

SUMMARY

- Eurozone GDP expanded by 0.7% q/q in the second quarter of 2022, stronger than anticipated. The picture was, however, more varied on a country-by-country basis. Spain, Italy, and France recorded a 1.1%, 1.0% and 0.5% q/q expansion respectively, supported by tourism-related activities. Meanwhile, Germany's economy stagnated due to a weakening in industrial activities.
- The forecast for global economic growth has now moderated. The IMF forecast European GDP growth of 2.6% this year, which is, however, higher than the outlook for the US (2.3%).
- European labour markets remain tight with historically low levels of unemployment, but surveys point to a softening in hiring activity. The Eurostat experimental wage tracker forecasts average wage growth to remain moderate, increasing by 3% on average in 2022 and 2.5% in 2023. Amid high inflation, real wage growth will remain more tempered.
- Euro area annual inflation reached 8.9% in July, reflecting global cost-push inflationary pressures. The ECB raised interest rates by 50bps in July, higher than anticipated. Capital Economics expects the ECB to raise rates to 1.25% by the end of the year.
- As the cost of debt rises, leveraged investors are seeing their returns come under pressure. The 5-year Euro swap rate remains elevated at 2.25% as at the end of August. This compares with -0.39% a year ago, while it reached a high of 2.34% on 14th June. This however, remains below other regions in terms of absolute pricing.
- European Industrial investment totalled €11.6 billion in Q2 2022, 18% above the Q2 5-year average. The UK, Germany, and Sweden were the largest recipients of industrial investment. Cross-border investors accounted for €6.4 billion of total industrial investment in Q2 2022, 25% above the Q2-5 year average.

Source: Knight Frank, RCA, Macrobond, Oxford Economics, European Commission

Research

Victoria Ormond

Partner, Capital Markets Research
+44 20 7861 5009
victoria.ormond@knightfrank.com

Judith Fischer

Associate, European Research
+44 20 3830 8646
judith.fischer@knightfrank.com

Capital Markets

Richard Laird

Partner, Co Head European Capital Markets
+44 20 7861 1663
richard.laird@knightfrank.com

Agency

Charles Binks

Partner, Industrial & Logistics Agency
+44 20 7861 1146
charles.binks@knightfrank.com

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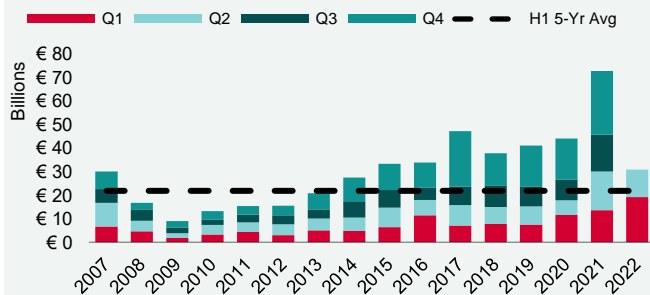
European Logistics Capital Markets Dashboard

Q2 2022

Internal and key client use only

Investment market

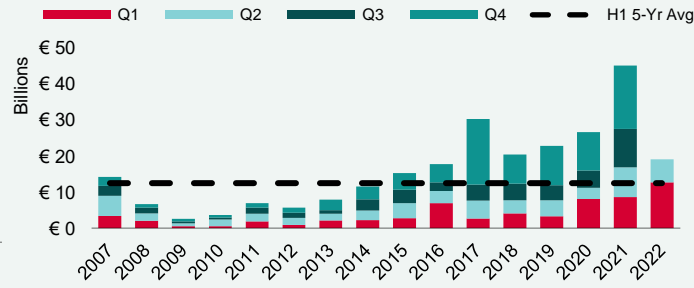
European Industrial Investment Volumes



Source: RCA, Knight Frank Research

Industrial investment amounted to €11.6 billion in Q2 2022. While this remains below the record first quarter and below Q2 2021, it stands at 18% above Q2 5-year average.

