

# European logistics

4 February 2021

Research & Strategy

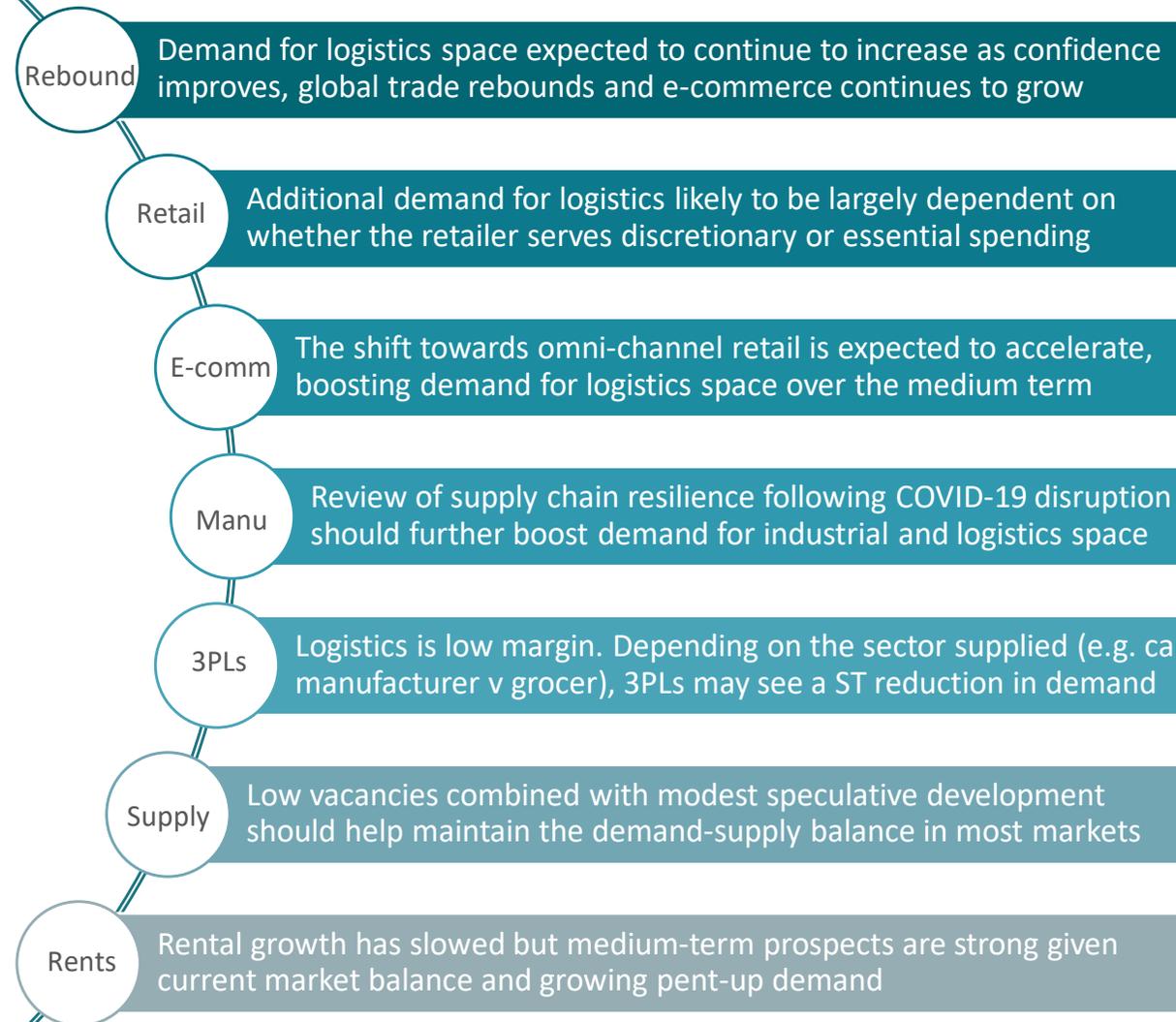
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# Industrial & logistics: demand boosted by e-commerce and supply chain reconfiguration

E-commerce demand, supply chain reconfiguration and economic recovery should fuel demand for logistics space



## Anecdotes and data

**Global logistics market expected to grow by 4.7% p.a. through to 2024**, Transport Intelligence, 28 January 2021

**Zalando: 'double-digit growth in 2020'**, Ecommerce News 7 May 2020

**Online retail sales accounted for nearly half of all UK spend in December**, Charged Retail 12 January 2021

**Amazon braces for winter of demand with relentless expansion**, FT 13 October 2020

**Parcel delivery boom prompts DPD to employ 20,000 new staff**, FT 5 October 2020

**Pandemic triggers 'perfect storm' for global shipping supply chains**, FT 10 December 2020

**AutoZone rethinks supplier diversity after coronavirus disrupts parts supply chain**, Supply Chain Dive 27 May 2020

**Automotive logistics market to shrink by 20.4% in 2020**, Transport Intelligence, 15 October 2020

**There has been an increase in pre-letting... but a reduction in speculative development starts**, Segro 5 August 2020

Source: AXA IM – Real Assets, 1 February 2021. Important Notice: The information has been established on the basis of data, projections, forecasts, anticipations and hypotheses which are subjective. This analysis and conclusions are the expression of an opinion, based on available data at a specific date. Due to the subjective aspect of these analyses, the effective evolution of the economic variables and values of the financial markets could be significantly different from the projections, forecast, anticipations and hypotheses which are communicated in this Material. For illustrative purposes only. Diagrams for illustrative purposes only

