European Logistics Market Dashboard

Q2 2020

Knight Frank

Internal and key client use only

SUMMARY

- The start of Q2 saw the brunt of the COVID-19 hit to manufacturing activity in Europe, with multiple indicators including freight indices, Manufacturing PMI and exports tumbling. However, leading indicators are showing recovery and are now at, or close to 2019 levels.

- Whilst manufacturing suffered as a result of lockdown, the ongoing growth in online retail has been super charged with lockdowns forcing consumers of all ages to embrace online shopping, resulting in increases in penetration rates across Europe.

- Across Europe, growth in online retail sales in May was 35% higher than one year ago. Year on year (YoY) growth has since moderated to 24% higher in June, however, internet sales and mail order remains 17% higher than it was in February 2020, pre-pandemic.

- H1 2020 industrial and logistics investment volumes remained well above the long term average and were 2% higher than H1 2019. However, Q2 investment volumes were down on recent years as sale launches were temporarily paused.

- Due to it's resilience throughout the pandemic and the push factors of challenges in other real estate asset classes, we are also witnessing institutional capital reweighting volumes towards the logistics sector, which has only further increased demand and competition for prime stock. Against a backdrop of significant investor appetite, vendors are now pressing ahead with stalled sales and launching new product.

- Germany was the leading destination for logistics investment in Q2 2020, with €1.5bn transacted, €100mn more than Q2 2019. Norway, Austria and Italy also saw marginally higher investment volumes than the same quarter the previous year.

- In certain markets, we are witnessing yields eclipsing pre-pandemic levels, as the weight of capital allocated to the logistics sector increases and investors are searching for core product. Germany is a key example, as it's considered by investors as one of the most resilient markets across Europe. This is both in terms of how it has dealt with the wider COVID-19 crisis to date, but also as an international and domestic market it's regarded as a safe haven for capital in times of increased volatility.

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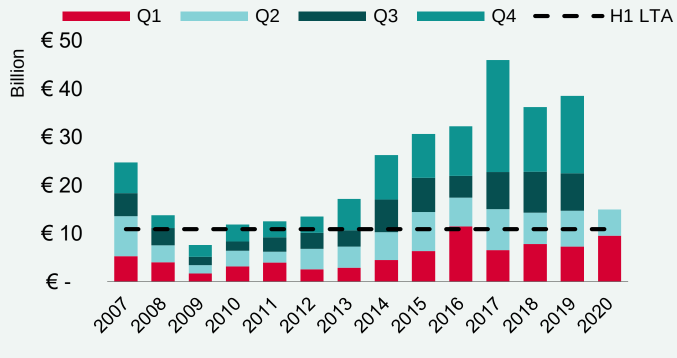
Investment market

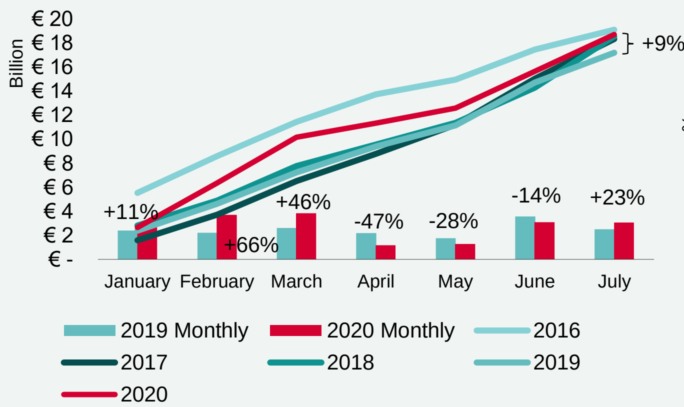
European Industrial Investment Volumes



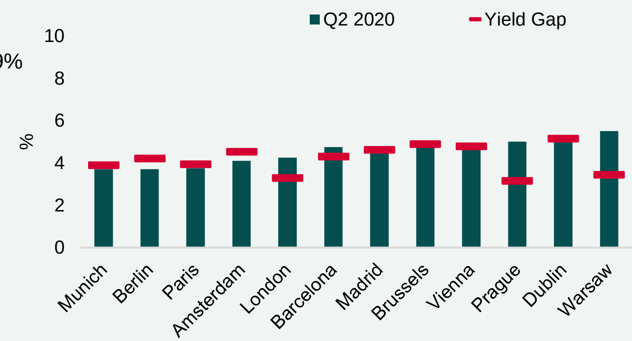
Source: Knight Frank, Real Capital Analytics

