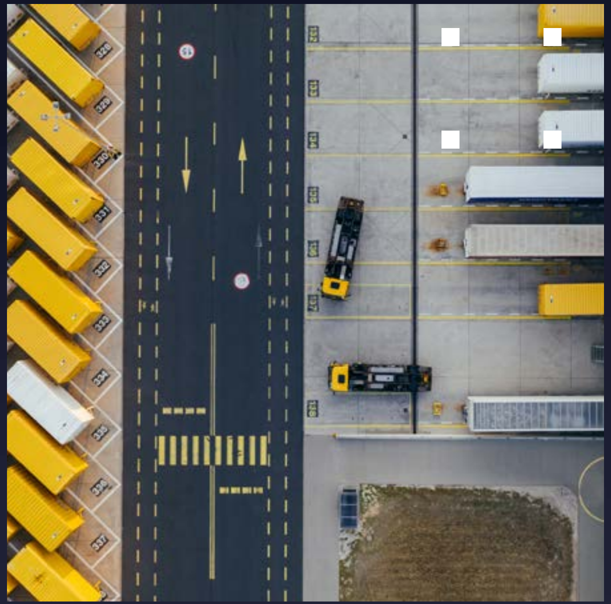
Savills Takes Stock: Global Capital Markets

Logistics Q2 2025



savills

LOGISTICS Q2 2025

Global outlook

Oliver Salmon
Director, World Research

Treading water in turbulent seas

The global economic narrative remains heavily influenced by the actions of the US President, fuelling geopolitical volatility and uncertainty around growth prospects. Despite emerging cracks, the global economy has shown resilience. Equity markets continue to rise and activity levels remain largely unaffected, despite sentiment-based indicators showing some weakness.

Amidst the uncertainty, global real estate markets are treading water, although several preconditions for recovery are in place. A base level of activity persists, with US$193bn transacted in Q2 2025. This is supported by improved sentiment and willingness to transact, a greater acceptance of pricing from both buyers and sellers, and continued broad strength in occupational markets. However, global investment declined by nearly 5% compared to Q2 2024, marking a reversal in momentum relative to the second half of last year.

Fundraising data reflects a similar trend. Nearly US$42bn was raised globally in Q2, according to RealfinX.

This marks the second consecutive quarter of growth, though the figure was boosted by the final close of Blackstone's latest European opportunistic fund. Fundamentally, cash being returned to LP's from existing investments is restricting the capital available for reinvestment. A sustained recovery in fundraising then depends on a revival in transactional activity.

This current state of inertia is underpinned by two factors. **First, long-term interest rates have remained largely unchanged since the start of the year, despite central bank rate cuts.** This is due to a rising term premium, particularly in the US, where concerns over fiscal sustainability have grown following the passage of the 'One Big Beautiful Bill'.

Fiscal sustainability concerns are not confined to the US. The UK, France and Japan face similar issues. Meanwhile in Germany, the relaxation of the debt brake will lead to a significant increase in debt issuance over the next decade to fund defence and infrastructure.

While default risk remains low, persistent fiscal deficits mean investors will demand higher compensation to absorb increased debt issuance, especially in a volatile macroeconomic environment and amid central bank balance sheet reduction.

This dynamic is compressing the risk premium at a time when it arguably should be expanding. Property yields have largely stabilised, except in markets with specific occupational challenges, suggesting a consensus forming on real estate values. However, the outward shift in yields over the last few years has not mirrored interest rate movements, possibly due to expectations of an overshoot in rates amid the global inflation battle.

The second factor behind the subdued transactional market is broader macroeconomic uncertainty. Real estate does not operate in a vacuum, and global instability is clearly weighing on activity. This is not just about tariffs, but the on-off nature of tariffs is not helping. Recent 'deals' with major trade partners, including the EU, Japan and China, should help in this regard. More than anything, investors are looking for certainty to make informed decisions about the future – it is probably naive to believe that these agreements will draw a line in the sand.

With tight risk premiums, there is limited room for yield compression. To meet return expectations, investors are relying on continued strength in occupational markets. From a demand perspective, this depends on the global economy's resilience, which supports leasing demand and rental growth. Elevated uncertainty, volatility and policy by social media clearly act as an impediment to a recovery in deal flow.

On the supply side, the outlook is more encouraging for investors. The same factors stalling transactions are also making new developments difficult. Many global markets face a shortage of the type and quality of buildings tenants seek. This is unlikely to change soon, given the data on new starts and the long lead times for completion.

Overall, the current environment favours a more discerning investor – with a clear understanding of supply-demand dynamics and a comfort with the underlying balance of risk. Investors with strong market presence and sector-specific expertise are best positioned to navigate these early-cycle dynamics. For others, the temptation to remain inactive persists. This may continue to limit the pace of the recovery.

