Q3 2023

Warehouse Tracker

GLOBAL

KEY TAKEAWAYS

Warehouse vacancy rates remain elevated in comparison with Q3 2022 across all three major regions and are continuing on an upward trajectory in North America and Europe. North-East Asia on the other hand has seen vacancy dip slightly into Q3 2023 following a renewed demand ahead of shopping festivals in China, however vacancy in the region remains much higher than in Europe and North America. Macro-economic indicators are also showing that occupier demand is waning, with consumer confidence and PMI low.

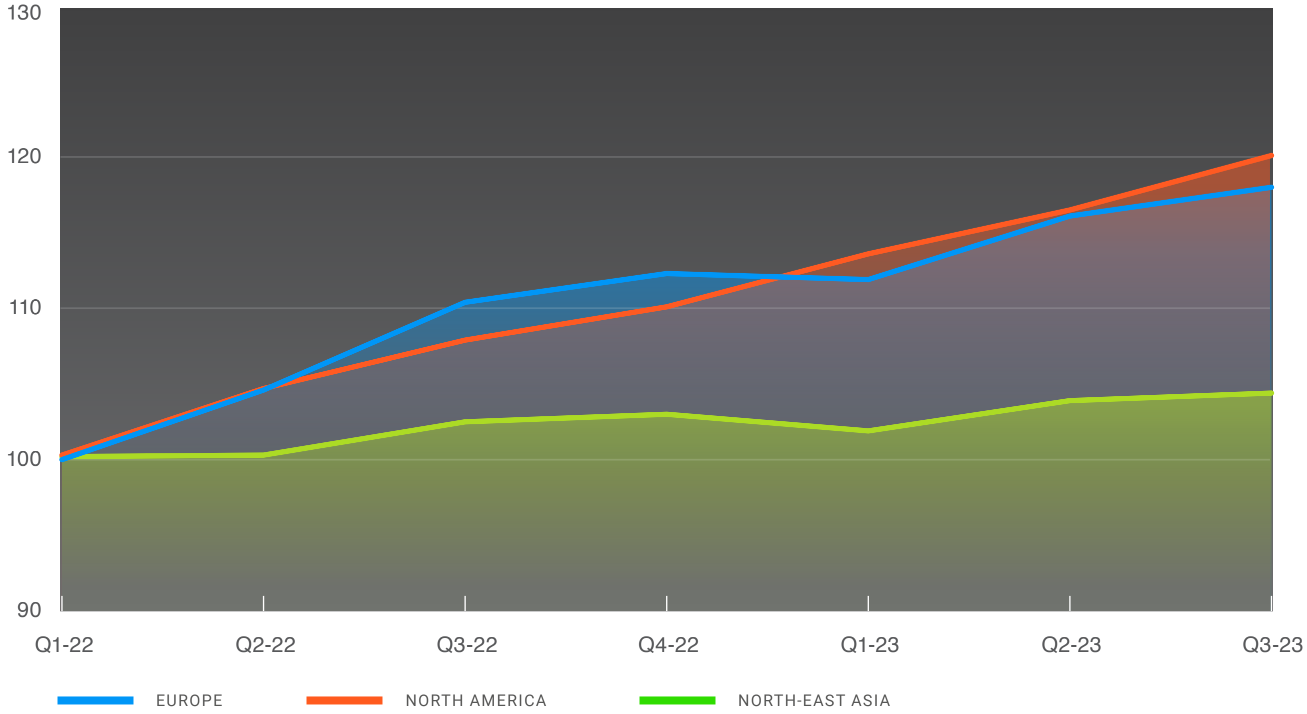
Ti's Warehousing Cost Index details that warehouse costs have been rising steadily since Q1 2022 across the board and increased in all three major regions into Q3 2023. Year-on-year cost growth in Q3 2023 however slowed significantly for Europe and North-East Asia, whilst year-on-year cost growth increased slightly for North America in Q3 2023. Costs remain elevated across all three major regions in comparison with Q3 2022.

Looking forward, warehousing costs in North America and Europe are likely to remain elevated, although Europe may continue to see further slowing cost growth in line with slowing inflation. North-East Asia on the other hand will likely see overall operating costs decrease as supply continues to outstrip demand.

