

European Logistics Capital Markets Dashboard

Autumn 2021



Internal and key client use only

SUMMARY

- Latest economic data points to a robust recovery in Q2 2021, with the Eurozone growing at a faster pace than the US and China for the second time in over a decade.
- The European labour market is also demonstrating continuing signs of recovery. Eurozone unemployment fell to 7.5% in August, its lowest level since May 2020, whilst European employment increased by 0.7% in August, compared to a 0.2% decline in the month prior. Despite labour prospects improving, wages across the Euro Area declined 0.4% over the quarter to Q2 2021, the first contraction in wage growth since 2011.
- Internet & mail order retail growth was 10% higher in August 2021 than it was in August 2020. While this is the slowest pace of growth since February 2020, we expected the rate to stabilise as restrictions eased further.
- Preliminary figures indicate that European Industrial investment totalled €11.1 billion in Q3 2021, the strongest third quarter on record albeit a slight slowdown from Q2's record of €15.4 billion. Q3 2021 was 27% higher than investment in Q3 2020 and 88% above the Q3 average.
- Over the first three quarters of the year, €38.3 billion was invested into the European Industrial and logistics sector, the largest Q1 – Q3 period to date. With only Q4 remaining, 2021 is therefore likely to be a record breaking year. Investment volumes are now just €8.1 billion and €4.0 billion below investment totals recorded in 2017 and 2020, respectively, which are currently first and second strongest on record.
- Following €7.7 billion investment, cross border investors accounted for 70% of the Q3 total, a new third quarter record. Q3 2021 saw overseas investment increase 60% on Q3 2020 and was 161% above the Q3 LTA.
- While US investors remained the largest source of cross border investment in Q3 2021, accounting for 43% of total investment, this was down from the 52% share in the quarter prior.

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

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Investment market

European Industrial Investment Volumes

*Q3 2021 figures are preliminary



Source: Knight Frank, Real Capital Analytics

Industrial investment totalled €11.1 billion in Q3 2021, the strongest third quarter on record. Q3 2021 was 27% higher than investment in Q3 2020 and 88% above the Q3 average. Total Q1-Q3 Industrial & Logistics investment volumes stand at €38.3 billion, the strongest Q1 - Q3 period on record.

European Industrial Cross Border Investment

*Q3 2021 figures are preliminary

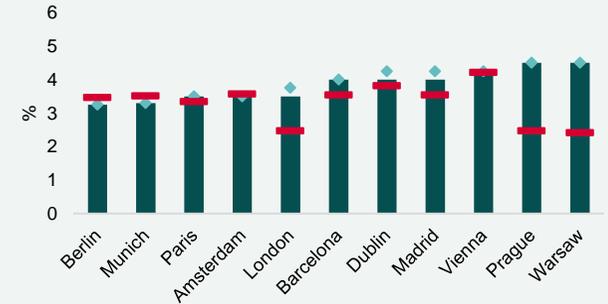


Source: Knight Frank, Real Capital Analytics

Cross border investors accounted for 70% of total industrial investment in Q3, with €7.7 billion invested, a new third quarter record. Q3 saw investment increase 60% on Q3 2020 and was 161% above the Q3 LTA. However, compared to Q2 2021, investment slowed slightly, down -28% over the quarter.

European Industrial Yields (%) - Q3 2021

■ Q3 2021 ■ Q2 2021 - Yield Gap

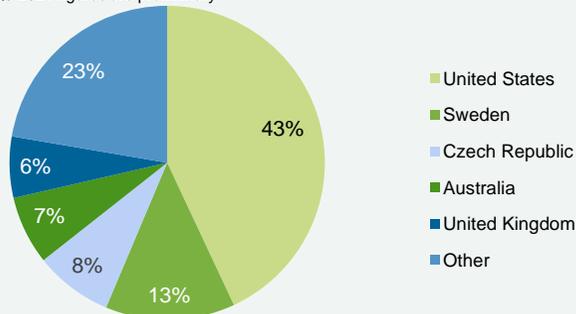


Source: Knight Frank

The yield gap, which reflects the difference between prime yield and the risk free rate (a risk free investment such as a 10-year government bond) remains sub 4% in most markets in Q3 2021, with London and Vienna compressing over the quarter. However, the yield gap for Geneva, Vienna and Zurich remains above 4% in Q3 2021.