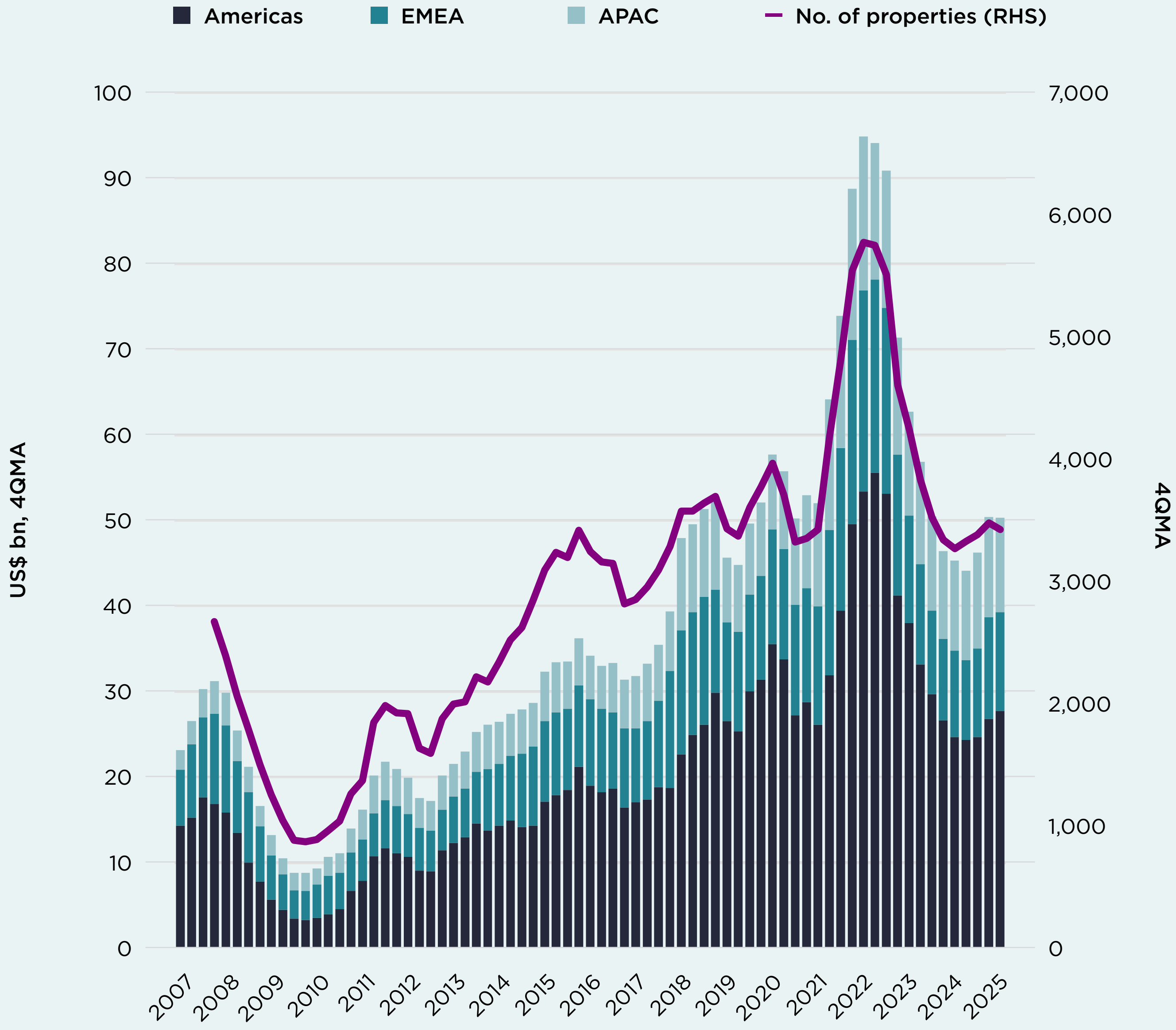
Logistics in limbo

Across the industrial and logistics market, investment of US$42.2bn represented a 10% decline on the year. This followed three consecutive quarters of positive growth and left the first half of the year broadly stable on 2024. Uncertainty over the scale and impact of US import tariffs has clearly hit investor sentiment. This is reflected in recent price movements in the listed sector, with composite REIT benchmarks outperforming the industrial sector across all major markets since 'Liberation Day'.

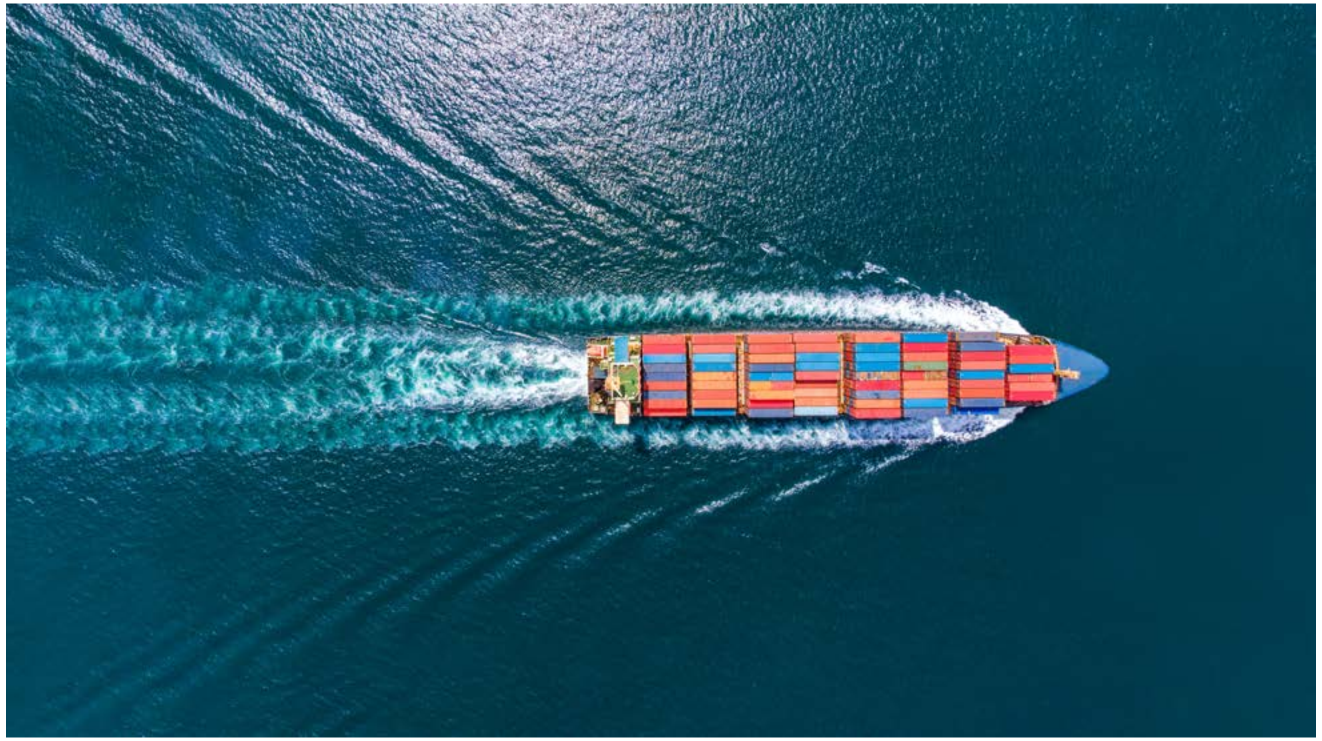
While a shift in momentum in Q2 was apparent across all regions, the slowdown in activity was most pronounced in APAC. Tariffs are broadly perceived as being an act of economic self-harm by the US administration, given that the burden of cost will largely fall on domestic companies and consumers. However, the US economy remains relatively closed to international trade, so by association, the industrial and logistics sector is largely driven by domestic trends (outside some of the major port markets). The same cannot necessarily be said for much of the APAC region, particularly outside Japan. This may go some way to explaining the weakness in activity in Q2, with investors waiting for more clarity in the outlook.

