GERALDEVE

INDUSTRIAL AND LOGISTICS PROPERTY MARKET SNAPSHOT

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HOW ARE INDUSTRIAL MARKETS ACROSS EUROPE AND NORTH AMERICA ADAPTING TO THE CURRENT CRISIS?

Much of the global economy remains essentially in lockdown due to the spread of Covid-19. International trade is weak, and ports and airports are running relatively limited services. Meanwhile producer and consumer confidence indicators are at record lows.

Each country is experiencing a different intensity of public health crisis, with each at a different phase in the process. Add to the mix the alternate country industry structures and the result is a myriad of social and policy responses.

Gerald Eve contacted **our international alliance of real estate firms** to get a better understanding of how Covid-19 has and will affect their domestic industrial and logistics markets, the measures being contemplated for phasing the relaxation of the lockdown and what long term trends may result.

Click below to view individual markets

EUROPE

- Austria
- Belgium
- Czechia
- Germany
- Ireland
- Italy
- The Netherlands
- Northern Ireland
- Poland
- Portugal
- Slovakia
- Spain

NORTH AMERICA

- US – Chicago Markets
- US – Los Angeles Markets
- US – Pennsylvania Markets
- Canada – Toronto Markets

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AUSTRIA

While the majority of companies in Austria are struggling due to the COVID-19 crisis, **many industries also face the challenge of an acute increase in demand**. In particular, the food industry, home delivery service providers, the e-commerce sector and companies supplying medical goods are currently looking for additional storage space, as the capacity of their previous interim storage facilities are no longer sufficient.

However, **the demand for such space is coming up against an already limited supply**, which is putting the supply chain of many companies to the test. This is especially true for the limited capacities of last-mile logistics. With the closure of most stores, consumers are switching to ordering online and expect the processing and delivery to run smoothly. However, storage space for intermediate distribution centres near the city is in particularly short supply, which poses a particular challenge for the last stage of the transport chain. For this reason, short-term and flexible solutions are required, especially in city logistics, in order to be able to continue to guarantee efficient transactions.

Since 14 April, the retail sector in Austria has been gradually reopening, notably DIY stores and garden centres, larger stores for daily needs and workshops. This is expected to be followed by hairdressers and the hotel and restaurant industry. The opening up of these market segments will once again place an additional burden on the industrial and logistics industry, as a current increase in demand is also expected in this sector.

Nevertheless, **the logistics industry is expected to emerge from the crisis stronger than before**, and the e-commerce sector should see long-term growth. This assumption results on the one hand from the expected change in consumer behaviour, but also from the increasing interest of investors in the industrial and logistics sector, which is currently considered relatively crisis-proof compared to all other asset classes.

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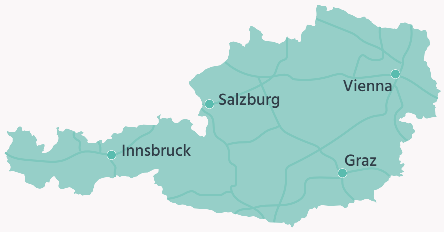

The logistics industry is expected to emerge from the crisis stronger than before

Since 14 April, the retail sector has been gradually re-opening

BELGIUM

The impact of the Covid-19 outbreak on the industrial market in Belgium has been **most significant for smaller lease and sale transactions**. Potential tenants and buyers are postponing decisions until there is more clarity.

Larger logistics deals are less impacted due to a rise in take-up in essentials sectors, such as food and FMCG (e-commerce). The demand for warehousing in the Port of Antwerp remains high due, for example due to Brexit planning and long-term commodities trading. The pharmaceutical industry, one of the key sectors of the Belgian economy, is dominating activity at the cargo hubs of Brussels and Liege Airport. In general vacancy rates are low and prices and yields remain stable.

Industrial property agency work continues, and we are, like most industries, fully preparing for the post-Covid-19 world. Every segment of the economy will be impacted by the expected recession, but **every crisis generates opportunities**. Supply chains will be redesigned. This crisis has, in some cases, proven the disadvantage of just-in-time deliveries. In the medium term we expect a small decrease in investments in new projects.

