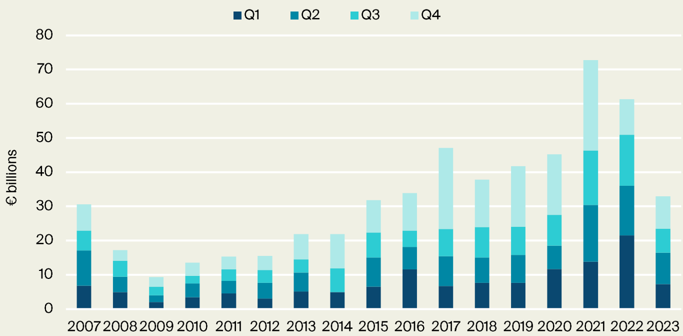
European Logistics Market Dashboard

March 2024

INTERNAL USE AND KEY CLIENTS ONLY

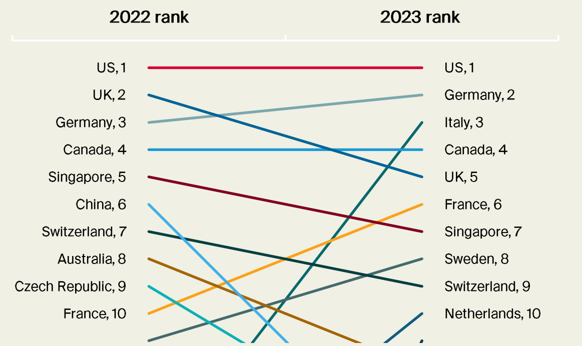
Investment market

Industrial & logistics - investment total



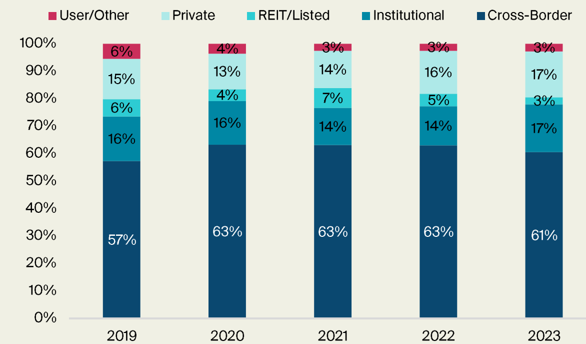
Source: Knight Frank, RCA

Top 10 sources of cross-border capital (2023)



Source: Knight Frank, RCA

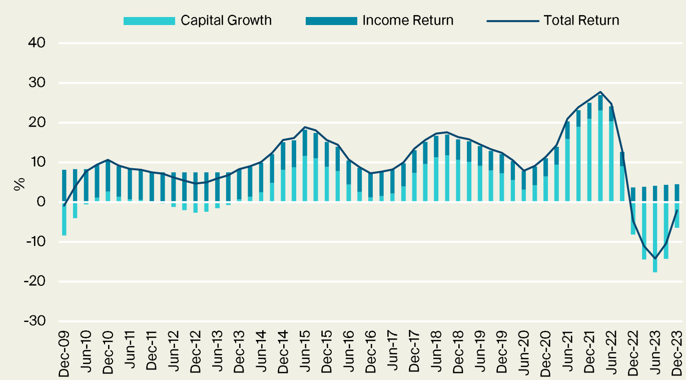
Composition of buyers



Source: Knight Frank, RCA

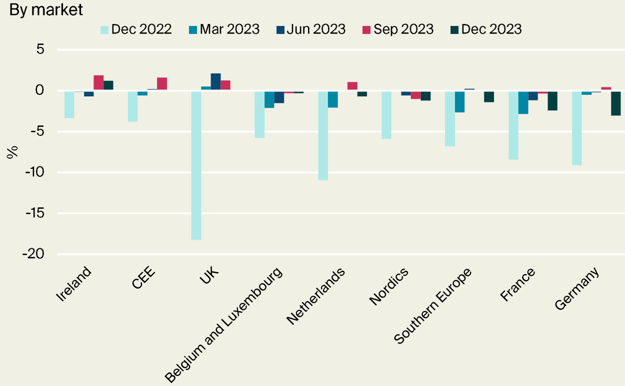
Performance

European industrial total returns – annualized (all assets)