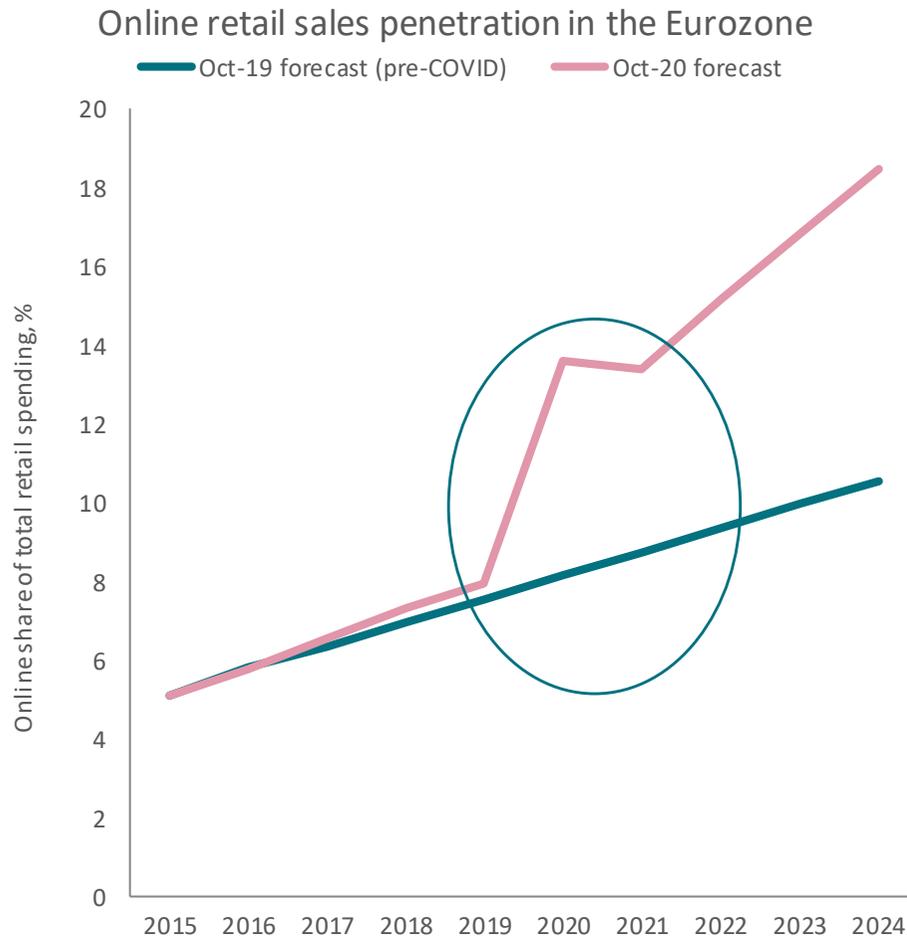
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# Surge in e-commerce expected to continue, underpinning demand for logistics space

Demand focusing on XXL warehouses and smaller, last-mile facilities close to city centres



Improving confidence, a rebound in global trade and continued growth in e-commerce should lead to an increase in demand for logistics space

- European take-up hit a record high in 2020 and, with confidence improving, global trade rebounding and e-commerce continuing to grow, occupier demand is expected to remain strong
- There is a downside risk that new variants of COVID-19 may depress GDP growth more than currently forecast, and/or that the expected end of government support may result in an increase in bankruptcies, reducing demand for logistics space

The pandemic has resulted in a step-change in e-commerce

- Many online/omni-channel retailers are benefiting from a rise in sales and a strong gain in market share as more consumers buy online. Buying habits are expected to endure beyond the crisis
- This has already produced record levels of logistics take-up for e-commerce occupiers, and further demand is expected

The pandemic has shown up vulnerabilities in companies' supply chains

- The pandemic resulted in essential materials, parts and products being either held-up or over-stocked due to supply chain issues
- Having previously been focused on cost, emphasis is moving to risk management. Manufacturers are increasing inventory levels, diversifying supply chains, and/or re-shoring manufacturing

**We expect the increase in e-commerce demand and low vacancy rates to support a swift return to rental growth. The sector is expected to remain of considerable interest to investors anticipating the recovery**

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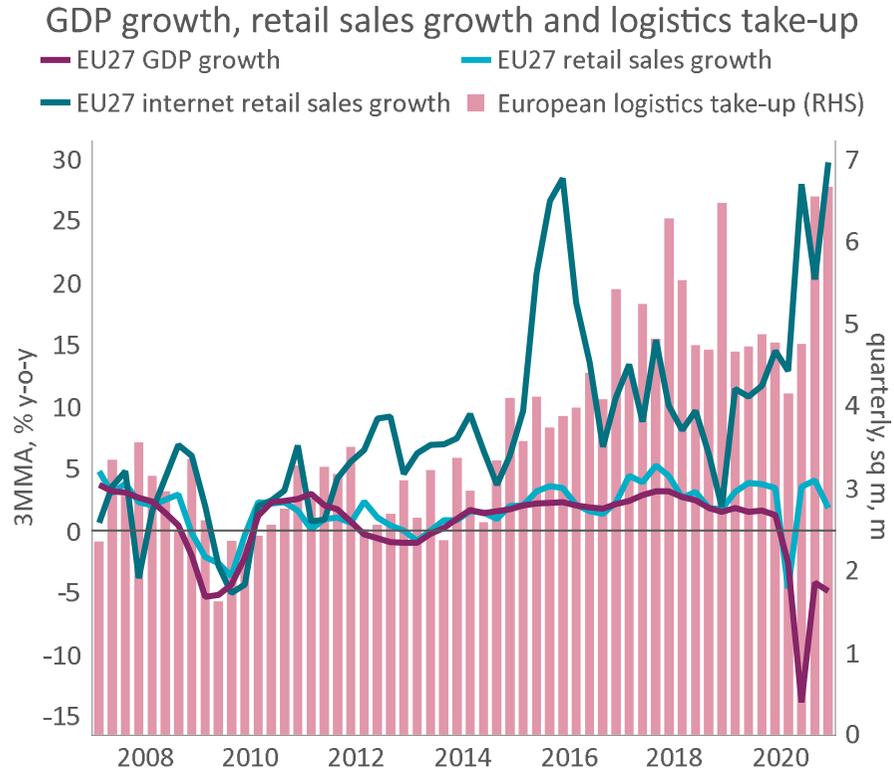
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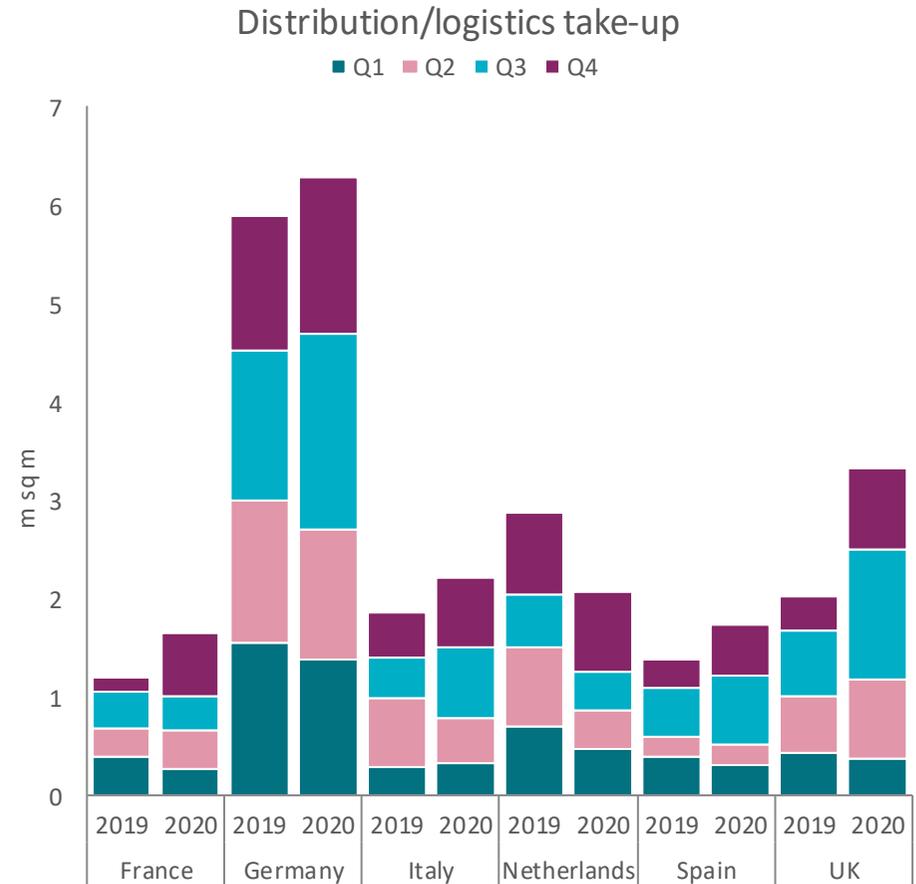
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# Despite a slow H1, European industrial & take-up reached a record high in 2020