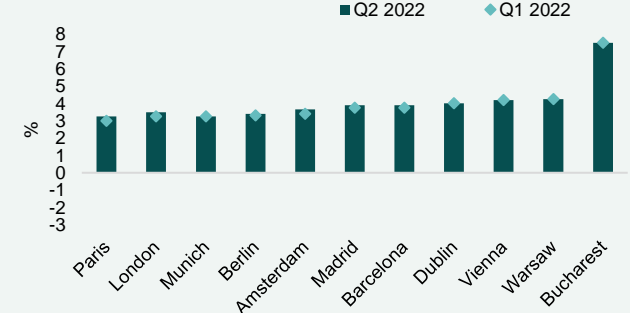
European Industrial Cross Border Investment



Source: RCA, Knight Frank Research

Cross-border investors accounted for €6.4 billion in Q2 2022, 25% above the Q2-5 year average.

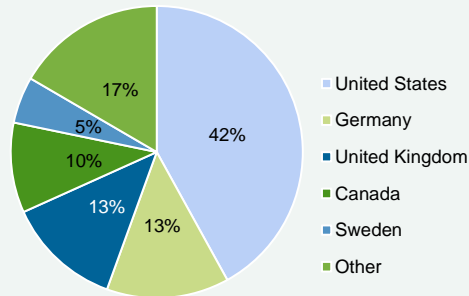
European Industrial Yields (%) - Q2 2022



Source: Knight Frank Research

Prime industrial yields softened marginally in Paris, Amsterdam and London, and are under outward pressure across the board as investors price the new debt environment.

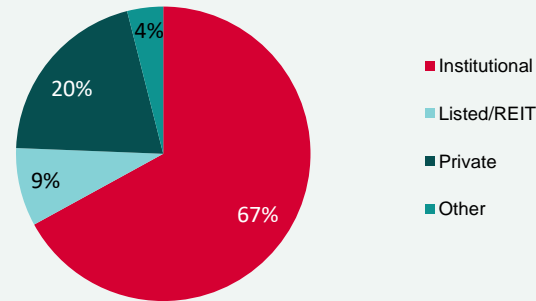
Sources of investment - Q2 2022



Source: Knight Frank, Real Capital Analytics

US investors remained the largest source of cross-border investment in Q2 2022, accounting for 42% of total investment, down from 52% in the quarter prior.

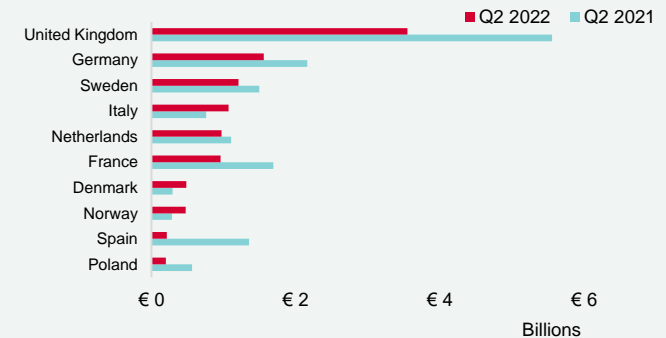
Investor Type - Q2 2022



Source: Knight Frank, Real Capital Analytics

Institutional investors remained the largest source of total investment in Q2 2022 with a 67% share, which is more than last quarter's share of 51%. Meanwhile, Private investors were less active in Q2 compared to the quarter prior, with a share of 20% compared to 26% in Q1.

Destinations of investment



Source: Knight Frank, Real Capital Analytics

The UK remained the largest recipient of industrial investment in Q2 2022, with €3.5bn transacted, ahead of Germany and Sweden which saw the second and third highest levels of investment volumes.

