European Logistics Market Dashboard

Q3 2020

Knight Frank

Internal and key client use only

SUMMARY

- Q3 has seen improvement in activity across most European economic metrics compared to Q2. GDP increased 12.6% over the quarter to Q3, its highest quarterly gain on record. This has filtered through to manufacturing activity in Europe, with indicators including freight indices and Manufacturing PMI now on par and surpassing levels seen in 2019.

- Internet and mail order growth was 20% higher in September 2020 than it was in the same month a year ago, compounding the continued reliance on e-commerce as countries renewed COVID-19 pressures.

- The minimum wage across certain countries is likely to continue to play a factor in warehouse demand. For example, the Polish minimum wage is is 37% of the German minimum wage, incentivising growth of logistics along the Polish border to serve the e-commerce demand in Germany and beyond.

- Industrial investment picked up by 46% in Q3 2020 compared to the quarter prior, increasing to €8.2 billion, This is also 6% higher than Q3 one year ago. Year to end of Q3 volumes are 46% above the long term average and 4% higher than the same period last year. The sector's resilience has therefore been highlighted during the pandemic, with investment remaining robust throughout.

- This resilience has been amplified by cross border investors in Q3, with overseas investment into the sector increasing 66% over the quarter and 8% compared to Q3 2019. Investors from the US increased their share of total cross border investment from 29% in Q2 to 38% in Q3 2020.

- The UK was the largest recipient of logistics investment in Q3 2020, with €2.6bn transacted, a 27% increase compared to Q3 2019. Poland saw the greatest growth in investment in Q3 2020, with €1.1bn transacted, which equates to a 730% increase or €935mn more transacted than in Q3 2019.

- Meanwhile, institutional capital was the most prominent source of investment within the sector in Q3, driving 69% of total Industrial transaction volume, up from 60% last quarter. Private investors have also increased their share of investment in the sector.

- The weight of capital allocated to the European logistics sector remains, with most market's yields compressing below pre-pandemic levels, down 30bps on average in Q3 2020 year on year across the continent.

Research

William Matthews
Partner, Head of Commercial Research
+44 20 3909 6842
william.matthews@knightfrank.com

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

Daniel Tomaselli
Senior Research Analyst, Capital Markets
+44 20 8106 1392
daniel.tomaselli@knightfrank.com

Antonia Haralambous
Research Analyst, Capital Markets
+44 20 3866 8033
antonia.haralambous@knightfrank.com

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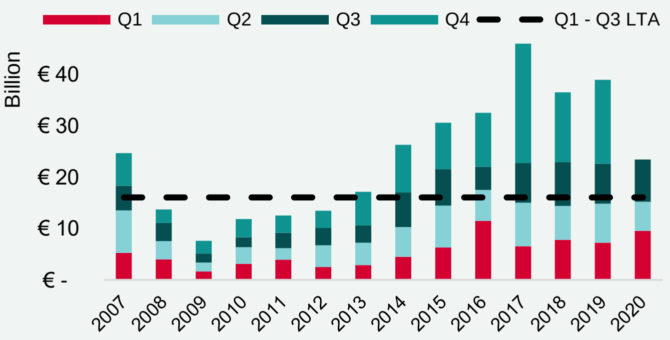
Investment market

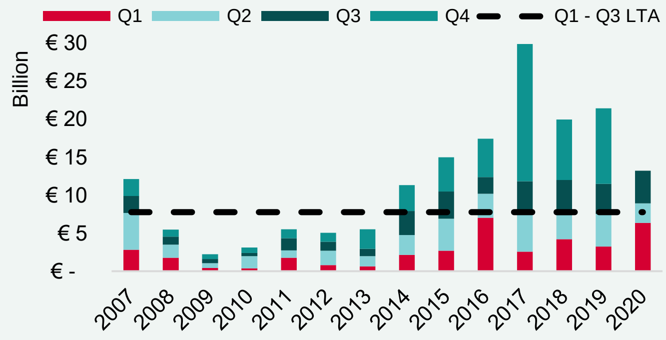
European Industrial Investment Volumes



Source: Knight Frank, Real Capital Analytics

Industrial investment picked up by 46% in Q3 2020, compared to the quarter prior, increasing to €8.2 billion, This is also 6% higher than Q3 one year ago. Year to end of Q3 volumes are 46% above the long term average and 4% higher than the same period last year.

