

European Logistics Capital Markets Dashboard

Winter 2021



Internal and key client use only

SUMMARY

- Eurozone GDP expanded by 5.2% in 2021 as a whole which took the Eurozone economy almost back to its pre-pandemic size. The economic recovery is expected to continue in 2022 and 2023, with an estimated GDP growth of 4.0% and 2.7%, respectively, before settling back at a lower-for-longer growth pace.
- The Eurozone labour market is also demonstrating continuing signs of recovery. The Industrial Employment Expectations Indicator reached an all-time high in January which indicates that unemployment is likely to continue its downward trend in 2022. Labour shortages are, however, a growing concern which companies are identifying as a limiting factor for production. Wage growth is expected to accelerate this year due to continued labour shortages, higher inflation, strong corporate profits and a sizeable increase in minimum wages in several European countries.
- European Industrial investment totalled €65 billion in 2021, the strongest year on record, with the UK, Sweden, Netherlands, Italy, Spain, Norway and Denmark all seeing record breaking investment volumes.
- The countries seeing the highest transaction activity were the UK (€23 billion), followed by Germany (€7.5 billion), and Sweden (€6.3 billion). Cross-border transactions accounted for 66% of total investment.
- Europe is expected to be the top region for cross-border capital in 2022. Our Capital Gravity Model forecasts another record year for the industrial sector. Investment managers and private equity funds, particularly from the US and Canada, are driving the demand for industrial assets which captures structural changes.
- A lack of conventional policy tools to support economic growth and the push for more decarbonisation policies are encouraging large-scale infrastructure projects across Europe which offer opportunities for logistics investors and developers alike. We expect infrastructure-led areas to see the most investment such as the Fehmarn Belt in Germany, Canal Seine-Nord Europe in France, and Terzo Valico in Italy.

Source: Knight Frank, RCA, Macrobond, Oxford Economics, Eurostat

Research

Antonia Haralambous
Senior European Research Analyst
+44 20 3866 9033
antonia.haralambous@knightfrank.com

Judith Fischer
Associate, European Research
+44 20 3830 9646
judith.fischer@knightfrank.com

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

Capital Markets

Richard Laird
Partner, Co Head European Capital Markets
+44 20 7961 1663
richard.laird@knightfrank.com

Agency

Charles Binks
Partner, Industrial & Logistics Agency
+44 20 7961 1146
charles.binks@knightfrank.com

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Knight Frank European Logistics Capital Markets- Select Transactions

ECHT Netherlands

Forward purchase of speculative project on behalf of P3



SECTOR:	Logistics
AREA (SQ M):	98,294
VENDOR:	Dokvast
PURCHASER:	P3 / GIC
LEASE:	Fully let at p.c.
TENANT:	Confidential

PROJECT GEMSTONE Spain

Portfolio sale on behalf of Logicor



SECTOR:	Logistics
AREA (SQ M):	286,614
VENDOR:	Logicor
PURCHASER:	EQT Exeter
LEASE:	8 years
TENANT:	Multi-let

FOUR PARX, BERLIN Germany

Last mile sale on behalf of Four Parx



SECTOR:	Logistics
AREA (SQ M):	18,364
VENDOR:	Four Parx
PURCHASER:	Credit Suisse Asset Management
LEASE:	10 years
TENANT:	Amazon, Cosentino

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Antonia Haralambous
Senior European Research Analyst
+44 20 3866 9033
antonia.haralambous@knightfrank.com

Judith Fischer
Associate, European Research
+44 20 3830 9646
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+44 20 7861 5009
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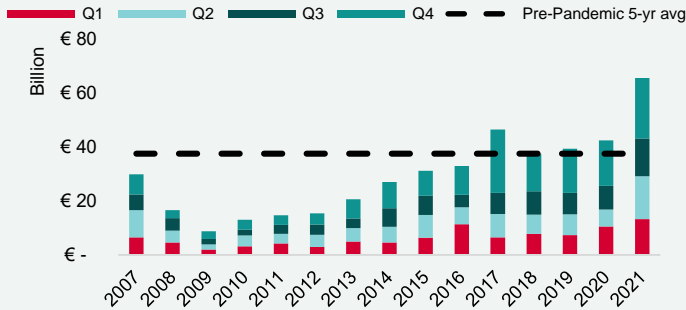
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Investment market