COSTS

COST INDEX – MAJOR REGIONS

SOURCE: TI / VARIOUS



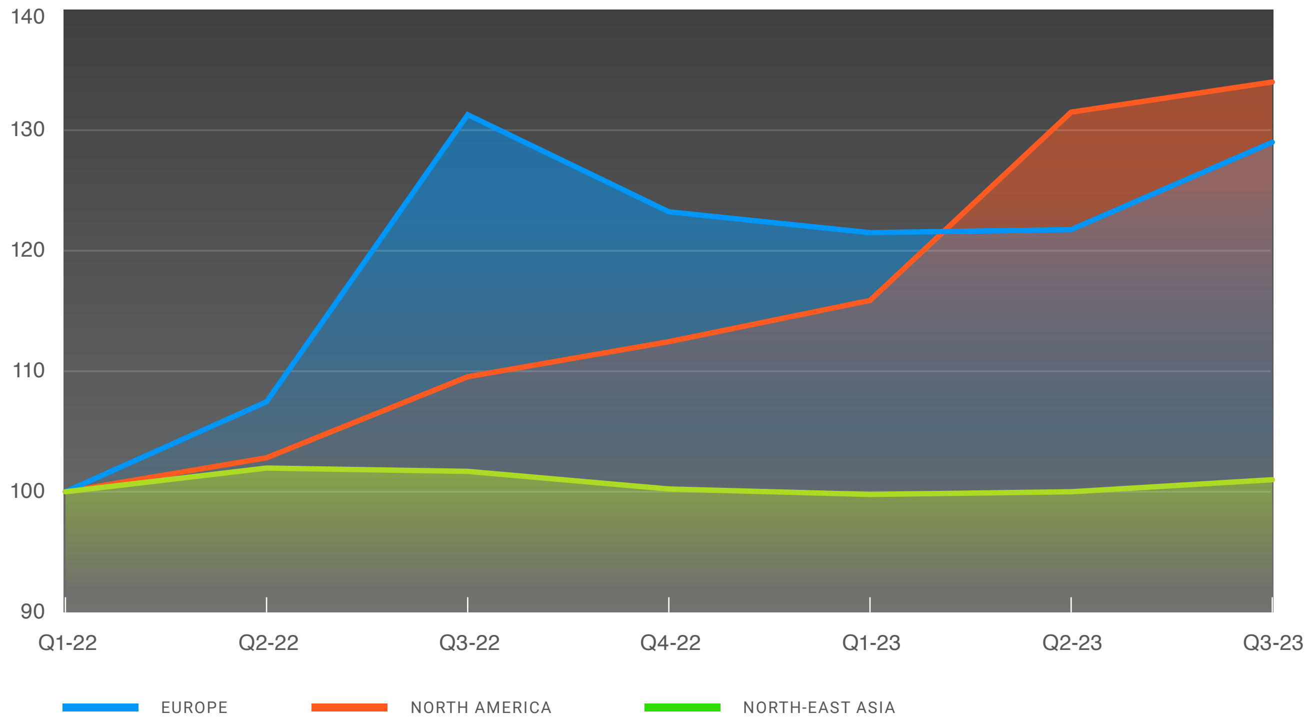
Ti has formulated its warehouse cost index, which looks to track overall warehousing costs in North America, Europe, and North-East Asia. The index utilises inputs from warehousing rent, labour, and energy costs to determine the current state of overall warehousing costs, as well as estimate the future direction of costs.

Ti's Warehousing Cost Index details that warehouse costs have been rising steadily since Q1 2022 across the board and increased in all three major regions into Q3 2023. Costs therefore remain elevated across all three major regions in comparison with Q3 2022.

However, year-on-year cost growth in Q3 2023 slowed significantly for Europe and North-East Asia in comparison with the previous quarter, whilst year-on-year cost growth increased slightly for North America in Q3 2023.

WAREHOUSE RENTS INDEX – MAJOR REGIONS

SOURCE: TI, COLLIERS, CUSHMAN & WAKEFIELD, ICHIGO REAL ESTATE, JLL, CBRE



Elevated operating costs in North America and Europe are being primarily driven by historically tight vacancy rates, despite increasing supply and stabilising demand. In Europe, although the overall average market vacancy rate in Europe is now higher (4.3%), modern space remains limited in most markets which is contributing to continued robust prime rental growth. Similarly, vacancy remains well below the 15-year average of 6.2% in the US.