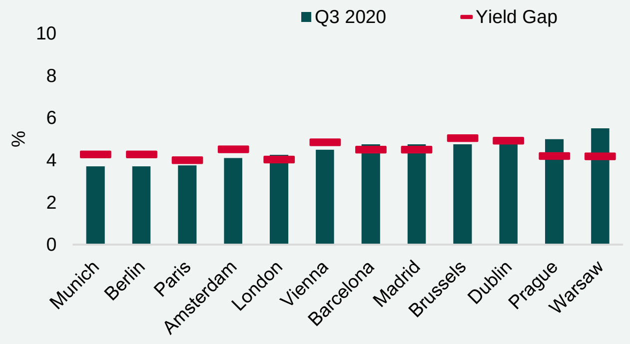
Cross Border European Industrial Investment



Source: Knight Frank, Real Capital Analytics

Cross border industrial investment volumes reached €4.3 billion in Q3 2020, a 66% increase over the quarter and 8% more than Q3 2019. Industrial cross border investment between Q1 and Q3 2020 was 15% higher than investment over the same period in 2019.

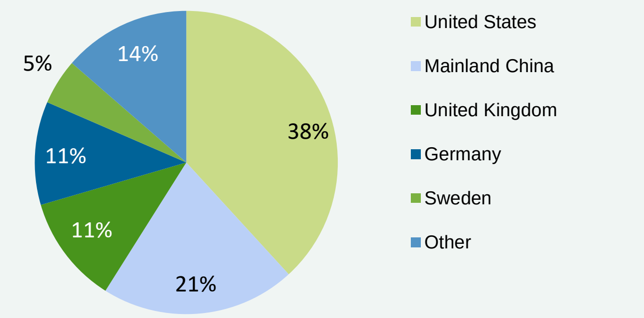
European Industrial Yields (%) - Q3 2020



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) remains above 4% across the vast majority of markets.

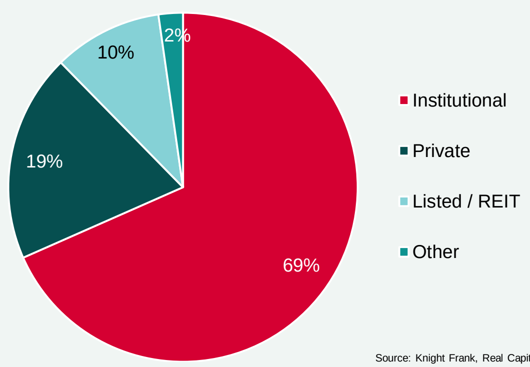
Sources of Investment - Q3 2020



Source: Knight Frank, Real Capital Analytics

US investors remained the largest source of cross border investment in Q3 2020, totalling 38% of the share. 21% of capital was from Mainland China in Q3 2020, with both the UK and Germany contributing 11% each.

Investor type- Q3 2020

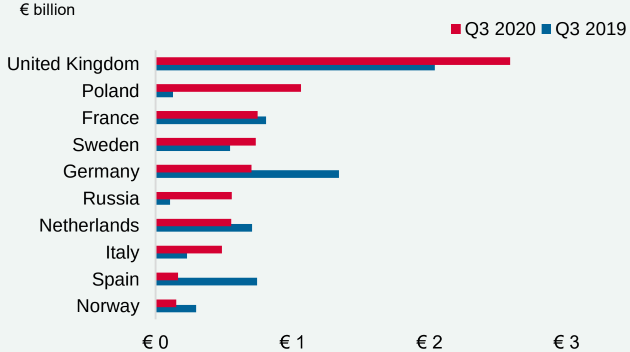


Source: Knight Frank, Real Capital Analytics

Institutional investors were the source of 69% of Q3 investment, up from 60% in Q2. Private investors continue to contribute the second largest share of volumes with 19%, followed by Listed / REIT investors, at 10%.

Destinations of Investment

€ billion



Source: Knight Frank, Real Capital Analytics

The UK was the largest recipient of logistics investment in Q3 2020, with €2.6bn transacted, a 27% increase compared to Q3 2019. Poland saw the greatest growth in investment in Q3 2020, with €1.1bn transacted, which equates to a 730% increase or €935mn more transacted than in Q3 2019.