Sources of investment - Q3 2021

*Q3 2021 figures are preliminary

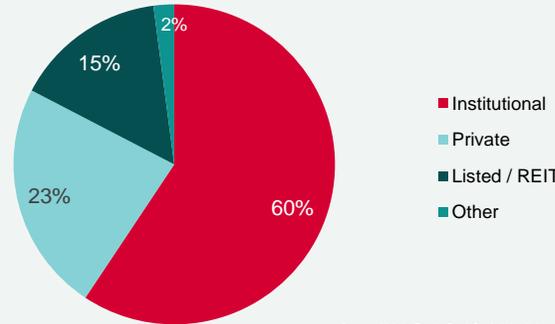


Source: Knight Frank, Real Capital Analytics

While US investors remained the largest source of cross border investment in Q3 2021, accounting for 43% of total investment, this was down from 52% in the quarter prior. Meanwhile, cross border investors from Sweden rotated back into the market, increasing their share from 1% in Q2 to 13% in Q3 2021.

Investor Type - Q3 2021

*Q3 2021 figures are preliminary

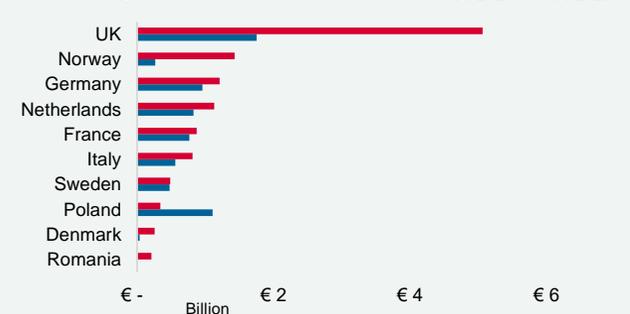


Source: Knight Frank, Real Capital Analytics

Institutional investors remained the largest source of total investment in Q3 2021 with a 60% share. Meanwhile, Private investors were more active in Q3 compared to the quarter prior, increasing their share from 19% to 23%.

Destinations of investment

*Q3 2021 figures are preliminary



Source: Knight Frank, Property Data, Real Capital Analytics

The UK remained the largest recipient of logistics investment in Q3 2021, with €5.1bn transacted, the strongest Q3 on record for the country and a 126% increase compared to Q3 2020. Of the top 10 destinations for industrial investment in Q3, Poland was the only country to record negative annual growth.

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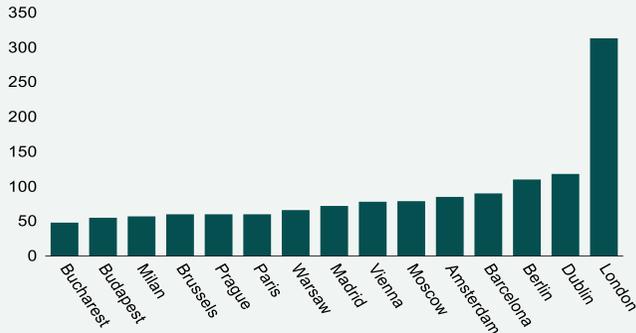
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Rents

Prime European Industrial Rents – Q3 2021

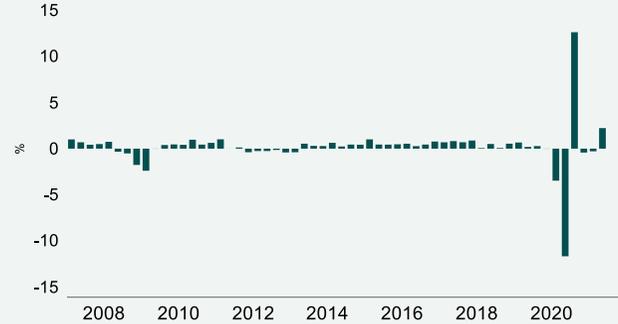
€/sq m / annum



Multiple markets across Europe recorded prime Industrial rental growth over the year to Q3 2021, with the strongest performers including London (47%), Madrid (9%) and Dublin (9%).