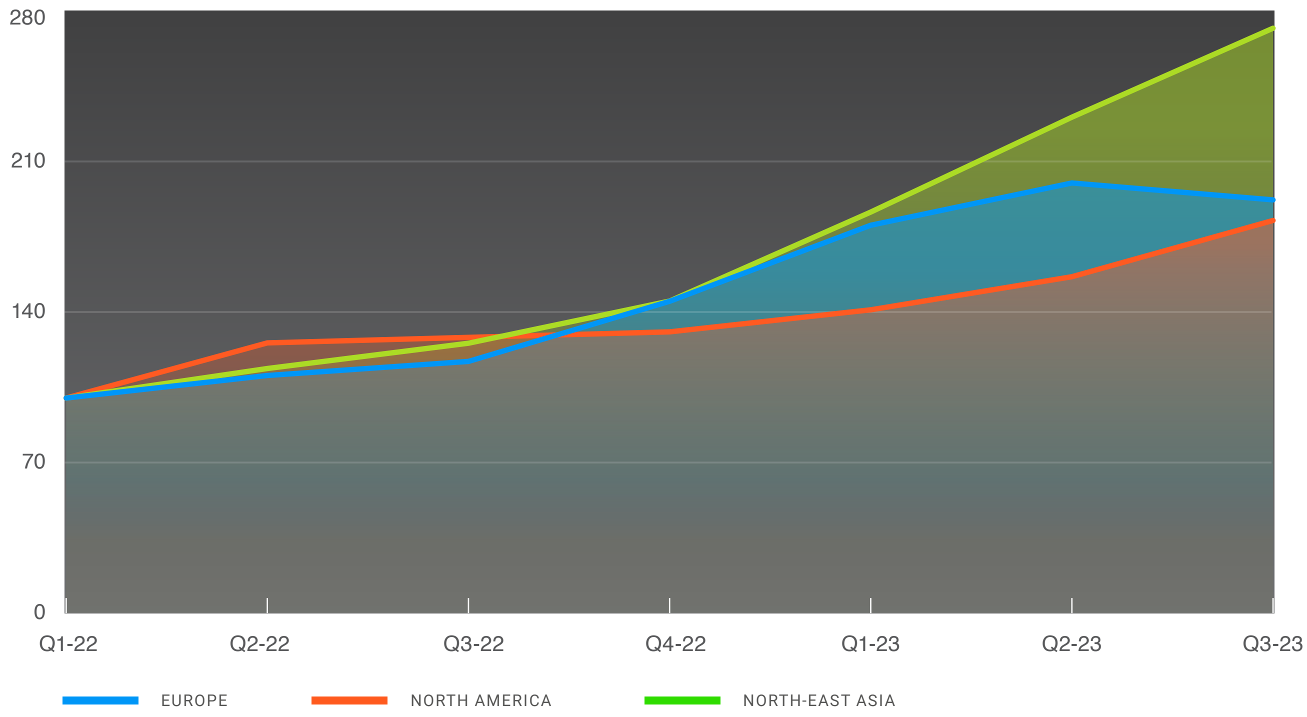
North-East Asia on the other hand have recorded much higher vacancy rates than its North American and European counterpart as supply strips demand more rapidly. Furthermore, warehouse costs in Japan dropped slightly for the first time in over a year following a decline in wages; inflation-adjusted real wages, a barometer of consumer purchasing power, dropped in September by 2.4% from a year earlier after a revised 2.8% fall the month before, data from the Ministry of Health, Labour and Welfare showed. As such, the region has seen much less intense cost growth compared to North America and Europe.

Looking forward, warehousing costs in North America and Europe are likely to remain elevated, although Europe may continue to see further slowing cost growth in line with slowing inflation. North-East Asia on the other hand will likely see overall operating costs decrease as supply continues to outstrip demand.