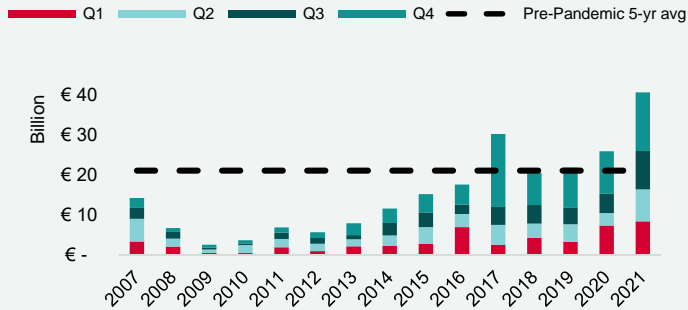
European Industrial Investment Volumes



Source: Knight Frank, Real Capital Analytics

Industrial investment amounted to €65 billion in 2021, the strongest year on record, compared to the previous record of €46 billion in 2017 and the pre-pandemic 5-year average of €37 billion. Q4 saw the largest quarterly industrial investment volumes of 2021, totalling €22 billion.

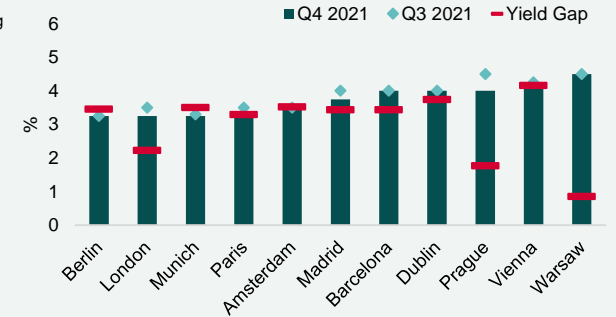
European Industrial Cross Border Investment



Source: Knight Frank, Real Capital Analytics

Cross border investors accounted for 70% or nearly €41 billion of the 2021 total, a new annual record, compared to 64% cross-border investment in the previous year.

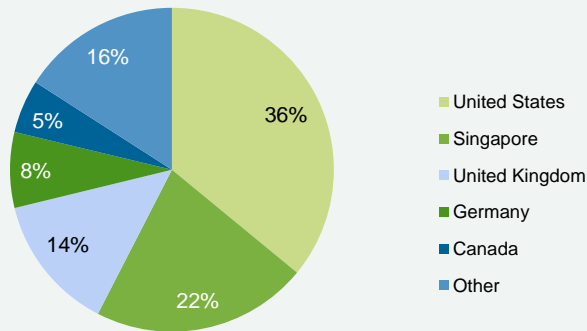
European Industrial Yields (%) - Q4 2021



Source: Knight Frank

The yield gap, which reflects the difference between prime yield and the risk free rate (a risk free investment such as a 10-year government bond) remains sub 4% in most markets in Q4 2021. Industrial yields remained stable in most markets.

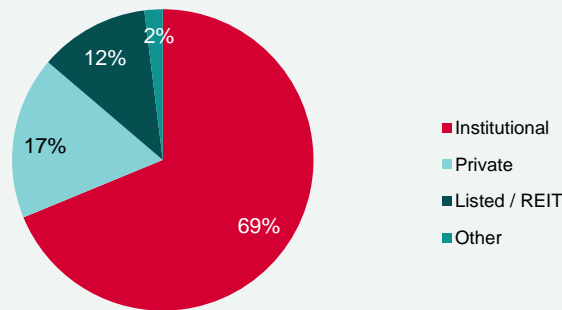
Sources of Investment – Q4 2021



Source: Knight Frank, Real Capital Analytics

While US investors remained the largest source of cross border investment in Q4 2021, accounting for 36% of total investment, this was down from 43% in the quarter prior.

