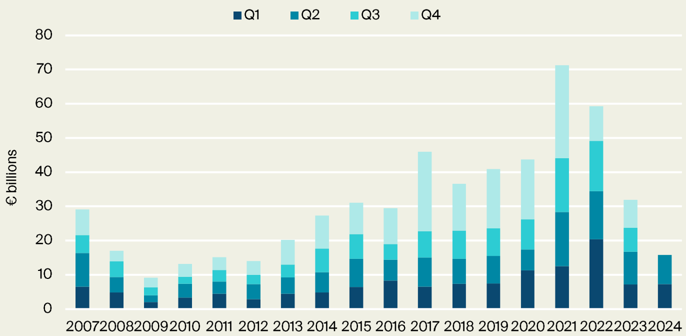
European Logistics Market Dashboard

August 2024

INTERNAL USE AND KEY CLIENTS ONLY

Investment market

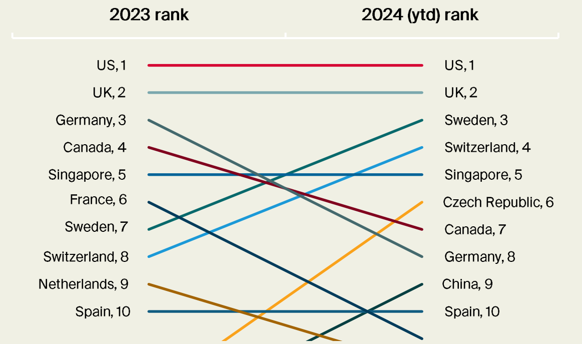
Industrial & logistics - investment total



*Q2 2024 data is incomplete

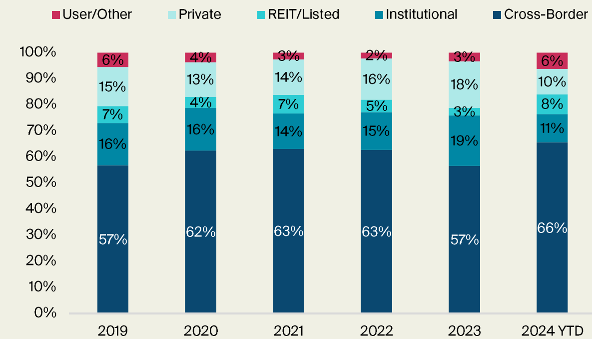
Source: Knight Frank, RCA

Top 10 sources of cross-border capital



Source: Knight Frank, RCA

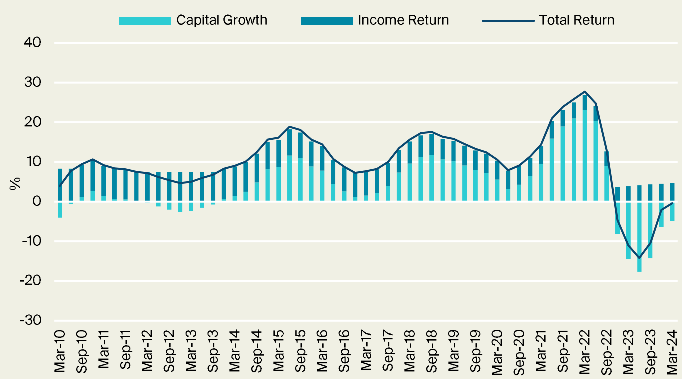
Composition of buyers



Source: Knight Frank, RCA

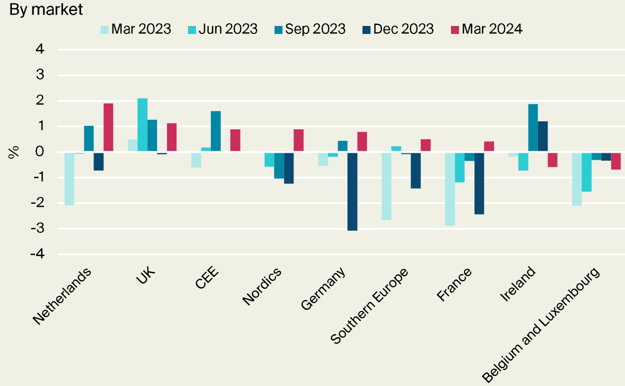
Performance

European industrial total returns – annualized (all assets)