Occupiers are also responding to the wider uncertainty in the macro environment. Leasing activity has been relatively muted at the beginning of this year – particularly in the US and mainland Europe. According to a recent survey of our global network of industrial and logistics specialists, 80% of tenants are taking longer to make leasing decisions, with a majority also looking for more flexibility in their contracting, compared with 12 months ago. In the US, major occupiers are increasingly outsourcing their logistics needs to 3PLs as a way of hedging against the wider market volatility.

GLOBAL: INDUSTRIAL AND LOGISTICS INVESTMENT TURNOVER



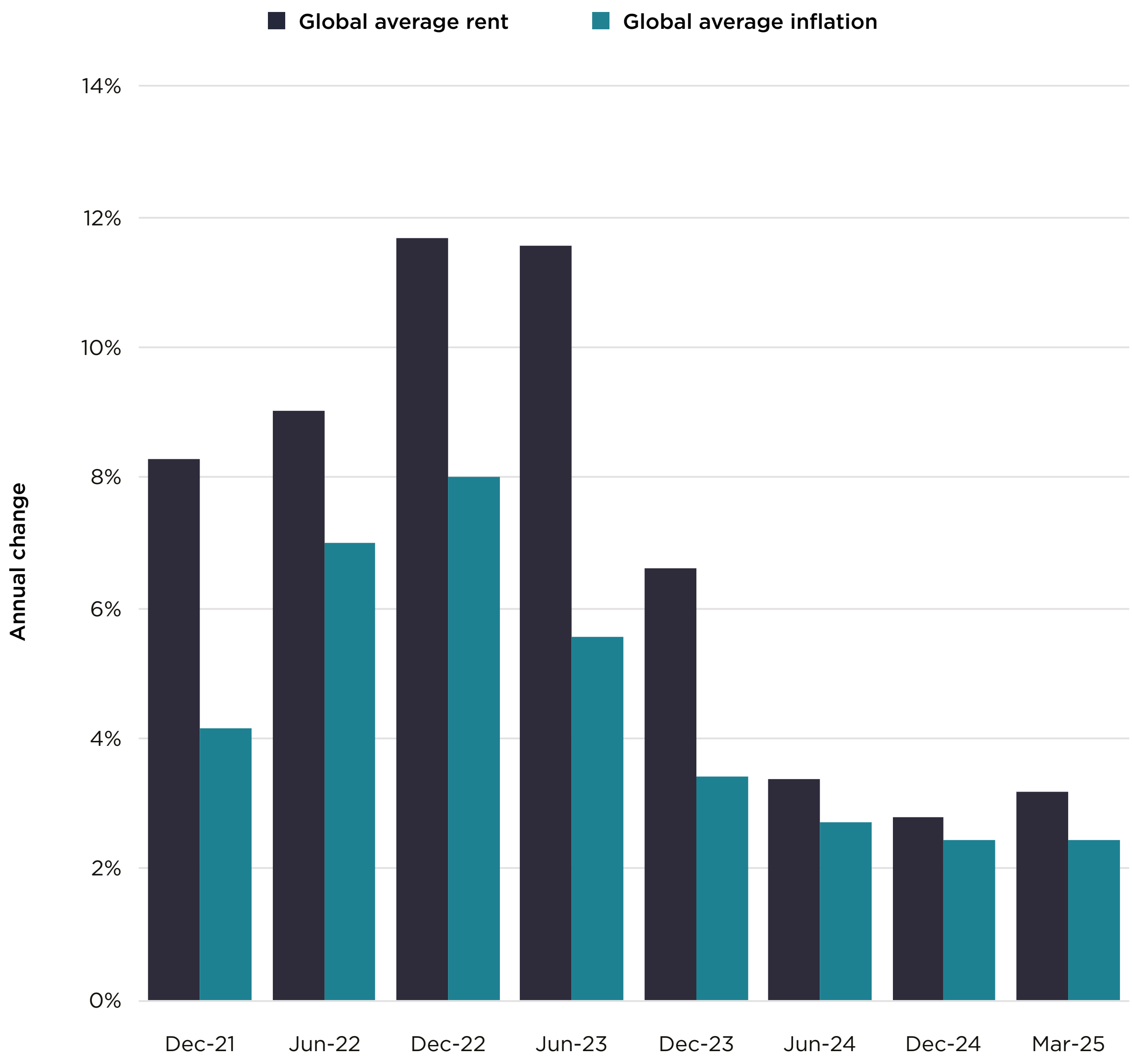
Source: Savills Research using MSCI RCA. Based on independent reports of properties and portfolios. Excluding development sites.