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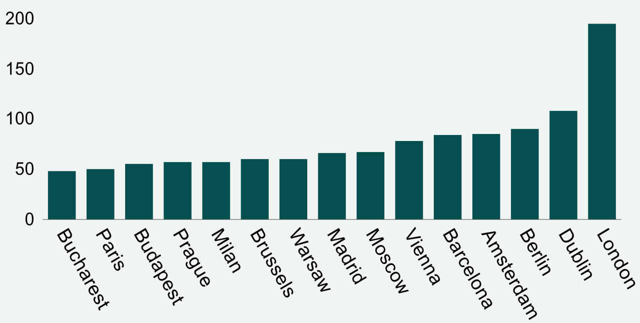
Rents

Prime European Industrial Rents - Q3 2020

€ / sq m / annum

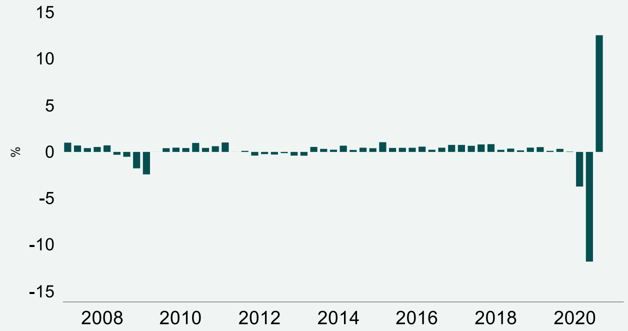


Source: Knight Frank

Berlin (9%), Munich (7%), Paris (6%), Madrid (5%), Milan (3%) and Barcelona (3%) saw year on year increases in prime Industrial rents, despite the pandemic.

Economics

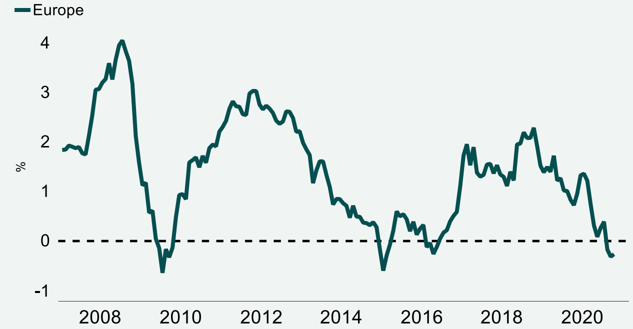
European Quarterly GDP



Source: Knight Frank, Eurostat, Macrobond

Eurozone GDP increased 12.6% over the quarter to Q3 2020, its highest quarterly gain on record, albeit GDP remains 4.4% lower than Q3 2019. Eurozone's four largest economies, France (18.2%), Spain (16.7%), Italy (16.1%) and Germany (8.2%) all saw record quarterly GDP growth over Q3 2020.

European CPI

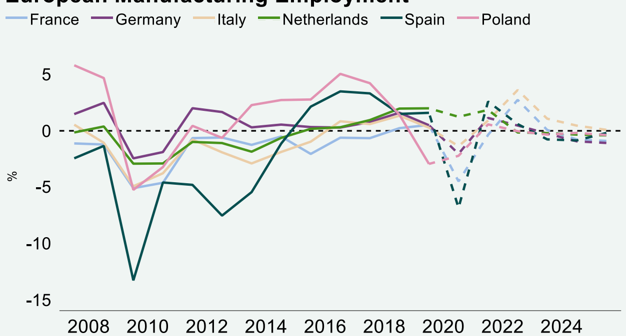


Source: Knight Frank, Eurostat, Macrobond

Eurozone CPI for October 2020 was -0.3%, in line with expectations and equal to the previous months decline, which was the steepest since April 2016. Oxford Economics forecast CPI in most countries, excluding Poland to remain sub 2% over the medium term.