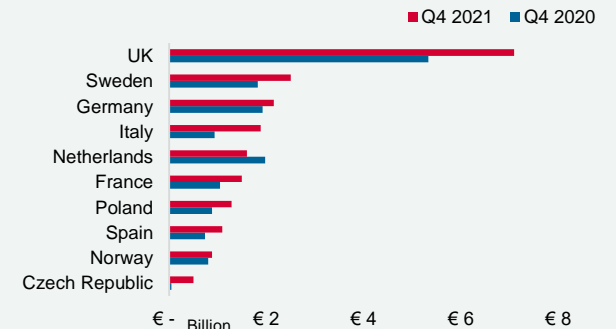
Investor Type - Q4 2021



Source: Knight Frank, Real Capital Analytics

Institutional investors remained the largest source of total investment in Q4 2021 with a 69% share. Meanwhile, Private investors were less active in Q4 compared to the quarter prior, with a share of 17% compared to 23% in Q3.

Destinations of Investment



Source: Knight Frank, Property Data, Real Capital Analytics

The UK remained the largest recipient of logistics investment in Q4 2021, with €7.1bn transacted, the strongest Q4 on record for the country and a 33% increase compared to Q4 2020. The Czech Republic transacted €499 million in Q4 2021, compared to €42 million in Q4 2020.

Research

Antonia Haralambous
Senior European Research Analyst
+44 20 3866 9033
antonia.haralambous@knightfrank.com

Judith Fischer
Associate, European Research
+44 20 3830 9646
judith.fischer@knightfrank.com

Victoria Ormond
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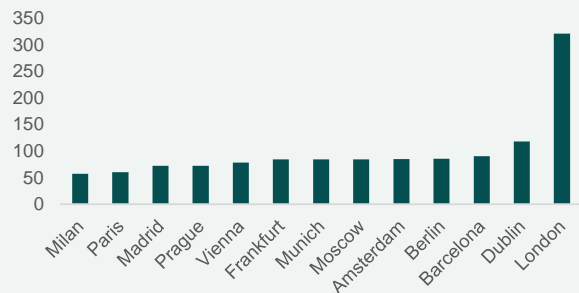
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Rents

Prime European Industrial Rents – Q4 2021

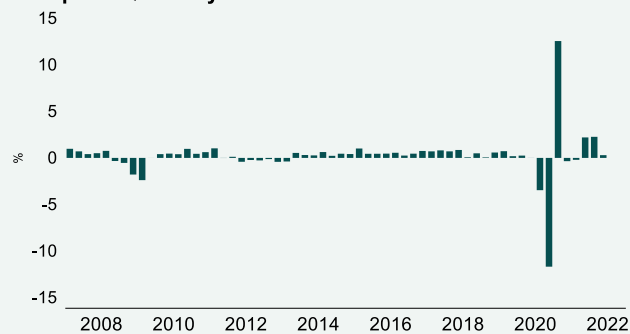
€/sq m / annum



Multiple markets across Europe recorded prime Industrial rental growth over the year to Q4 2021, with the strongest performers including Prague (26%), London (25%) and Moscow (17%).

Economics

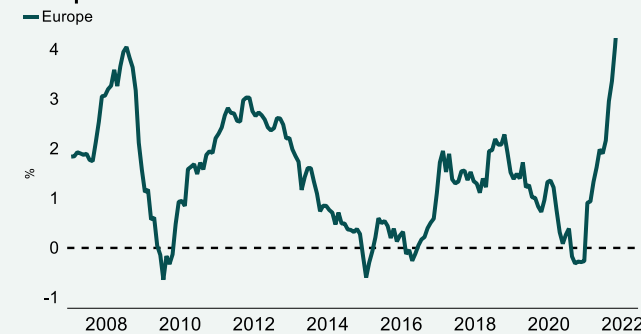
European Quarterly GDP



Source: Knight Frank, Eurostat, Macrobond

GDP across the Eurozone increased 0.3% in the fourth quarter of 2021, in line with estimates. Spain (2.0%), France (0.7%) and Italy (0.6%) all recorded quarterly GDP growth. Germany's economy contracted by -0.7%.

