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Infrastructure-led opportunities for European logistics

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SUSTAINABLE INFRASTRUCTURE CREATES LOGISTICS OPPORTUNITIES IN EUROPE

We believe that logistics investors will benefit from large-scale infrastructure projects including the Fehmarn Belt Tunnel in northern Germany and Denmark, Canal Seine-Nord Europe in France, and Terzo Valico in Italy. Existing logistics hubs such as the 'Blue Banana' corridor stretching from north of London through Belgium, the Netherlands, and western Germany, ending in Milan are also expanding as occupier demand rises.

WHERE ARE THE FUTURE EUROPEAN LOGISTICS HOT SPOTS?

Infrastructure is critical for a well-functioning logistics sector. As policymakers are aiming to decarbonise transport, greener modes of transport are becoming more important for the logistics industry.

In both established and emerging logistics hubs, the key theme is the modal shift of road freight transport towards rail and waterways. This shift has been long anticipated but with increasing focus on environmental considerations and decarbonisation commitments from governments, occupiers and investors we expect a material acceleration.

Investors and occupiers are therefore expected to target multi-modal facilities in locations that benefit from large-scale infrastructure projects such as the Fehmarn Belt Tunnel in northern Germany and Denmark, Canal Seine-Nord Europe in France, and Terzo Valico in Italy

For long distances freight transport by rail and inland waterways will increasingly provide an alternative to road transport but low-carbon intermodal links are crucial for goods to reach their destination.

Existing logistics hubs such as the 'Blue Banana' corridor stretching from north of London through Belgium, the Netherlands, and western Germany, ending in Milan are also expanding as occupier demand rises.

Infrastructure – from transport to electricity and digital – is essential for a functioning industrial and logistics sector. Location, access to transport links and multi-modality are key factors for logistics operators as the speed of delivery and reliability matter more than ever. The transport of goods is a major contributor to carbon emissions, which means that more sustainable modes of transport are becoming increasingly more important for the logistics industry creating new opportunities for the sector.

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. This will offer opportunities for logistics investors and developers alike as there is a need for new multi-modal warehouse facilities accessible by different transport modes around existing and emerging infrastructure hubs.

The trans-European transport network (TEN-T) requires an investment of EUR550 billion over 2021-2030, according to the European Commission. The full implementation of the TEN-T core network could lead to an additional GDP increase of 1.6% by 2030 and CO2 reduction of 12.5 million tonnes in 2030, M-Five GmbH estimates. Italy will receive the largest share of total TEN-T funding in 2021-2030, followed by France, and Germany while Poland and Spain will also see substantial funding.