Labour Economics

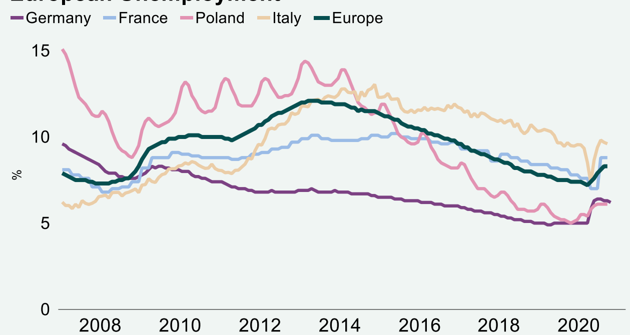
European Manufacturing Employment



Source: Knight Frank, Macrobond, Oxford Economics

Total European employment recovered by 0.9% in Q3, following a record 2.9% decline over Q2. Oxford Economics forecast manufacturing employment to decline by 2.4% in 2020 before increasing by 0.8% in 2020 1.3% in 2021.

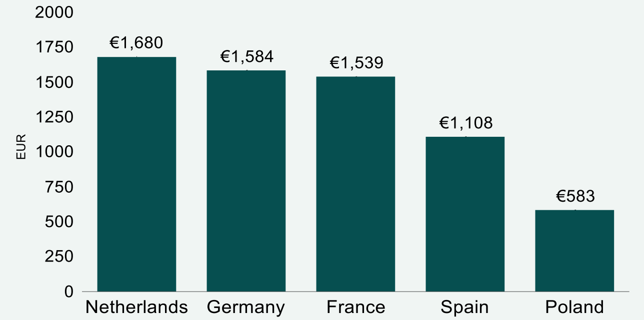
European Unemployment



Source: Knight Frank, Eurostat, Macrobond

Pre-pandemic, the Eurozone saw its lowest unemployment on record, at 7.3% in February 2020. Unemployment has since increased to 8.3% in September, unchanged from the month prior and in line with expectations.

European Monthly Minimum Wage



Source: Knight Frank, Eurostat, Macrobond

National minimum wage in Poland held steady at PLN2,600, however, decreased by 4% in Euro terms due to currency effects. The Polish minimum wage is set to increase to PLN 2.800 in January. The Dutch minimum wage increased +2% in H2 and is reviewed on a six monthly basis

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William Matthews
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william.matthews@knightfrank.com

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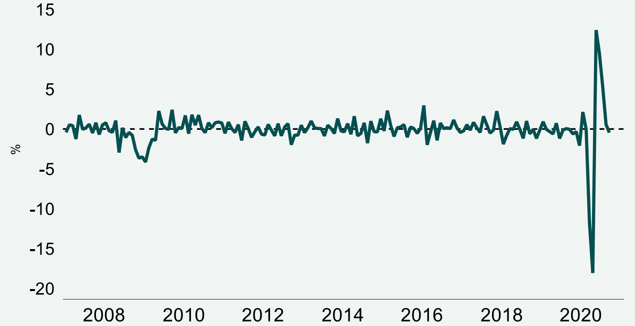
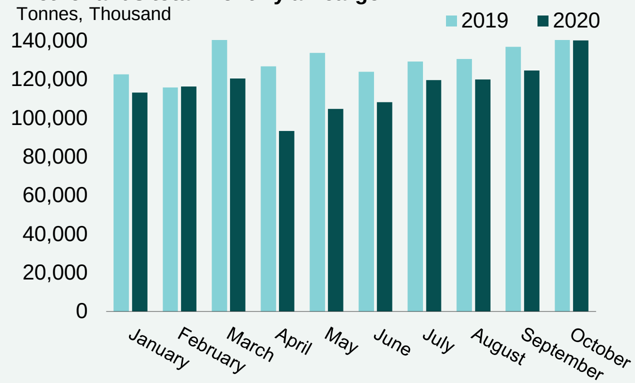
Industry, trade and transport

European Industrial Production



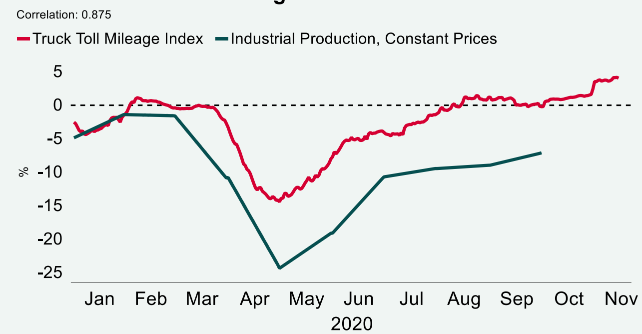
Source: Knight Frank, Eurostat, Macrobond