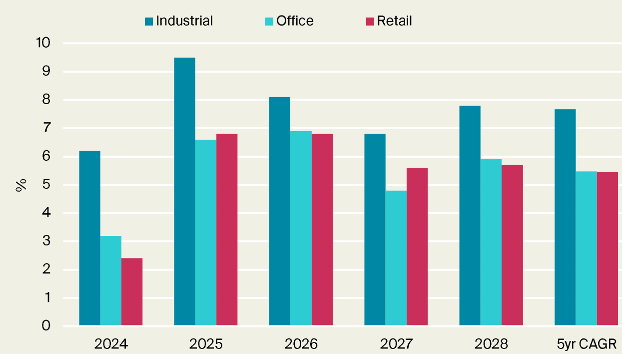
Source: Knight Frank, MSCI

Industrial total returns – quarterly
By market



Source: Knight Frank, MSCI

Euro zone total returns forecast by sector (2024-2028)



Source: Knight Frank, Capital Economics

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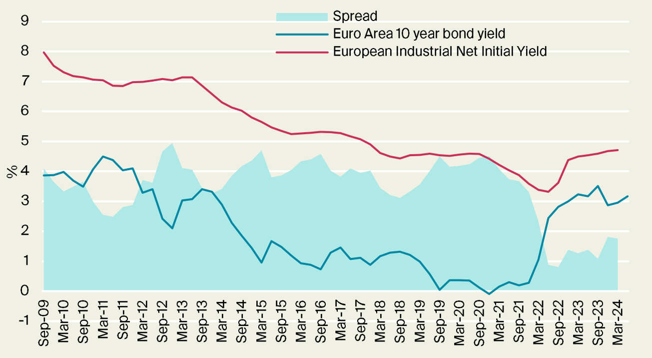
Knight Frank

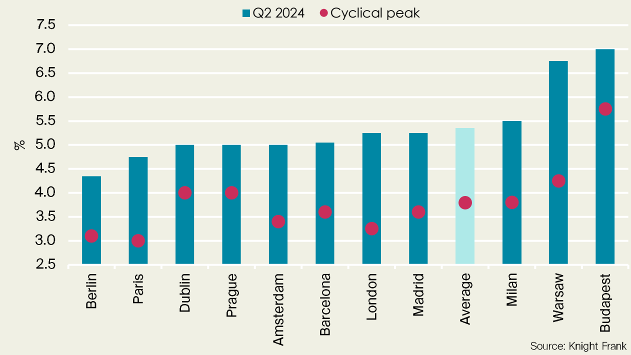
Yields

Europe - industrial yields



Source: Knight Frank, MSCI, Macrobond

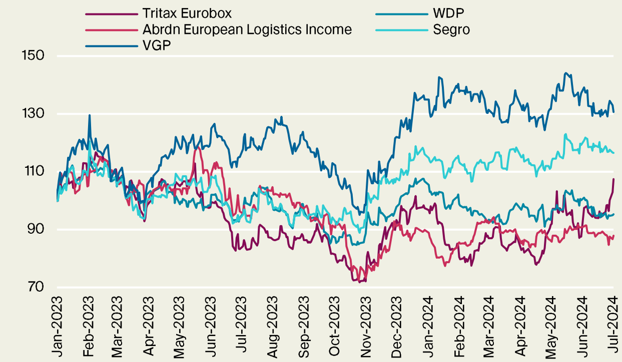
Prime European yields – Q2 2024



Source: Knight Frank

Listed real estate

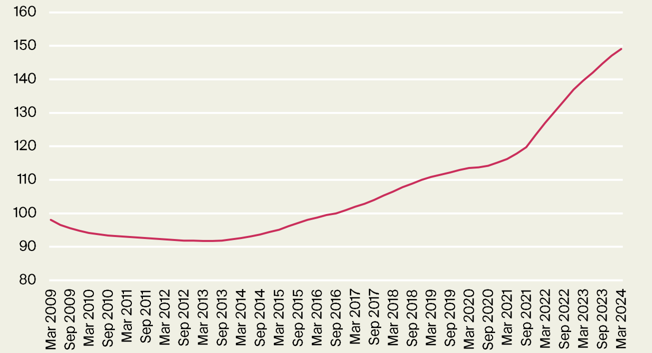
Listed real estate – price indices
01/01/2023 = 100