Meanwhile, rental growth is slowing across most major markets, underpinned by increasingly tenant-friendly conditions. This is most apparent in markets that have seen a significant onboarding of new supply in recent years. In the US, for example, around 40% of markets nationwide have seen asking rents fall by 5% or more from recent peaks, while both the Chinese and Japanese markets are also seeing downward pressure.

The outlook appears a little more encouraging, with some clarity forming over the tariffs following recent trade 'deals' between the US and its main trade partners. This should help to release any pent-up demand, both in occupational and capital markets, that may have accumulated through the first half of this year. Supply-side dynamics are also largely supportive, at least from the investor/owner perspective, with a decline in speculative development helping to offset any weakness in tenant demand. This is very evident across much of mainland Europe, as well as major APAC markets, such as Japan.

GLOBAL: PRIME RENTS AND INFLATION



Source: Savills Research using Macrobond. Based on a simple average of major industrial and logistics markets globally.

LOGISTICS Q2 2025

Regional outlook

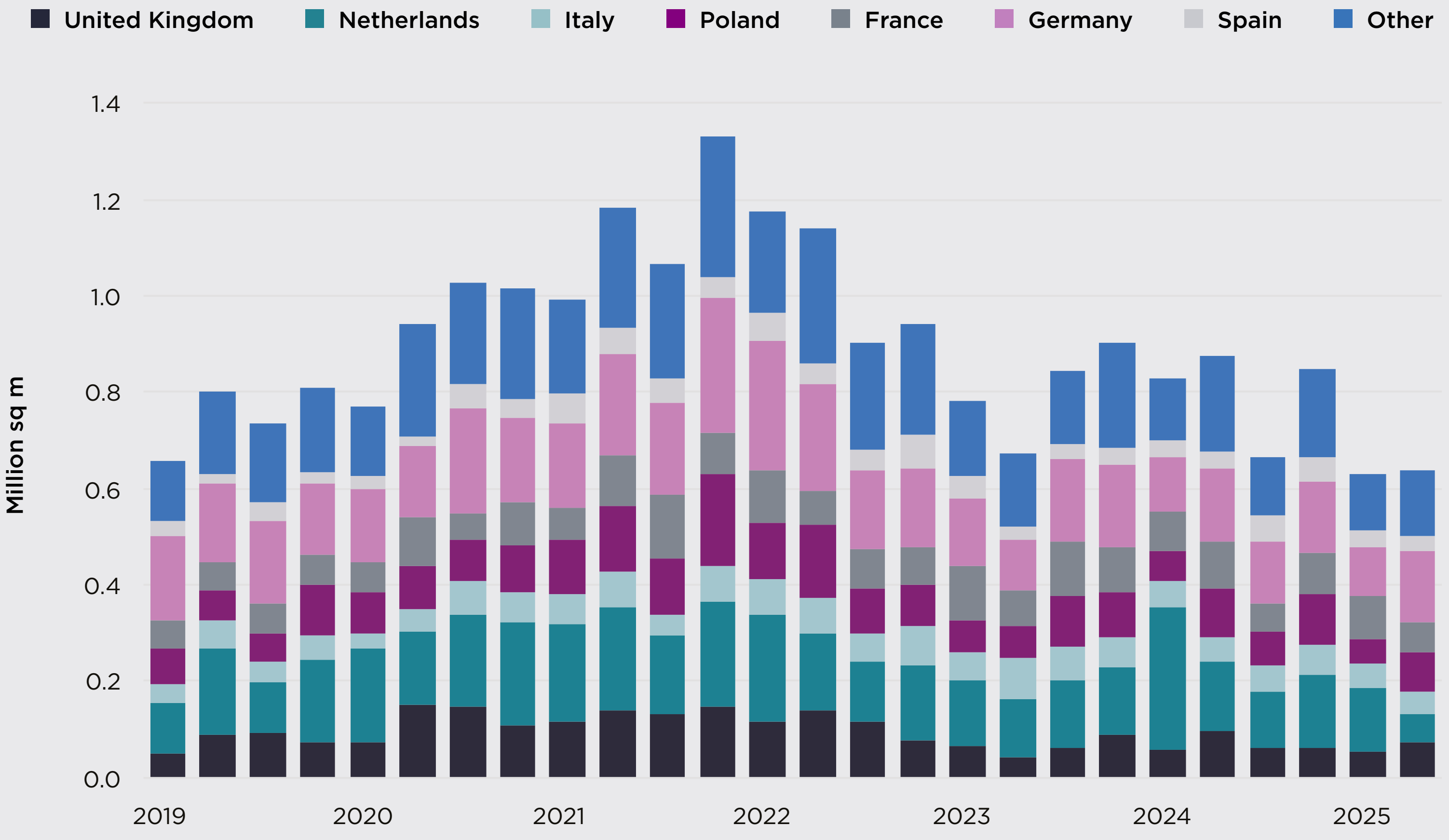
EMEA

Total investment across the EMEA region of €8.7bn (US$9.7bn) in the second quarter represented a near 7% decline on the year. This was largely due to weakness in some of the core Western European markets, including France, Germany and the Netherlands, as well as across Scandinavia. This was partially offset by a strong outturn in the UK, where investment of £3.5bn (US$4.7bn) was 37% higher than Q2 2024, supported by LondonMetric's acquisition of Urban Logistics REIT, which valued the latter at nearly £700m (US$940m). The Polish market is also seeing continued growth, as a conduit to suppling the rest of Europe, with investment rising by 50% y/y in Q2.

