

European Logistics Market Dashboard

Q1 2021

Internal and key client use only

SUMMARY

- Activity has been increasingly robust going into Q2 2021, with Eurozone Industrial production rising at its fastest rate on record, while the Eurozone Manufacturing PMI is currently at its strongest ever level.
- Inflation in the Eurozone has surpassed the ECB target rate for the first time since 2018, currently at 2%. The upward pressure on inflation is expected to be transitory, with the ECB forecasting inflation to be 1.5% overall in 2021, before paring back further to 1.2% in 2022.
- Internet and mail order sales growth moderated to 39% over the year to March 2021, from 42% over the year to February. We could see further moderation of growth as lockdown restrictions ease, however, we expect the overall acceleration of online retailing to remain.
- Industrial investment totalled €10.9 billion in the first quarter of 2021, an increase of 6% compared to Q1 2020 and 85% above the long term Q1 average. This is the second largest Q1 for investment on record behind 2016's €11.5 billion.
- The UK was the largest beneficiary of European industrial investment in Q1 2021, with €4.2bn transacted, an increase of 169% compared to the €1.6bn invested in Q1 2020. Italy and Sweden also saw robust investment growth in Q1 2021, up 142% and 69% to €565mn and €1.0bn, respectively.
- Logistics investment in Germany totalled €1.9bn in Q1 2021, a 24% contraction on Q1 2020's €2.4bn, but still the second strongest Q1 for industrial investment on record.
- The logistics sector accounted for almost two thirds of inbound cross-border investment into Europe in Q1 2021, totalling €6.8 billion. This was the third best Q1 on record and 130% above the LTA, albeit 4% lower than the record breaking first quarter of the previous year.
- Prime European logistics yields compressed 50bps on average over the year to Q1 2021. This reflects investment demand for the sector as well as moderating risk premiums as technological investment extends average unexpired lease terms.

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

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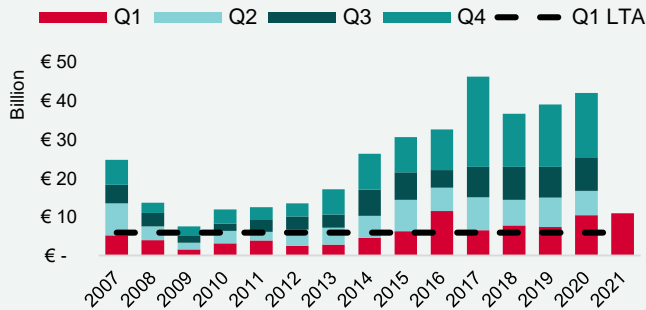
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Investment market

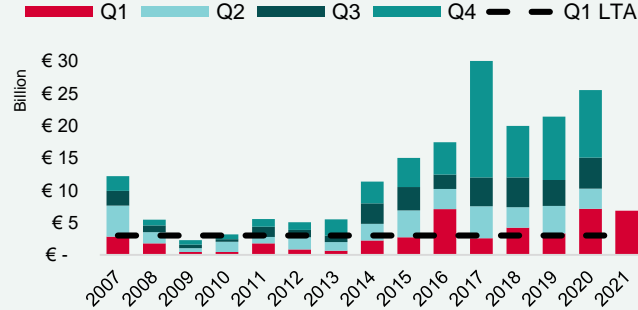
European Industrial Investment Volumes



Source: Knight Frank, Real Capital Analytics

Industrial investment totalled €10.9 billion in the first quarter of 2021, an increase of 6% compared to Q1 2020 and 85% above the long term Q1 average. This is the second largest Q1 for investment on record behind 2016's €11.5 billion. While investment is down 34% q-q, it is usual for Q4 to see more activity than Q1.

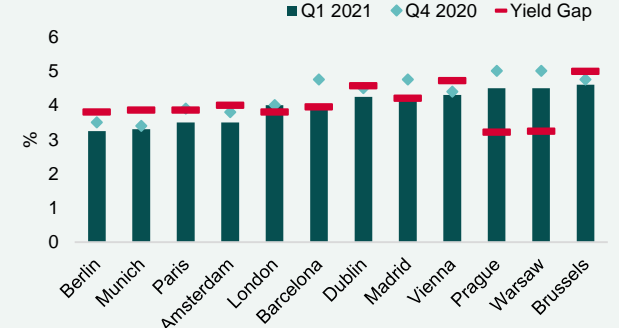
European Industrial Cross Border Investment



Source: Knight Frank, Real Capital Analytics

The logistics sector accounted for almost two thirds of inbound cross-border investment into Europe in Q1 2021, totalling €6.8 billion. This was the third best quarter on record and 130% above the LTA, albeit 4% lower than the record breaking first quarter of the previous year.

