

European Logistics Market Dashboard

Spring 2021



Internal and key client use only

SUMMARY

- Manufacturing activity since the beginning of Q4 2020 has been robust, with the Eurozone manufacturing PMI currently at its highest level in three years, while freight indices and the Baltic Dry are also elevated. However, some economic indices were more tempered in Q4, with quarterly GDP down 0.6% q-q, albeit better than expectations of a 1.0% decline.
- Online retail continues to dominate, with internet and mail order sales 41% higher in January 2021 than it was in the same month a year prior. Reliance on e-commerce will likely exhibit inertia over the coming year.
- Industrial investment doubled to €17.4 billion in the final quarter of the year, compared to Q3 2020, a number just 1% lower than Q4 2020. For the full year, investment in the Industrial sector totalled €43.9 billion, an increase of 8% year on year and uniquely experiencing positive annual growth. This reaffirms the sector's resilience in 2020, despite the pandemic.
- Cross border investment has been supportive of the sectors performance, with €9.7 billion invested in Q4 2020, an increase of 101% over the quarter. During 2020, total cross border investment reached €24.7 billion, up 16% compared to 2019. Investors from the US increased their share of total cross border investment from 38% in Q3 to 48% in Q4 2020.
- The UK was the largest recipient of logistics investment over 2020, with €11.1bn transacted, a 32% increase compared to 2020. Poland saw the greatest growth in investment in 2020, with €2.7bn transacted, which equates to a 225% increase or €1.9bn more transacted than in 2019. Meanwhile, logistics investment in France dropped off in 2020, down 43% over the year to €3.8bn.
- Prime European logistics yields were 30bps lower on average in Q4 2020 year on year, underlining the weight of capital allocated to the European logistics sector, despite the pandemic.
- Sale and leasebacks were a prominent feature of the European logistics market in 2020, with €3.6bn transacted, an 18% increase on 2019. A major driver of this was tenants using them as a tool to free capital to upgrade inventory and invest in automation projects, rather than liquidity pressures. We expect these types of transactions to pick up further in 2021.

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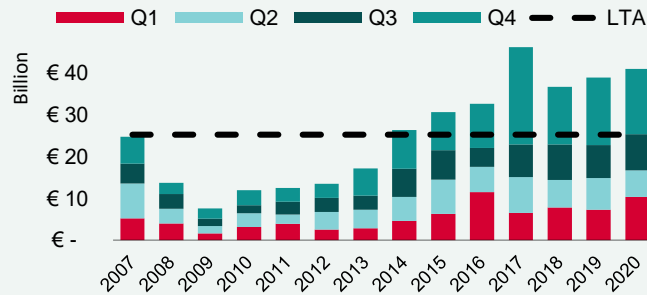
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Investment market

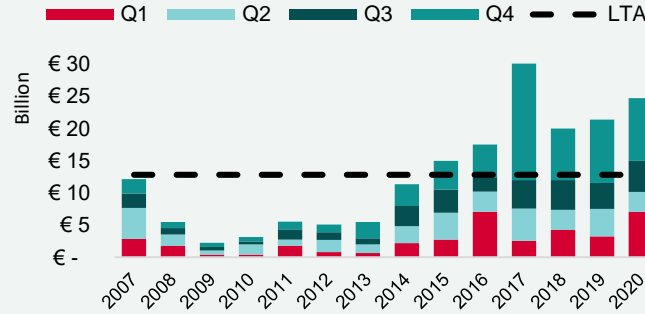
European Industrial Investment Volumes



Source: Knight Frank, Real Capital Analytics

Industrial investment doubled to €17.4 billion in the final quarter of 2020, compared to the quarter prior. This is down just 1% than Q4 one year ago. Overall in 2020, total European Industrial investment reached €43.9 billion, an 8% increase compared to 2019 and uniquely recording positive annual growth.