The lockdown will be terminated in phases starting from May 4th.

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Larger logistics deals are less impacted due to a rise in the essentials sectors

The lockdown will be terminated in phases starting from May 4th

CZECHIA

The restrictions and preventive measures against the spread of Covid-19 has meant that **some businesses have sought to move their activities online**. To do this in short time, they need to use partner programs to start their e-retail presence. The domestic e-commerce market has been growing over the last few years, increasing by 15% last year.

The Czech online supermarket Rohlik.cz. was established in October 2014 and has responded flexibly to the current situation by rapidly expanding its portfolio of services. In response to restrictions on the movement of people, the company launched several new services. At the end of March, the Rohlik Bistro service was launched, bringing the menu of renowned restaurants to customers' homes. The latest news is the service called Rohlik Mini which offers extra fast delivery of a thousand most popular products is that the **orders will be distributed from new small warehouses in the regions.**

In terms of property transactions, there is a general reduction in activity, in particular from investors who experienced the 2008-2010 crisis and who now do not want to make any hasty decisions. As such, they are tending to pull out of pending deals and waiting to see how the market behaves. Despite the prevailing situation, there is **still a chance to complete some transactions, especially industrial ones**. In most cases, these are 'sale and leaseback' transactions, where the premises owner sells his property to the investor while also signing a long-term rental contract with them for 10 or 15 years. In the current situation, this represents well-stored protected funds even with a possible economic downturn in a 2-3 year horizon.

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Some businesses have sought to move their activities online

Orders will be distributed from small new warehouses in the regions

GERMANY

The **German government has imposed strong steps to mitigate the economic fallout** from Covid-19. Measurements like short-term work allowances for companies, credit lines to banks and small businesses, and direct payments to low-income households are providing immediate relief.

Various sectors of the real estate market will experience different ramifications, but we expect that the logistics market could profit long-term. **Due to the heavy reliance on exports, the crisis has exposed German manufacturers to the risks of a breakdown of international supply chains**. In response, we expect more manufacturing will be re-shored, especially in systemically relevant industries like pharmaceuticals and chemicals. This may not be possible in the short to medium-term, therefore many manufacturers will look to establish multiple channels of supply without relying on one supplier, which in turn will drive higher costs.

Car manufacturers are expected to reopen their production in the next couple of weeks, but questions remain over the speed of supply for vital intermediate parts from Italy and Spain.

So far demand for logistics has not waned. Although some sub-sectors like the catering and event industry has taken a short hit, we expect an almost full recovery in the medium-term. **Last mile distribution is profiting, due to online shopping and grocery purchases**, where Germans have been quite reluctant in the past. In the long term, we may witness struggling retail properties repurposed into more inner-city logistic hubs.

Speculative developments are likely to reduce in future, as **developers prioritise securing planning permission and investors are reluctant to close new deals**.

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Due to the heavy reliance on exports, the crisis has exposed German manufacturers to the risks of a breakdown of international supply chains

Last mile distribution is profiting, due to online shopping and grocery purchases

IRELAND

Retail and **e-commerce continues to drive demand for logistics & courier services**, where international logistics and large domestic food retailers are the only large requirements in the market. Domestic logistics is suffering, and it is expected that some may not survive or that consolidation/mergers are likely. As Ireland is a predominantly non-manufacturing economy, prior to the outbreak of COVID-19, demand was already strong for logistics space for the transport of goods.

Prior to the arrival of coronavirus, take up in Q1 2020 was approx. 85,000 sq m which is down approximately 10% on the same period in 2019 but above the 10-year average. **The market is defined by a lack of supply**; the vacancy rate fell to just 2.5% in Q4 2019 which is the lowest vacancy rate on record. No building of greater than 4,000 sq m. built after 2010 is currently available. There remains limited speculative development of industrial stock, with a predominance of pre-lettings or land being purchased followed by design & builds by occupiers. Keys players in the development of new industrial stock are Exeter Property Group, Mountpark, Rohan Holdings, IPUT, Henderson Park (formerly Green REIT) and new entrants Palm Capital. The lack of supply remains the issue in 2020.