Netherlands total monthly air cargo



Source: Knight Frank, Macrobond

German Truck Toll Mileage



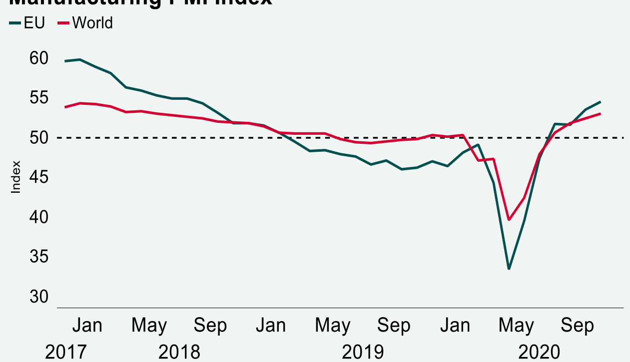
Source: Knight Frank, Macrobond

European industrial production declined -0.4% in September, below market expectations of a 0.7% increase and sitting 5.8% lower than pre-pandemic in February. Italy saw a 5.6% monthly contraction in Industrial production while production increased in Germany (1.6%), France (1.4%) and Spain (0.8%).

Air freight has increased to 2019 levels in October, at circa 140,140 tonnes. This is the first time monthly air cargo levels have been on par with last year's levels, since January.

German truck toll mileage, a leading indicator of industrial production measured relative to usual levels for the period, has now surpassed normal levels in November.

Manufacturing PMI Index

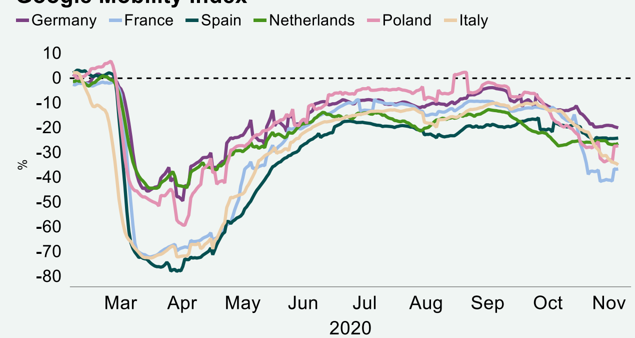


Source: Knight Frank, Macrobond

Baltic Dry Index (BDI)

Source: Knight Frank, Macrobond

Google Mobility Index



Source: Knight Frank, Macrobond, Google

The Eurozone manufacturing PMI was 54.8 in October, higher than expectations and above the previous months reading of 53.7. The index remains in expansionary territory and is the highest it has been since August 2018.

The Baltic Dry Index, a leading indicator of global demand and a measure of what it costs to ship raw materials, has seen cumulative declines of 41% since 6th October, with year to date gains at 13% as a result.

This index measures activity (excl parks & recreation), relative to a benchmark period in January / February. Activity has started to drop off again in multiple countries, in line with restrictions tightening.

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William Matthews
Partner, Head of Commercial Research
+44 20 3909 6842
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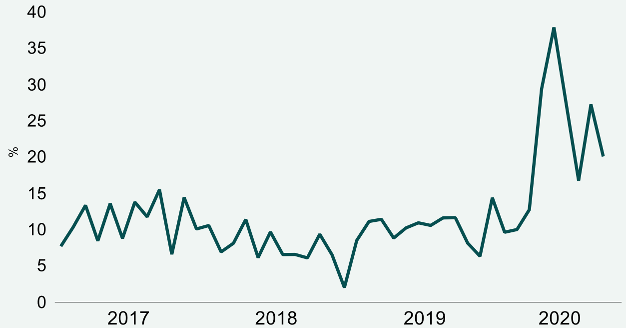
Online Retailing

Leading Online Retailer YTD Gains, %

Source: Knight Frank, Macrobond

Wayfair shares have increased 188% YTD, as have HelloFresh (171%), Zalando (78%) and Amazon (73%).While Wayfair and Amazon have seen robust YTD growth, it has moderated from their respective peaks of 279% and 91%.