H1 2020 industrial investment volumes remain above the long term average and 2% higher than H1 2019.

Cumulative Monthly Logistics Volumes



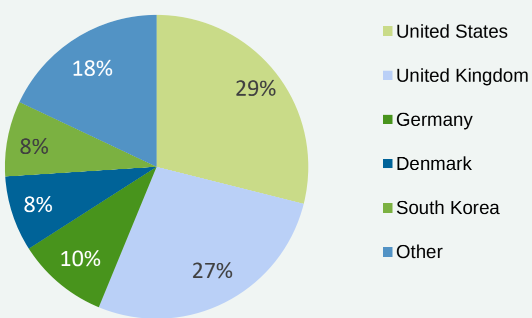
European Industrial Yields (%) - Q2 2020



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) across the vast majority of markets is more than 4%.

Sources of Investment - Q2 2020

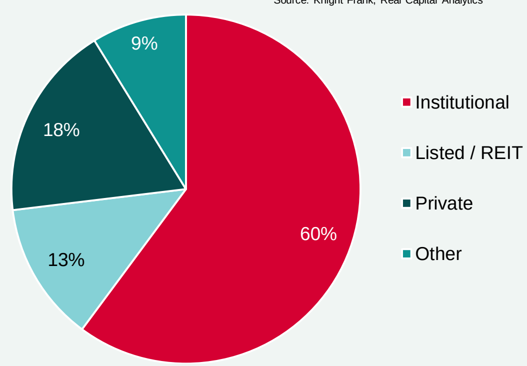


Source: Knight Frank, Real Capital Analytics

Despite travel restrictions, 29% of investment was from the United States and a further 8% from South Korea. Just over one quarter of capital was from the United Kingdom.

Investor Type - Q2 2020

Source: Knight Frank, Real Capital Analytics

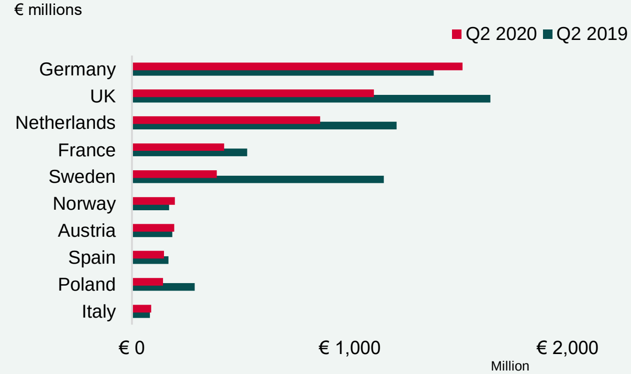


Source: Knight Frank, Real Capital Analytics

Institutional investors were the dominant investor type in Q2, contributing to 60% of volume, followed by Private Investors with 18% and Listed / REIT investors, 13%.

Destination of Investment

€ millions



Germany was the major destination of logistics in Q2 2020, with €1.5bn transacted, 100mn more than Q2 2019. Norway, Austria and Italy also saw marginally higher investment volumes than the same quarter the year prior.