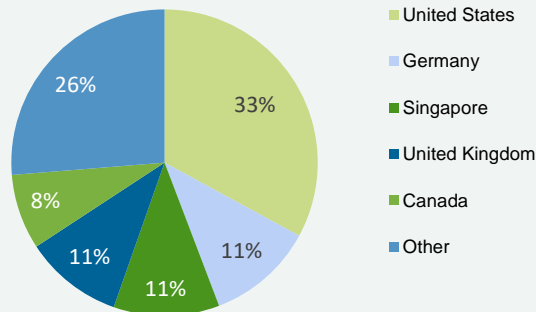
European Industrial Yields (%) - Q1 2021



Source: Knight Frank

The yield gap, the difference between prime yield and the risk free rate (a risk free investment such as a 10-year government bond) are now sub 4% in most markets in Q1 2021, with Berlin, Munich, Paris and Barcelona all compressing over the quarter. However, the yield gap for Brussels, Vienna, Madrid, Dublin and Amsterdam remains above 4% in Q1 2021.

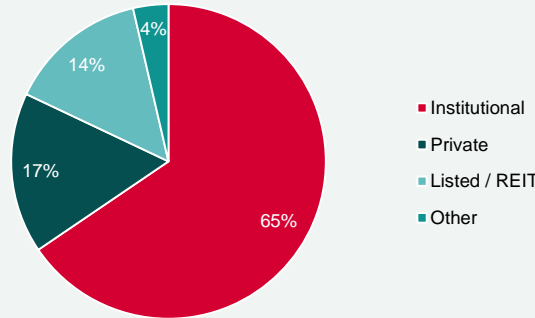
Sources of Investment - Q1 2021



Source: Knight Frank, Real Capital Analytics

US investors remained the largest source of cross border investment in Q1 2021, with 33% of the share, albeit this was down from a 48% share in Q4 2020. Investors from Singapore rotated back into the market in Q1 2021, improving their share of total investment from 1% in Q4 2020 to 11% in Q1 2021.

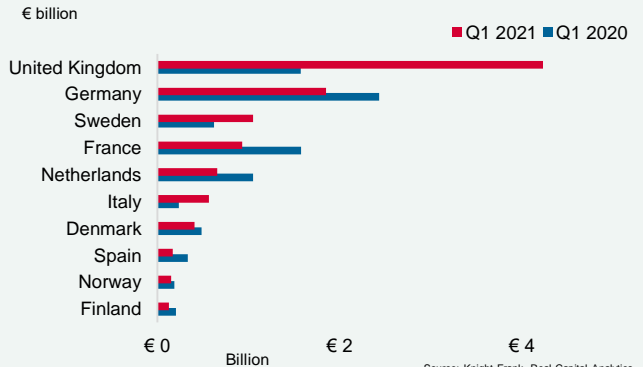
Investor Type - Q1 2021



Source: Knight Frank, Real Capital Analytics

Institutional investors were the source of 65% of investment in Q1 2021, down from 73% in Q4 2020. However, private investors and Listed / REIT investors have increased their share from 15% and 8% in Q4 2020 to 17% and 14% in Q1 2021, respectively.

Destinations of Investment



Source: Knight Frank, Real Capital Analytics

The UK remained the largest recipient of logistics investment in Q1 2021, with €4.2bn transacted, an 169% increase compared to Q1 2020. Italy and Sweden were the only other countries to record positive growth, up 142% and 69% to €565mn and €1.0bn, respectively.