The LondonMetric deal is indicative of a wider trend. While core and core-plus investors remain somewhat cautious in their approach, sector specialists remain active in deploying capital across the region, looking to expand and consolidate existing regional portfolios. This is underpinned by a growing conviction in the outlook for rental growth.

The headline data does not necessarily support this outlook, with occupier activity relatively muted across much of the region in the first half of the year, particularly in core European markets. In Spain and Italy, total take-up in H1 fell by 7% and 10% respectively, compared with the same period last year. In France, take-up was down by 14% in the first half, while in the Netherlands it fell by 56%.

EUROPE: INDUSTRIAL AND LOGISTICS TAKE-UP



Source: Savills Research

As a consequence, average vacancy has risen at the beginning of the year, after declining in 2024. This is true even in the UK, where the occupational dynamics are a little more encouraging, despite the level of new supply hitting a 14-year high. In turn, a higher vacancy rate is eroding the pricing power of landlords and leading to a slowdown in rental growth. Average prime rents across Europe rose by 1.7% y/y in Q2, a notable slowdown from recent years.

But a sharp slowdown in speculative development activity across the mainland provides for a more optimistic perspective, and we expect vacancy rates to trend downwards again as we move through the year. This will put a floor on rents and provide a good launchpad, should leasing activity recover as more clarity is established on tariffs.

In the interim, liquidity across the region's capital markets is being held back by a lack of true sellers. There is also a general scarcity of genuine third-party transactions to effectively mark the market, amidst a persistent price expectations gap. This quarter sees a 25bps increase in the prime yield in the Netherlands, from 4.75% to 5%, and a shift in the outlook towards no change in the UK, France and Germany.

North America

Total investment across the US industrial and logistics sector rose by nearly 7% y/y in Q2 to US$22.3. This represented a slowdown in growth, following three consecutive quarters of double-digit expansion. The quarter was notable for a reduction of major portfolio transactions, with the largest deal occurring in Raleigh, North Carolina, where Town Lane acquired a six-property portfolio for US$555m from Equus Capital Partners.

Sentiment has clearly been impacted by the wider tariff uncertainty. This is evidenced by movements in public markets. In the month following the ‘Liberation Day’ tariff announcements, industrial REITs recorded the largest month-on-month decline in equity value of the major real estate sectors, relative to underlying NAV, according to S&P Global Intelligence.

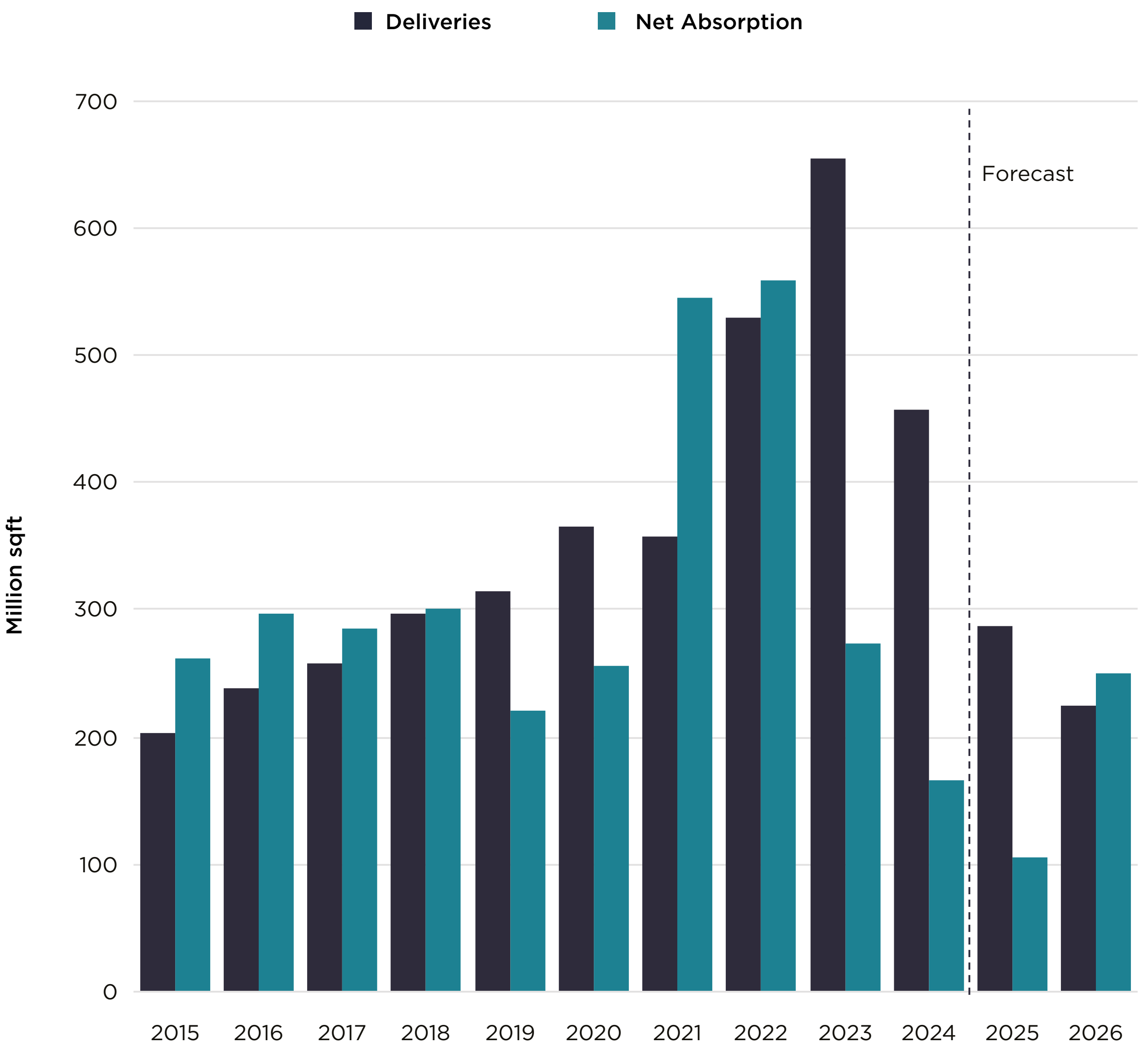
Momentum was probably slowing irrespective of tariffs, given some underlying softness in the occupational market. Total leasing activity is broadly stable on the year, sustained by renewals and outsourcing to the increasingly active 3PLs, which is helping to offset new tenant demand. However, uncertainty related to trade tariffs is weighing on occupier trends. This is reflected in the sharp slowdown in net absorption, which was just 9.6msf in the quarter, the lowest since 2012. Vacancy has risen to 8.1% as a consequence, the highest in a decade and up 100bps over the last 12 months.