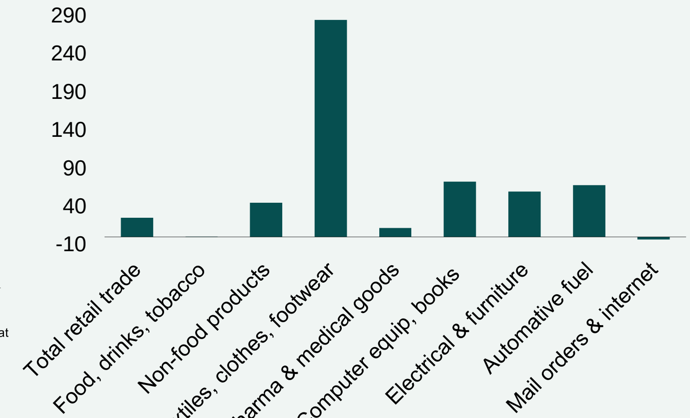
YOY Growth in European Internet & Mail Order Sales, %



Source: Knight Frank, Eurostat

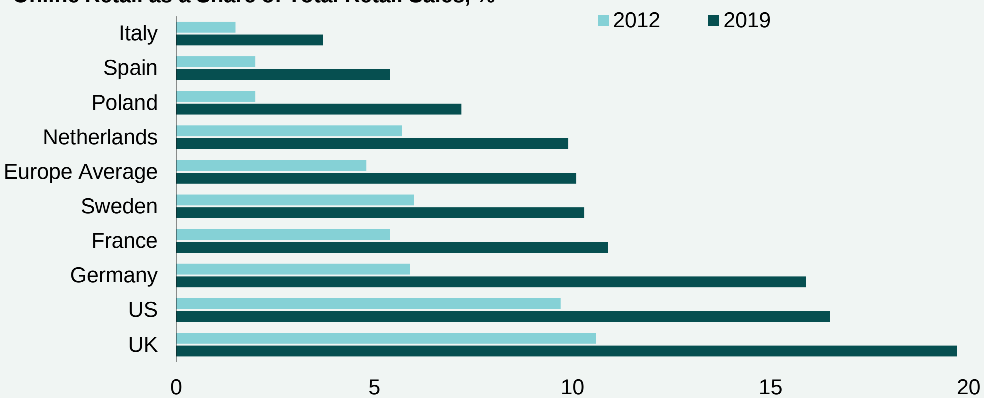
Internet & mail order retail growth is 20% higher in September 2020 than it was in the same month the year prior. However, levels have moderated, following 28% annual growth in August 2020.

Volume of Retail Trade Sales Sep 2020 vs Apr 2020, %



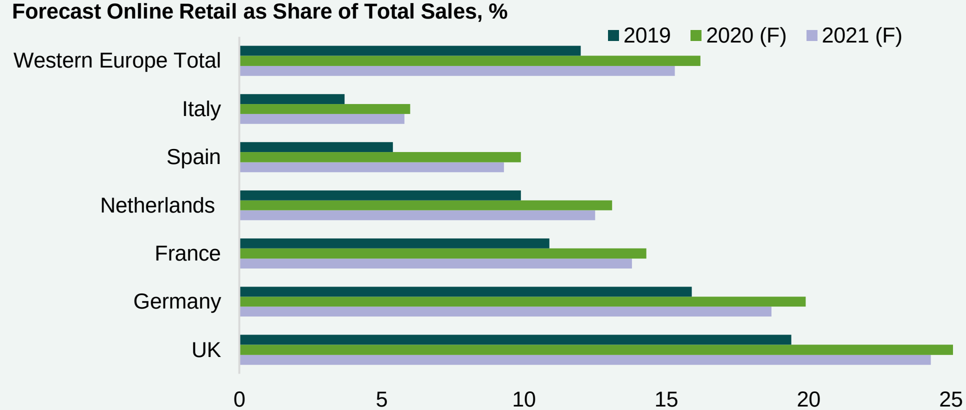
Source: Knight Frank

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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William Matthews
Partner, Head of Commercial Research
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