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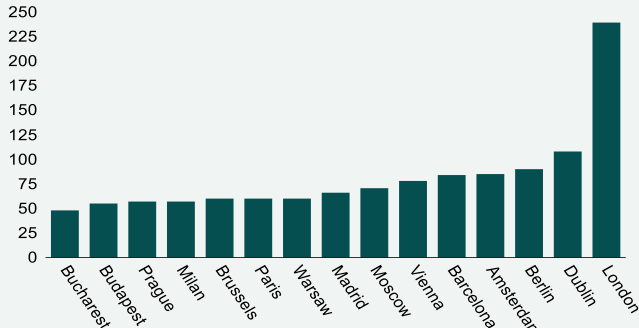
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Rents

Prime European Industrial Rents – Q1 2021

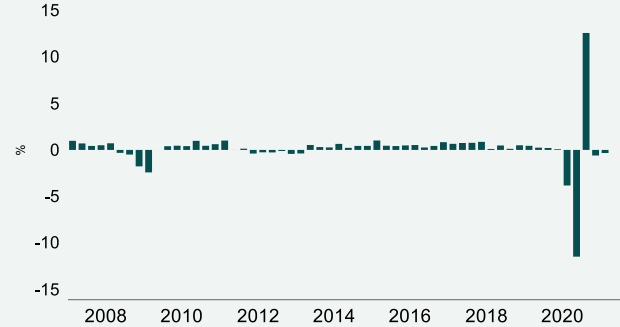
€/ sq m / annum



Pairs (20%), London (18%), Brussels (9%), Munich (7%), Frankfurt, Berlin (both 5%) and Dublin (3%) all saw year on year growth in prime Industrial rents in Q1 2021. Over the quarter to Q1 2021, most rents remained stable.

Economics

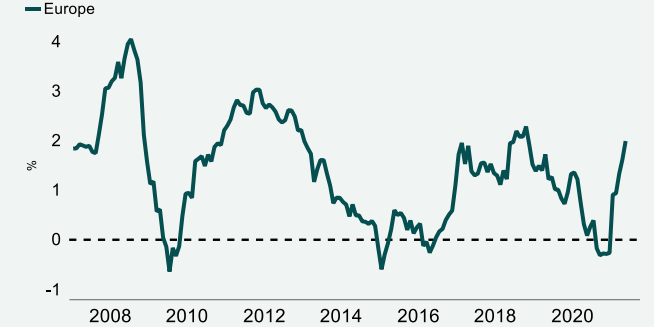
European Quarterly GDP



Source: Knight Frank, Eurostat, Macrobond

The Eurozone faced a double dip recession, after GDP declined 0.7% q-q in Q4 2020 and 0.6% in Q1 2021. Year on year, GDP was down 1.8% in Q1 2021, following a 4.9% contraction in the quarter prior. Of the Eurozone's largest economies, France (0.4%) was the only country to record positive GDP growth over the quarter.

European CPI



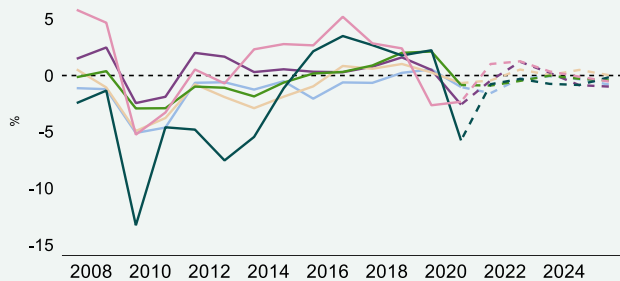
Source: Knight Frank, Eurostat, Macrobond

Eurozone CPI for May 2021 was 2.0%, above expectations of 1.9% and higher than April's reading of 1.6%. This is the first time since 2018 that Eurozone inflation has surpassed the ECB's target of just below 2%. Pressure on inflation has largely been driven by higher oil prices.

Labour Economics

European Manufacturing Employment

— France — Germany — Italy — Netherlands — Spain — Poland

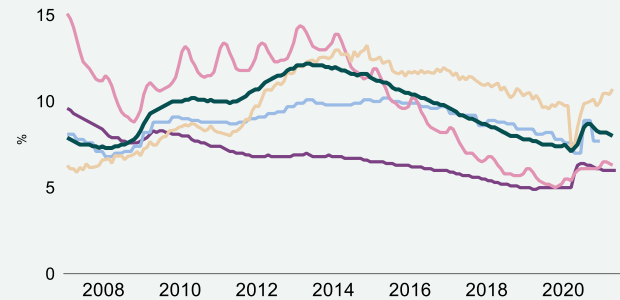


Source: Knight Frank, Macrobond, Oxford Economics

Total European employment decreased 0.3% in Q1 2021, easing from 0.4% growth in Q4. Year on year, employment declined 2.1% in Q1 2021. Oxford Economics forecast manufacturing employment to decline 0.6% in 2021 before increasing 0.5% in 2022.