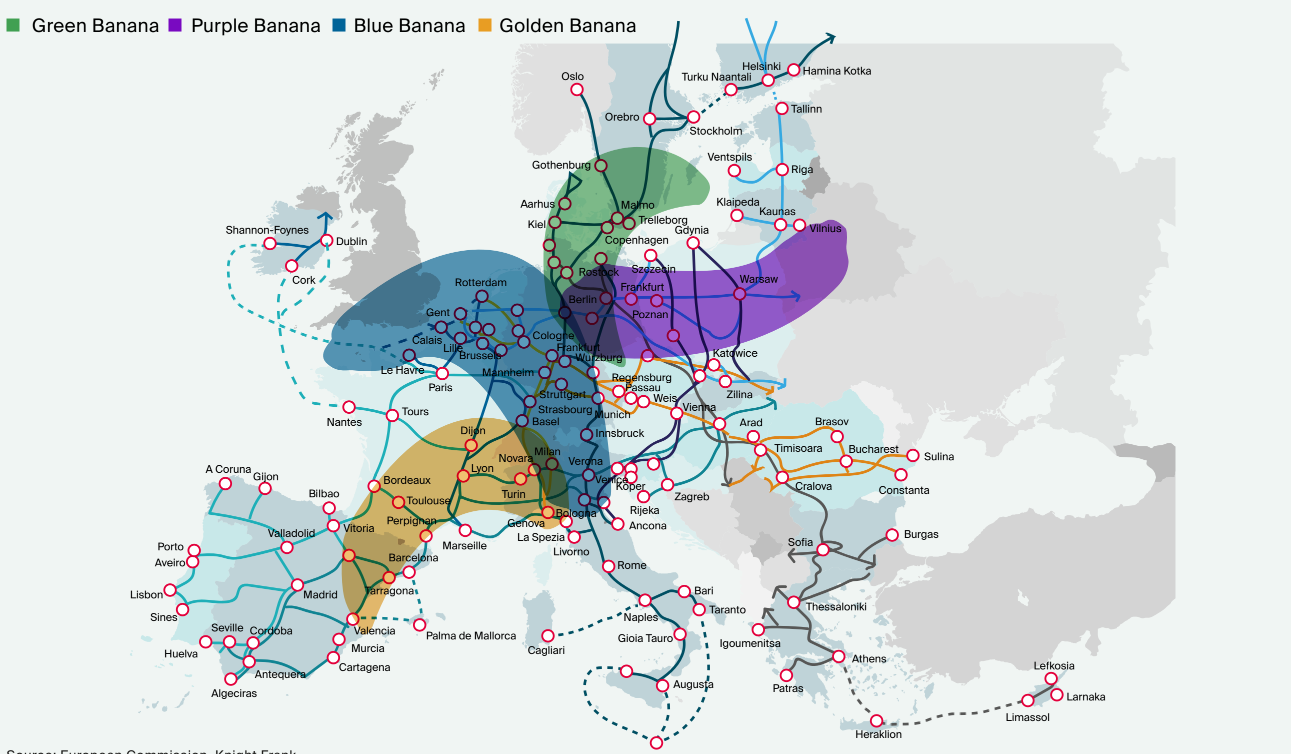
Where are the current and future European logistics hotspots?

The most established logistics corridor in Europe is the so-called 'Blue Banana' which runs through the Rhine-Alpine TEN-T network and includes major economic centres such as the Randstad region in the Netherlands, and the German Rhine-Ruhr and Rhine-Neckar regions (figure 1). These well-connected locations offer opportunities in or near major urban centres with high population densities where competition for land is strongest and supply of industrial and logistics stock is most constrained.