European CPI



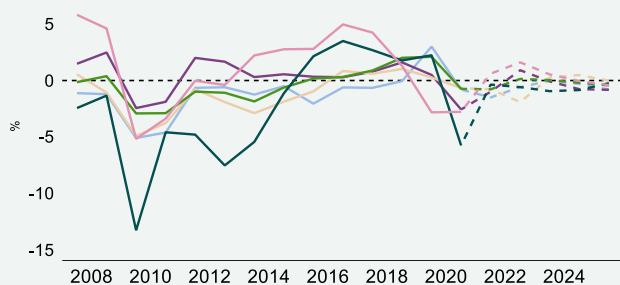
Source: Knight Frank, Eurostat, Macrobond

Eurozone CPI for January 2021 was 5.1%, a record high level, mainly driven by higher energy prices. Inflation remains above the ECB's 2% target but the ECB expects inflation to drop over the course of 2022 and to fall below its target level in 2023.

Labour Economics

European Manufacturing Employment

France Germany Italy Netherlands Spain Poland

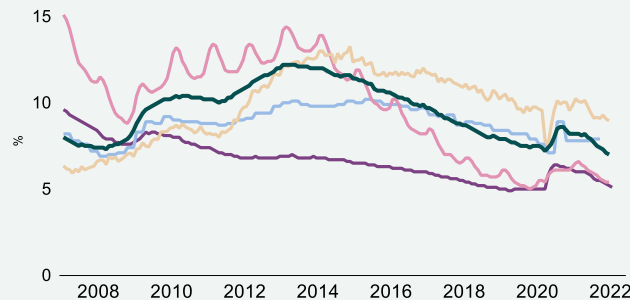


Source: Knight Frank, Macrobond, Oxford Economics

Total Eurozone employment increased 0.9% in Q3 2021, compared to a 0.8% increase in the previous quarter and in line with preliminary estimates. Year on year, employment increased 2.1% in Q3 2021.

European Unemployment

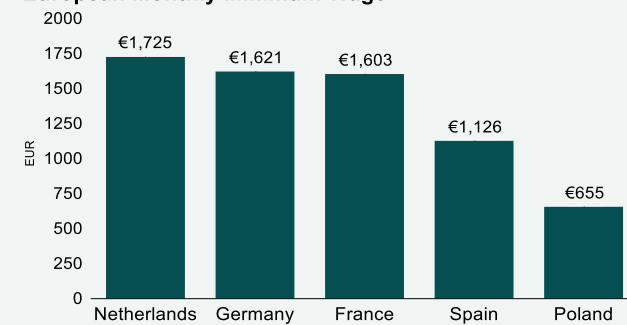
Germany France Poland Italy Eurozone



Source: Knight Frank, Eurostat, Macrobond

Eurozone unemployment fell to a record low 7.0% in December 2021, as demand for labour continues to improve. Except for the Netherlands, all Eurozone economies saw unemployment rates declining or remaining stable in December.

European Monthly Minimum Wage



Source: Knight Frank, Eurostat, Macrobond

The national minimum wage in the Netherlands rose to €1,725 per month in January 2022 while Poland raised its minimum wage by 7.5% to PLN3,010. Germany increased the hourly rate to €9.82 on 1 January. The new government pledged to increase it to €12 per hour from October 2022.