SUPPLY

VACANCY INDEX – MAJOR REGIONS

SOURCE: TI, CUSHMAN & WAKEFIELD, CBRE, COLLIERS, ICHIGO REAL ESTATE, JLL



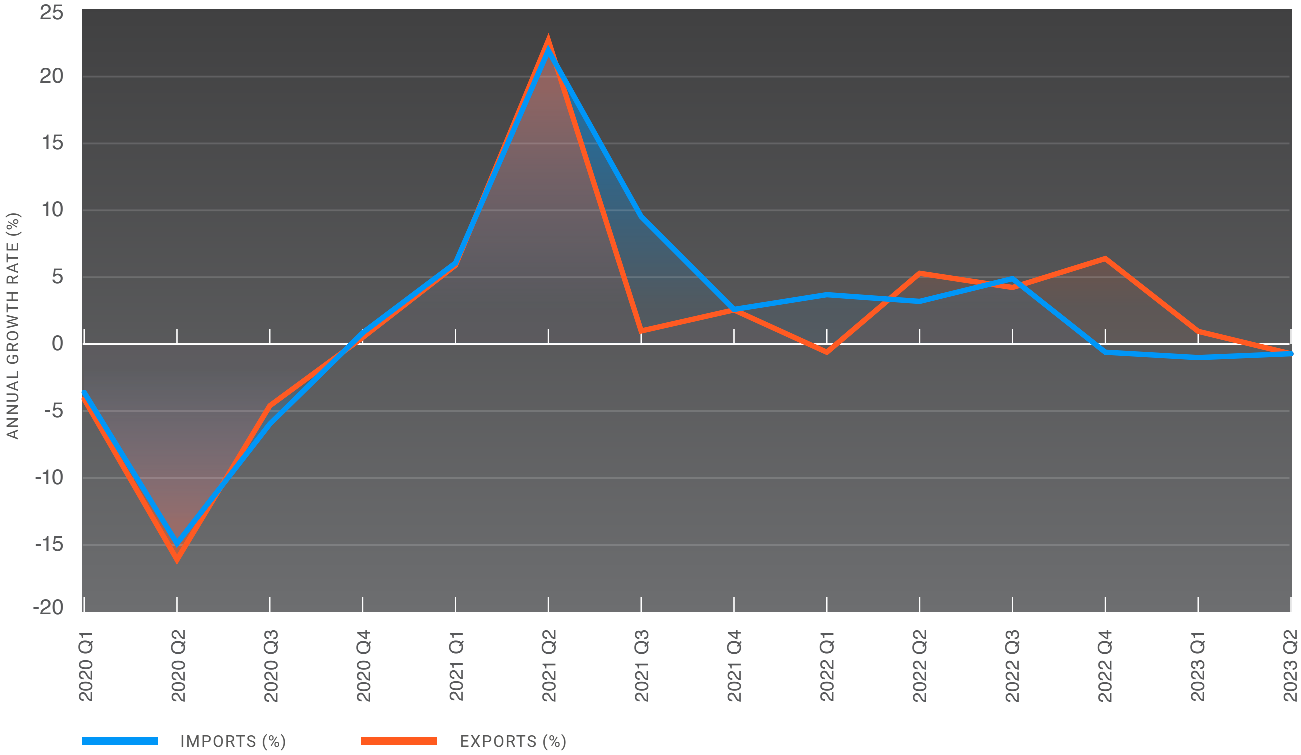
Vacancy has remained elevated as new supply hits markets across three major regions. Vacancy has grown in Europe and North America quarter-on-quarter in Q3 2023, but has dropped in North-East Asia, in particular due to renewed e-commerce demand in China ahead of double 11 shopping festival, as well as in South Korea. Vacancy rates remain higher than Q3 2022 across all three major regions.

New supply has come on the heels of a period of record low availability. As such, despite some loosening, vacancy rates remain at historic lows, predominantly in Europe and North America. Looking forward, there are several headwinds which are likely to affect the availability of warehousing stock, with speculative developments expected to slow due to rising costs and softening occupier demand. According to Interact Analysis, warehouse and fulfilment centre construction rates are expected to fall by 35% and 50% respectively in 2023 compared to 2022. Although in the medium-term more stock will likely hit the global market, moving beyond 2024 the market may see lower vacancy rates and supply levels once more as developers pull back on new projects.

DEMAND

LINK GLOBAL IMPORT AND EXPORT VOLUME GROWTH

SOURCE: WTO



Global trade figures are one of several macro-economic indicators which can assist in outlining the current state of demand in the warehousing market. Simply put, the less import and export volumes the global economy sees, the less demand there is for warehousing services due to lower volumes of goods available which require storage and distribution services.

As such, the global economy saw trade shrink into Q2 2023, with imports decreasing by -0.71% y-o-y whilst export volumes shrinking by -0.72%. Global import and export volume data points to an overall slowdown in global trade, which has been seeing increasingly slow, single digit growth since a peak in Q2 2021.