Several countries experienced record levels of take-up, including Italy and the UK



Source: Eurostat, JLL, Macrobond, AXA IM – Real Assets, data as at 04 February 2021  
 NB: Europe = Belgium, France, Germany, Italy, Netherlands, Spain, UK, Czech Republic, Hungary, Poland  
 NB: France is only the 4 key dorsal markets  
 NB: Modern warehousing units 5,000+ sq m; 10,000+ sq m in the UK

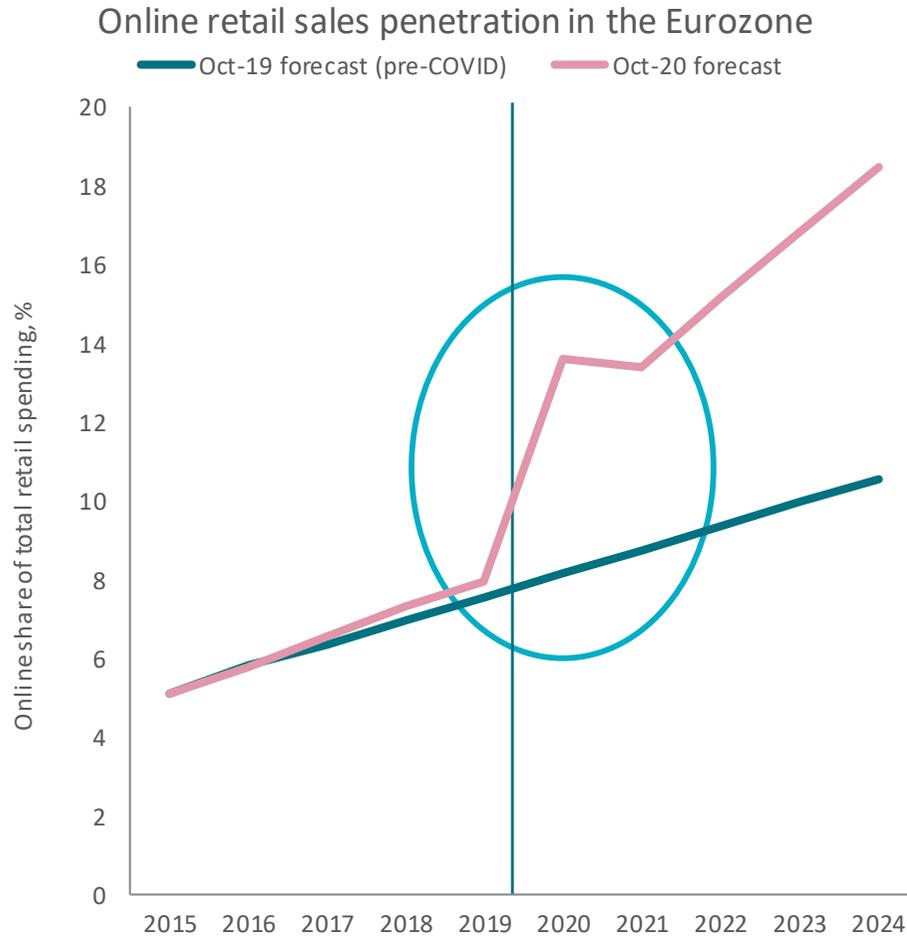


Source: JLL, CBRE, AXA IM - Real Assets, data as at 1 February 2021  
 NB: France is just the 4 key dorsal markets  
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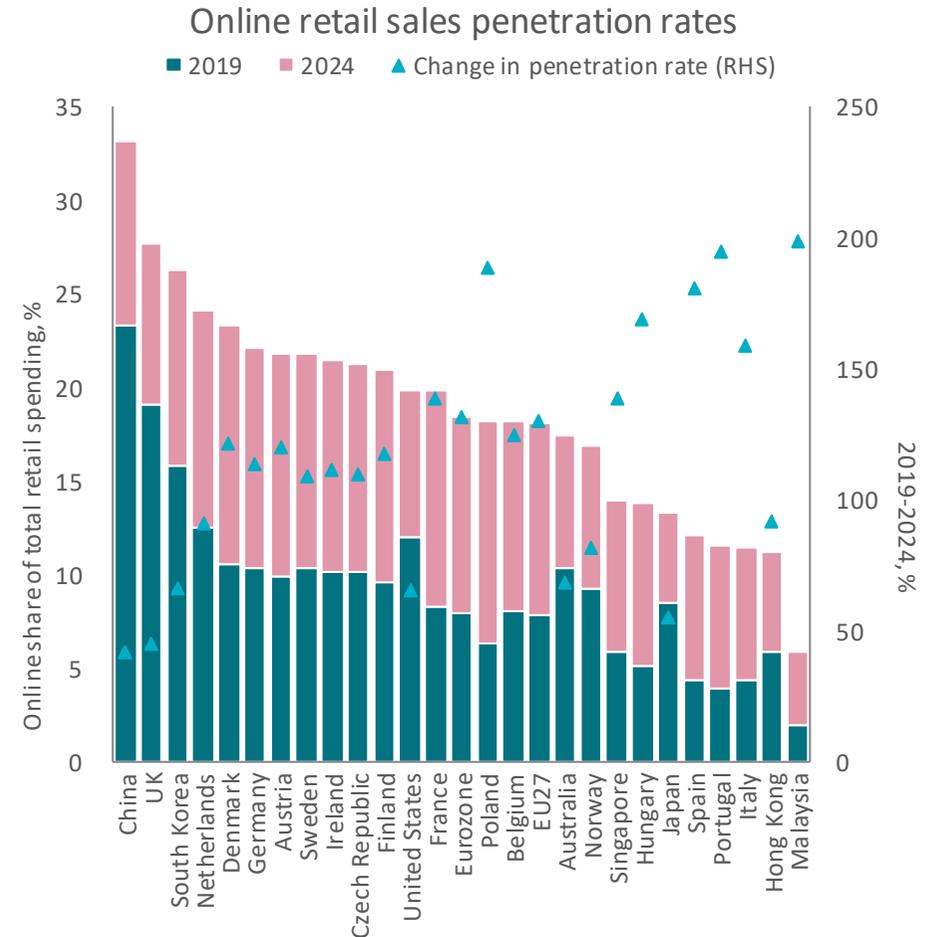
**E-commerce accounted for 21% of total European take-up in 2020, nearly twice as much as in 2019**

# Covid-19 is expected to have 'pulled forward' e-commerce penetration by several years

Online retail sales growth is projected to be significantly stronger than overall retail sales growth over the next five years, pushing up online retail penetration rates across Europe



Source: PMA (forecasts), AXA IM - Real Assets, data as at 7 October 2020



Source: PMA (forecasts as at 8 October 2020), AXA IM - Real Assets

**The acceleration in online retail sales is expected to increase demand for logistics space, both in terms of XXL format warehouses and smaller last-mile facilities close to city centres**

# The coronavirus has shown up vulnerabilities in many companies' supply chains

## An increase in demand for industrial and logistics space is expected

- Even before the pandemic hit, issues such as dependency on China, the US-China trade war and the complexity and length of global supply chains meant some companies were reassessing their sourcing and manufacturing strategies
- Supply chains minimize inventories to reduce costs, but many chains are complex and long. The pandemic resulted in essential materials, parts and products being either held-up or being over-stocked due to supply chain issues created by factors such as:
  - Delays at borders/borders closing; manufacturing plants temporarily closing to protect staff; production staff, warehouse staff and driver illnesses/absences; and disruption at ports
  - Long lead times resulting in parts and products arriving before the previous batch has been used or sold
- For example, many manufacturers who operate a just-in-time (JIT) delivery system, where components are used within hours of arriving on site, did not have the space to store all of the parts that were shipped from suppliers as well as the unused parts already in stock. Conversely, some manufacturers had to stop production because key components were unavailable

## Some companies are already considering restructuring their manufacturing and supply chains to reduce risk and improve resiliency over the medium term, which we believe should increase demand for industrial and warehouse space:

- **Supply chain diversification** – we believe that companies may diversify their supply chains, or they may near-shore or on-shore some or all manufacturing. This broadening of manufacturing bases may increase demand for industrial and logistics space in Europe, also creating second-order demand through suppliers and networks
- **Increase inventory levels** – we believe that companies may reassess ideal inventory volumes and business continuity plans, which could boost demand for industrial and logistics space

Source: AXA IM – Real Assets, 1 February 2021. AXA Investment Managers Real Assets disclaims any and all liability relating to a decision based on this forecast

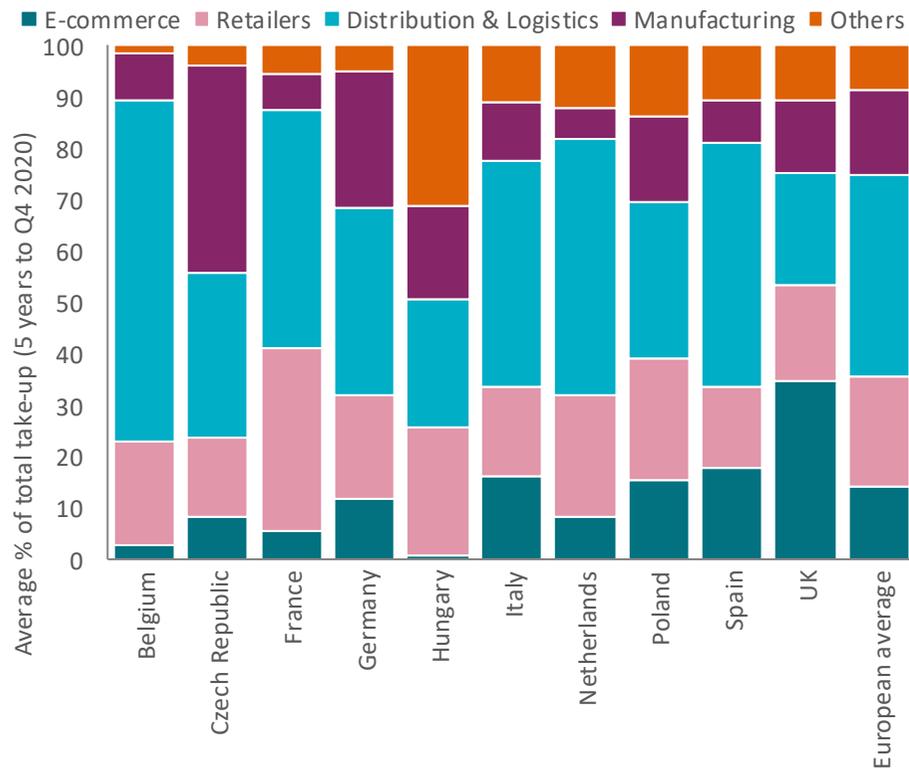
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# Expected medium-term impact of COVID-19 on European industrial and logistics markets