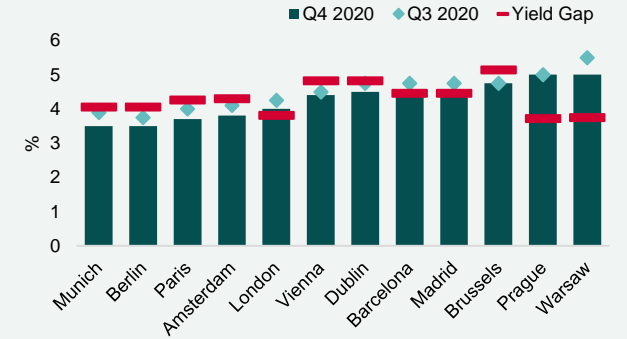
Cross Border European Investment



Source: Knight Frank, Real Capital Analytics

Cross border industrial investment volumes reached €9.7 billion in Q4 2020, a 101% increase over the quarter, albeit 1% lower than Q4 2019. Industrial cross border investment in 2020 was 16% higher than investment 2019, totalling €24.7 billion.

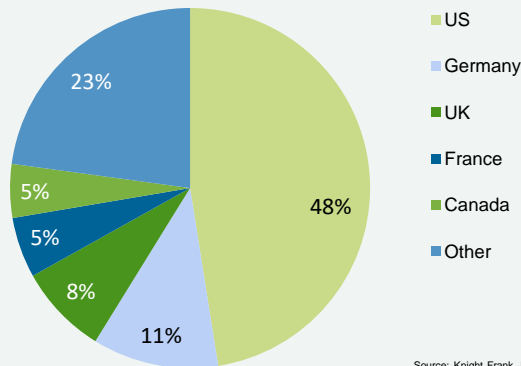
European Industrial Yields (%) - Q4 2020



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, except for London, Prague and Warsaw.

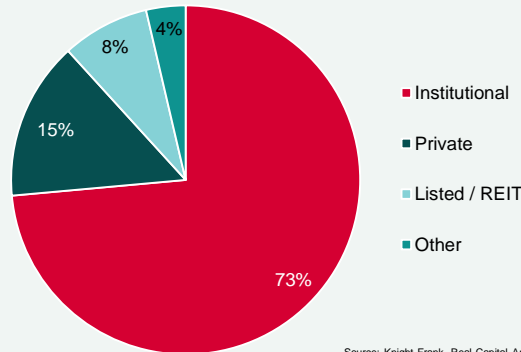
Sources of Investment – Q4 2020



Source: Knight Frank, Real Capital Analytics

US investors remained the largest source of cross border investment in Q4 2020, totalling 48% of the share, up from 38% in Q3 2020. Mainland China declined from the second largest source of investment in Q3 2020 with a 21% share, to 2% or ninth largest source of cross border investment in Q4.

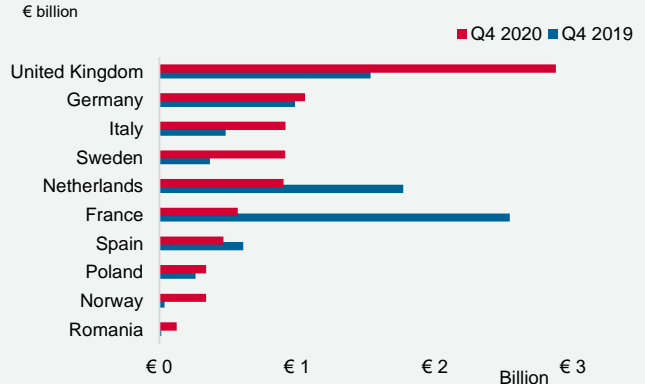
Investor Type- Q4 2020



Source: Knight Frank, Real Capital Analytics

Institutional investors were the source of 73% of Q4 investment, up from 69% in Q3 2020. Private investors continue to contribute the second largest share of volumes with 15%, followed by Listed / REIT investors, at 8%.