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E-commerce continues to drive demand for logistics & courier services

The market is defined by a lack of supply

ITALY

In Italy, the **food, biomedical and pharmaceutical industries are still actively taking warehouse accommodation in Italy**, and it is the tourism, automotive, fashion, and manufacturing sectors that are most negatively impacted. Artisan and private companies are disproportionately affected in comparison to the large corporates. Last mile and urban logistics businesses are performing extremely well, and a significant increase in e-commerce and online acquisitions have been registered.

The Asian powerhouse provides an influential element of industrial manufacturing and, considering a post COVID-19 commencement of activity, we are expecting a gradual recovery (to this regard, we have a 20,000 sqm negotiation underway in Caserta). **Re-shoring is likely to occur**, and now with greater demand for key distribution facilities in the event of such a similar global event.

All sectors are assessing on how to best 'reopen', probably in a context of innovative and advanced technology. The confidence index of manufacturing could be classified as currently negative, especially in sectors such as fashion and automotive, which could be sectors that are changed forever.

The Industrial sector, in the short to medium term, is reviewing work force, production costs, technology and property assets which could be occupied on a longer term basis. **The logistics sector is increasing the research for last mile solutions** near the main cities / towns, via requalification of sites and obsolete buildings. Relating to a longer term strategy, urban studies are assessing development corridors and rail links, to generate an infrastructure network that is 'rail and road' connected, which is sensitive to an environmental related context and utilises advancements in technology. These are all proving interesting to institutional investors.

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Re-shoring is likely to occur

The logistics sector is increasing research for last mile solutions

THE NETHERLANDS

The Netherlands plays a vital role in European supply chains, therefore, the Dutch government has identified air and sea freight chains, road transport, as well as food and medical supply chains as vital processes in view of COVID-19. **Employees vital to the operation of these chains can go to work** and are, at this stage, still entitled to day-care if needed.

We expect the occupier market to be volatile, with **soft short-term demand creating availability, followed by a race to gain lost ground by an expansion in facilities**. We expect investors to show resilience in the logistics sector underpinned by strong e-commerce fundamentals, particularly as other property types face demand headwinds.

In our interconnected world, **significant disruptions underscore the need for resilient supply chains**. Logistics real estate users are planning for both the shortage of activity and a subsequent replenishment surge. Historically, this kind of volatility has correlated with stronger demand for logistics real estate and heightened supply chain risks introduce new long-term supply chain trends that could boost demand, sourced from three key areas: rising inventory levels; continued e-commerce adoption and, diversification of manufacturing locations.

Logistics is well-positioned to weather changes in real estate capital markets. Capital is also likely to favour core assets in strong locations, demonstrating a flight-to-quality.

Development has slowed due to restricted labour and material mobility, and it is likely that some of the development forecast for completion in the second half of 2020 will be delivered into early 2021. Likewise, some developers are likely to take stock of the current situation before committing to new schemes, which will add further pressure onto already undersupplied warehouse markets.

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Development has slowed due to restricted labour and material mobility

Significant disruptions underscore the need for resilient supply chains

NORTHERN IRELAND

The impact of the covid-19 crisis in Northern Ireland has been severe with **60% of manufacturing firms have put more than 75% of staff on furlough** due to the drop-off in demand. 1 in 4 firms have closed including major employers such as O'Neills Sportswear, Shorts Aerospace and Wrightbus, although O'Neills Sportswear in Strabane has since reopened to produce PPE.

The local economies in manufacturing areas such as **Mid-Ulster and Mid & East Antrim have been particularly badly affected** by the shutdown with the OBR forecasting a 40-45% drop in economic activity. However, the region has a strong food and drinks processing sector, accounting for a third of manufacturing sales. This sector remains largely open for business to service strong supermarket and convenience store demand which has helped offset the shutdown of the hospitality industry. Some have added short-term jobs such as Moy Park Poultry that has taken on 500 extra staff.