European Unemployment

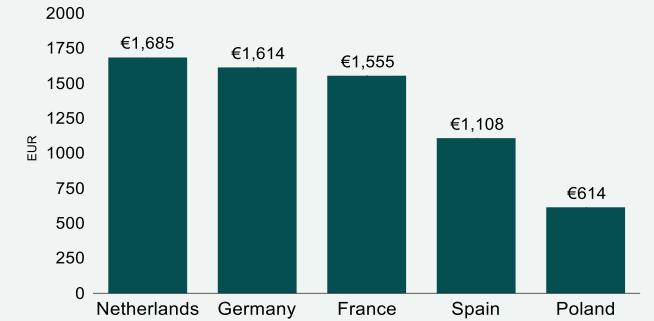
— Germany — France — Poland — Italy — Europe



Source: Knight Frank, Eurostat, Macrobond

European unemployment was 8.0% in April 2021, down from 8.1% the month prior, better than expectations of 8.1% and remaining below the LTA of 9.5%. The Netherlands (3.4%) and Germany (4.4%) had the lowest rates of unemployment in April.

European Monthly Minimum Wage



Source: Knight Frank, Eurostat, Macrobond

National minimum wage in Poland increased from PLN 2,600 to PLN 2,800 in January 2021, which equates to a 5% increase in euro terms to €614. Slight increases to minimum wage in Germany (2%) and France (1%) were also recorded.

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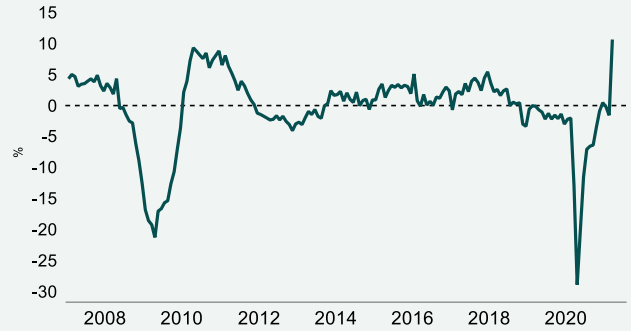
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Industry, trade and transport

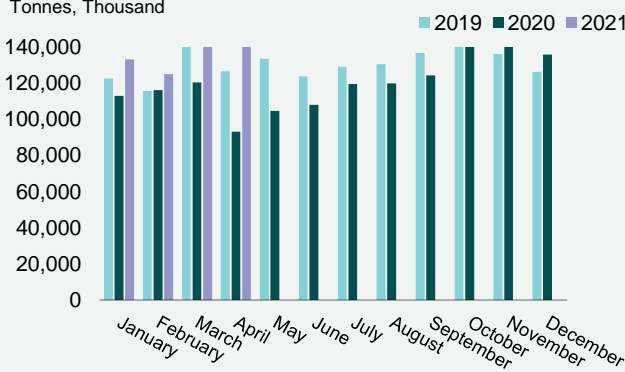
European Industrial Production



Source: Knight Frank, Eurostat, Macrobond

European industrial production increased 10.9% over the year to March 2021, the highest rate of growth on record, albeit below market expectations of an 11.6% increase. Industrial production in Italy (37.7%), Spain (12.4%) and Germany (5.1%) all recorded significant gains in March 2021 compared to March 2020. Over the month, European industrial production increased 0.1% in March.

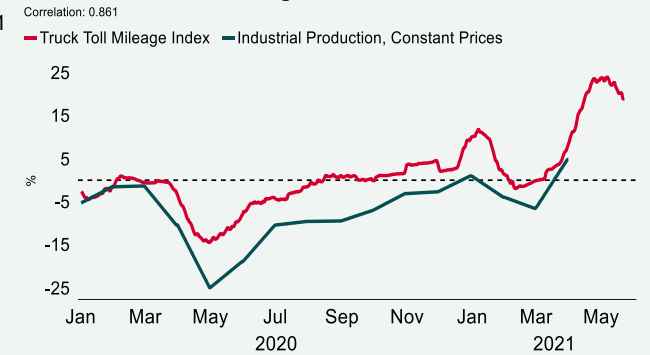
Netherlands Total Monthly Air Cargo



Source: Knight Frank, Macrobond

In the first four months of 2021, air freight surpassed both 2019 and 2020 results. In April, total monthly air cargo was 141,132 tonnes, which is 51% above the April figure recorded in 2020 and 11% higher than 2019's April air cargo total.