Research

Antonia Haralambous
Senior European Research Analyst
+44 20 3866 8033
antonia.haralambous@knightfrank.com

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

Victoria Ormond
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+44 20 7861 5009
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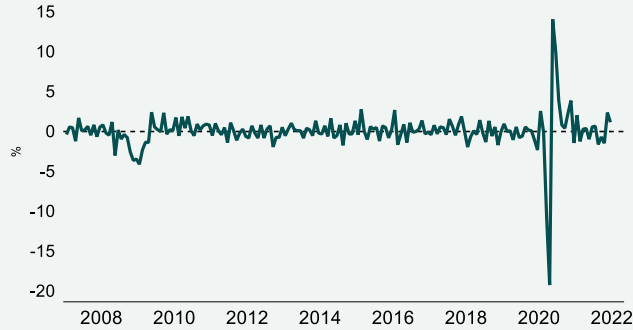
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Industry, Trade and Transport

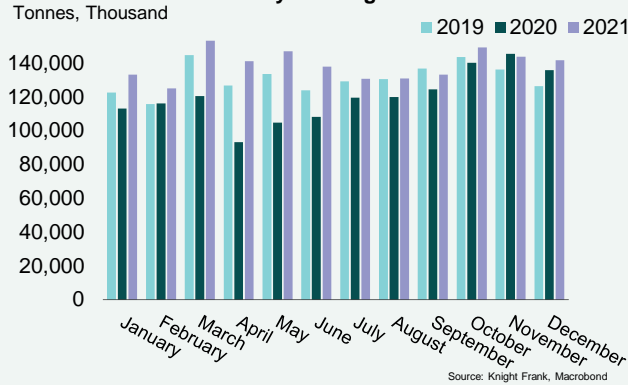
European Industrial Production



Source: Knight Frank, Eurostat, Macrobond

Eurozone industrial production increased by 1.2% m/m in December 2021, beating marketing expectations. This comes after an upwardly revised 2.4% monthly growth in November. These solid figures suggest that the industrial sector is starting to improve as supply constraints gradually ease.

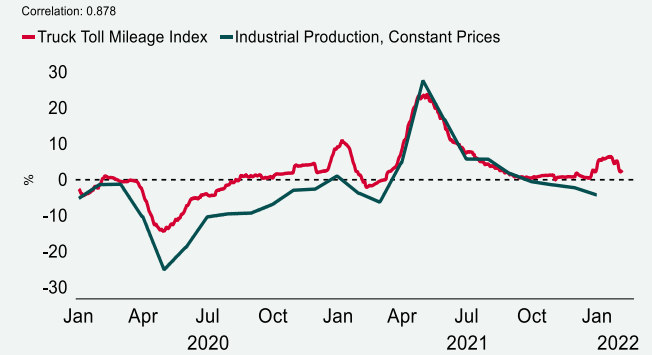
Netherlands Total Monthly Air Cargo



Source: Knight Frank, Macrobond

Air freight has surpassed both 2019 and 2020 levels in 2021, increasing to 16% above the 2020 level and 6% higher than in 2019.

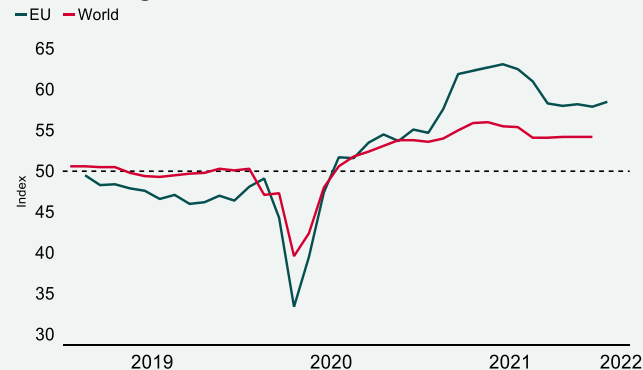
German Truck Toll Mileage



Source: Knight Frank, Macrobond

German truck toll mileage, a leading indicator of industrial production measured relative to usual levels for the period, has increased since the start of the year and is at levels last seen in July 2021.