Other logistics investment opportunities are around key cities of Southern and Eastern Europe such as Milan, Barcelona and Valencia which form the so-called 'Golden Banana' logistics corridor, as well as Madrid and Warsaw as they are catching up in terms of e-commerce growth (figure 1) and are benefitting from infrastructure investments (figure 2).

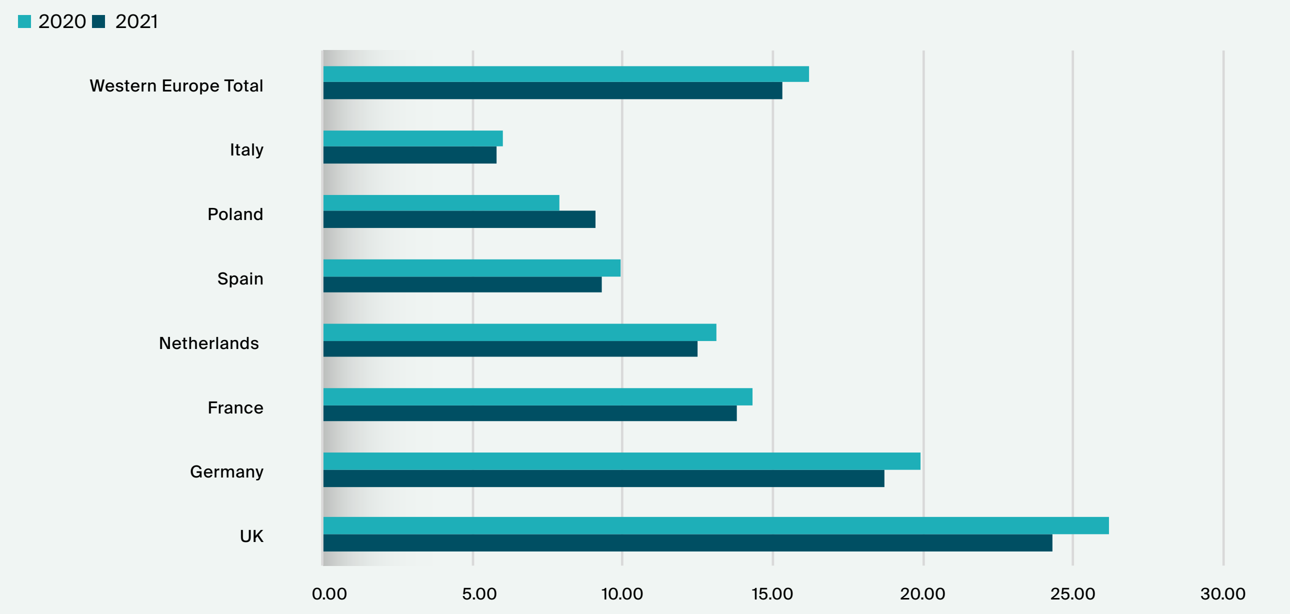
Emerging logistics hubs in locations such as Ireland, Denmark and Finland are of increasing interest for investors as occupier demand in these markets is growing underpinned by trade agreements, infrastructure expansion, nearshoring trends, and the availability of land for industrial development.