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Victoria Ormond
Partner, Capital Markets Research
+44 20 7861 5009
victoria.ormond@knightfrank.com

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Associate, European Research
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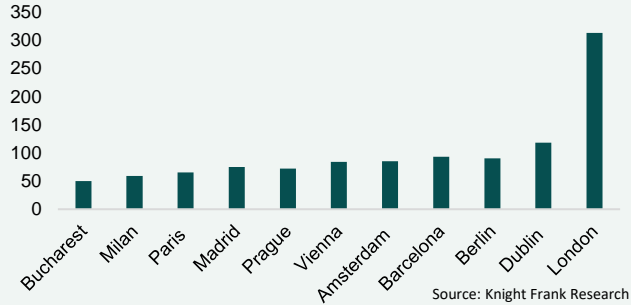
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Rents

Prime European Industrial Rents – Q2 2022

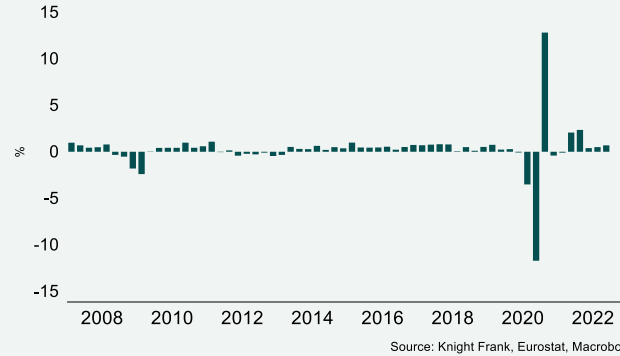
€/ sq m / annum



European Prime Industrial rents remained stable with some markets seeing rental increases in Q2 2022. Barcelona, Bucharest, Madrid, Milan and Vienna all saw quarterly growth. Vienna had the strongest growth at 7% followed by Milan at 4%.

Economics

European Quarterly GDP



GDP across the Eurozone increased 0.7% in Q2 2022, higher than estimates and the previous quarter's growth, likely supported by stronger service sector activity. Looking ahead, these levels are likely to flatten due to developments in the energy markets.

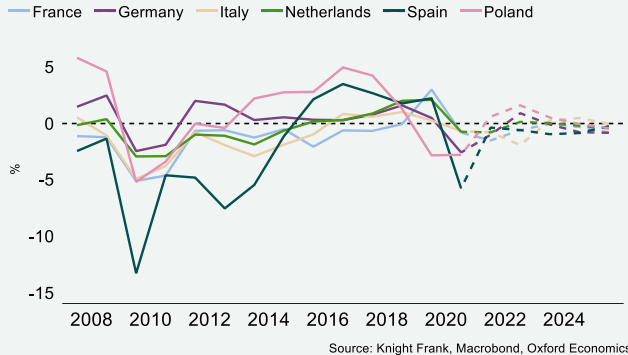
European CPI



Eurozone CPI increased further to 8.9% in July, a record high level. Inflation is mainly driven by higher energy prices. The ECB expects inflation to average 6.8% in 2022 and 3.5% in 2023 before moving closer to the 2% target in 2024.

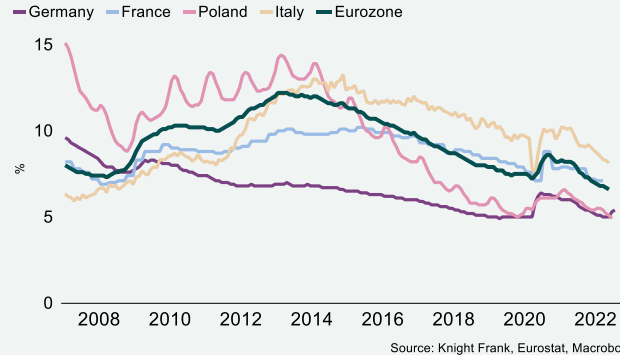
Labour Economics

European Manufacturing Employment



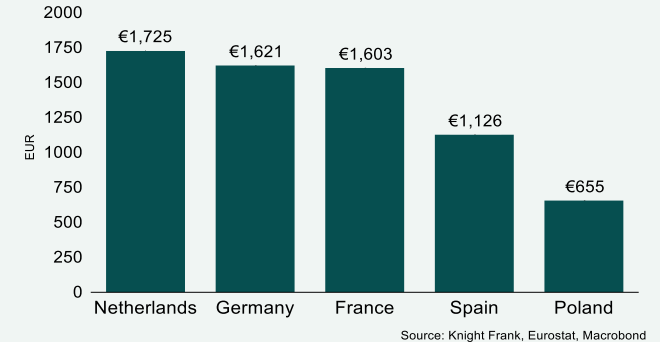
Total Eurozone employment increased 0.6% in Q1 2022, above previous quarter's growth and beating market expectations. However, surveys suggest an adjustment in hiring intentions which may lead to slower employment growth.