Economics

European Quarterly GDP



Source: Knight Frank, Eurostat, Macrobond

GDP across the Eurozone increased 2.0% in the second quarter of 2021, beating expectations of a 1.5% increase. This was the second time in over a decade that the Eurozone has grown at a faster pace than both the US and China. Spain (2.8%), Italy (2.7%), Germany (1.5%), France (0.9%) all recorded quarterly GDP growth.

European CPI



Source: Knight Frank, Eurostat, Macrobond

Eurozone CPI for September 2021 was 3.4%, slightly above expectations of 3.3% and greater than August's 3.0% reading. This is the highest level of inflation since September 2008. Inflation therefore remains above the ECB's 2% target.

Labour Economics

European Manufacturing Employment

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

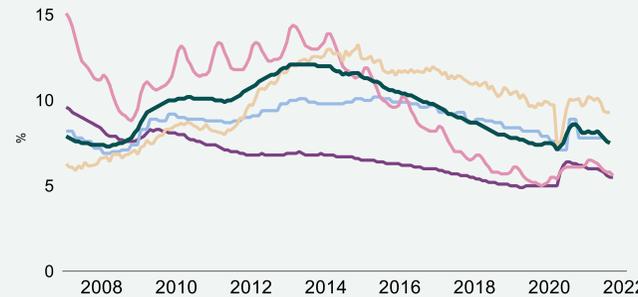


Source: Knight Frank, Macrobond, Oxford Economics

Total European employment increased 0.7% in Q2 2021, compared to a 0.2% decline in the previous quarter and slightly above expectations of 0.5% growth. Year on year, employment increased 1.8% in Q2 2021.

European Unemployment

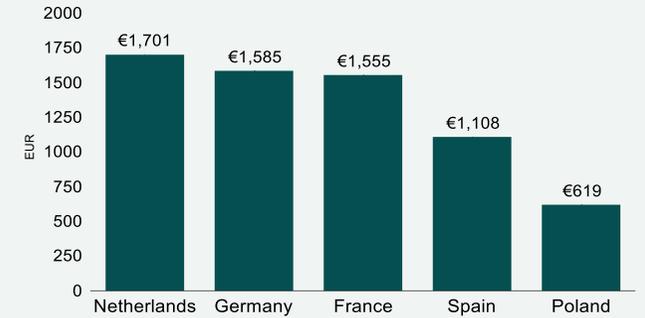
— Germany — France — Poland — Italy — Europe



Source: Knight Frank, Eurostat, Macrobond

European unemployment was 7.5% in August 2021, its lowest level since May 2020, in line with market expectations and remaining below the LTA of 9.5%. The Netherlands (3.2%) and Germany (3.6%) had the lowest rates of unemployment in August.

European Monthly Minimum Wage



Source: Knight Frank, Eurostat, Macrobond

The national minimum wage in the Netherlands, Germany and Poland increased by 1% across all three countries. For Poland, this was just an increase in euro terms, it remains at PLN2,800. The Polish cabinet have proposed an increase to the minimum wage for January 2022 to PLN3,000.

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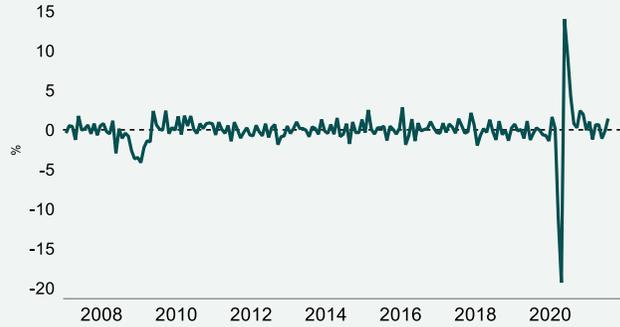
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Industry, Trade and Transport

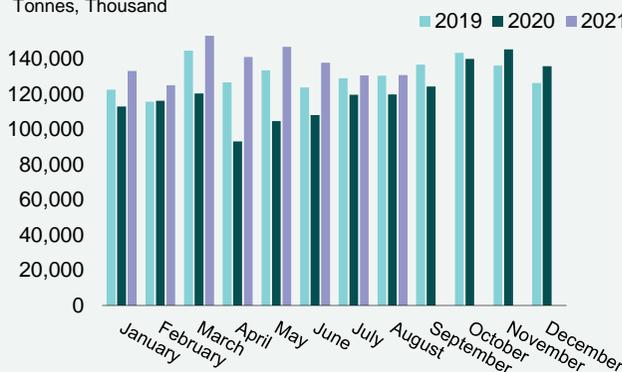
European Industrial Production



Source: Knight Frank, Eurostat, Macrobond

European industrial production increased by 7.7% over the year to July 2021, down from 10.1% growth in June and beating expectations of a 6.3% increase. Industrial production in France (3.9%), Spain (3.6%) and Germany (1.5%) all recorded gains in July 2021 compared to July 2020.