Source: Knight Frank, Marcobond

Rents

Europe industrial - average market rental growth index
Dec 2007= 100

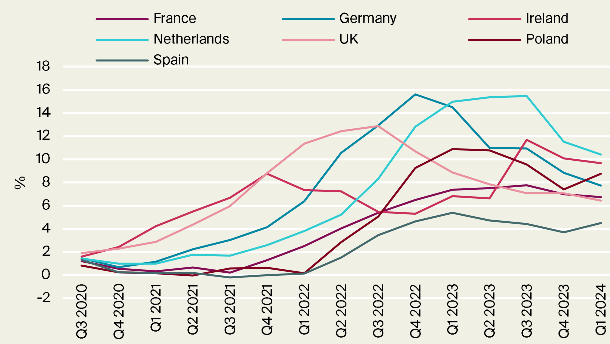


Source: Knight Frank, MSCI

Prime European industrial rents – Q2 2024
€ / sq m / annum

Source: Knight Frank

Average annual rental growth by market



Source: Knight Frank, MSCI

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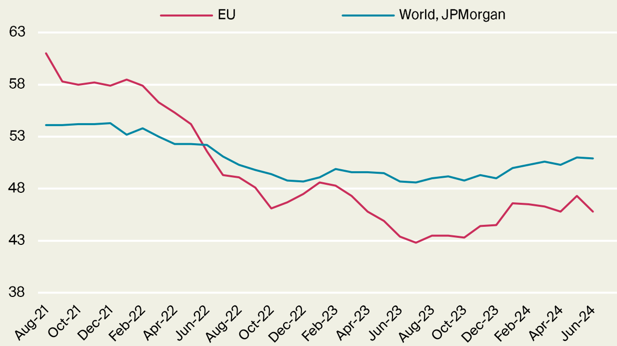
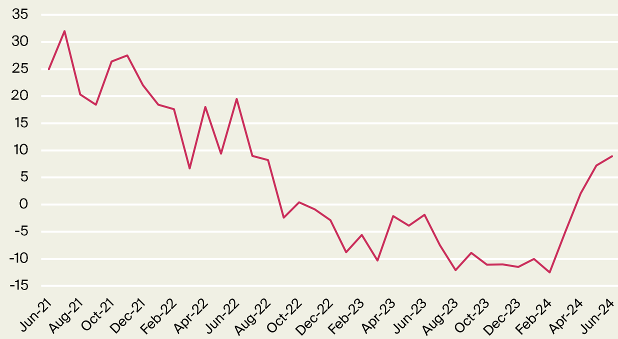
Key indicators: Transport, manufacturing and online retail

Manufacturing PMI index



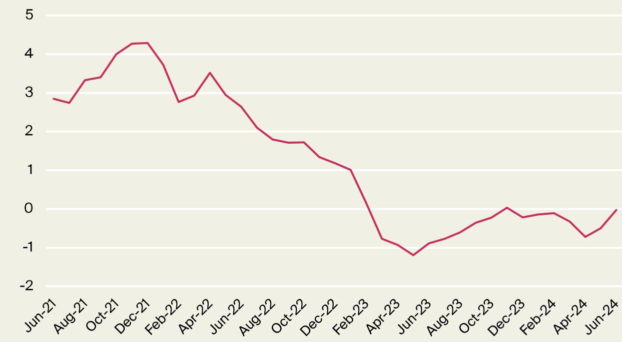
Source: Knight Frank, Macrobond

Warehousing and support activities for transportation – confidence index - EU business survey



Source: Knight Frank, Macrobond

Global supply chain pressure index (GSCPI)
Standard deviations from average value