Destinations of Investment



Source: Knight Frank, Real Capital Analytics

The UK was the largest recipient of logistics investment in Q4 2020, with €2.9bn transacted, an 88% increase compared to Q4 2019. Norway saw the greatest growth in investment in Q4 2020, with €339mn transacted, which equates to a 792% increase or €301mn more transacted than in Q4 2019.

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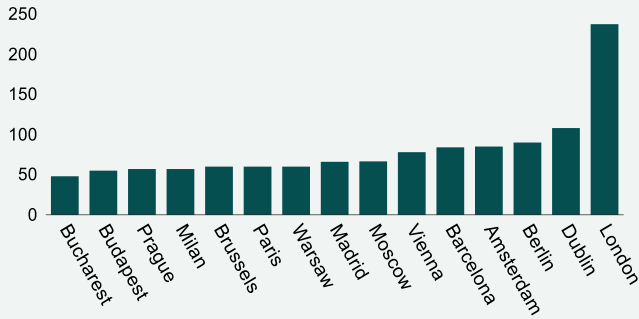


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Rents

Prime European Industrial Rents - Q4 2020

€/sq m / annum

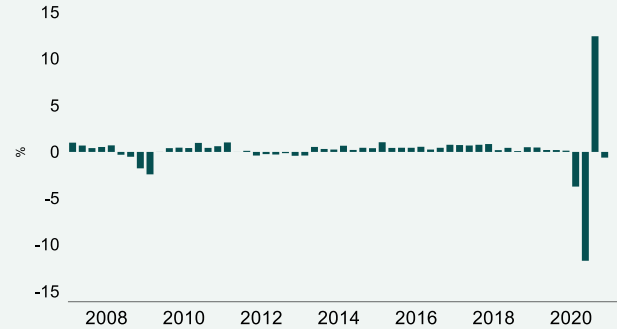


London (22%), Brussels (9%), Budapest (9%), Frankfurt (5%), Milan (4%), Paris (3%) and Dublin (3%) saw year on year growth in prime Industrial rents in Q4 2020, despite the pandemic.

Source: Knight Frank

Economics

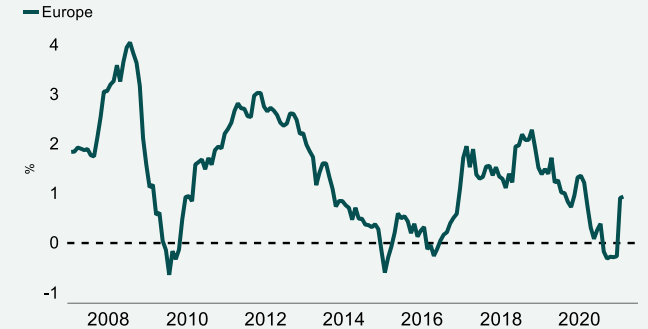
European Quarterly GDP



Source: Knight Frank, Eurostat, Macrobond

Eurozone GDP declined 0.6% q-q in Q4 2020, following the record +12.4% growth in Q3 2020. GDP remains 5.0% lower than Q4 2019. Of the Eurozone's largest economies, France (1.4%) and Italy (1.9%) saw declines over the quarter, while Spain (0.4%) and Germany (0.3%) recorded GDP growth over Q4 2020.

European CPI



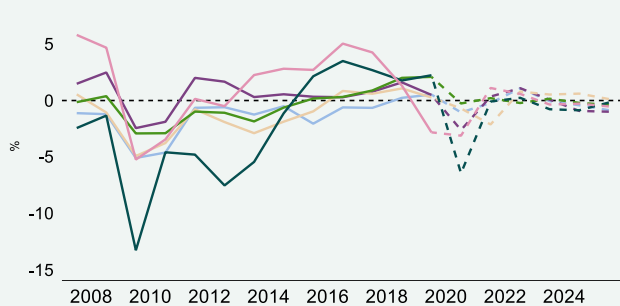
Source: Knight Frank, Eurostat, Macrobond

Eurozone CPI for February 2021 was +0.9%, in line with expectations and equal to the previous months increase, which was an 11-month high. Oxford Economics forecast CPI in most countries, excluding Poland to remain sub 2% over the medium term.