Figure 1: Trans-European transport network (TEN-T) and the major logistics corridors



Source: European Commission, Knight Frank

Figure 2: Online retail share (%)



Sources: Knight Frank, Centre for Retail Research, Statista

Decarbonisation policies are encouraging a shift to more rail and waterway centric transport in Europe

In continental Europe, the key logistics markets include Germany, the Netherlands and France due to their central location and connectivity. Motorway density is particularly high in the border region to the Benelux countries that are part of the Blue Banana corridor and in the major cities and transport hubs Hamburg and Berlin, according to Eurostat. This is due to the proportionally high transit freight traffic and the proximity to key economic centres which indicates the ease of transport of goods from ports to distribution centres and warehouses by road. As road transport is by far the easiest mode for last-mile delivery because it can reach nearly all end consumers, investors are targeting logistics facilities in urban locations and conurbations where industrial land is constrained and demand from occupiers is high. Due to the scarcity of developable land in and near urban centres and the increasingly important role of ESG policies in the zoning and designation of land, there is an increasing focus to redevelop existing sites.

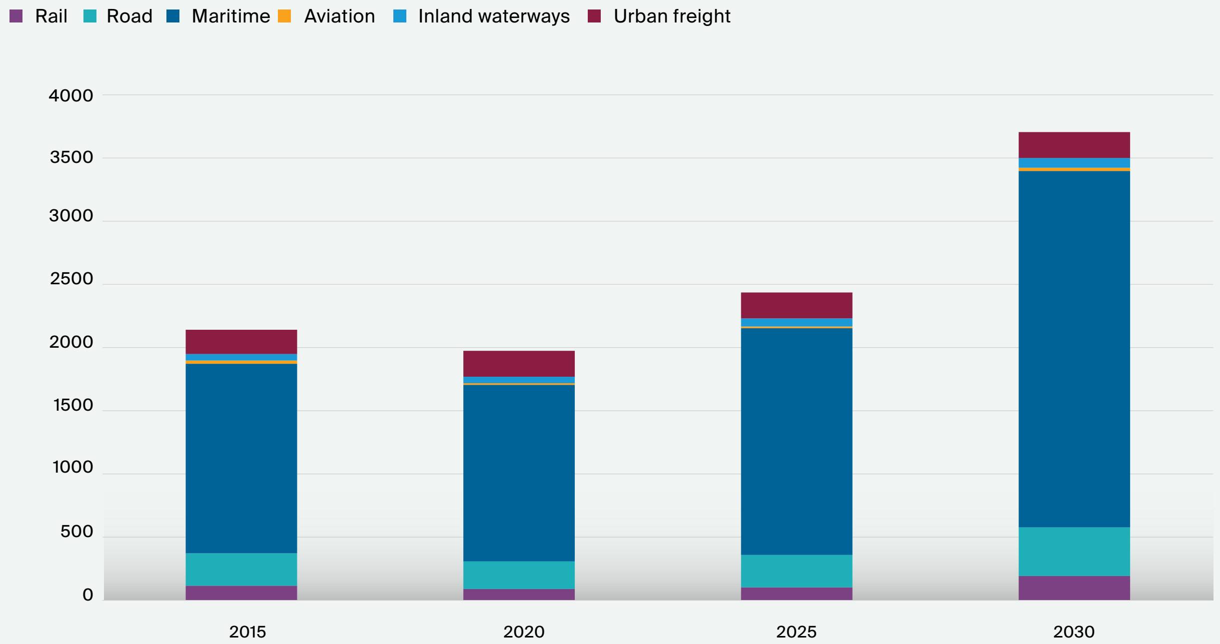
Transport of goods by road is a key contributor to carbon emissions and more logistics operators and corporates are committing to net zero. Investors are increasingly considering warehouses that support more sustainable transport modes. Maritime transport will likely continue to be the dominant freight mode in Europe offering high capacity and access to global markets at low cost (figure 3).