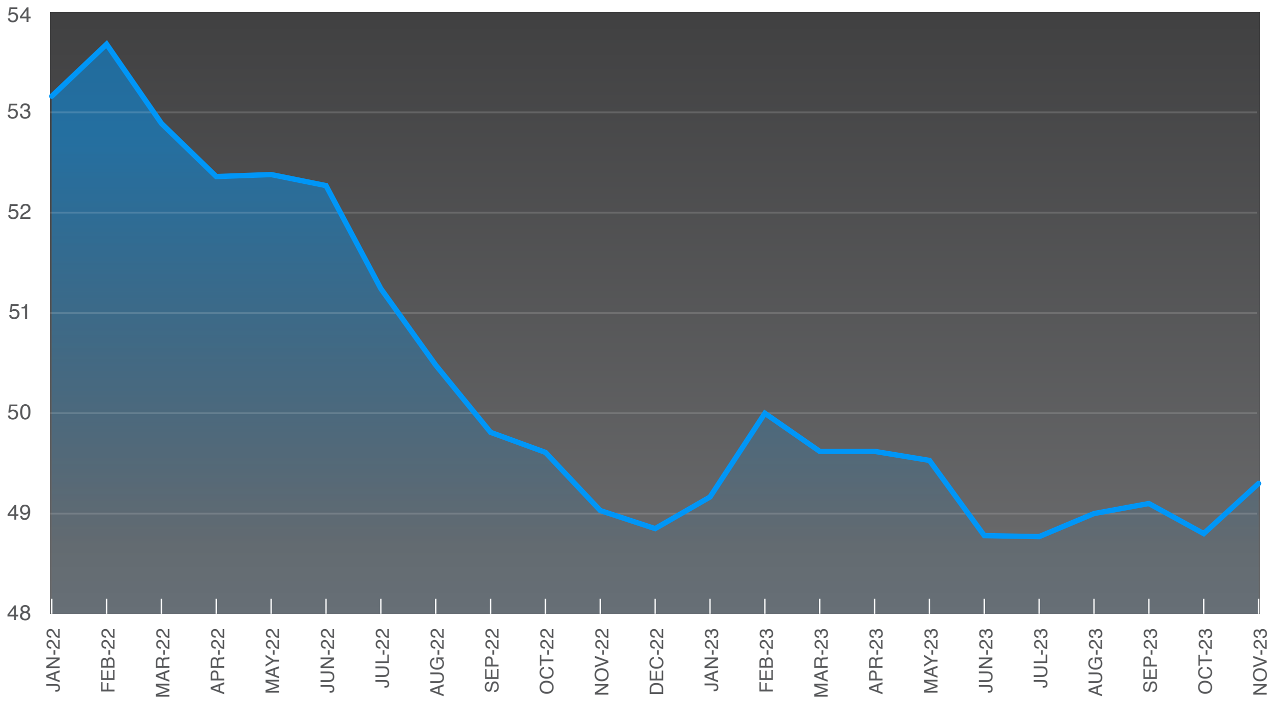
According to the WTO, economic activity still falls short of its pre-pandemic path, especially in emerging market and developing economies, and there are widening divergences among regions.

Several factors are contributing to this uneven recovery, including the long-term consequences of the pandemic, the ongoing war in Ukraine and increasing geoeconomic fragmentation. There are also cyclical reasons too, including the effect of monetary policy tightening that is addressing inflation.

LINK

MANUFACTURING PURCHASING MANAGERS INDEX – GLOBAL

SOURCE: MARKIT ECONOMICS



Note: The purchasing managers index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors which summarises whether market conditions are growing, staying the same, or declining as viewed by purchasing managers. A PMI index over 50 represents growth or expansion within the manufacturing sector of the economy compared with the prior month. A reading under 50 represents decline, and a reading at 50 indicates no change.