Take-up by sector



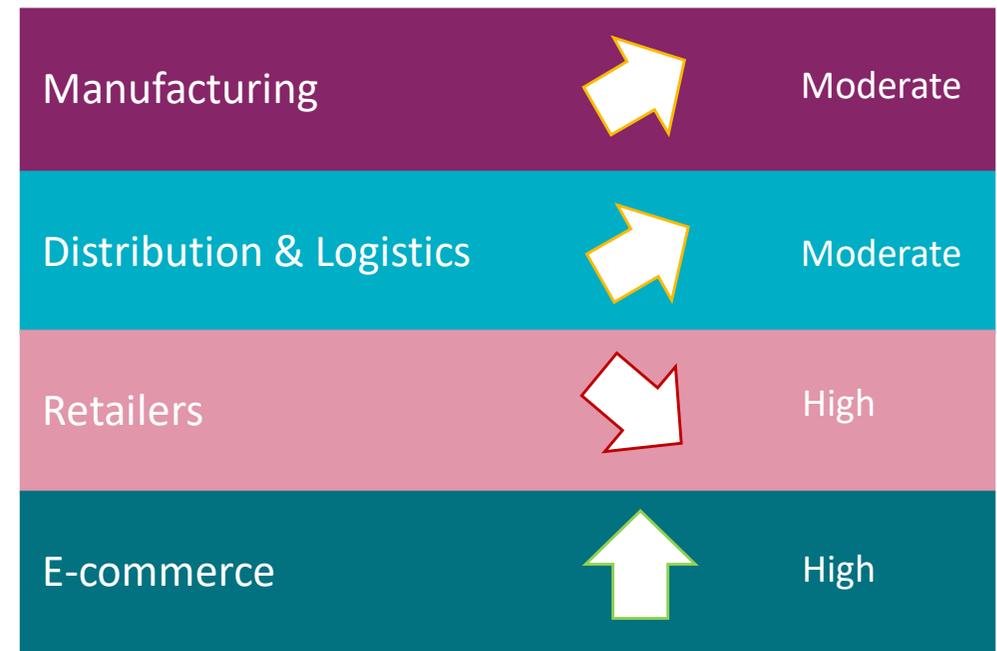
Source: JLL, AXA IM - Real Assets, data as at Q4 2020

NB: France is just 4 key dorsal markets

NB: Europe = Belgium, France, Germany, Italy, Netherlands, Spain, UK, Czech Republic, Hungary and Poland

NB: Modern warehousing units 5,000+ sq m; 10,000+ sq m in

Expected impact of COVID-19 on the sector



Source: AXA IM – Real Assets, data as at 13 May 2020

**Retail is likely to be the hardest hit occupier sector, depending on product, target market and retailers' ability to swiftly boost online/omni-channel offer**