Local distribution companies and food retailers have increased capacity to deal with a spike in home deliveries and many local retailers are using the spare "white van" capacity created by the shutdown of the construction sector to create a home delivery service and maintain cashflow.

Most tradesmen are finding government support too slow and are now returning to work where they can exercise social distancing and this is creating pressure on building merchants and suppliers to reopen. We expect other manufacturers to start reopening from mid-May onwards, assuming the lockdown is eased.

The local property market is currently in hibernation with very few transactions taking place except a few short-term storage deals but **most of the companies experiencing spikes in activity are churning stock quickly without the need for additional space.**

Whenever the lockdown ends, an initial surge of high street activity is inevitable but we expect **the growth of online sales to accelerate in the aftermath** of the crisis and create further demand for logistics space and local distribution depots in the medium term.

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60% of manufacturing firms have put more than 75% of staff on furlough

Local distribution companies and food retailers have increased capacity

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POLAND

The Polish logistics sector is broadly split in half in terms of the impact of Covid-19. At one end are companies specialising in sales and distribution of in-demand goods (food, electronics, household chemicals, beauty products and children's accessories), courier companies and e-commerce logistics firms. At the other end are those who have been hit by a collapse in consumer demand for their products (especially cars but also clothing), those without online presence and those facing disruption in their supply chains. This polarisation is well illustrated by the results of a recent survey of Polish logistics firms. While 29% of companies have reduced their workers' wages as a result of lower demand, 28% offer their employees bonuses for turning up at work due to high workload.

The pandemic's spread to Poland was relatively late, enabling an early government response with strict measures, therefore production is less interrupted than Spain, Italy or France. All manufacturing sectors except car factories, are open. Toyota announced gradual re-opening in due course. Sustained manufacturing output is confirmed by relatively modest declines in energy consumption at 4% in March. Some industrial companies have benefitted from the mass closure of factories in countries such as Italy. Polish steelworks for example entered Austria – a market previously occupied by Italian producers.

We expect demand for logistics real estate to soften going forward. Leasing transactions that were advanced before the pandemic are going ahead (often following re-negotiations) while new long-term commitments are sparse as occupiers wait and see, although short-term leases recently been signed. **We expect resilient demand for prime product, especially last mile logistics** and dominant regional and international distribution hubs which are crucial for e-commerce.

In the long term, **we expect a partial deglobalisation of supply chains** which offers opportunity for Poland. The country is already an important near-shoring location within Europe. It is integrated into European supply chains and the continent's transport network, has a mature logistics real estate market and competitive wages. Moreover, the pandemic will accelerate the switch to online retail, forcing more retailers to develop e-commerce distributions channels to defend their market shares and forcing consumers to change their habits. Currently e-commerce in Poland is very low compared to the rest of Europe – the share of online retail in the total retail turnover is just 4.3%.

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We expect resilient demand for prime product, especially last mile logistics

We expect a partial deglobalisation of supply chains

PORTUGAL

In Portugal, since the beginning of March we have been recording increased demand for warehouse areas from logistics companies due to the growth of e-commerce. This growth has been increasing, not only because of the restrictions implemented by the Portuguese authorities, but also because of the anxiety of the population that initially was reinforcing the stock of food & beverage, consumer products and medication. Therefore, in the logistics market, **nearly 90% of demand is searching for a last mile location**.

Several industries (apart from essential goods) readjusted production in order to have a less intensive workforce, or because there was a breakdown in receiving raw materials, or because of a reduction in consumption. Others decided to close their operations as a preventive measure. For this reason, some businesses started to produce medical equipment to provide the needs of the Portuguese National Health Service (such as personal protective equipment, hand sanitizer, etc.) in collaboration with the health authorities. **The textile, footwear and alcoholic beverages industries have been very active** in this transformation of activity.

