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Global warehousing costs

Warehousing rents have risen sharply, but in an inflationary environment other input costs have risen even faster. Where does that leave rental affordability, and which markets still offer value?

Changing consumer behaviours, the ecommerce boom and shifting supply chains has driven the global warehousing market to new heights. Occupier demand surged in the wake of the pandemic, boosting take up and driving up rents, while supply has dwindled. Across 52 global markets, total warehousing property costs increased by an average 8.4% in the 12 months to June 2022.

But economic headwinds are strengthening and consumer sentiment is weakening. Set against this, energy and labour costs, by far the biggest inputs for warehouse occupiers, have spiked in the inflationary environment. How do costs vary around the world, where does this leave the outlook for growth, and significantly, rental affordability?

Warehousing property costs league

Evidence suggests that occupational markets have yet to be impacted by these headwinds. Strong rental growth was recorded in the first half of 2022, supported by high levels of absorption and rising ecommerce penetration.

Finding the best value warehouse space can be an important factor in occupier location and expansion decisions, particularly in the context of increasingly dynamic supply chains. Warehousing property costs vary significantly across the world.

London is the world's most expensive warehousing market with costs totalling $35 per sq ft. Occupier demand here is deep and diverse, ranging from 3PLs to film studios and datacentres, while the UK has the highest ecommerce penetration rate in Europe. Hong Kong and Tokyo round off the top three, land-constrained world cities where warehousing competes with other asset classes and low supply has kept vacancy rates for prime space below 3%.

Dubai, ranked fourth for costs globally, is maturing as an industrial and logistics market and a lack of grade A stock is driving property costs, rising by 7.7% in the twelve months to June 2022. The entry of new international companies, especially in the engineering and manufacturing sector, have supported demand.

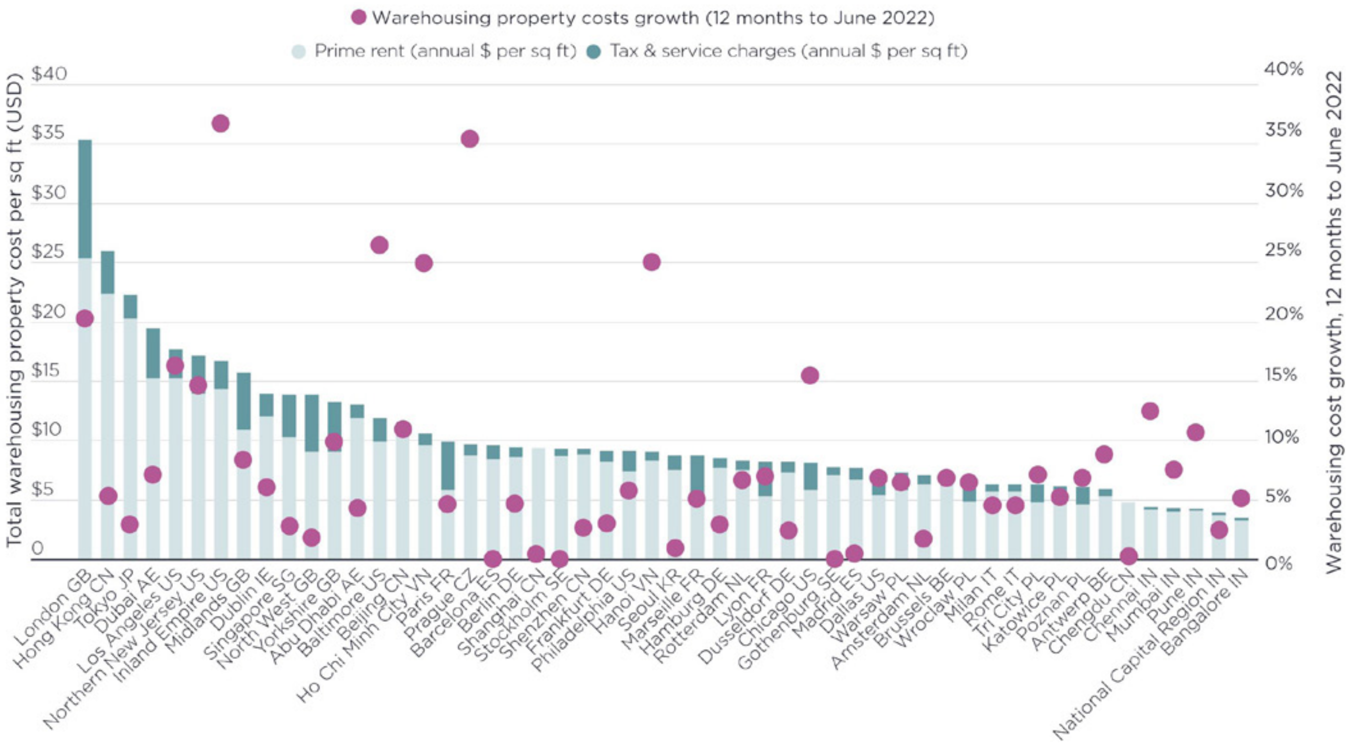
US cities have ascended the global rankings fastest in the last year. Warehousing rents across seven of the major US industrial and logistics markets rose by an average of 20.1% (with total costs up 17.6%) in the 12 months to June 2022, and account for six of the ten fastest risers globally. Rental growth was particularly strong in Southern California: vacancy rates in Los Angeles fell from 2.9% to just 1.6%, even with record delivery of new space as the majority is pre-leased. In the Inland Empire, east of LA, vacancy rates decreased to just 1.2%.