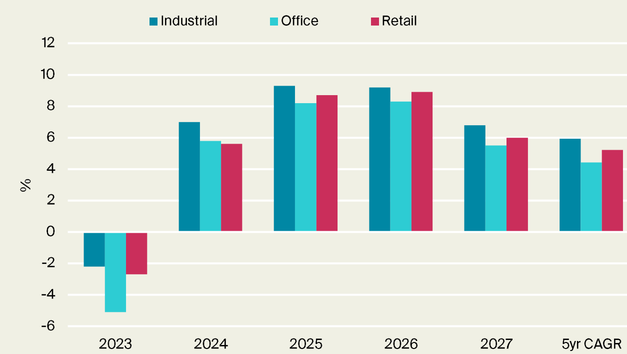
Source: Knight Frank, MSCI

Industrial total returns – quarterly
By market



Source: Knight Frank, MSCI

Euro zone total returns forecast by sector (2023-2027)



Source: Knight Frank, Capital Economics

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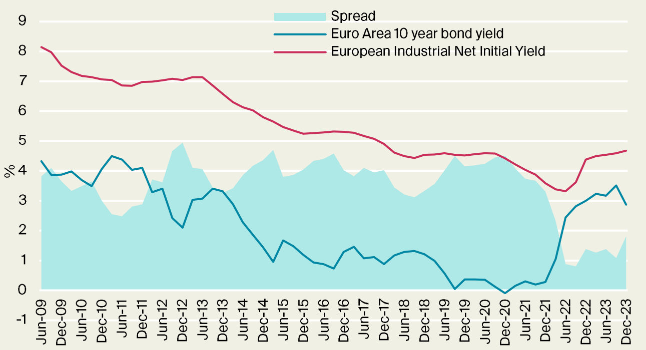
Yields

Europe - industrial yields



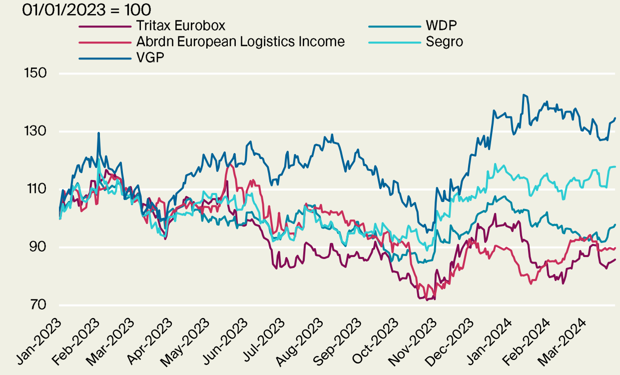
Source: Knight Frank, MSCI, Macrobond

Prime European yields – Q4 2023

Source: Knight Frank

Listed real estate

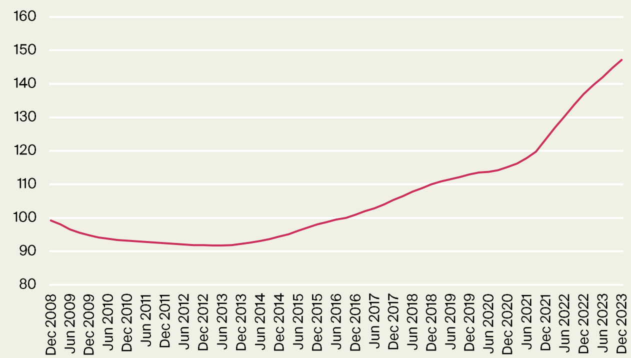
Listed real estate – price indices
01/01/2023 = 100