Labour Economics

European Manufacturing Employment

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

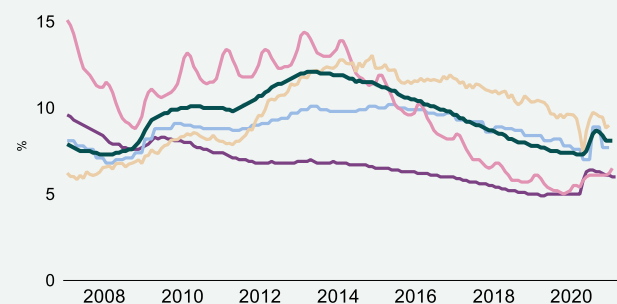


Source: Knight Frank, Macrobond, Oxford Economics

Total European employment increased 0.3% in Q4 2020, easing from 1% growth in Q3, while above market expectations of 0.1% increase. Oxford Economics forecast manufacturing employment to decline -0.4% in 2021 before increasing +0.8% in 2022.

European Unemployment

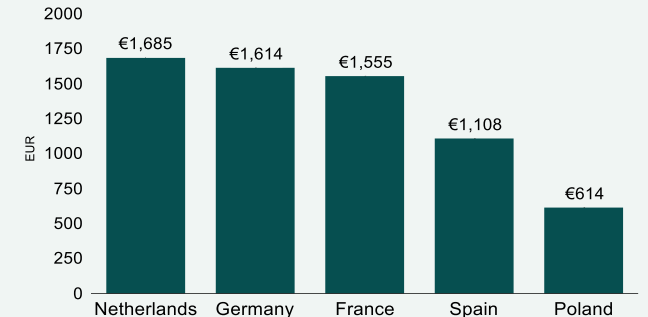
— Germany — France — Poland — Italy — Europe



Source: Knight Frank, Eurostat, Macrobond

European unemployment was 8.1% in January 2021, unchanged on the month prior, below expectations of 8.3% and lower than the LTA of 9.5%. Unemployment remains elevated compared to the 7.4% recorded in January 2019.

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 €600. Slight increases to minimum wage in Germany (+2%) and France (+1%) were also recorded.

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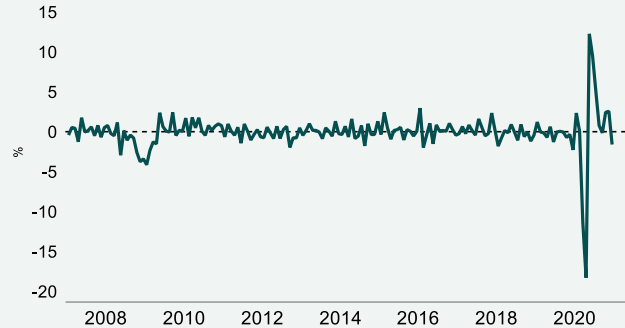
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Industry, trade and transport

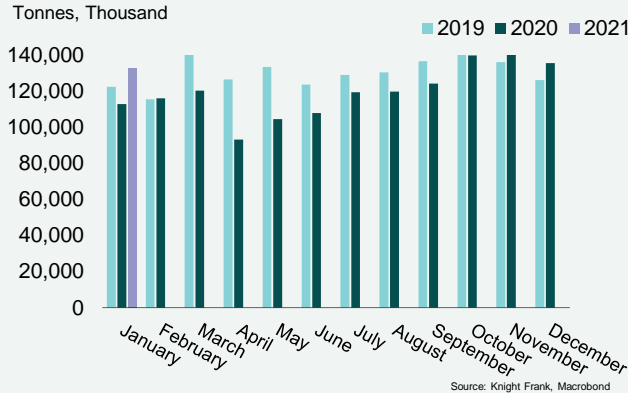
European Industrial Production



Source: Knight Frank, Eurostat, Macrobond

European industrial production declined 1.6% over December 2020, below market expectations of a 0.5% decrease and sitting 2.3% lower than its pre-pandemic level in February 2020. In Q4, Industrial production increased +3.9% q/q, with Germany, Italy and France returning to similar levels seen pre pandemic.