Mark Russo, Head of Industrial Research, Savills North America, says "in spite of the weakening economic backdrop, there has not been any measurable pullback in occupier demand and exceptionally low vacancy rates has meant that pricing continues to surge."

Most European markets saw single digit growth in property costs in the last twelve months, averaging 6.7%, putting growth slightly below inflation. Prague was one exception (+35.8%), where exceptionally low vacancy rates have driven rents up sharply, pushing it up the global cost league. Offering a combination of lower wages than its Western European neighbours, yet with better ESG credentials than developing economies, the Czech Republic tops Savills Nearshoring Index.

The lowest warehousing property costs can be found in India, at between $3 and $4 per sq ft. Lower ecommerce penetration rates and a less developed manufacturing sector mean that India has yet to see the same development as other markets, but it offers significant potential thanks to a vast prospective consumer market for online retail, and as a lower cost manufacturing base. Warehousing property costs grew by an average of 7.8% across five major Indian markets in the 12 months to June.

Warehousing property costs around the world



Source: Savills Research

Occupier input costs

Average growth across 52 global markets, 12 months to June 2022

Source: Savills Research

Balancing the cost equation

Rising input costs raise the question if rental levels are affordable and sustainable. Since warehouse rents make up a small share of the total costs, the key factor is rather whether occupiers can maintain their margins in an inflationary environment.

Kevin Mofid, Head of EMEA Industrial and Logistics Research, explored this very question in a study on the affordability of warehouse rents, and concludes “Continued growth in online retail spend should help outweigh cost pressures. The best located space, close to the consumer, in dense urban markets becomes more important. Such sites offer higher throughput, maximising utilisation, while helping to mitigate rising costs associated with labour and transportation.”

With consumers increasingly conscious of the environmental impact of the goods they buy, retailers are also actively seeking warehouses that meet environmental criteria, something that also helps to lower operating costs. This will only further pivot occupier demand to high-quality Grade A space. Warehouses that do not meet the expected standards will need to be refurbished or redeveloped.

While the pace of rental growth is likely to slow as economic headwinds strengthen, this flight to quality, low vacancy rates, together with the expansion of ecommerce will continue to support rents – particularly in markets earlier on the ecommerce curve.

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