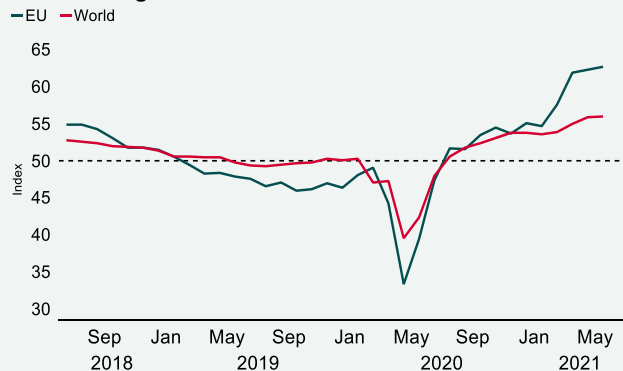
German Truck Toll Mileage



Source: Knight Frank, Macrobond

German truck toll mileage, a leading indicator of industrial production measured relative to usual levels for the period, remains above normal levels in June, albeit has declined 21% since the peak recorded on 6th April.

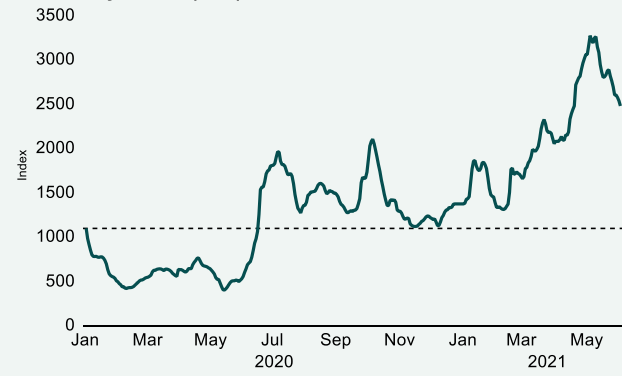
Manufacturing PMI Index



Source: Knight Frank, Macrobond

The Eurozone manufacturing PMI was 63.1 in May 2021, higher than expectations of 62.8 and above the previous months reading of 62.9. The index remains in expansionary territory (above 50) and is currently at its strongest level on record.

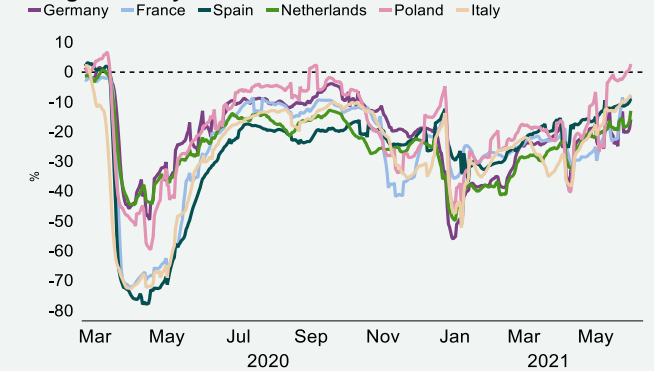
Baltic Dry Index (BDI)



Source: Knight Frank, Macrobond

The Baltic Dry Index, a leading indicator of global demand and a measure of what it costs to ship raw materials, is currently \$2,568, 21% below the \$3,266 peak reached on 5th May 2021, but 88% higher than January 2020.

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 has started to pick up from recent dips in March and May, with Poland close to pre pandemic activity.

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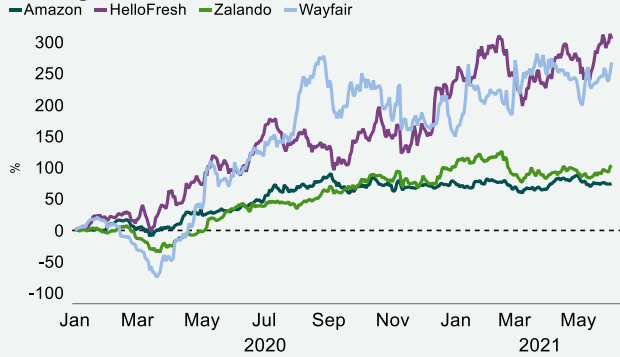
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Online Retailing