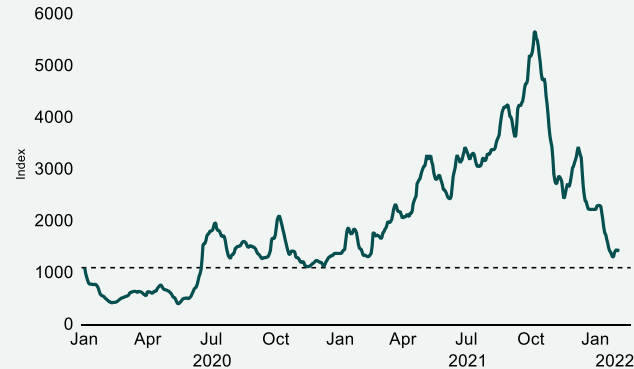
Manufacturing PMI Index



Source: Knight Frank, Macrobond

The Eurozone manufacturing PMI was 58.5 in January 2022, above the previous month's reading of 57.9. The index has remained in expansive territory (above 50) since July 2020.

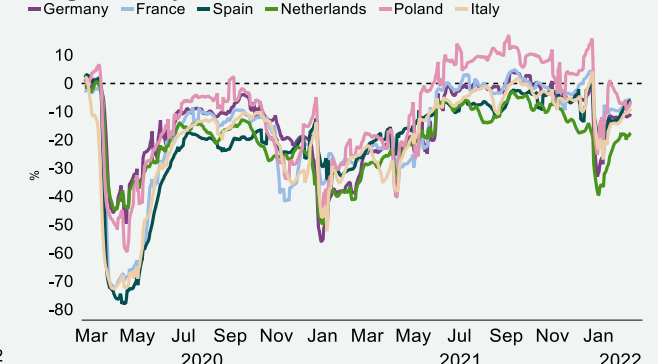
Baltic Dry Index (BDI)



Source: Knight Frank, Macrobond

The Baltic Dry, a measure of what it costs to ship raw materials, has been on a downward trend since its all-time high in October, pointing to an easing of supply chain constraints.

Google Mobility Index



Source: Knight Frank, Macrobond, Google

This index measures activity (excl parks & recreation), relative to a benchmark period in January / February 2020. Activity slowed amid the latest Omicron waves across Europe but have started to improve again as restrictions lose.

Research

Antonia Haralambous
Senior European Research Analyst
+44 20 3866 9033
antonia.haralambous@knightfrank.com

Judith Fischer
Associate, European Research
+44 20 3830 9646
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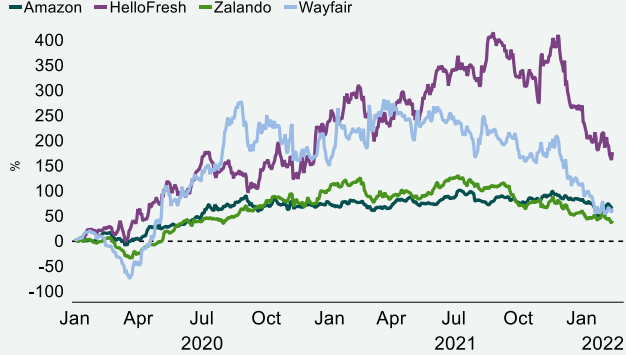
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Online Retailing

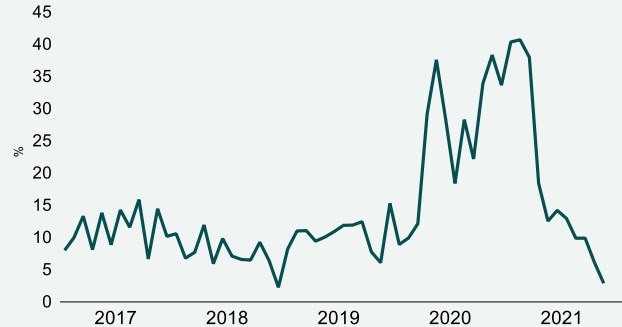
Leading Online Retailer Share Price Growth, %



Source: Knight Frank, Macrobond

Both HelloFresh and Wayfair are seeing slowing share price growth. However, when compared to January 2020 HelloFresh's share price is currently 195% higher. Amazon's and Zalando's share price are currently 51% and 44% higher than the start of 2020.