European Unemployment



The labour market continues to show resilience. Eurozone unemployment fell to a new record low of 6.6% in May 2022 and remained at this level in June, comfortably below the 9.4% LTA. As economic activity slows, a small uptick in unemployment is possible in the coming quarters.

European Monthly Minimum Wage



The Bundestag approved in June that the national minimum wage in Germany will increase to an hourly rate of €12 effective 1 October from the current rate of €9.83 per hour.

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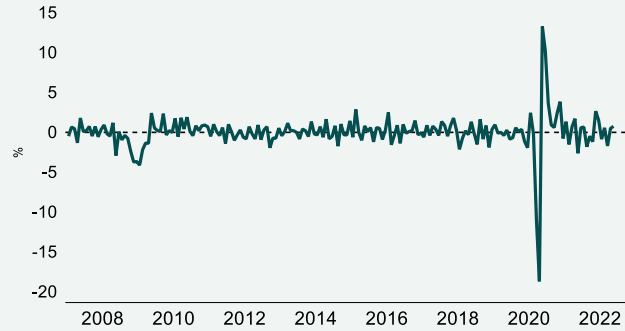
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Industry, Trade and Transport

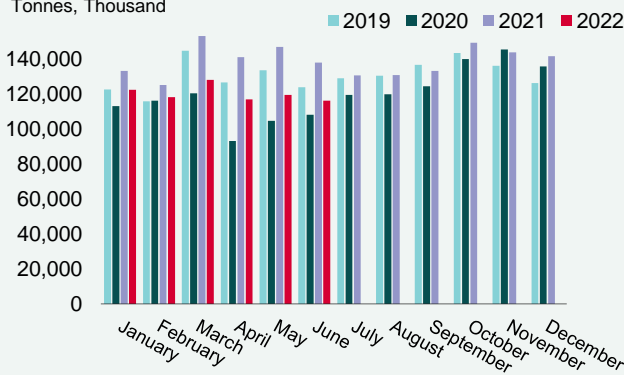
European Industrial Production



Source: Knight Frank, Eurostat, Macrobond

Eurozone industrial production increased by 0.8% m/m in May 2022 and by 1.6% compared to May 2021. Looking forward, the outlook for industrial production may be affected by the likelihood of gas shortages and the risk of lockdowns in China's manufacturing hubs.

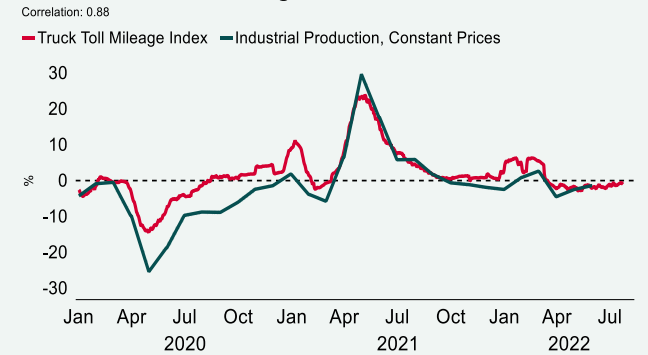
Netherlands Total Monthly Air Cargo



Source: Knight Frank, Macrobond

Air freight in H1 2022 was 14% below H1 2021 and 6% below the corresponding period in 2019 - likely impacted by higher fuel prices.