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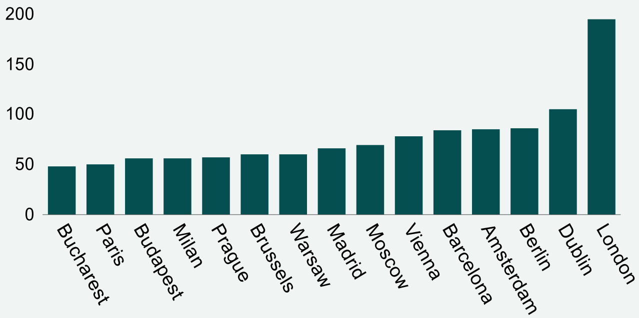
Rents

Prime European Industrial Rents - Q2 2020

€ / sq m / annum

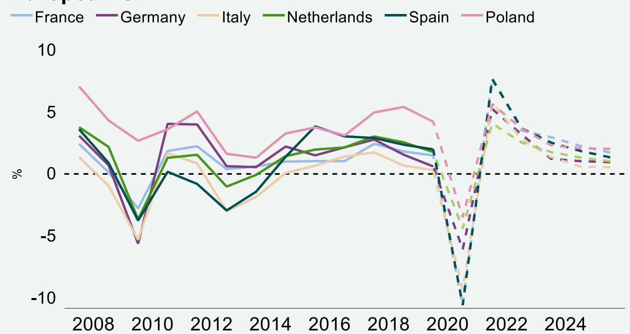


Source: Knight Frank

Cities to see year on year increases in prime Industrial rent in Q2 2020 included Prague (+14%), Budapest (+10%), Vienna (+8%) and Moscow (+8%).

Economics

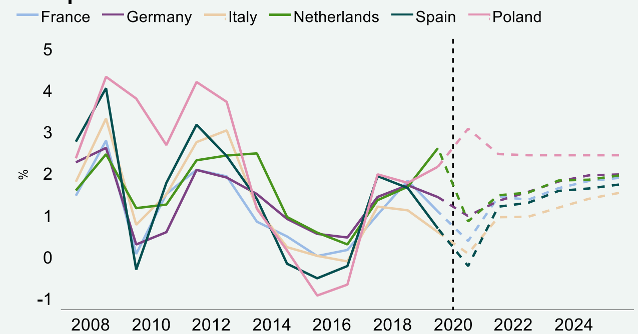
European GDP



Source: Knight Frank, Macrobond, Oxford Economics

Countries across Europe have seen steep falls in GDP growth over the first half of the year. However, Oxford Economics forecast a sharp recovery in 2021, before growth moderates.

European CPI

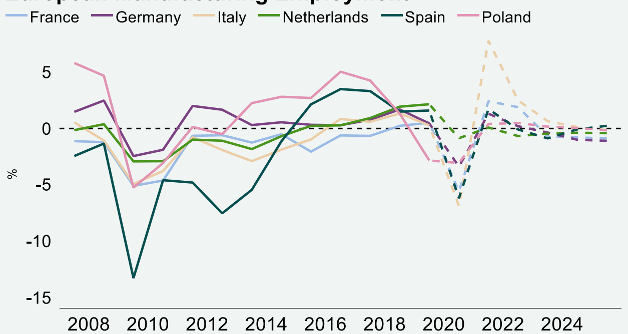


Source: Knight Frank, Macrobond, Oxford Economics

Eurozone CPI for July 2020 was 0.4%, in line with expectations and an improvement on the 0.1% seen in May. Apart from Poland, country level CPI is forecast to remain sub 2% over the medium term.

Labour Economics

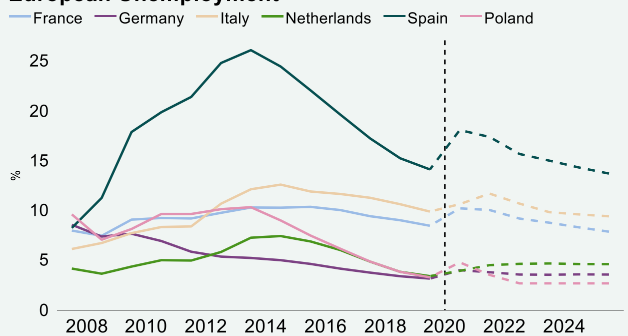
European Manufacturing Employment



Source: Knight Frank, Macrobond, Oxford Economics

While European manufacturing employment is set to decline in 2020, Oxford Economics anticipate a rebound in 2020. Poland specifically is expected to see robust manufacturing employment growth into 2022, alluding to the country's lower minimum wage.