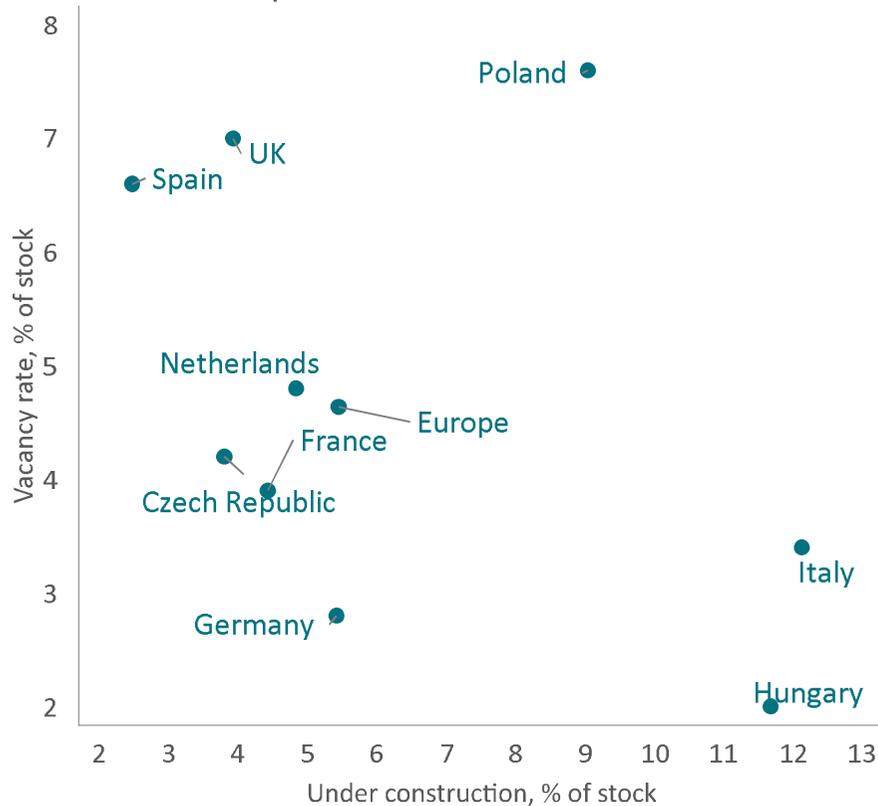
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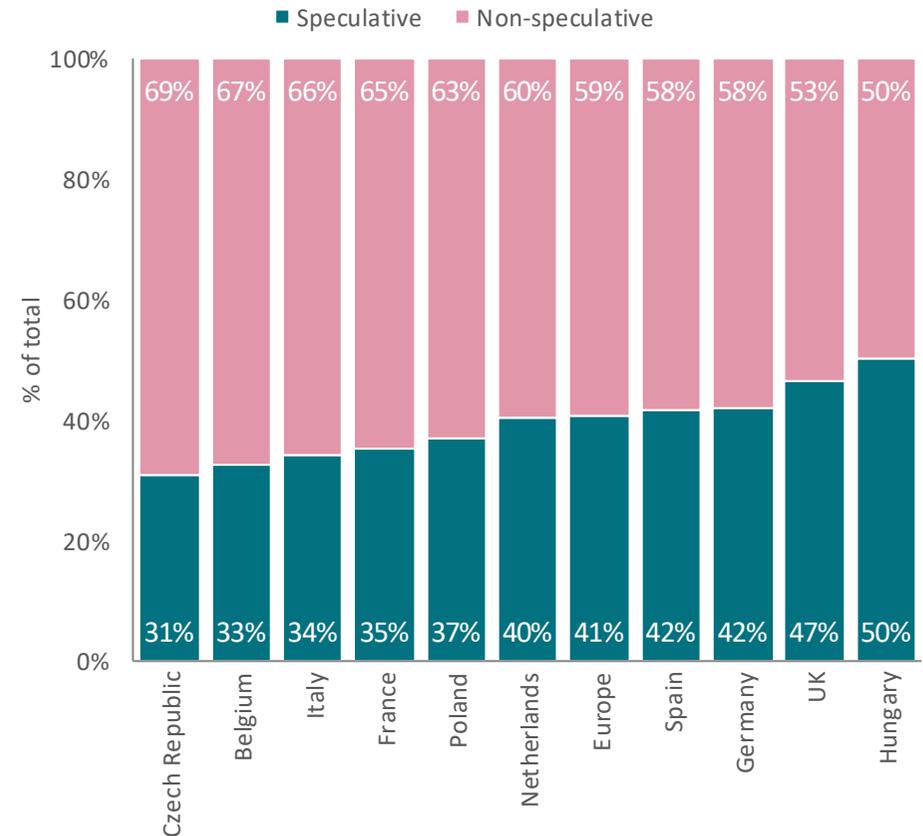
# While rising demand has typically been met by higher new supply, vacancy rates remain relatively low across Europe

European distribution and logistics vacancy rates and space under construction



Source: JLL, Macrobond, AXA IM – Real Assets, data as at Q4 2020  
 NB: France is only the 4 key dorsal markets

Space under construction by leasing status



Source: JLL, AXA IM Real Assets, data as at Q4 2020  
 NB: France is only the 4 key dorsal markets and Germany is only the Big 5 markets  
 NB: Space under construction > 5,000 sq m; UK > 10,000 sq m

**Vacancy rates are not expected to rise significantly as occupier demand to service e-commerce is expected to continue to increase and speculative development remains under control in most markets**

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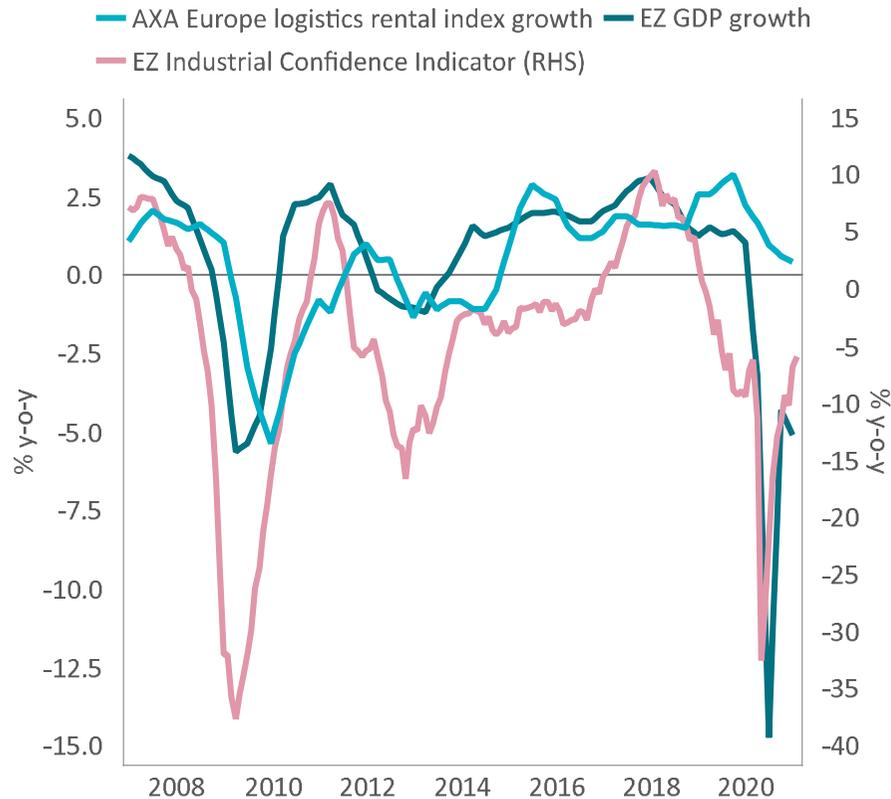
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# Prime logistics rents largely remained stable in 2020