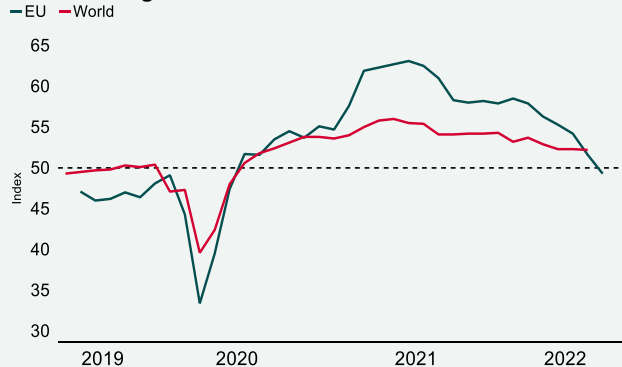
German Truck Toll Mileage



Source: Knight Frank, Macrobond

German truck toll mileage, a leading indicator of industrial production measured relative to usual levels for the period, has slowed since the onset of the conflict in Ukraine. The uncertainty over Russian gas supplies means that the industry outlook has slowed further.

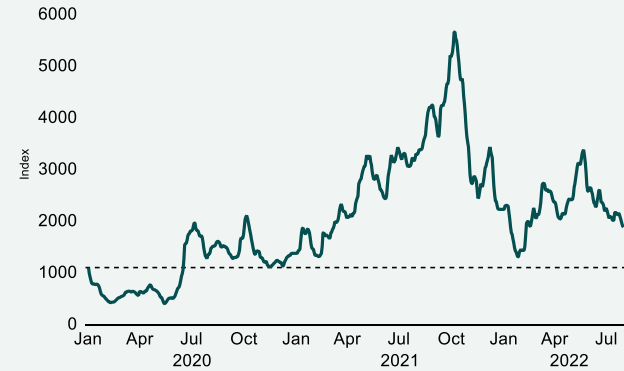
Manufacturing PMI Index



Source: Knight Frank, Macrobond

The Eurozone manufacturing PMI dropped to just under the 50-mark in July. The reading was also below 50 in all four large Eurozone economies which suggest that flattening external demand and high energy and input costs are weighing on production.

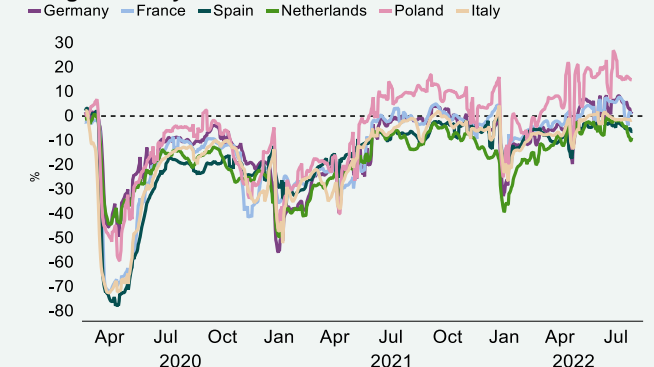
Baltic Dry Index (BDI)



Source: Knight Frank, Macrobond

The Baltic Dry, a measure of what it costs to ship raw materials still remains significantly above the pre-pandemic level. The geopolitical situation and constrained activity out of China due to Covid-19 lockdowns have caused renewed supply chain issues.

Google Mobility Index



Source: Knight Frank, Macrobond, Google

This index measures activity (excl parks & recreation), relative to a benchmark period in January / February 2020. Mobility is improving amid easing of restrictions and a recovery of the tourism sector.

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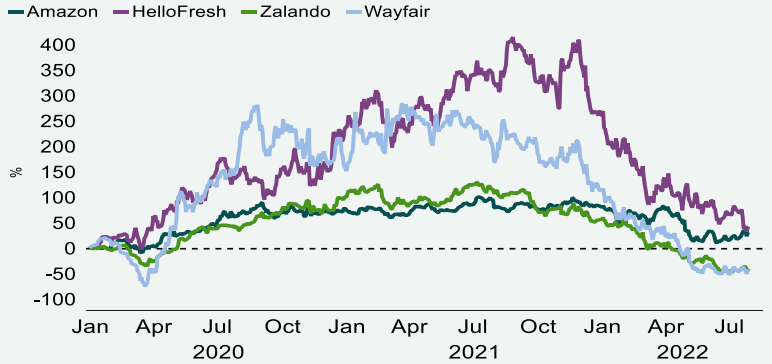
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Online Retailing