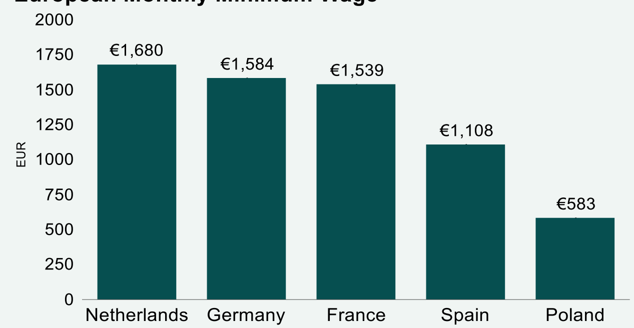
European Unemployment



Source: Knight Frank, Macrobond, Oxford Economics

Spain had almost halved unemployment since its peak during the Eurozone crisis. This increased back to 15.3% in Q2, 2020, albeit below expectations of 16.7%.

European Monthly Minimum Wage



Source: Knight Frank, Macrobond, Eurostat

Minimum wage in Poland is less than half the minimum wage in Germany. This incentivises growth of logistics along the Polish border to serve the ecommerce demand in Germany and beyond.

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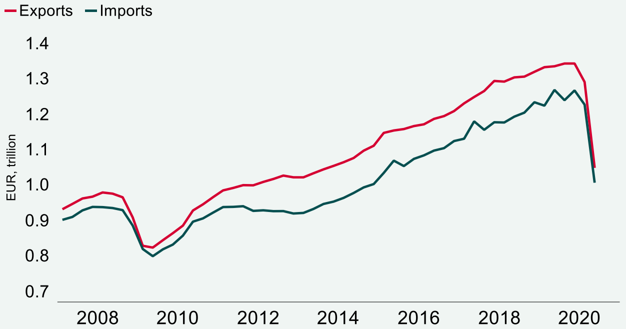
Industry, trade and transport

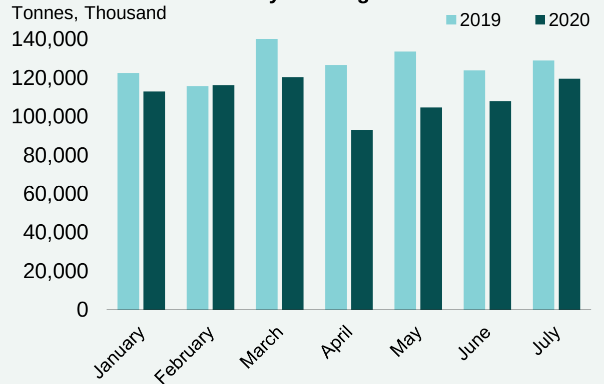
European Imports and Exports (goods & services)



Source: Knight Frank, Macrobond, Eurostat

Imports and exports for Europe have both declined over the year, with exports seeing a greater decline.

Netherlands Total Monthly Air Cargo

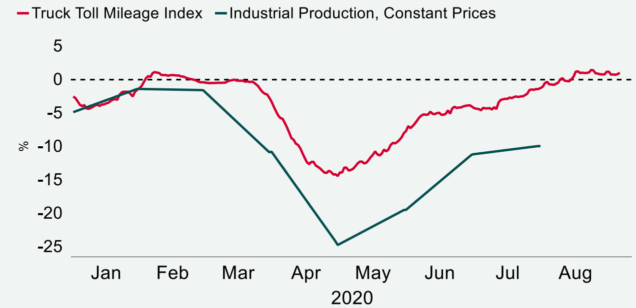


Source: Knight Frank, Macrobond

Air freight declined below 100,000 tonnes in April, but has been steadily recovering to just below 2019 levels.