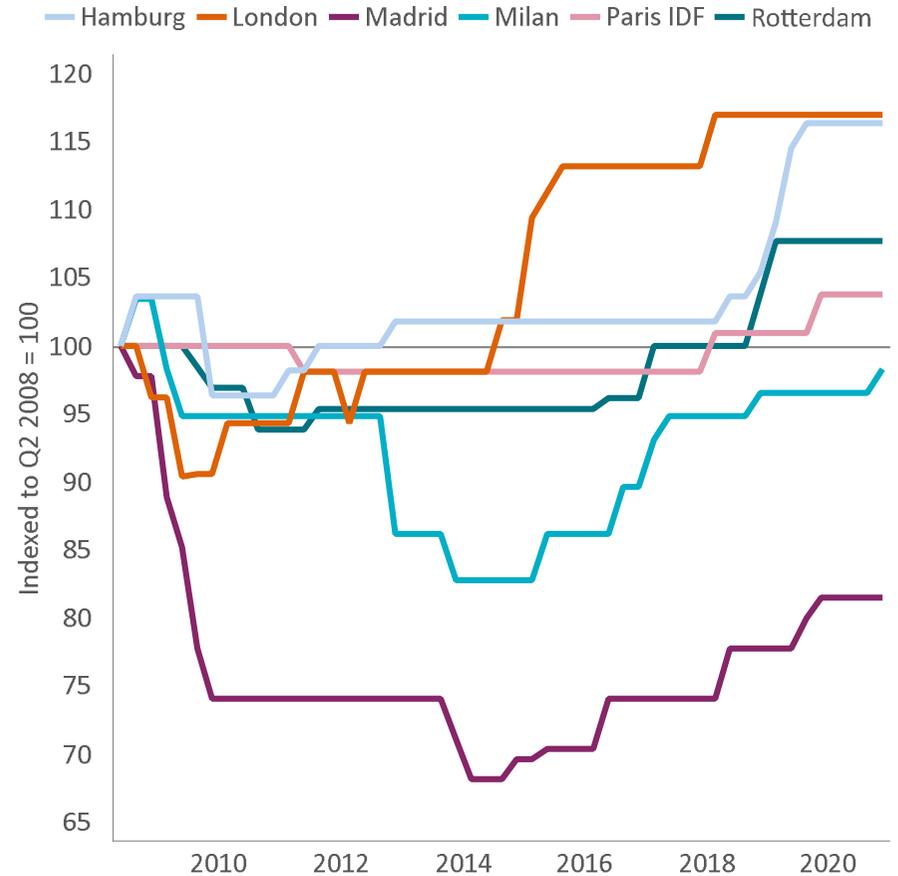
The increase in e-commerce-related demand and low vacancy rates underpinned prime rents in 2020

Industrial confidence, GDP growth and logistics rental growth



Source: European Commission, Eurostat, JLL, CBRE, Macrobond, AXA IM – Real Assets, data as at 04 February 2021