Weak net absorption is likely to persist through the year. The big question is whether this simply reflects delayed leasing decisions – to the extent that major occupiers are waiting for more clarity on tariffs – or a fundamental reassessment of space requirements in an environment of slowing growth and weaker trade throughput. The answer is probably a bit of both, although a deterioration in the economic outlook will increasingly favour the latter over the former, given the market is primarily driven by trends in domestic growth.

The recent rise in vacancy is also grounded in supply dynamics, and new deliveries are expected to outpace net absorption for a third consecutive year in 2025.** However, construction starts have fallen sharply since 2023. The pipeline of deliveries is now back at 2018 levels, which should help to stabilise the market as we move through the year and into 2026. In the interim, while landlords are still resistant to reducing their asking rents, average rents are flat on the quarter and up 0.7% on the year, so downward pressure is intensifying.

Most of the major investment markets, including Chicago, Dallas, Houston, Northern New Jersey and Phoenix, experienced positive growth in deal activity this quarter. The exception was Los Angeles, and indeed the neighbouring Inland Empire, both of which experienced weaker investment in Q2. The region is somewhat leveraged to the storage and transportation of imported goods from China and other APAC markets, due to the presence of the Los Angeles and Long Beach ports. In Los Angeles, the vacancy rate rose to a record high by 50bps to 7% in Q2, while rents were down 6.6% on the year. We now see some upward pressure on prime yields, in line with these softening dynamics.

US: INDUSTRIAL AND LOGISTICS DELIVERIES AND NET ABSORBTION



Source: Savills Research

APAC

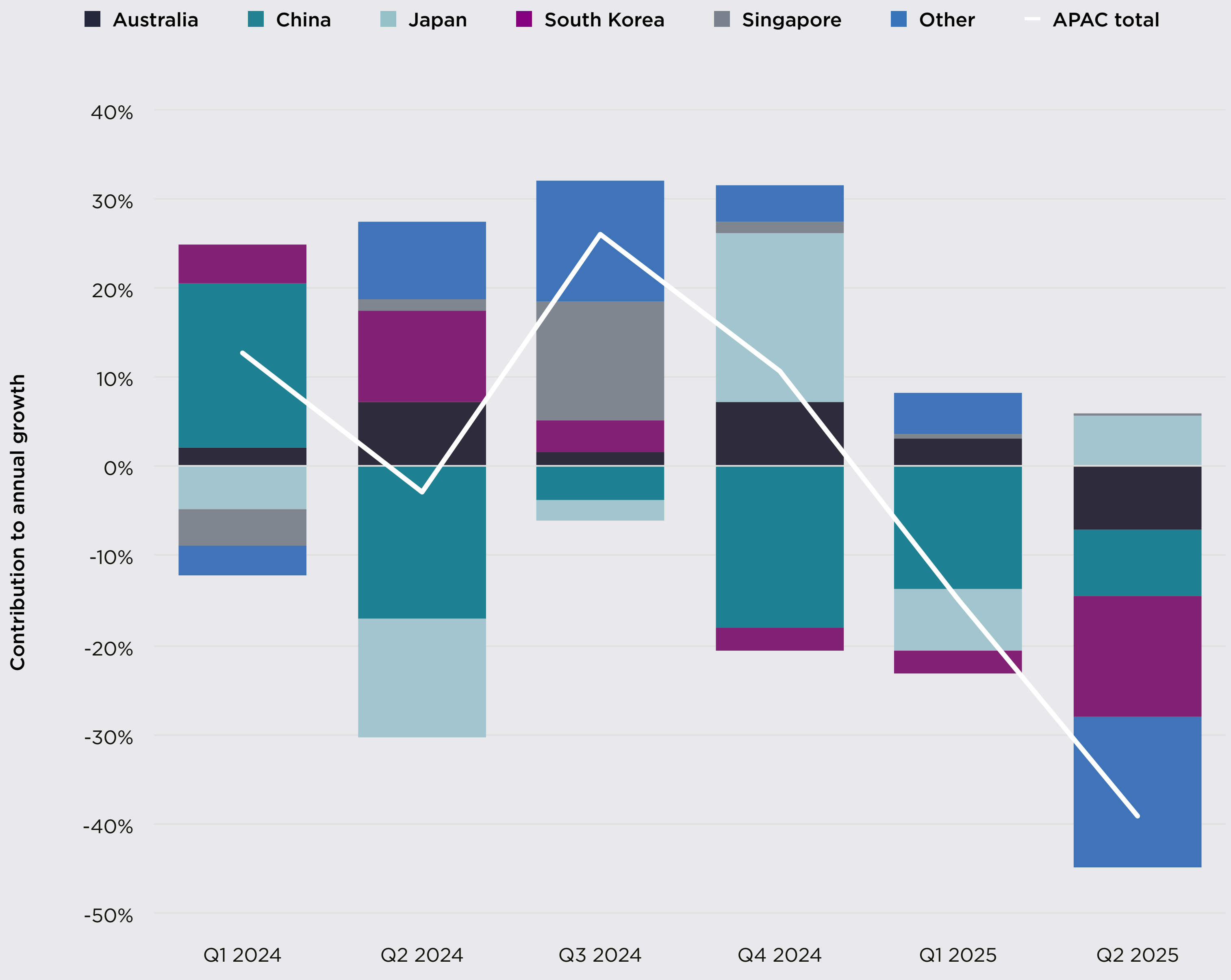
Investment across the APAC region totalled US$7.3bn in Q2, marking a 36% decline compared with the same period in 2024. The first half of 2025 saw a 27% fall, with deal activity slowing to levels last seen during the peak of the Covid-19 pandemic in 2020. Notably, international investors have been marginal net sellers of industrial and logistics assets in 2025 for the first time in a decade.