German Truck Toll Mileage

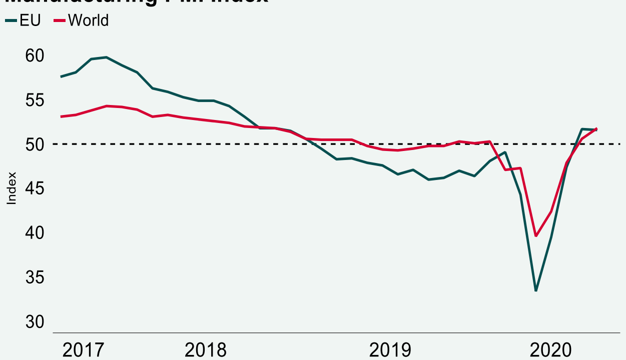
Correlation: 0.881



Source: Knight Frank, Macrobond

The truck toll mileage is a leading indicator of industrial production and is measured relative to usual levels for the period. The indicator has now reached normal levels.

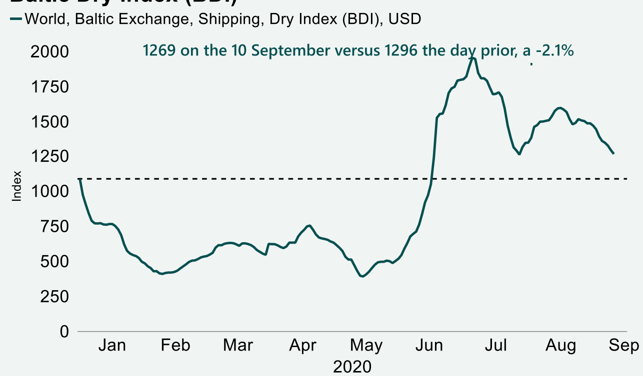
Manufacturing PMI Index



Source: Knight Frank, Macrobond

The Eurozone manufacturing PMI was 51.7 in August, in line with expectations and in expansionary territory.

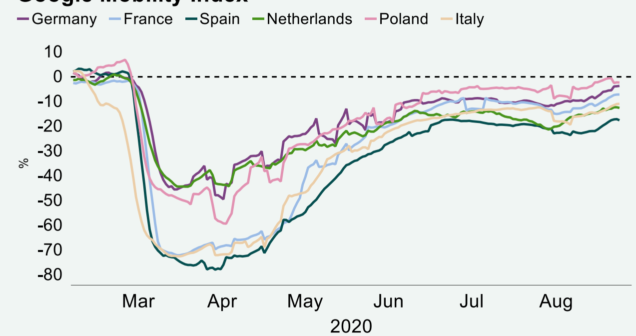
Baltic Dry Index (BDI)



Source: Knight Frank, Macrobond. Last modified: 10 September 2020 13:30 GMT.

Baltic Dry Index is a measure of what it costs to ship raw materials and is a leading indicator of global demand. The index remains volatile but back at 2019 levels.

Google Mobility Index



Source: Knight Frank, Macrobond, Google

This index measures activity (excl parks & recreation), relative to a benchmark period in January / February. Activity is close to normal in Poland and Italy. The summer vacation period is likely skewing activity downwards.

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Online Retailing

Leading Online Retailer YTD Gains, %

Source: Knight Frank, Macrobond

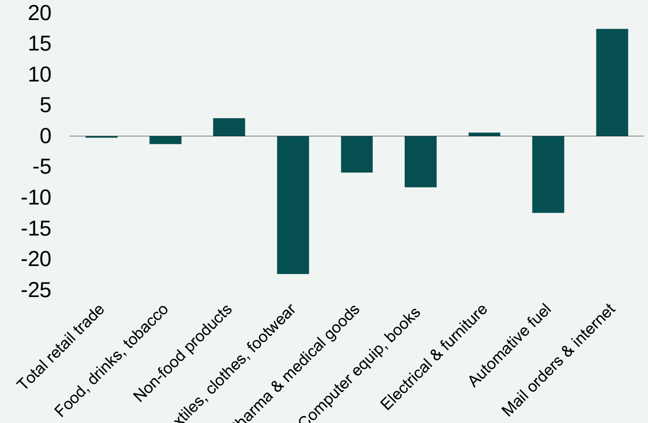
Wayfair shares have increased +186% YTD, while HelloFresh (+117%), Amazon (+77%) and Zalando (+61%) have also recorded significant increases, highlighting the demand for online goods and expanding business plans.