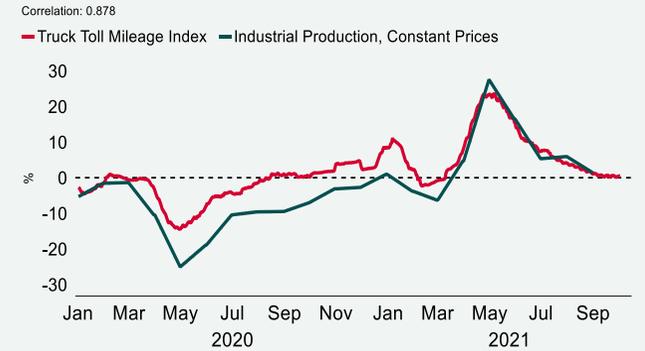
Netherlands Total Monthly Air Cargo



Source: Knight Frank, Macrobond

Air freight has surpassed both 2019 and 2020 levels in the first eight months of 2021. In August, total monthly air cargo was 130,844 tonnes, 9% above the August 2020 figure and in line with August 2019's 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 at normal levels in August, but is 11% below the peak recorded in March.

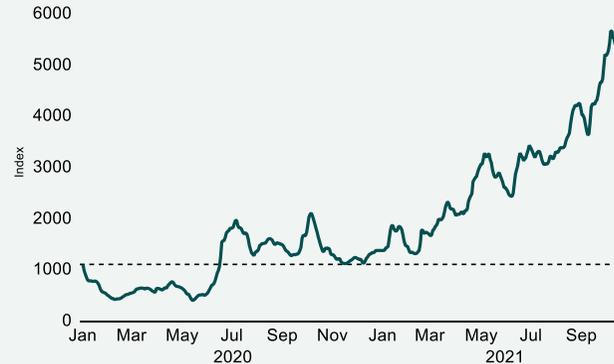
Manufacturing PMI Index



Source: Knight Frank, Macrobond

The Eurozone manufacturing PMI was 58.6 in September 2021, below the previous month's reading of 61.4 and its lowest level since February. Albeit, the index has remained in expansionary territory (above 50) since July 2020.

Baltic Dry Index (BDI)



Source: Knight Frank, Macrobond

The Baltic Dry, a measure of what it costs to ship raw materials, increased to 5,650 on 7th October, its highest level since 2008. However, it has since pared back slightly to 5,378, largely due to supply chain disruptions.

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 accelerate in certain locations, with Poland surpassing pre-pandemic activity, while France and Italy are close to it.

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Online Retailing

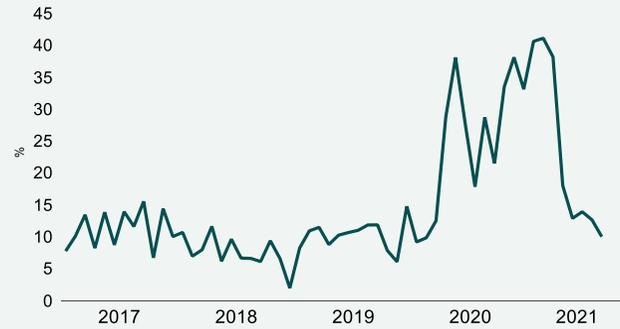
Leading Online Retailer Share Price Growth, %



Source: Knight Frank, Macrobond

Both Hellofresh (20.2%) and Wayfair (1.5%) have seen share price growth since the start of 2021, while Amazon and Zalando are down 1.2% and 17.3%, respectively. However, when compared to January 2020. Amazon's share price is currently 75.7% higher.