In spite of this new pandemic reality and the increase of the unemployment rate that has been happening globally, the food & beverage, consumer products and medication industries (besides e-commerce as a whole) will be responsible for a higher demand for industrial premises. We anticipate those who are looking to lease warehouses are also hiring, and that these will increase exponentially.

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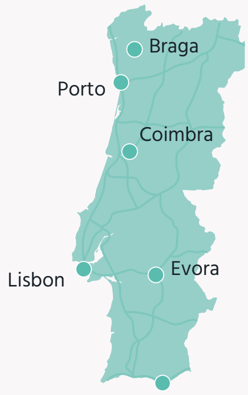

Nearly 90% of demand is searching for a last mile solution

The textile, footwear and alcoholic beverages industries have been very active

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SLOVAKIA

As in many other countries, the supply chains in Slovakia are damaged and partly overloaded. Due to limited activities at airports and restricted border crossings, the capacities of the Slovakian logistics sector are seriously reduced. These limitations have resulted in massive economic damage for Slovakia, which is why many shops were allowed to reopen at the beginning of April. The reopenings were intended to limit the economic losses. **DIY stores and garden centres, opticians, bicycle shops, notaries, law firms and also car repair shops are affected by the relaxation.**

Outside of the repair shops, however, **the automotive industry is still severely restricted**. Volkswagen partially restarted vehicle production on April 20. At the VW factory in Bratislava, the production lines for Porsche Cayenne SUVs are once again running in single-shift operation, while production of all other models will remain shut down for now. In other automotive plants, however, the machines are still completely shut down, including, for example, the Jaguar Land Rover plant in Nitra.

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DIY stores and garden centres, opticians, bicycle shops, notaries, law firms and also car repair shops are affected by the relaxation

The automotive industry is still severly restricted

SPAIN

Across Spain the market has completely halted as no inspections are allowed and this we expect will continue to mid-May at least. The most problematic sectors are hospitality, airlines, anything tourism-related, retail at all levels (minus essentials such as grocery stores, chemists etc). Shopping centres are in deep trouble and applying for public rescue measures, based on the fact that they need to stay open with only a very small share of stores functioning. The last mile / urban logistics businesses are not really benefiting due to rider issues and other distribution problems, plus people spending as little as possible.

Manufacturers are preparing to reopen as parts are now coming back in from China, and some car manufacturers are gearing up to restart production next week, but only very carefully and gradually. There is also an expectation that there will be a tendency to prefer supplies from domestic or at least European sources going forward, rather than solely relying on China.

The sectors that are likely to open up first will be very select retail, such as office supplies, bookstores, newsstands, apart from the essentials which have been open throughout. We believe almost every market sector will change forever and nothing will be like before. Tourism and hospitality (which represent 12% of Spain's GDP) will take a long time to recover and do so under changed conditions. More and more firms are getting used to teleworking which will develop from something rather exotic to mainstream, with all the effects on office occupancy.

We expect more nationalistic tendencies, more careful expansion planning, more decentralization and backup facilities, and more variable staffing plans. Hopefully this will prepare us for the next virus which is sure to come someday. Finally, several large international investors continue on the lookout beyond the current situation which is hopefully limited in time. We understand that Blackstone, Cerberus and other important groups are preparing for significant investments from this autumn onward, specifically at discounted prices and higher yields since rents are projected to decrease more slowly than purchase prices.

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Manufacturers are preparing to reopen as parts are now coming back in from China

We expect more nationalistic tendencies

USA – CHICAGO MARKETS

For the market centred on Chicago **the large national and international companies are still active**, as too are food related and medical businesses. Trucking / 3PL are also still acquisitive for the most part.

The businesses which are struggling tend to be small local businesses and companies that are implicated by stay at home such as restaurant suppliers. Those that are in the **last mile food and other goods delivery sectors remain active**, as people seem to be spending money on shipments. However, if the lockdown lasts for a long period this could slow as people try to conserve money.