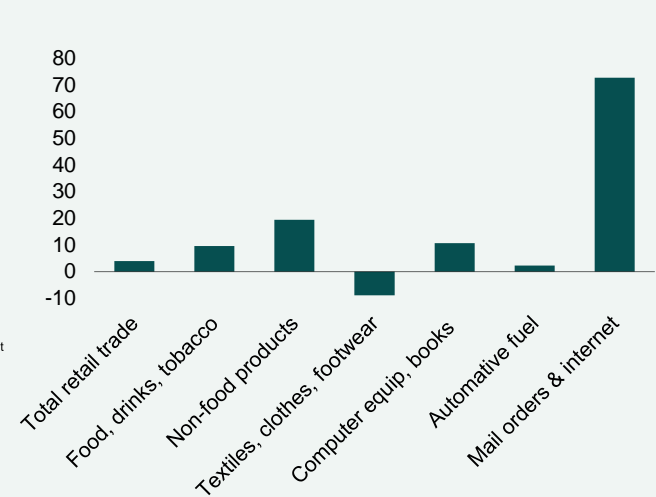
YOY Growth in European Internet & Mail Order Sales, %



Source: Knight Frank, Eurostat

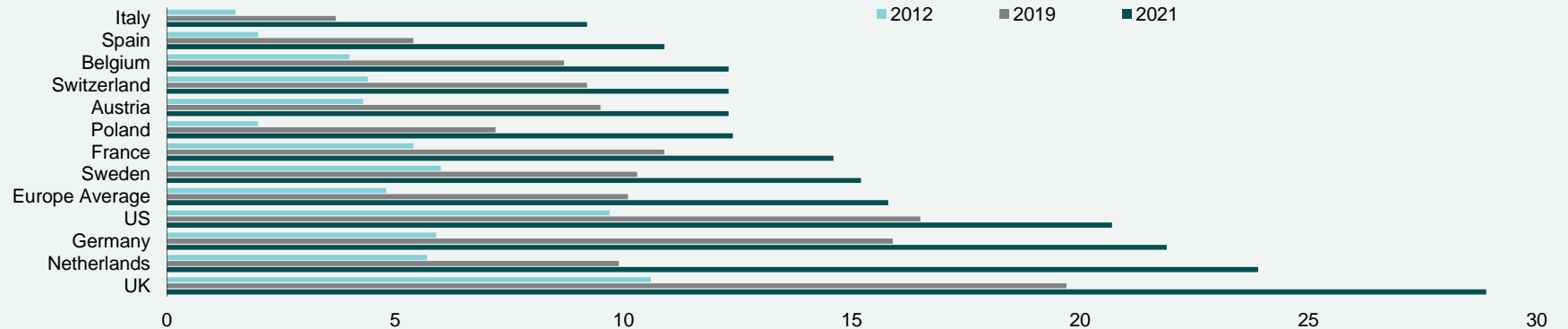
Internet & mail order retail growth is 2.9% higher in November 2021 than it was in the same month the year prior. This is the slowest pace of growth since December 2018.

Volume of Retail Trade Sales Nov 2021 vs Jan 2020, %



Source: Knight Frank, Eurostat

Online retail as a share of total retail sales, %



Source: Knight Frank, Centre For Retail Research

All European countries have seen a sharp acceleration in online retail over the pandemic, creating additional demand for logistics space, with ecommerce penetration across Western Europe estimated to have increased from 10.1% in 2019 to 15.8% in 2021. Among the fastest growing countries in Europe are the UK, which reached an online retail share of 28.9%, the Netherlands (23.9%), and Germany (21.9%). Italy and Spain are catching up in terms of online retail but the e-commerce penetration rates across Southern Europe remain lower. While online retail tended to dip back marginally after lockdowns ended, e-commerce remains significantly above pre-pandemic levels.

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Antonia Haralambous
Senior European Research Analyst
+44 20 3866 8033
antonia.haralambous@knightfrank.com

Judith Fischer
Associate, European Research
+44 20 3830 8646
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