Source: Knight Frank, Marcobond

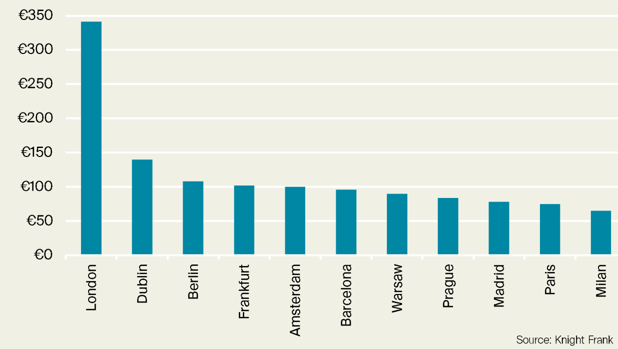
Rents

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



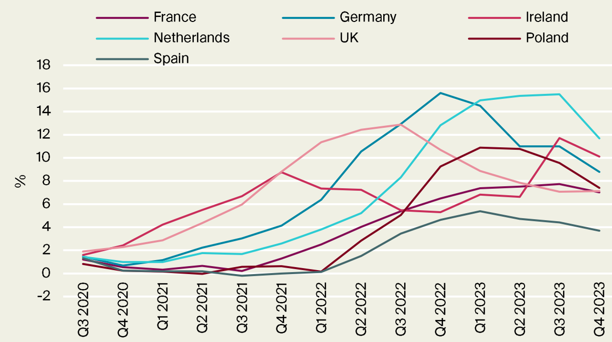
Source: Knight Frank, MSCI

Prime European industrial rents – Q4 2023
€ / sq m / annum



Source: Knight Frank

Average annual rental growth by market



Source: Knight Frank, MSCI

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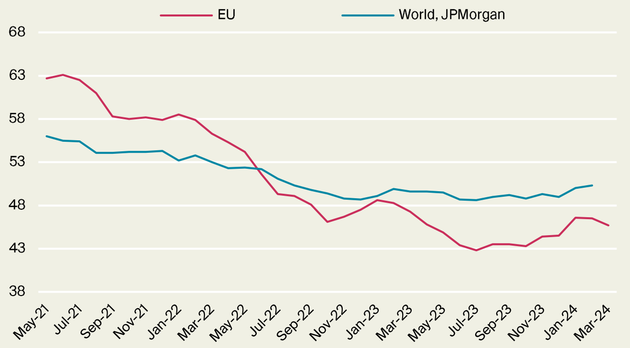
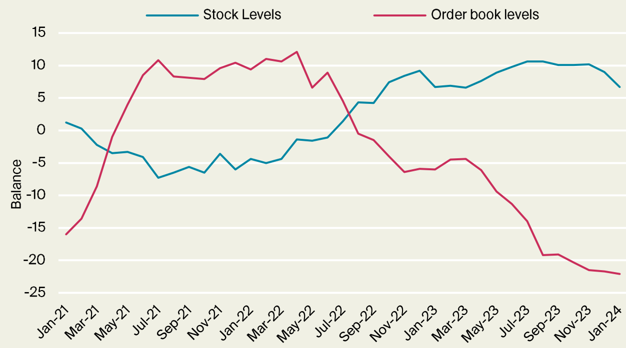
Industry, trade and manufacturing