Prime logistics rental indices

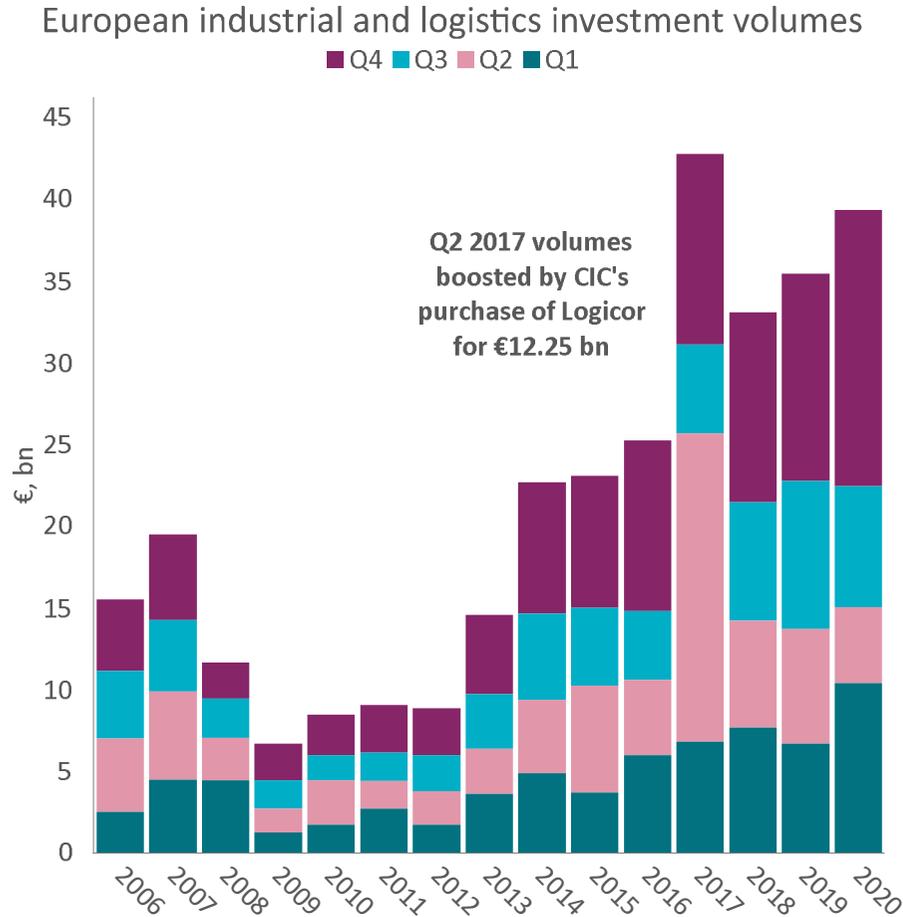


Source: JLL, Macrobond, AXA IM – Real Assets, data as at Q4 2020

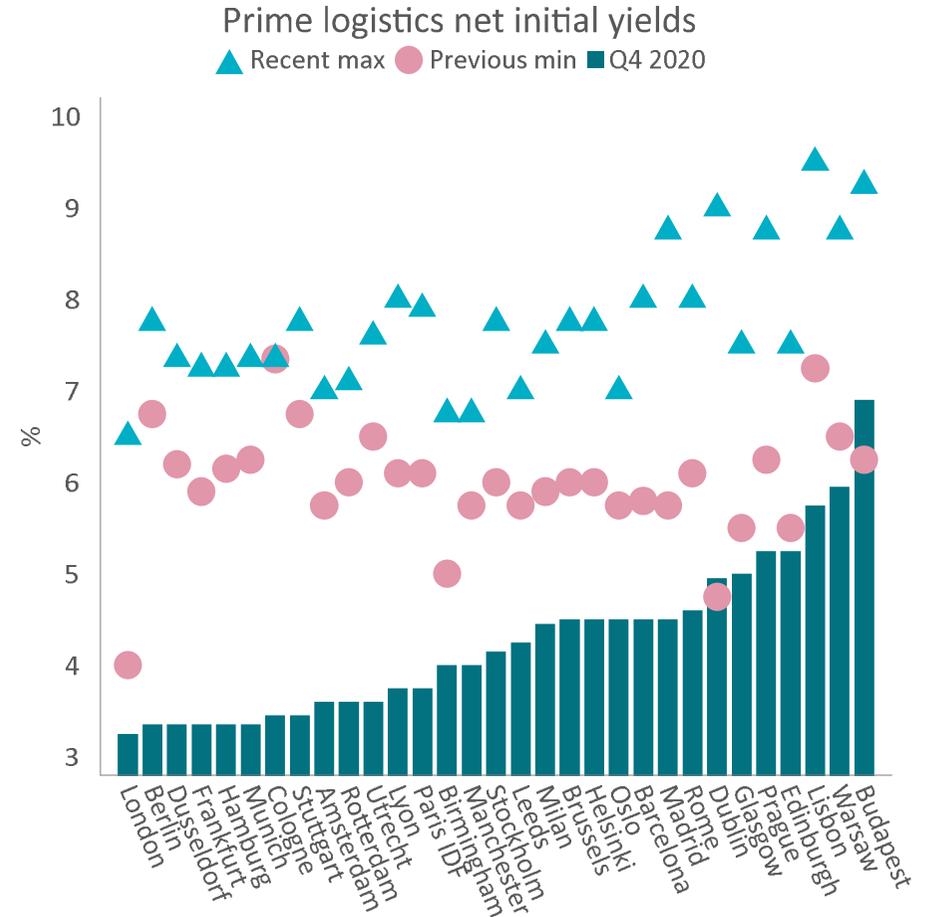
**An increase in e-commerce and supply chain reconfiguration are expected to boost demand for logistics space over the medium term. In combination with constrained supply, this is expected to push up prime rents**

# Second strongest European logistics investment volumes on record in 2020

COVID-19 containment measures meant investors had difficulty accessing sites and completing due diligence in Q2, but activity quickly bounced back



Source: CBRE, Macrobond, AXA IM – Real Assets, data as at 01 February 2021

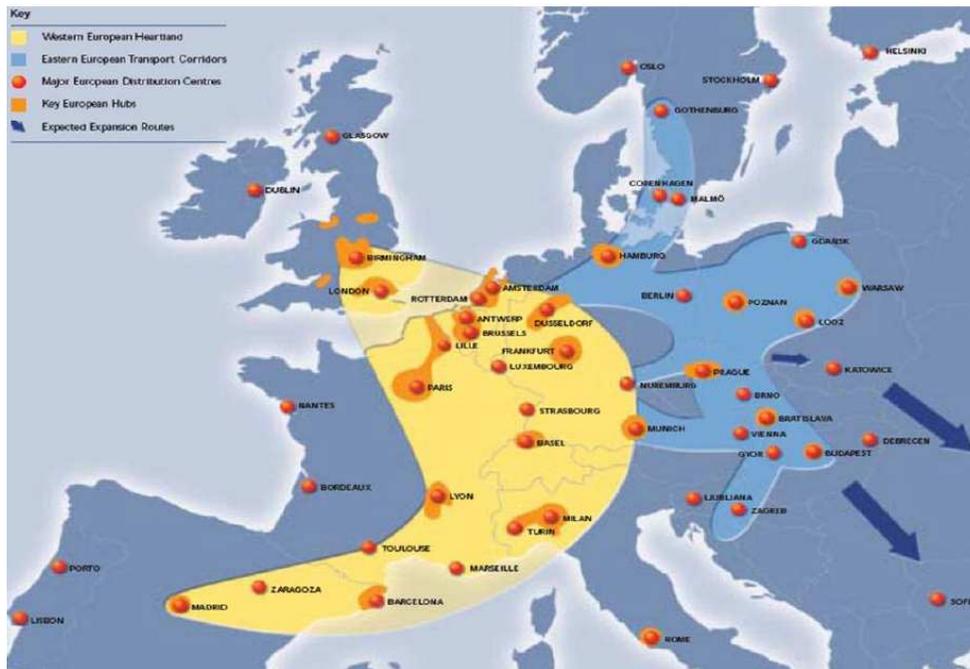


Source: JLL, Macrobond, AXA IM – Real Assets, data as at 01 February 2021

Having remained stable across most key markets in Europe in H1, prime logistics yields declined in H2. With the coronavirus crisis highlighting the key role played by logistics, it is expected to remain of considerable interest

# European logistics is expected to continue to outperform, driven by rental growth and yield compression

Key European logistics corridors



Source: OECD

Europe's key logistics corridor connects its wealthiest economic areas and encompasses south east England, France's key 'dorsal' markets, Benelux, Germany's western regions, Switzerland, northern Italy and north east Spain

- Our preference remains for modern assets in land-constrained areas in Europe's key logistics hubs and key urban conurbations
- Key logistics hubs
  - Superior locations near key transit infrastructure or major population bases that provide access to Europe's wealthiest economic areas - should continue to benefit from solid occupier demand over the long-term
  - Focus on land-constrained markets - should limit the pipeline of new logistics developments, mitigating obsolescence risk and helping to underpin rental growth potential
  - Focus on under-supplied markets - should help underpin rental growth potential - may provide opportunities to develop at an attractive yield-on-cost, which also helps to secure quality assets
  - In certain under-supplied markets, we are happy to take some vacancy risk
- Key urban conurbations
  - Continued growth in e-commerce and changing customer expectations (e.g. for same-day delivery) should increase demand for smaller, last-mile logistics assets in or near key cities
  - Last-mile logistics solutions are especially important in some of Europe's largest, oldest markets, where land is scarce and congestion is high, such as London and Paris

Source: AXA IM – Real Assets, 1 February 2021  
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