Manufacturing that needs parts or goods from China are closed, as well as those linking into automotive. But already, we are starting to see manufactures preparing to reopen as parts come in. Reshoring is now being considered especially by the medical sector and once there is a vaccine, companies will want to expand their footprint in the USA. Other business will certainly need more inventories and hence warehouses and will probably run less 'just in time' delivery.

Currently **rental rates and values are dropping**; landlords are chasing occupancy for the most part as opposed to securing market rental rates. Finally, tenants are currently demanding shorter term leases and greater flexibility.

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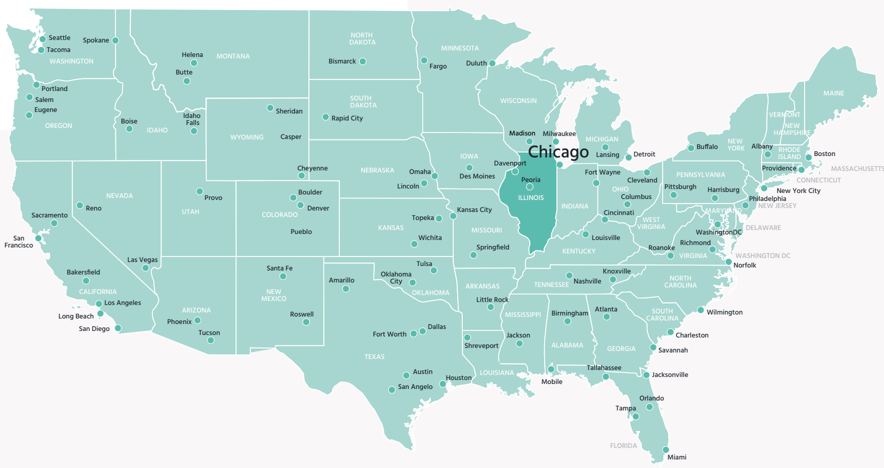
Last mile food and other goods delivery sectors remain active

Rental rates and values are dropping



USA – LOS ANGELES MARKETS

Q1 2020 started very strong and paralleled all the highs of the previous quarter; however, momentum abruptly stopped with the arrival of the Covid-19 virus. For the 1st quarter, the Ports of LA and Long Beach cargo volumes were down over 13% with the LA dropping 30% in March alone. **As the 1st quarter closes, there is a cloud of uncertainty that will clear following implementation of the US CARES stimulus program** and a return to 'normalcy' in the coming months. The timescale of social and economic recovery to February rents and prices is currently speculation.

In the wider LA market **all e-commerce businesses are still relatively active**, but are incurring additional distribution costs, while bricks and mortar retail chains are struggling and mostly closed. A growing problem is the massive warehouses filled with new season's fashion, but with closed stores, many fashion product orders are being cancelled as far as possible. With these goods missing their target deadlines they are devalued further and the wholesalers like TJ MAX are closed to receive this discounted merchandise. Retailers are also slowing payment on invoices, and it is reportedly that the high-end retailer, Neiman Marcus, is seeking bankruptcy protection.

This market has more limited manufacturing, but **some auto plants are retooling for PPE equipment and ventilators**. Manufacturers re-shoring key elements of their supply chain is welcomed by the US Presidential administration, but it will take some time before businesses are comfortable with the new normal of the economy to make capital investments.

Industrial / logistics (via e-commerce) has been weakening retail for a long time, **this change may finally put many other long-term retail chains completely under**. Retail land will be re-purposed, most likely either going to residential or industrial / logistics. The entire US has experienced record vacancy lows for over 5 years and while this may reset as some companies disappear, this will return, and the trend will continue.