Manufacturing PMI index



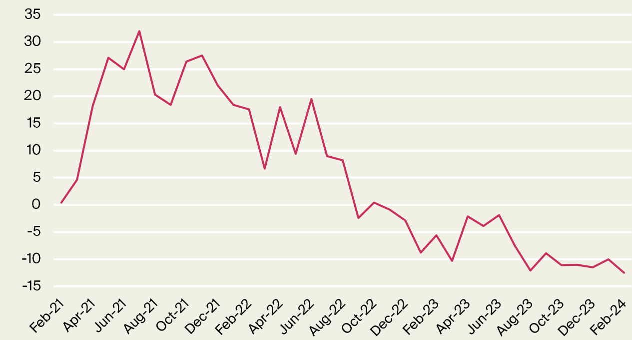
Source: Knight Frank, Macrobond

Order books and stocks balance
EU business survey – industrial confidence survey



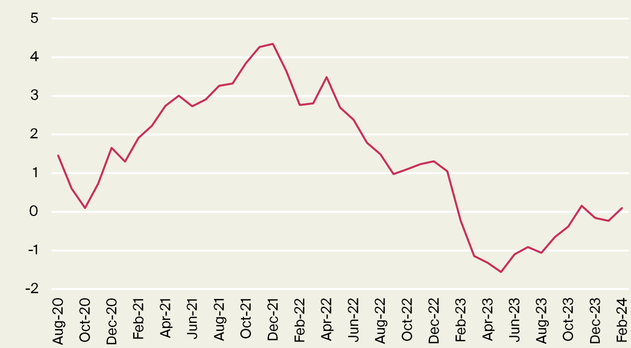
Source: Knight Frank, Macrobond

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



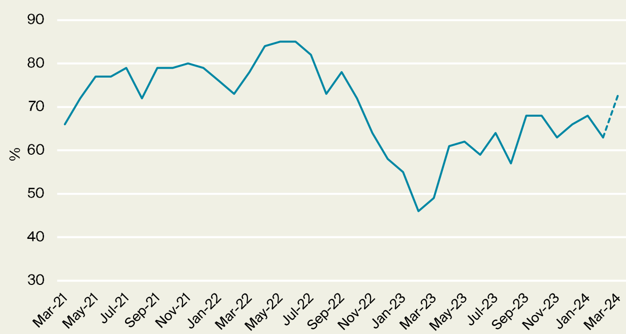
Source: Knight Frank, Macrobond

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



Source: Knight Frank, Macrobond

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. Figures in the second half of 2023 show a positive trend, and this was expected to continue into Q1 2024, with the index forecast to reach 47.0 by the end of the quarter. However, the preliminary March figure of 45.7 is below expectations following a sharper than expected contraction in February and March.
- Manufacturing order books shrunk slightly in January, from -21.7 in December last year to -22.1 in January. Stock balances also fell in January, with a reading of 6.7, down from 9.0 in December, their lowest level since March 2023.
- Business confidence within the EU's Warehousing and Support activities for the Transportation sector remains weak. However, January's reading of -10.0 marks a slight improvement from December's -11.5 and the highest reading since September 2023.
- The Global Supply Chain Pressure Index rose above 0 in February 2024, to 0.10 up from -0.23 in January. While the index has trended upward since May 2023, it remains in negative territory (meaning it is below the standard deviations from its historical average). Recent attacks on shipping in the Red Sea have forced traffic toward much longer routes (around the southern tip of Africa) while this has led to higher shipping prices, supplier delivery times are starting to improve, reducing inflationary pressures for manufacturing input prices.
- 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, which can lead to higher prices. In February 2024, the ratio was 63, this compares with a low of 46 in February last year. The preliminary figure for March is 72, up significantly from 49 in March 2023.

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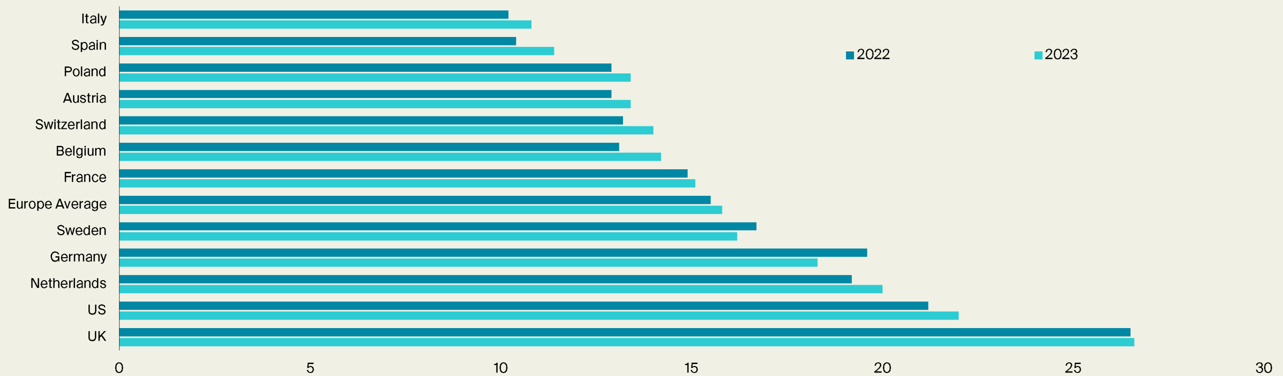
Online retail sales

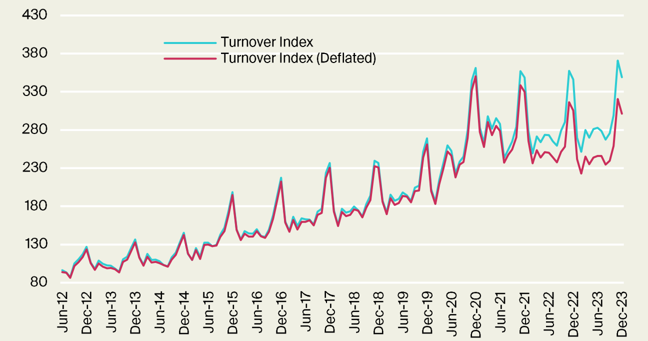
Online retail as a share of total retail sales, %



*2023 figures are preliminary

Source: Knight Frank

Euro area - retail trade via online or mail order – turnover index
Jan 2012 = 100



Source: Knight Frank, CBI

Market commentary

The tide is turning for European industrial property

Recent attacks on shipping vessels in the Red Sea will drive continued focus on supply chain resilience

The Suez shipping route that connects Europe with China and East Asia continues to be impacted by the threat from Houthi rebels, who have been attacking commercial and military shipping in the Red Sea since November 2023. Around 30% of global container trade travels through this route, and vessels are currently being forced to take much longer routes (around the southern tip of Africa). These longer transit times are adding to lead times. European manufacturers and retailers that depend on components or products from China and East Asia may seek to increase their stock to protect their order books and continue to service customer demand, which may result in additional demand for warehouses or temporary storage space.