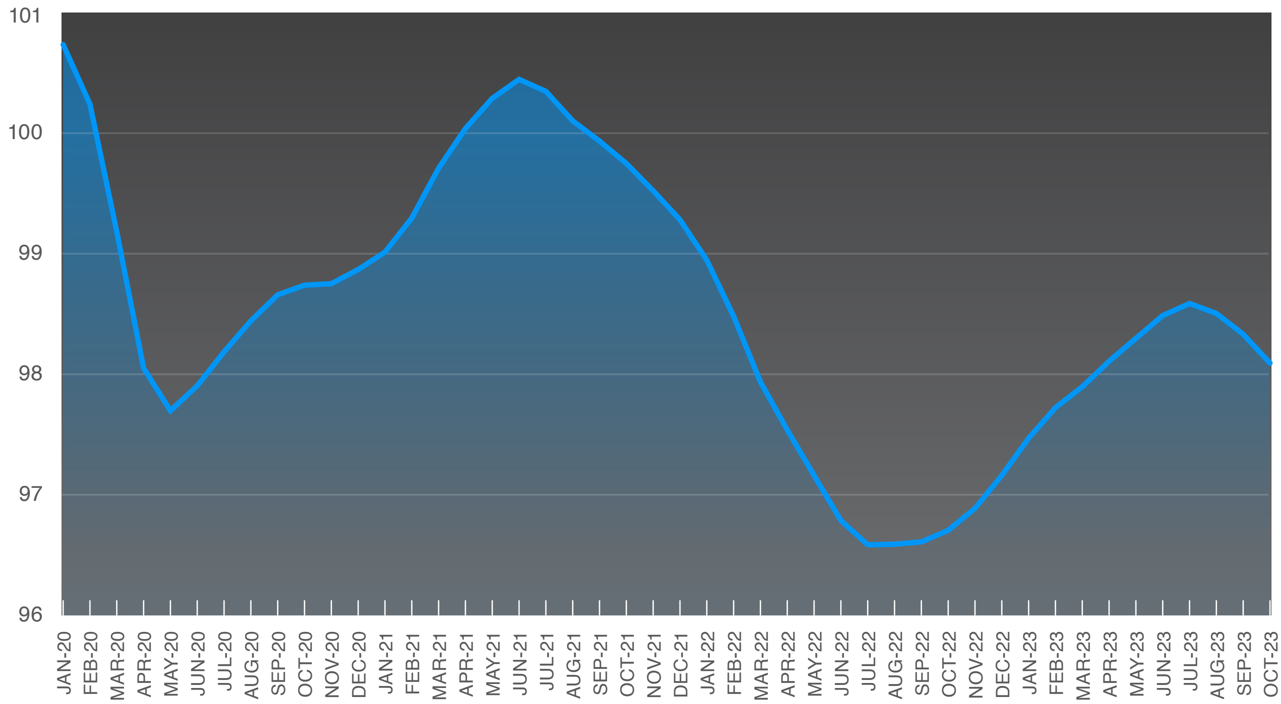
PMI and its components can provide useful insight to business leaders operating within the warehousing market, as it can be used as a predictor for short-term warehousing demand.

Consumer confidence index and PMI data also paint a pessimistic picture of global economic recovery. Global PMI has shown a consistent reading below 50 since February 2023, indicating a nine-month consecutive manufacturing contraction. Similarly, the consumer confidence index has consistently presented readings of below 100 since August 2021, indicating consumers are more pessimistic versus the benchmark.

Based off this data, it can be fair to assume that new leasing demand has moderated over the past quarter, particularly in comparison with the highs of 2022 and 2021, although this will vary by region.

CONSUMER CONFIDENCE INDEX – OECD COUNTRIES

SOURCE: OECD



Note: The consumer confidence index measures and compares how consumers view the overall economy, business conditions and labour market presently and over the next six months. The CCI infers that when consumers are optimistic, they spend more, stimulating the economy, but when pessimistic, spending declines. An indicator above 100 signals a boost in the consumers' confidence towards the future economic situation, as a consequence of which they are less prone to save, and more inclined to spend money on major purchases in the next 12 months, increasing the need and demand for warehousing services. Values below 100 indicate a pessimistic attitude towards future developments in the economy, possibly resulting in a tendency to save more and consume less, reducing demand for warehousing services. We can therefore utilise the consumer confidence index as a predictor and proxy for short-term warehousing demand.

Global Outlook

	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Warehousing demand					
Warehouse take-up	↘	=	↗	↗	↗
Consumer spending	↗	=	=	↗	↗
Manufacturing output	↘	=	=	↗	↗
Interest rates	↘	=	=	↗	=
Logistics demand	=	=	↗	↗	↗
Warehousing supply					
Warehousing vacancy rates	↘	↘	=	↗	↗
New warehouse supply	↘	↘	=	↗	↗
Costs					
Rent	↗	↗	↗	↗	↗
Labour	↗	↗	=	=	=
Energy	↘	↘	=	=	=
Cost of capital	↗	=	=	↘	=
Overall operating costs					
	↗	↗	↗	↗	=

Key

- = No Change
- ↘ Deflationary pressure on rates
- ↗ Inflationary pressure on rates

How should I interpret this chart?

- The chart shows how different factors are expected to affect overall warehouse operating costs, and then the expectation for overall warehouse operating costs themselves.
- The arrows for the sections 'Warehousing Demand', 'Warehousing Supply' and 'Costs' indicate how changes in these factors will affect warehousing costs in each quarter.
- Across all rows the arrows depict change versus the prior quarter.