Rail is projected to be the fastest growing freight mode in Europe in 2020-2030, according to the OECD, driven by decarbonisation policies as trains produce three times less emissions than road transport (figure 3). The European Commission's Sustainable and Smart Mobility Strategy aims to double rail freight traffic by 2050.

> **"Transport of goods by road is a key contributor to carbon emissions and more logistics operators and corporates are committing to net zero. Investors are increasingly considering warehouses that support more sustainable transport modes."**

Figure 3: EEA + Turkey: Freight activity by transport mode (billion tonne-kilometres)

Billion tonne kilometre Recovery Scenario, General cargo (non-urban international freight by transport mode)



Source: OECD, Knight Frank

As part of the TEN-T investment programme, several cross-border rail centric projects are taking place including the Fehmarn Belt Tunnel connecting Denmark and Germany, Rail Baltica linking Finland and the Baltics with Poland, and the Brenner Base Tunnel from Austria to Italy, which will increase freight capacity. The Fehmarn Belt Tunnel, for example, will help integrate the peripheral Nordic locations into Central Europe and is expected to create new logistics opportunities for longer-term investors in the Hamburg and Schleswig-Holstein regions in Germany, the Copenhagen region and southern Sweden strengthening the 'Green Banana' logistics corridor (figure 1).

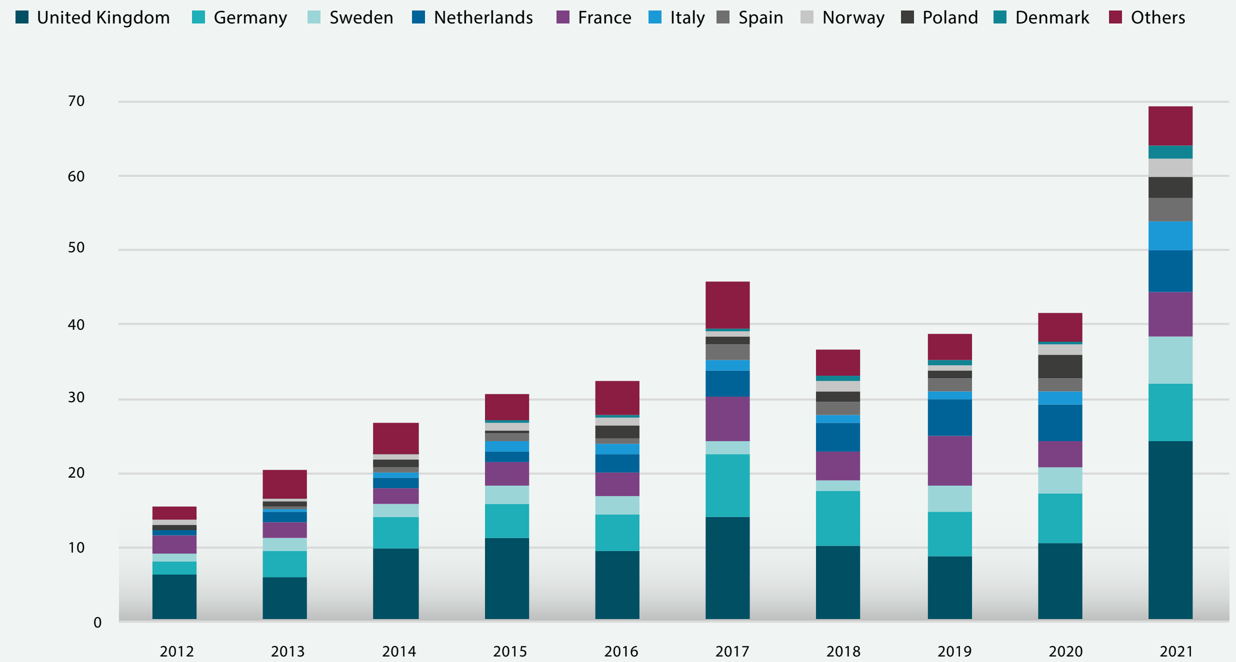
In the Netherlands multi-modal logistics facilities with maritime, inland waterway and rail links located in the logistics hubs of Amsterdam, Schiphol, Rotterdam, Utrecht, Eindhoven, Tilburg, Venlo, and Bleiswijk that are well connected to international distribution networks, provide opportunities for logistics investors seeking lower carbon alternatives. In 2020, almost half of the freight transport vessels on EU inland waterways were registered in the Netherlands, according to Eurostat.

A new direct shipping route between Dublin and Amsterdam was also launched at the end of January 2021 and expanded in May due to growing demand to avoid post-Brexit customs checks. This will also helps integrate Ireland further in the TEN-T network. The route provides access to Amsterdam's network of rail, road and inland waterway connections with the latter playing a strategic role for freight transport between the ports of Rotterdam and Amsterdam, and Germany as well as Belgium.

Germany and the Netherlands attract logistics investors offering access to a large catchment population

Dutch industrial investment volumes totalled a record EUR 6 billion, according to RCA. A recovery in global trade, e-commerce and Brexit fuelled occupier demand for Dutch logistics space reaching 3.5m sqm in the first three quarters of 2021, according to Capital Economics, and pushing down the vacancy rate to a historical low of 2.0%. Prime industrial rents grew by 1.5% and 2.0% over the first nine months of the year in Amsterdam and Rotterdam, respectively, Capital Economics reports.

Figure 4: European industrial investment volumes by country (Billion EUR)



Sources: Knight Frank, Real Capital Analytics

In Germany the industrial investment volume of EUR 7.9 billion in 2021, according to RCA, represents another record result. Due to high prices and a lack of land in prime locations, investors and developers alike are looking for alternative locations with excellent connectivity and a large catchment population within a relatively short drive time. So called "B and C"-cities which are large to medium-sized cities are gaining in importance such as Dortmund as well as commercial areas along major motorways, for example in Thüringen and Sachsen along the A4 motorway where Amazon opened a logistics warehouse in Gera.[1]

Since April 2021, DHL and DB cargo have launched seven new rail freight connections in the German network and aim to increase the share of parcels transported by rail from 2.0% currently, to 20.00% in the long-term, RailFreight reports. This will require more distribution facilities accessible by rail along the network. In the longer term, the previously mentioned Fehmarn Belt Tunnel project which will reduce rail travel time between Hamburg and Copenhagen by two hours is expected to create new logistics opportunities in the Hamburg and Schleswig-Holstein regions in northern Germany. The North Sea ports of Hamburg, Bremen/ Bremerhaven, and Wilhelmshaven are planning to merge, Handelsblatt reports, to be able to compete internationally with Rotterdam and Antwerp which could increase the demand for logistics space around these port locations.