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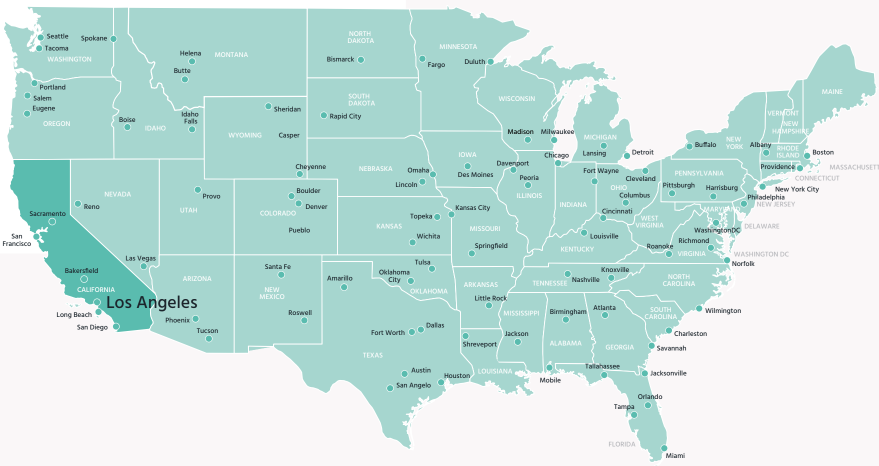
Bricks and mortar retail chains are struggling are mostly closed

Retail land will be re-purposed, most likely either going to residential or industrial/logistics



USA – PENNSYLVANIA MARKETS

We have had several transactions that have a ground to a halt but they will be resurrected when the economy is back up and running. We have seen Amazon, Chewy, DHL, FedEx, Random House all having large requirements in the Pennsylvania markets. Those business which are tied to non-food retail such as beauty salon suppliers, furniture, and related are struggling while anything related to **e-commerce has been extremely busy although finding dependable labour is a concern for these companies**.

This market does not have much of a manufacturing base in this market but a number have re-tooled for medical supply production. I believe **there will be a small industrial revolution in the United States** as people have seen that relying on China and other countries for medicine and related products is risky. This will be seen in a need to have internal redundancy capabilities.

In warehousing going forward we do not see a tremendous change but obviously retail and office may evolve into something different. I expect the continued "Amazon effect" on retail will continue albeit on an accelerated basis.

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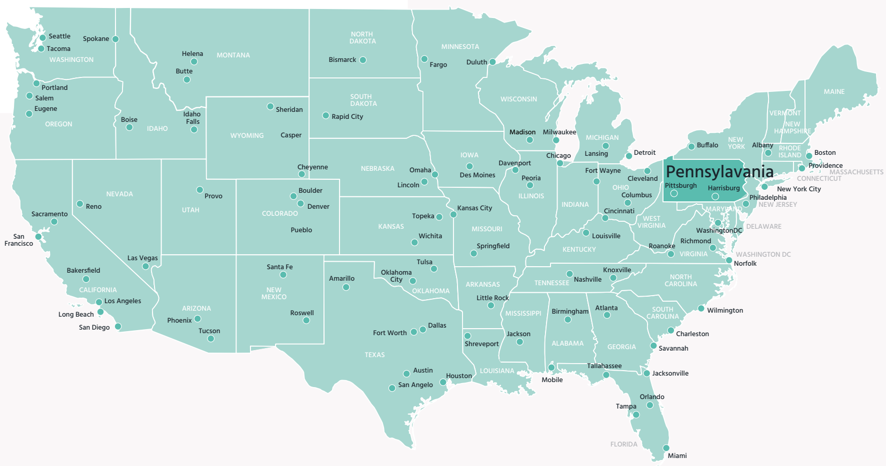
E-commerce has been extremely busy although finding dependable labour is a concern for these companies

There will be a small industrial revolution in the United States as people have seen that relying on China and other countries for medicine and related products is risky



CANADA – TORONTO MARKETS

Q1 2020 continued to build on the strong market fundamentals of 2019 with high demand coupled with historically low inventory, continued annual rental growth projections, and aggressive cap rates for high quality and well-located assets across the Greater Toronto Area. However, impacts of Covid-19 on a global, national, and provincial level has significantly impacted the Toronto Area market and created considerable uncertainty, including a pause on sales and leasing activity, and construction. **We expect the e-commerce boom to continue as companies re-evaluate their supply chains**, making warehouses, fulfilment and distribution facilities in high demand which will lead to more development.