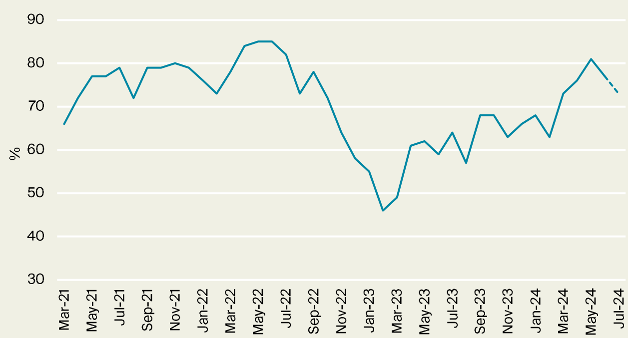


Source: Knight Frank, Macrobond

Online retail as a share of total retail sales, %

Source: Knight Frank, Macrobond

European freight transport barometer
Freight to vehicle space ratio



Source: Knight Frank, TIMOCOM

Key comments

- The EU Manufacturing PMI remains below 50, indicating it is in contraction. The June reading of 45.8 is lower than a month previous, with output contracting at the fastest rate so far this year. New orders, purchasing activity, and employment all declined more rapidly. Despite this, the outlook for the next 12 months is positive.
- Business confidence within the EU's Warehousing and Support activities for the Transportation sector has strengthened significantly throughout the first half of 2024. In June, the confidence index recorded 8.9, its highest reading since July 2022.
- The Global Supply Chain Pressure Index rose in May and again in June, however it has remained in negative territory (meaning it is below the standard deviations from its historical average) since December last year. While supply chain resilience took centre stage during the Covid pandemic, inflationary pressures coupled with economic uncertainties have led to cost reduction becoming a greater priority for firms. As a result, they are reluctant to invest in their supply chain infrastructure or hold additional buffer stocks and this is making them less resilient to shocks.
- The European freight transport barometer shows the ratio of freight to transport space. The higher the figure, the greater the freight demand relative to vehicle capacity. In June 2024, the ratio was 77, down slightly from a peak in May of 81, while the forecast for July is 73. Despite downward movements in the past two months, the barometer has trended upwards since early 2023, due to higher freight volumes.

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Market commentary

Investment

- €8.5 billion was invested into the European industrial sector in Q2 2024, down 12% when compared with Q2 2023 (Source: RealCapitalAnalytics). This brought the H1 2024 total to €15.8 billion, representing a decline of 9% on H1 last year.
- 66% of capital invested in 2024 so far has come from cross-border investors, with US-headquartered investors dominating.
- German capital, which ranked 3rd for cross-border activity in 2023 has slipped to 8th this year reflecting their broad approach to capital deployment and limited inflows of capital.
- Institutional investors and listed real estate companies/REITs have been net sellers of European Industrial property so far this year.
- After a quiet 2023, Spain has seen a busy H1 trading period with several portfolios of scale offered to the market with strong investor appetite.
- Significant deals in H1 2024 include Blackstone's acquisition of an urban logistics portfolio in Finland for €135 million. The portfolio comprised 22 assets in Helsinki and Tampere regions with a total GLA of c.133,000 sq m.
- In April, Ares Management purchased a French logistics portfolio (Montclair Portfolio) from Blackstone for €317.5 million, representing a quoting yield of 5.5%. The nine-property portfolio includes assets near Paris, Lyon, Marseille, Orléans and Dunkirk and totals around 360,000 sq m with significant reversionary potential.
- Some sizeable transactions have already been recorded in H2 2024. In July, Segro exited a portfolio of Italian logistics assets for €327 million. The four warehouses are located in Milan and Rome, with a total GLA of 338,745 sq m, and long dated income. Also in July, industrial developer Warehouse De Pauw (WDP) purchased a Romanian logistics portfolio for €110 m. The portfolio comprises five assets (135,000 sq m GLA) and c.300,000 sq m of land with potential for further development.