[1] https://www.thueringen24.de/thueringen/article233680491/Amazon-Gera-Wolfgang-Tiefensee-Online-Logistik-A4.html
[2] https://fr.goodman.com/en/who-we-are/media-centre/news/20210601-green-dock-announcement

Water-centric transport is expected to play a greater role for the French logistics market in the future

In France, current logistics opportunities are near major regional centres, driven by the Greater Paris Region (nearly 20.00% of the French large warehouse stock) and close to transport hubs and, more specifically, along the north-south corridor ("la dorsale"), the country's main logistics corridor. This spans from Lille in the north to Marseille in the south, passing through the Île-de-France region and the Lyon area. The Greater Paris region stock is concentrated in a large crescent, stretching from the north of Val d'Oiseto the centre of the Essonne department via Roissy, Marne-la-Vallée, Sénartand Evry.

The French ports of Le Havre, Rouen and Paris (HAROPA) located along the Atlantic TEN-T corridor merged to a single port on 1st June 2021. At the end of Q3 2021, HAROPA Port already showed positive results with maritime traffic reaching 61.2 million tonnes of goods, an increase of 10 over one year. Meanwhile, river traffic was up by 5.0% over the same period. To increase river traffic, the Seine axis is planned to be strengthened and HAROPA port announced the construction of a major river and seaport complex ("Green Dock") located in the Port of Gennevilliers, just 5km from Paris and 20 minutes from Roissy – Charles de Gaulle airport, allowing for last-mile delivery for urban logistics operators.[2] The project is set to be completed by 2025.

One of France's largest infrastructure projects is called "Canal Seine-Nord Europe" to drive forward the modal shift in road freight transport towards waterways. Works will begin in 2022 and the canal is scheduled for completion in 2028. It is a long-term project and will certainly have a strong impact on the logistics sector in France and in particular the Hauts-de-France region in Northern France. Longer-term investors, therefore, will look out for multi-modal logistics facilities that offer operational resilience to future-proof their investments.

"Future logistics opportunities in France will likely lie around sea and river ports as there is an aim to create low carbon logistics corridors."

Southern Europe is further being integrated into the European transport network

Moving further South, Italy is catching up in terms of online retail sales, but the pandemic has highlighted that its supply chains are not yet able to sustain the strong e-commerce demand. Industrial investment volume totalled EUR 4 billion in 2021, according to RCA. There is a clear north-south divide with most industrial investment transactions taking place in northern Italy, in particular, in the Lombardia, Piemont and Veneto regions where the logistics sector benefits from high population densities, above-average incomes and infrastructure expansion.

The completion of the Genoa-Milan high-speed railway line (Terzo Valico) by 2023 could allow a significant expansion of the freight transport between the port of Genoa, northern Italy and Europe as it will integrate Genoa in the Rhine-Alps TEN-T Core Corridor that reaches Rotterdam, Antwerp and Zeebrugge. While the port has traditionally positioned itself as a gateway facility for northern Italy, the new rail link connecting to northern Europe will extend its focus beyond the domestic market. This will likely attract further investment in the industrial triangle of Milan-Turin-Genoa. Similarly, the Brenner Base Tunnel connecting Verona to Munich forms an essential part of the Scandinavian-Mediterranean TEN-T core network and will increase freight capacity offering further logistics investment opportunities.
If there is one sector in Spain that the pandemic has singled out as crucial, it is the logistics sector. Operators have been racing to meet burgeoning demand by leasing more storage and distribution spaces. Industrial investment volumes totalled EUR 3 billion in 2021, the highest level on record. Much investment activity is taking place in the Madrid and Barcelona regions as they offer access to a large population. The cities of Zaragoza, Bilbao, Valencia and Málaga offer further logistics opportunities as they are located along international infrastructure corridors and are the largest cities in terms of population size after Madrid and Barcelona.

It was recently announced that Spain aims to complete the Mediterranean Corridor high-speed rail link by 2026, which will bring high-speed rail lines to four regions – Catalonia, Valencia, Murcia, and Andalusia.[3] According to the plans, the train line will connect Almería in Andalusia with France, move more freight traffic from road to rail and make more urban areas along this corridor more accessible. Moreover, the availability of workers and the relatively lower minimum wage offer a favourable environment for logistics operators to expand in Spain all of which provide a driver for investment demand.

