-19 (working from home and increased online shopping) have underpinned a major slowdown in development activity, either because of a lack of confidence or financial viability, or both. The resultant positive impact on rents is providing investors with the necessary assurances to both buy standing assets and re-start developments.

Rents are now growing at such a rate that it's increasingly difficult to use initial yields as the benchmark for comparison. Instead, the 'stabilised' yield is the metric that investors with conviction to buy are scrutinising.

The credit opportunity remains one of the biggest competitors for more equity into real estate. Many investors are being presented with returns that seem more compelling, on a risk-adjusted basis, than those available in the equity. If the interest rate trajectory remains downward (perhaps with the current exception of the US and Japan) and occupational markets hold up, then this narrative will continue to tilt towards the equity. However, the size of the current market opportunity also favours credit. Lenders like new transactions with greater clarity on market values, but they can also participate in refinancing, which the equity can't.

The fall in transaction volumes does not mean there is less real estate, just less of it changing hands. The growing book of pent-up stock not being sold will be a test for the market. Right now, this is holding back fundraising as equity needs to be released to reinvest and/or investors would like to see some round trips on existing commitments before investing more. Time will tell how this story plays out.

Will market dynamics continue improving to support more selling at improved pricing? Will there be enough capital to absorb the volume and keep prices elevated? Will we see more IPO attempts to help liquidity? Though there are still plenty of questions and an absence of clear answers, for now the resilience of the market continues to not disappoint.

PRIME LOGISTICS YIELDS, Q1 2025 (AS AT END-MARCH)

City	Prime net initial yield	Outlook for yields, next 12 months	Typical LTV	Total cost of debt	Cash-on-cash yield	Risk premium
Tokyo	3.30%	→	60%	1.3%	6.3%	1.8%
Hong Kong	4.06%	→	40%	6.3%	2.6%	0.5%
Cologne	4.40%	↓	55%	3.6%	5.4%	1.7%
Madrid	4.75%	→	55%	4.0%	6.2%	2.4%
Île-de-France	4.75%	↓	55%	3.6%	6.2%	1.3%
Amsterdam	4.75%	→	55%	3.6%	6.2%	2.4%
Sydney	5.00%	→	53%	5.3%	4.7%	0.6%
London	5.00%	↓	60%	5.2%	4.7%	0.3%
Northern New Jersey	5.25%	→	60%	6.3%	3.8%	1.0%
Los Angeles	5.25%	→	60%	6.3%	3.8%	1.0%
Shanghai	5.25%	↑	50%	3.7%	6.8%	3.4%
Chicago	5.50%	→	60%	6.3%	4.4%	1.3%
Seoul Metropolitan Area	5.50%	→	60%	5.0%	6.3%	2.7%
Houston	5.75%	→	60%	6.3%	5.0%	1.5%
Singapore	6.50%	→	55%	3.6%	10.0%	3.8%
Dubai	7.50%	→	50%	7.0%	8.0%	3.3%

Source: Savills Research and Macrobond. **Note:** Yields may be different to quoted values in markets where the convention is to use a gross rather than net value. Yields in Singapore reflect the domestic land tenure system, where the longest lease for new industrial properties is 30 years. Values based on end-of-quarter data. See Methodology for details.

Methodology: Net initial yields are estimated by local Savills experts to represent the achievable yield, including transaction and non-recoverable costs, on a hypothetical grade A big-box logistics facility located in a prime location, fully let to a single good profile tenant on a 10-15 year open market lease. The typical LTV and cost of debt represent the anticipated lending terms available in each market. Cash-on-cash returns illustrate the initial yield on equity, assuming the aforementioned LTV and debt costs. The risk premium is calculated by subtracting the end-of-period domestic ten-year government bond yield (as a proxy for the relevant risk-free rate of return) from the net initial yield. Data is end-of-quarter values.

Savills Takes Stock: Q1 2025

Key transactions

Portfolio of 48 buildings spanning Southern California, New Jersey and Pennsylvania, United States

Tenant:	Multiple
Lease length (WAULT):	Undisclosed
Area:	1.3m sqm
Price / NIY:	US$1.1bn/Undisclosed
Vendor:	Canada Pension Plan Investment Board
Vendor nationality:	Canada
Purchaser:	Norges Bank Investment Management
Purchaser nationality:	Norway
Other comments:	The acquisition of a 45% stake values the portfolio at nearly US$3.3bn. Goodman retained a 55% stake.

European Supply Chain Income Partnership, comprising 76 assets located across the UK, Denmark, France, Germany, Netherlands and Spain

Tenant:	Multiple
Lease length (WAULT):	Undisclosed
Area:	730,000 sqm
Price / NIY:	€420m (US$430m)/Undisclosed
Vendor:	Oxford Properties
Vendor nationality:	Canada
Purchaser:	AustralianSuper
Purchaser nationality:	Australia
Other comments:	AustralianSuper acquired a 50% stake in Oxford Properties' European industrial portfolio and operator M7 Real Estate, establishing a new JV with plans to expand the portfolio with 'high-quality last mile and mid-box warehouses' over the next three to five years.

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors.

Oliver Salmon
Global Capital Markets
World Research
+44 (0) 20 7535 2984
oliver.salmon@savills.com

Rasheed Hassan
Global Capital Markets
Head of Global Cross
Border Investment
+44 (0) 20 7409 8836
rhassan@savills.com

Charlotte Rushton
Associate
World Research
+44 (0) 20 7016 3856
charlotte.rushton@savills.com