The longer route is driving up shipping costs, adding inflationary pressures. The cost of shipping for a 40' container (FEU) from China/East Asia to Northern Europe is currently US$5,802, up from US$2,682 last year (Source: Freightos). The longer the situation persists, the more significant the disruption for supply chains, with congestion at ports resulting from changes to vessel schedules and the displacement of shipping containers causing additional disruption.

The Global Supply Chain Pressures Index rose above 0 in February, indicating an above-average reading. However, it remains significantly below levels recorded in 2020-2022. The Covid-19 pandemic and the associated supply chain disruptions, along with geopolitical tensions and rising barriers to trade, have already prompted many firms to reassess their supply chains and improve resilience through various strategies, including holding additional stock or diversifying their supplier base or reshoring/near-shoring operations.

The ecommerce market in Europe still has considerable growth potential, particularly in Eastern and Southern Europe, where online penetration rates are lower

Meanwhile, ecommerce penetration rates are stabilising in Western Europe following a post-pandemic correction. The surge in take-up driven by ecommerce growth linked to the pandemic was inevitably going to slow as restrictions on physical retail lifted. Online penetration rates in the UK peaked at 30.9% in 2021; this declined to 26.5% in 2022, while 2023 saw a slight increase y/y to 26.6%. Data for the Netherlands indicates a rise in penetration rates from 19.2% to 20.0% in 2023. However, this is also below the 2021 peak of 23.9%. Most markets recorded a rise in penetration rates in 2023, and the Europe average rose from 15.4% to 15.8%, but below the 2021 figure of 16%. Germany and Sweden were the only European markets to record a decline in online penetration rates in 2023.

In Italy, online sales accounted for just 10.2% of total retail sales last year, and 10.4% in Spain. Figures for 2023 indicate a rise in penetration rates in these markets to 10.8% and 11.4%, respectively. The growth of these markets will require further development of logistics networks and specialist fulfilment facilities. The current cost of living crisis and associated pressures on household finances may also help support growth, with most shoppers believing the best prices can be found online.

E-commerce is a key structural demand driver for logistics real estate, and our analysis found that every additional €1bn of e-commerce sales requires approximately 108,000 sq m of dedicated warehouse space. However, a few behemoths dominate the market, and their network expansion has come in waves, resulting in peaks and troughs of demand. The covid pandemic spurred online retailers to bring forward their expansion plans, and there were some instances of over-expansion or where the rush to gain scale led to a reduction in efficiencies. This has led to some space coming back to the market. However, the European online retail market is forecast to expand over the next five years, and this will result in rising demand. We expect ecommerce to drive growth in demand for the UK market, totalling 37 million sq ft over the next five years (2024-2028) (Future Gazing, 2024).

Increased appetite for risk could boost development

The ANREV/INREV/PREA Investment Intentions Survey 2024 results note a sharp shift towards higher-risk strategies when investing in Europe. Investors' preference for non-core strategies rose from 43% in 2023 to 64% in 2024.

The supply of modern logistics stock in Europe remains constrained, and both debt and equity are in limited supply. The development of new stock or the redevelopment or repositioning of older assets has the potential to generate higher returns than standing investment assets. This could offer an opportunity for non-core/value-add investors.

However, supply constraints are not equal across all markets. Providing the right assets, in terms of location and specification, that can meet the sustainability and operational aims of modern operators will require specialist knowledge and local market expertise. Investors who have or can access this knowledge and expertise, perhaps through a partnership arrangement, may be well-positioned to capitalise on this opportunity.

Asian investors set to return in 2024

US capital continued to dominate cross-border investment into the European logistics market in 2023, and we expect this to be the case again in 2024. Asian investors slipped down the rankings in terms of sources of capital in 2023, but they are expected to be more active in 2024. In 2022, Chinese investors ranked as the 6th largest source of cross-border capital but just 16th in 2023. In particular, Singaporean REITs, as well as Chinese investors, are expected to be more significant sources of capital in 2024.

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