"Industrial investment volumes in Spain totalled
EUR 3 billion
in 2021, the highest level on record"

[3] https://www.spainenglish.com/2021/11/14/spain-mediterranean-corridor-high-speed-rail-link-2026/

Central and Eastern European locations are well positioned to take advantage of the Belt and Road Initiative

Further East, the Belt and Road Initiative (BRI) aims to bridge the gap between Asia and Europe and streamline logistics. The success of BRI will potentially allow China and Central and Eastern European countries to diversify their economies further and attract investments into industrial assets as well as other sectors like agriculture, energy and technology along the Belt and Road.

Poland and Czech Republic, which are a part of the 'purple Banana' logistics corridor, the endpoint of the Silk Road Economic Belt and a gateway to the EU, are therefore very well positioned to take advantage of the BRI (figure 1). Contributing to BRI, the rail freight line between Chengdu City and Poland's Łódź has become a popular logistics route for trade between the two regions, while seaport infrastructure is also extensive in Poland. The number of sea and inland intermodal terminals across Poland increased by 70.00% over the last 10 years to 38 in early 2020, Property Funds World reports.

Poland is also the most active investment market among all Central and Eastern European countries. At the end of H1 2021, take-up was 3.2 million sqm and supply under construction was estimated at 3.3 million sqm, a record in the history of the Polish warehouse market. Developers' activity registered over 70% increase when compared to Q2 2020. The highest increases in warehouse stock in H1 2021 were observed in three warehouse hubs: namely, Upper Silesia, Warsaw area (zone I and II) and Tricity.

Moreover, comparing the monthly minimum wage in Poland of EUR619 per month, to that of Germany, where the minimum monthly wage was EUR1,585 in 2021, provides a driver for occupiers but also, investment demand in such locations where labour costs are lower, but still in proximity to the demand from Germany and western Europe.

UK air, sea, and rail port locations are expected to play a more important role for post-Brexit logistics

Since January 2021 and the introduction of post-Brexit border checks, the UK is no longer part of the TEN-T network. However, there is continued and, in some cases, enhanced demand for UK logistics as Brexit boosted demand from European distributors to maintain access to the UK market and "just-in-time" supply chains have been showing signs of strain. Take-up of warehouse space (over 50,000 sq ft) in the UK was 69.4 million sq ft in 2021, according to Knight Frank figures. This is 34.00% higher than 2020's record take-up of 51.9 million sq ft, reflecting unprecedented demand from occupiers to secure suitable space, develop shorter supply chains, expand ecommerce fulfilment capabilities and hold higher volumes of inventory to avoid operational disruption.

Air, sea, and rail port locations are expected to play a more important role for post-Brexit logistics. UK supply chains are becoming more domestic in focus, with an increasing reliance on UK ports. The UK government set up a £200 million Port Infrastructure Fund to enhance infrastructure and cope with customs controls. The first Freeport in Teesside launched recently, and seven more Freeports in England will follow where goods that arrive into Freeports from abroad are exempt from tax charges (figure 5). This will likely stimulate investment and boost supply and demand at these locations, spurring rental growth. Meanwhile, the Daventry International Rail Freight Terminal (DIRFT) in the English Midlands is in the third phase of expansion to increase its handling capacity to 32 trains per day. It will be the biggest inland rail freight terminal in the UK will likely boost demand for logistics space at the site where DHL, Tesco, Sainsburys and Royal Mail already have distribution centres.

Strong occupier market dynamics continue to drive activity in the UK logistics investment market. Total industrial investment for deals above EUR5 million totalled a record of EUR23 billion in 2021, according to RCA.

Figure 5: Eight new UK Freeport locations

Source: Knight Frank

> "In the UK, freeports will likely stimulate investment and boost supply and demand, spurring rental growth."

FOR MORE INFORMATION, PLEASE GET IN TOUCH

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