Those sectors which are demanding warehouse accommodation include medical supplies, bottling companies, and food (dry, cooler, and freezer). **Amazon currently are in the market for last mile space**, while DHL has just taken 500k sf for local deliveries. The sector's main manufactures in steel, metal, plastics, chemicals, and most that feed the end-product manufacturer are closed, but we understand the car industry specifically is "on hold" until mid-May when production is expected to ramp up again. Following that, we expect a flood of new vehicles to hit dealers which will create strong demand for off-site parking.

Short term it has been mostly business as usual for industrial leasing – **we expect a drop off in sales activity as well as an immediate softening in commercial cap rates**. In the longer term we expect rent growth to continue the upward trend, but at a much slower pace than the last 24 months. Sales and investment activity should resume Q3/Q4 2020 however we expect to see more distressed properties coming available. Finally, there is demand for short term warehousing due to consumer products arriving via intermodal – we are working with clients on securing spaces of all different sizes/terms as the end retailers lack the storage solutions.

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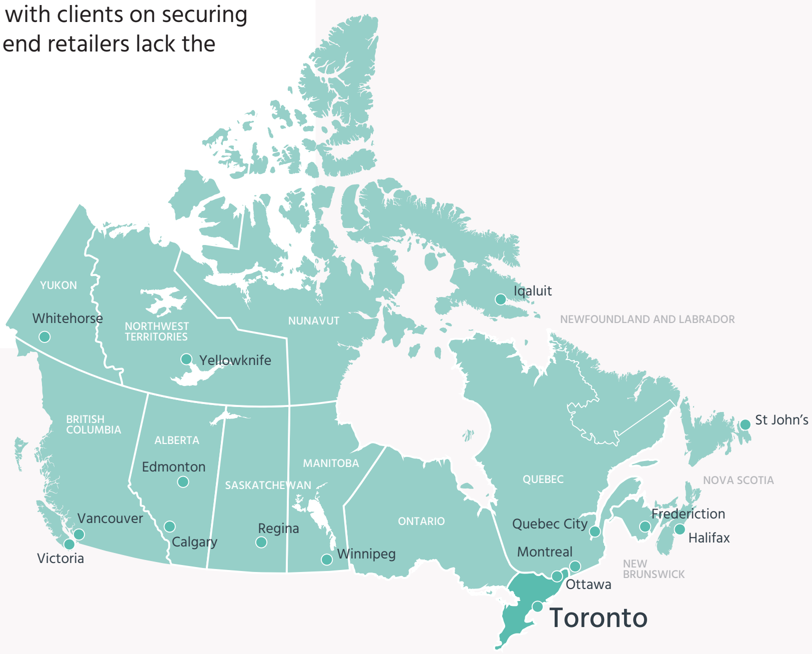
We expect the e-commerce boom to continue as companies re-evaluate their supply chains

We expect a drop off in sales activity as well as an immediate softening in commercial cap rates



FURTHER INSIGHT

Snapshot
#1

Snapshot
#2

Investment Brief
Spring 2020

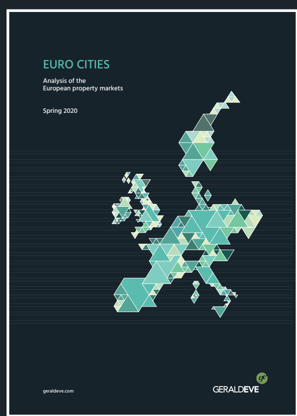
What impacts are current events having on UK commercial property markets and how has this changed our forecasts for each sector?

Prime Logistics Bulletin
Q1 2020

How has the UK logistics market performed and how prepared is it for current events and any Brexit impacts?

Multi-Let
Summer 2019

How are small industrial properties performing and how well insulated are they against the expected shock?



Euro Cities
Spring 2020

HOW CAN WE HELP?

Gerald Eve is well-established in the logistics property market and covers the full range of property services, from national occupational and investment agency through to lease consultancy and valuation. Please contact them directly for more information.

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