Industrial and logistics capital markets activity has been subdued across much of the region. Australia, China, Hong Kong and South Korea experienced double-digit declines in turnover, while Singapore remained relatively stable.

Continued weakness in the Chinese market is weighing on the regional data. Investment in H1 2025 totalled CNY22.4bn (US$3.1bn), over 40% down y/y, accounting for nearly half of the APAC decline. Fundamentally, the market remains heavily oversupplied – the vacancy rate in Shanghai currently stands at 26.2%. Q2 investment was the weakest since 2019.

However, there are some encouraging signs that the market has bottomed out. Vacancy has now fallen for two consecutive quarters, underpinned by a slowdown in new supply (with no new projects launched in Q2) and the rebasing of rents, is encouraging some stability in leasing demand. Net take-up in Shanghai was substantially higher than the same period last year, supported by the manufacturing sector, which remains central to the national strategy.

APAC: INDUSTRIAL AND LOGISTICS INVESTMENT TURNOVER



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

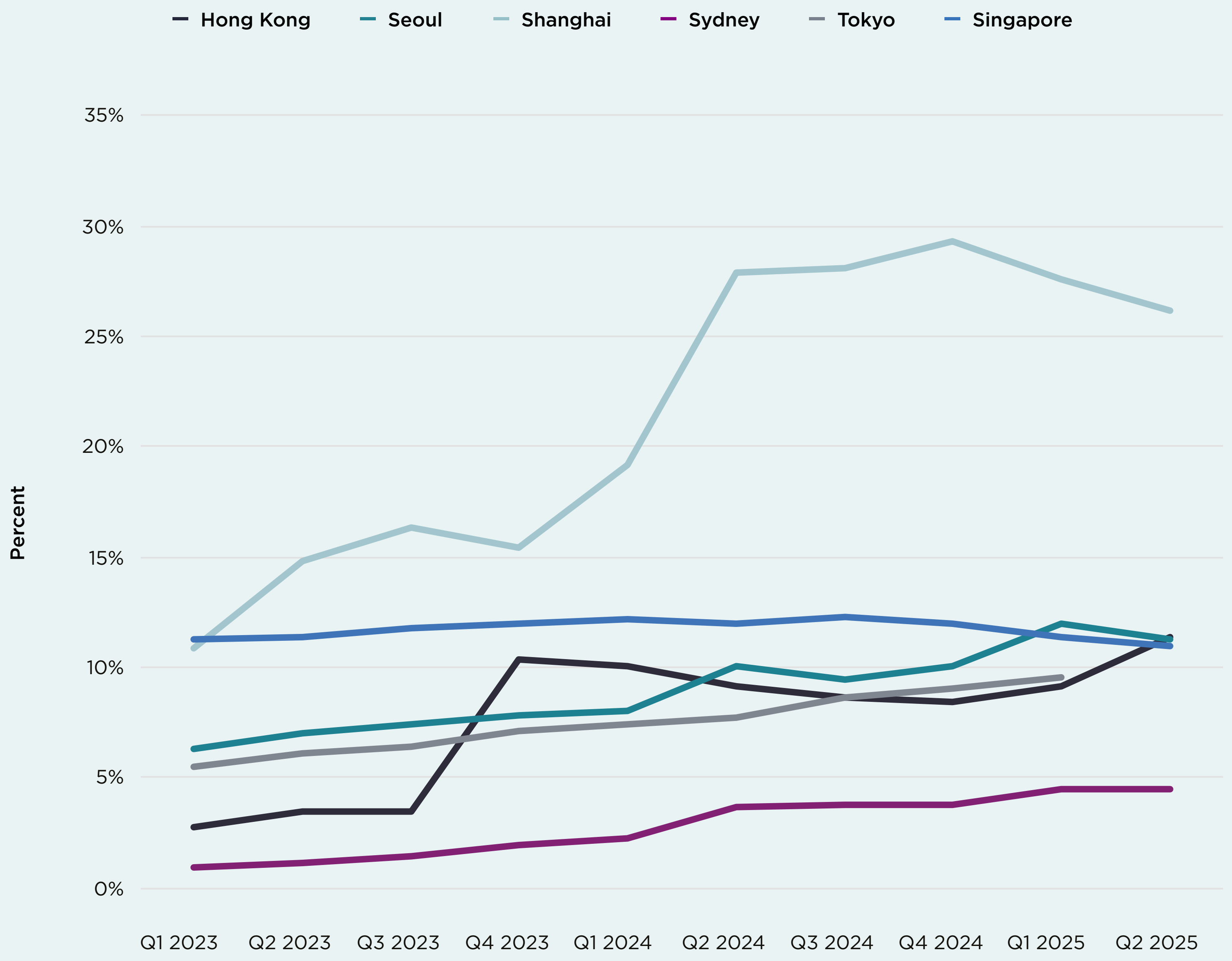
Australia, Japan and South Korea were the only markets to receive over US$1bn in Q2 investment. In Australia, leasing activity has picked up, driven by pre-lease agreements, while speculative development has slowed. Vacancy has held steady at 4.5% for two quarters, and rents have increased by 4–5% over the past year.