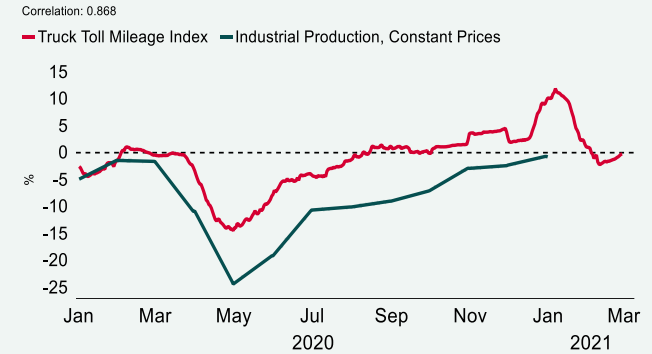
Netherlands Total Monthly Air Cargo



Source: Knight Frank, Macrobond

Air freight surpassed 2019 levels in the last two months of 2020. In the first month on 2021, total monthly air cargo was 133,222 tonnes, which is 18% above the January figure recorded in 2020 and 9% higher than 2019's January air cargo total.

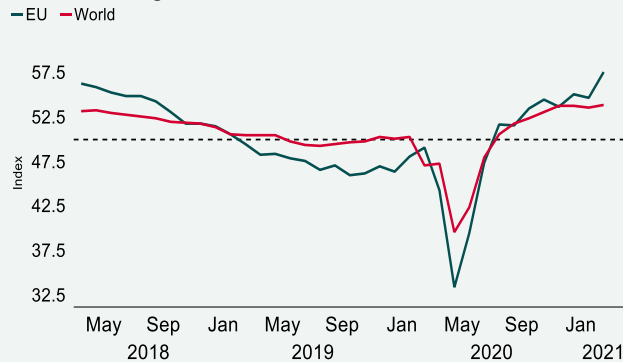
German Truck Toll Mileage



Source: Knight Frank, Macrobond

German truck toll mileage, a leading indicator of industrial production measured relative to usual levels for the period, has declined below normal levels since February 2021. However, the index is inching closer to normality in early March 2021.

Manufacturing PMI Index



Source: Knight Frank, Macrobond

The Eurozone manufacturing PMI was 57.9 in February 2021, higher than expectations and above the previous months reading of 54.8. The index remains in expansionary territory (above 50) and is the highest it has been in three years.

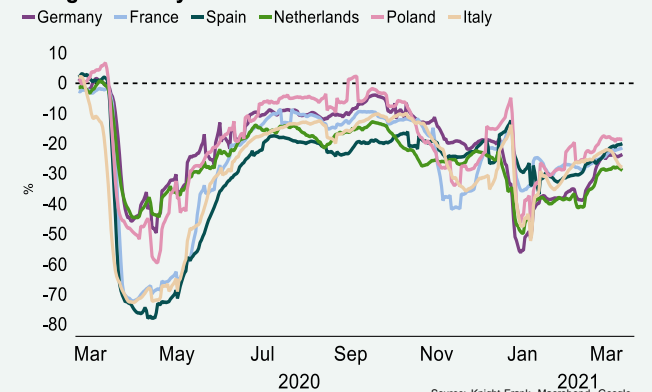
Baltic Dry Index (BDI)



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 at its highest level in over five months.

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 December's dip, as countries begin easing lockdown measures and the vaccine rollout progresses.