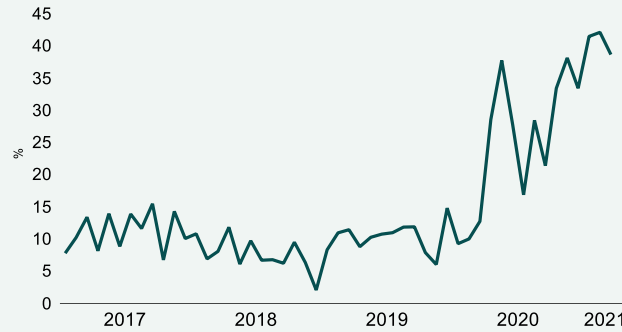
Leading Online Retailer Share Price Growth, %



Source: Knight Frank, Macrobond

Both Wayfair (37.9%) and Hellofresh (22.2%) have seen double digit share price growth since the start of 2021, while Amazon has moderated by -2%. However, Amazon's share price at its peak in September was 91% higher than the start of 2020.

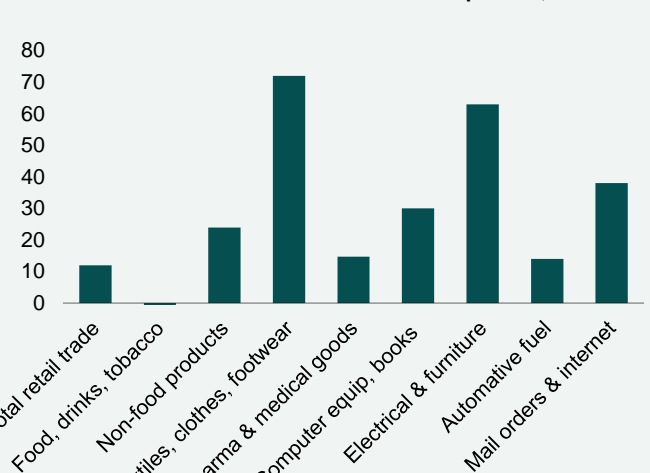
YOY Growth in European Internet & Mail Order Sales, %



Source: Knight Frank, Eurostat

Internet & mail order retail growth is 39% higher in March 2021 than it was in the same month the year prior. This has moderated slightly from February's 42% record annual growth.

Volume of Retail Trade Sales Mar 2021 vs Apr 2020, %



Source: Knight Frank, Eurostat

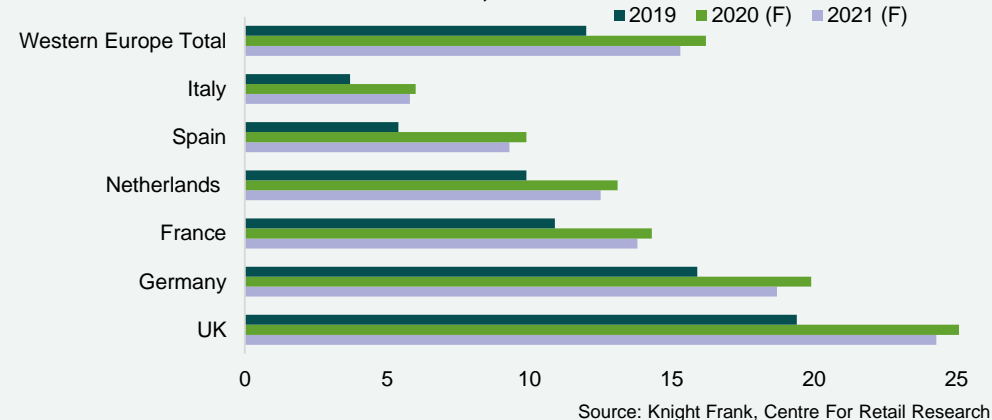
Online Retail as a Share of Total Retail Sales, %



Source: Knight Frank, Centre For Retail Research

Historically, Germany has had the highest level of ecommerce penetration in mainland Europe. While Southern European countries remain at very low ecommerce low rates, they have been experiencing double digit growth. Italy and Spain are now catching up in terms of online retail as a proportion of total retail sales, however they remain below the European average. Many countries have seen an acceleration in online retail over the pandemic, creating additional demand for logistics space, with ecommerce penetration across Western Europe forecast to increase from 12% in 2019 to 16% in 2020. As physical retailing recovers in 2021, it is expected that the share of online retail will dip back marginally to 15%, however this remains significantly above levels seen in 2019.

Forecast Online Retail as Share of Total Sales, %



Source: Knight Frank, Centre For Retail Research

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