Sydney remains a key target for global capital, although there are limited opportunities to deploy. This is driving strong competition for assets, supporting a compression in the prime initial yield this quarter. Investors are looking for a strong reversionary potential – the market has seen over 50% rent growth in five years. Nearly AUD1.0bn in industrial deals are pending in the second half.

In Japan, investment doubled to JPY196bn (US$1.3bn) in Q2, albeit from a low base. Domestic investors have dominated, while cross-border investment has declined. Rising vacancy, falling rents and interest rate hikes have dampened market activity. Nonetheless, Tokyo's occupational market is improving. Despite a 4% year-on-year drop in asking rents in Q1, leasing demand remains solid. Vacancy has risen to 9.5% in early 2025, but new development is down 30% compared to 2024 and expected to fall further.

South Korea saw investment of KRW1.5tn (US$1.0bn), down nearly 60% year-on-year. Although distorted by a high base, H1 activity was still 44% below 2024 levels. Decision-making delays have contributed to the slowdown, with no portfolio transactions in Q2. However, major deals are progressing, including Blackstone's acquisition of two Grade A logistics centres in the Greater Seoul area for US$260m. Increased sales listings suggest a more active market than transactional data indicates. Leasing dynamics have improved, with vacancy in Seoul falling to 11.3%, supported by steady demand and limited new supply.

APAC: VACANCY OF PRIME INDUSTRIAL AND LOGISTICS



Source: Savills Research

LOGISTICS Q2 2025

Market view

Rasheed Hassan

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

It is currently much harder than normal to extrapolate trends from data. Transaction levels remain so low, that the presence (or lack) of one or two large transactions in a given sector or geography is skewing data in disproportionate ways. As such, the stats are telling us less of a story right now.

My overwhelming feeling right now is the sense of acceptance is growing. Acceptance from sellers that interest rates are most likely going to remain higher than they had hoped and so pricing isn't going to dramatically change in the near term; and acceptance from buyers that there is very little desperation in the market and bold underwriting will need to be adopted to acquire assets that fall into an 'Investment Committee comfortable' category. The net result is relatively unexciting and we are collectively missing the momentum we crave.

The lack of available opportunities is the biggest factor in keeping the turnover levels where they are. There is definitely more capital than there is opportunity. We have said previously that there is a pent up body of assets that will need to be sold at some point, given the structures that they are held in. However, for now refinancing offers are looking more attractive than outright disposals.

This leads to another point around the abundance of capital, but this time in the credit space. Low transaction turnover is meaning lenders are struggling to find suitable situations to deploy the vast sums of equity raised for debt strategies. The result is that competition is pushing down margins, increasing LTV's and softening covenants. It is therefore somewhat predictable that sponsors are being pleasantly surprised on the upside, when doing hold / sell analyses.

So we end up in a market where pricing is pretty stable for now and it is hard to see what the catalyst will be for a major rise in transaction numbers. In order for that to happen, in my view the market needs is a shock, positive or negative.

PRIME LOGISTICS YIELDS, Q2 2025 (AS AT END-JUNE)

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%	1.9%
Hong Kong	4.08%	→	40%	3.5%	4.5%	1.3%
Cologne	4.40%	→	55%	3.6%	5.4%	1.8%
Madrid	4.55%	→	55%	4.0%	5.2%	1.4%
Sydney	4.75%	↓	53%	5.3%	4.2%	0.6%
Île-de-France	4.75%	→	55%	3.6%	6.2%	1.5%
Amsterdam	5.00%	→	55%	3.6%	6.7%	2.7%
London	5.00%	→	60%	5.1%	4.9%	0.5%
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%	3.6%
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%	2.9%	10.9%	4.3%
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 10-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.

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Key transactions

Mapletree industrial portfolio, Singapore

Tenant:	Dell Technologies, Labcorp Development and others
Lease length (WAULT):	Undisclosed
Area:	167,225 sq m
Price / NIY:	S$535m (US$413m) / 5.9%
Vendor:	Mapletree
Vendor nationality:	Singapore
Purchaser:	Brookfield
Purchaser nationality:	Canada
Other comments:	This transaction, Brookfield's first in Singapore, is expected to complete in Q3 and is composed of three properties – two R&D-focused business parks and a high-tech industrial building complex.

Urban Logistics REIT, United Kingdom

Tenant:	Multiple
Lease length (WAULT):	8 years (to lease break)
Area:	8.8m sqft
Price / NIY:	£699m (US$940m) / 5.2%
Vendor:	LondonMetric
Vendor nationality:	United Kingdom
Purchaser:	Urban Logistics
Purchaser nationality:	United Kingdom
Other comments:	This acquisition is the latest in a series by LondonMetric over recent years, increasing their portfolio size to £7.3bn, with logistics accounting for 55% of assets.

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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