Returns

- According to the MSCI Quarterly European Index, annual capital growth for European Industrial property was negative in the year to Q1 2024, with -4.9%, an improvement from -6.4% in Q4 2023, and a low of -17.7% recorded in Q2 2023, indicating the market trough is now firmly behind us.
- Annual total returns were marginally negative in Q1 2024. They stood at -0.4%, though this again compares favourably with -2.1% last quarter and -14.2% in Q2 2023.
- With the exception of Ireland and Belgium & Luxembourg, all markets saw positive quarterly returns in Q1 2024. The Netherlands, followed by the UK, CEE and Nordic markets recorded the strongest rates of growth, the Netherlands leading with quarterly total returns of 1.9%.
- Positive total returns are forecast for Eurozone industrial in 2024, and they are expected to outperform the office and retail sectors. Capital Economics forecast 6.2% total returns for industrial in 2024, and expect returns to increase in 2025, to 9.5%. Returns for the European industrial sector are anticipated to exceed those of major property sectors over the next five years (2024-2028), with a CAGR of 7.7% per annum (Capital Economics), compared with 5.5% and 5.4% for the office and retail sectors.

Yields

- The MSCI pan-European net initial yield softened only marginally in Q1 2024, with a further 3bps, reaching 4.71%. The NIY has softened 22bps y/y. However, the rate of softening has slowed considerably from a peak quarterly rate of 77bps (q/q) in Q4 2022 and an annual change of 122 bps in the year to Q2 2023.
- The ECB Eurozone 10-year bond softened 22bps in Q2 2024, to 3.17%. However, European government bond yields have hardened significantly since the end of June. The latest reading for the ECB 10-year bond is 2.94% (9th August), -23bps compared with end of June, while the German 10-year bund has moved in -42bps to reach 2.19%.
- Based on the latest MSCI data for the pan-European NIY (Q1 2024), and the most recent Eurozone 10-year government bond yields, the spread would be c.177bps, this compares with 138bps at the end of Q2 last year.
- Across the 11 core prime markets, yields have softened an average of 156bps from the cyclical market peak to Q2 2024. The largest decompression was in Warsaw, followed by London where prime yields moved out 250bps and 200bps respectively.

Occupier Market Activity

- Take-up levels remain suppressed by a combination of weakened occupier demand and reduced development activity, with significantly less high-quality space available compared with pre-pandemic years.
- While vacancy rates have continued to rise modestly overall, they remain very low and a lack of supply in core markets, particularly in the Netherlands, Germany and France, has constrained take-up and driven continued rental growth. Much of the newly available space coming back to the market comprises older, lower quality assets that may be less suited to modern occupier requirements.
- Occupier demand is becoming increasingly focused on new and grade-A stock while development activity is significantly reduced.
- There have been notable declines in speculative development pipelines, particularly in the UK, France, and the Netherlands. A lack of new buildings, and further upward pressure on prime rents is expected as demand continues to outpace supply.
- Some recent occupier transactions involve Asian automotive production and distribution firms taking space in the CEE markets. In July a Korean logistics specialist for the automotive industry took more than 100,000 sq m of space at CTPark, Budapest, Hungary. While in Slovakia, Chinese automotive firm Jiangsu Xinquan Automotive Trim is taking 17,486 sq m of warehouse and office space at CTPark Prešov South. It will be their first plant in Europe. The firm is making the move amid the nearshoring trend where multinationals are increasingly basing their manufacturing closer to their customers' location, as a response to ongoing supply chain disruptions and a shifting geopolitical/trade environment.

Rental Growth

- Average rents for European Industrial continue to grow, though the rate of growth has moderated in recent quarters, with 6.8% growth over the past year (to Q1 2024) compared with 7.4% growth in the year to Q4 2023 and 8.9% in the year to Q2 2023 (Source: MSCI). Quarter-on-quarter growth of 1.4% was recorded in Q1 2024, a slight decline from 1.7% recorded in Q4 2023.
- The Netherlands, Ireland and Poland all saw strong uplift in average rents over the past year, with rental growth of 10.4%, 9.7% and 8.8% respectively (to Q1 2024). In Q1 2024, annual rental growth slowed across all core country markets, with the exception of Poland.
- Some city markets recording strong rental growth include the German cities of Munich, Dusseldorf, and Frankfurt with 12.0%, 11.5% and 9.0% annual growth (to Q1 2024) respectively. Manchester, UK recorded annual growth of 9.9%, while Dublin, Ireland recorded growth of 9.6% (MSCI).

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