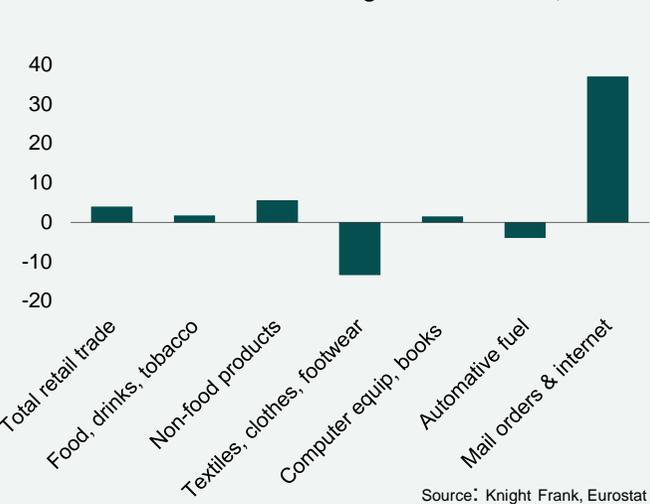
YOY Growth in European Internet & Mail Order Sales, %



Source: Knight Frank, Eurostat

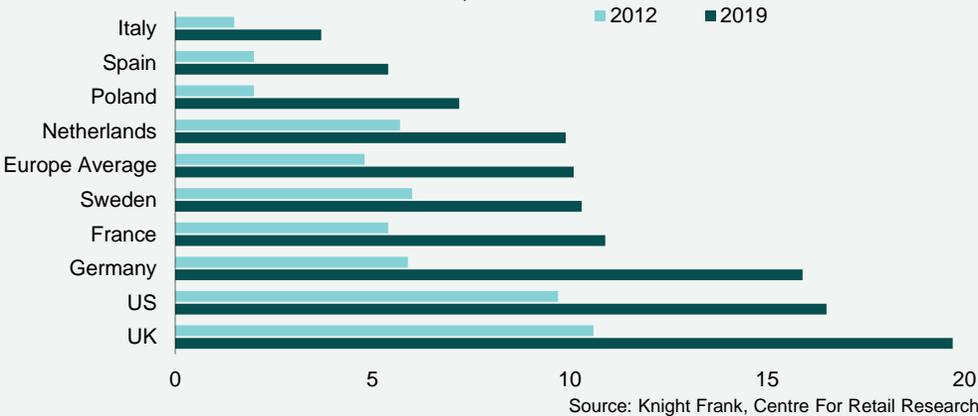
Internet & mail order retail growth is 10% higher in August 2021 than it was in the same month the year prior. This is the slowest pace of growth since February 2020.

Volume of Retail Trade Sales Aug 2021 vs Jan 2020, %



Source: Knight Frank, Eurostat

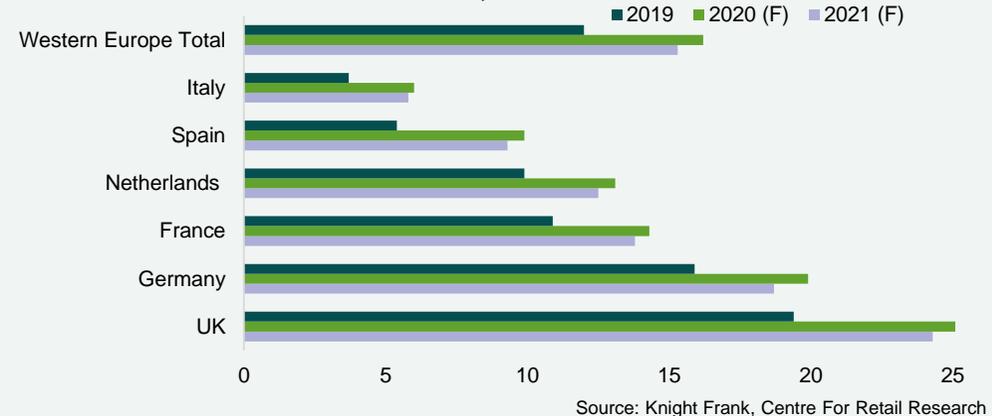
Online Retail as a Share of Total Retail Sales, %



Source: Knight Frank, Centre For Retail Research

Historically, Germany has had the highest level of ecommerce penetration in mainland Europe. Whilst ecommerce penetration rates across Southern Europe remain very low, many countries within the region have experienced double digit growth. As such, 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 of 15.3%. 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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