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Online Retailing

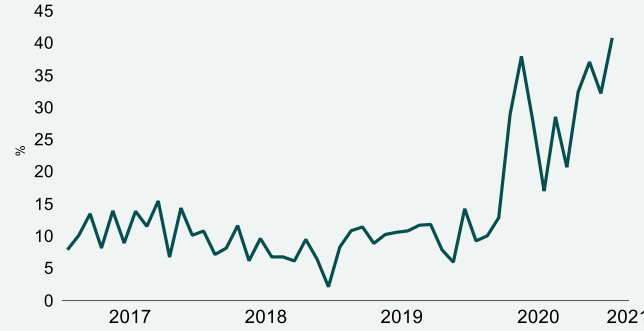
Leading Online Retailer Gains since Jan 2020, %



Source: Knight Frank, Macrobond

Since January 2021, Wayfair (40%) and Hellofresh (1%) shares are higher. Meanwhile, Zalando (5%) and Amazon (6%) share prices have moderated. Since January 2020, Hellofresh, Zalando, Wayfair and Amazon have recorded peak growth of 311%, 127%, 279 and 91%, respectively.

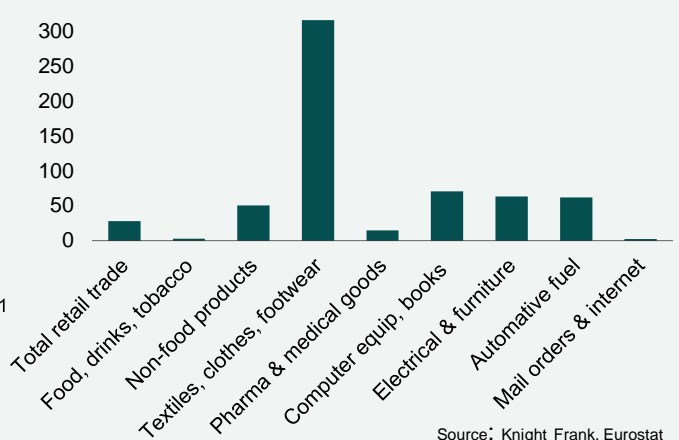
YOY Growth in European Internet & Mail Order Sales, %



Source: Knight Frank, Eurostat

Internet & mail order retail growth is 41% higher in January 2021 than it was in the same month the year prior. This is the highest annual growth on record.

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



Source: Knight Frank, Eurostat

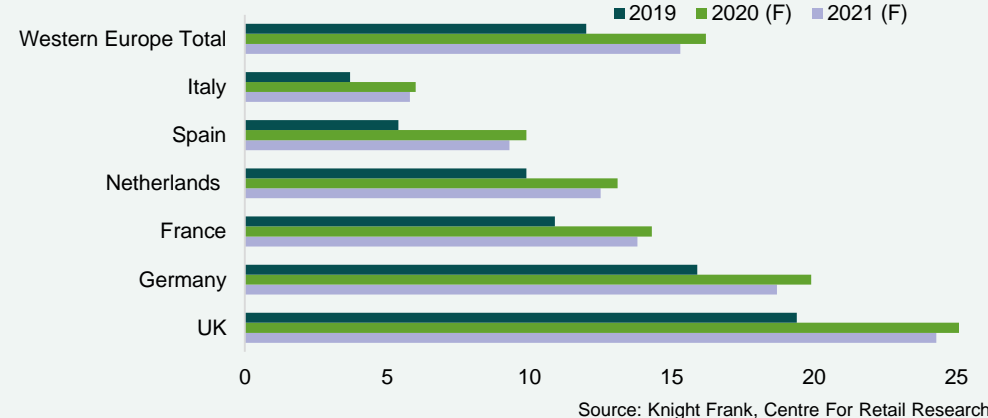
Online Retail as a Share of Total Retail Sales, %



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.

Forecast Online Retail as Share of Total Sales, %



Source: Knight Frank, Centre For Retail Research

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