YOY Growth in European Internet & Mail Order Sales, %

Source: Knight Frank, Eurostat

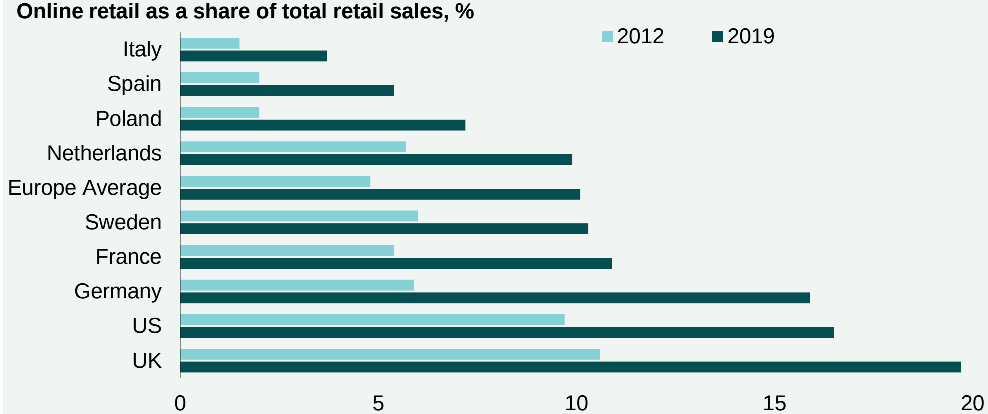
Internet & mail order retail growth peaked in May, at 35% higher than May 2019. Levels have since moderated to 24%, However, this channel of retail remains 17% higher than in February.

Volume of Retail Trade Sales June 2020 vs Feb 2020, %



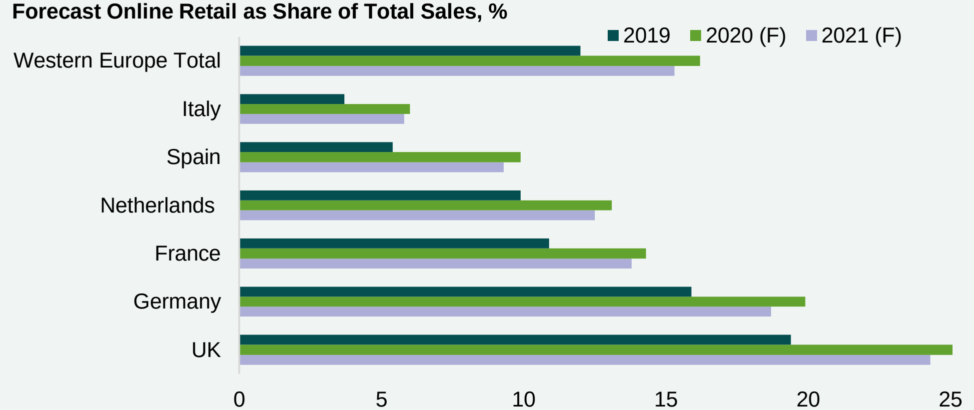
Source: Knight Frank

Online retail as a share of total retail sales, %



Source: Knight Frank, Centre For Retail Research

Forecast Online Retail as Share of Total Sales, %



Source: Knight Frank, Centre For Retail Research

Comparing the share of online retail as a percentage of total retail sales in 2012 versus 2019, Germany is the most advanced in mainland Europe, while the southern European countries of Italy and Spain have low ecommerce penetration, albeit with double digit growth rates. Many countries saw 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.

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