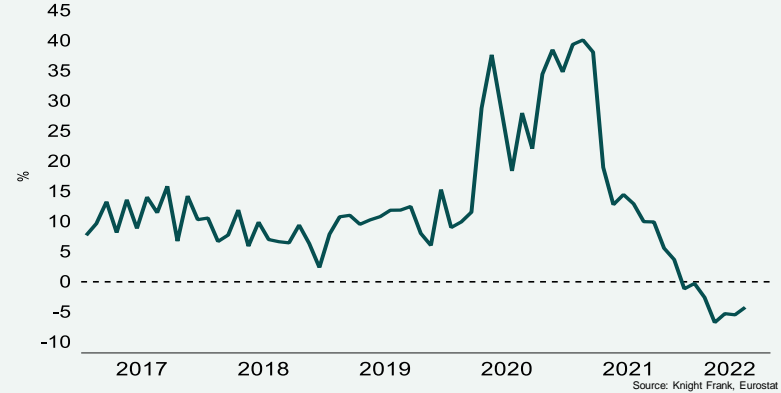
Leading Online Retailer Share Price Growth, %



Source: Knight Frank, Macrobond

Leading online retailers have seen slowing or declining share price growth. This reflects the re-opening of economies, the challenges of inflation and a weaker economic outlook as well as more broadly bearish stock markets.

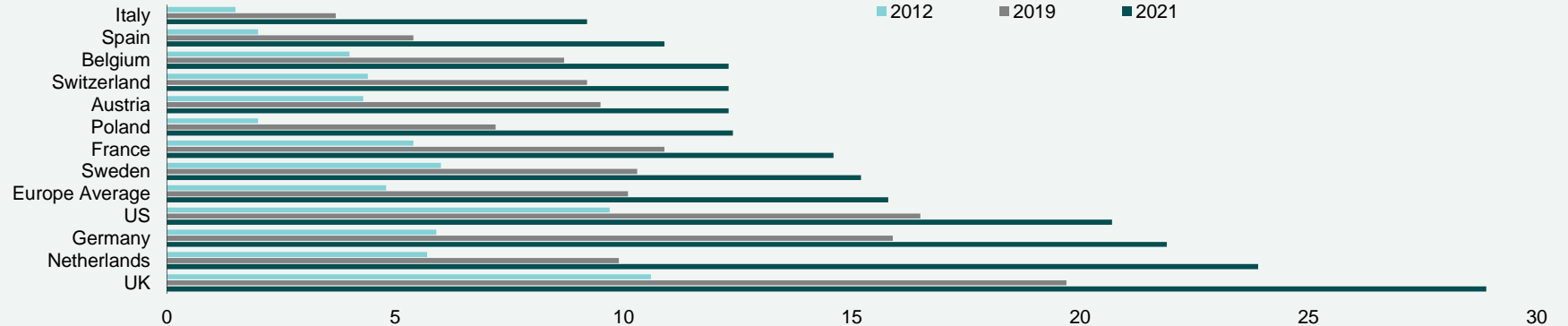
YOY Growth in European Internet & Mail Order Sales, %



Source: Knight Frank, Eurostat

Internet & mail order sales continued to see negative growth in June 2022. This follows the lifting of Covid restrictions and high inflation impacting consumer spending more broadly.

Online retail as a share of total retail sales, %



Source: Knight Frank, Centre for Retail Research

All European countries saw a sharp acceleration in online retail over the pandemic, creating additional demand for logistics space. Estimated ecommerce penetration across Western Europe increased from 10.1% in 2019 to 15.8% in 2021. According to the Centre for Retail Research, whilst levels of online shopping have declined from their lockdown peaks, the pandemic has led to a permanent change in shopping habits, with consumers becoming more familiar with an omni-channel experience.

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Victoria Ormond
Partner, Capital Markets Research
+44 20 7861 5009
victoria.ormond@knightfrank.com

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Associate, European Research
+44 20 3830 8646
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