Logistics leaders look beyond Covid-19 cloud

Near-term prospects may look grim, but many logistics developers believe the industrial sector will rebound quickly once the coronavirus crisis is over

BY **MARIANNE KORTEWEG**

At the end of 2019, with no hint on the horizon yet of the novel coronavirus in Europe, the region's leading industrial developers could look back on another solid year of business, with glowing warehouse completion figures and well-filled orderbooks.

As in the preceding few years, buoyant economies and the relentless rise of online shopping across many markets had fuelled demand for facilities of all shapes and sizes to meet the growing need for manufacturing, storage and distribution space.

> 'Even in the face of an economic slump, industrial facilities will be in good form'
>
> ROBERT DOBRZYCKI, PANATTONI

The robust performance over 2019 completed another strong three-year run for the 14 players in our ranking (see facing page). Between them, they developed over 18 million m² of industrial and logistics space across Europe during 2017-19. E-commerce was the buzzword and last-mile logistics the holy grail of the industry as retailers and manufacturers sought to further refine supply chains and get goods to the customer even faster. Investors, too, continued to be charmed by industrial property as an asset class, with prime yields hovering at just over 4% in some markets and forecasts suggesting these would tighten even further.

So, despite signs of a global economic slowdown, the promise at the start of 2020 was of another good year for the industry. 'This year should be very similar to 2019, with continuing strong levels of demand. Logistics in general is outpacing GDP and our sector is growing fast, driven by e-commerce and consumption,' Ben Bannatyne, president of Prologis for Europe, told PropertyEU in January.

COVID-19 ERUPTS

That narrative was rudely interrupted by the eruption of the Covid-19 pandemic in February, which quickly spread from Europe's epicentre Italy to other parts of the continent during March. For the industrial and logistics sector, the immediate impact from the ensuing market lockdowns and other restrictive measures to combat the spread of the virus has been disruption to supply chains, delays to development projects and landlord-tenant tensions relating to rent payments.

Sector heavyweights Panattoni, Prologis and Segro all say they are in talks with struggling tenants hit hard by the crisis on deferring rent payments and other forms of assistance. As for disruption to supply chains and setbacks to development projects, these are likely to be temporary and will not affect business in the long term, they insist.

In the short term, there has even been a positive effect from the pandemic, with quarantines resulting in more online shopping, making warehouse operations even more essential. And, beyond the crisis, the strong fundamentals of the industrial sector – driven in particular by the ongoing growth in e-commerce – mean it will weather any economic recession which many believe is now inevitable. There are even lessons to be learned from the Covid-19 crisis, which some say will alter for good certain business models deployed up to now – to the benefit of industrial real estate.

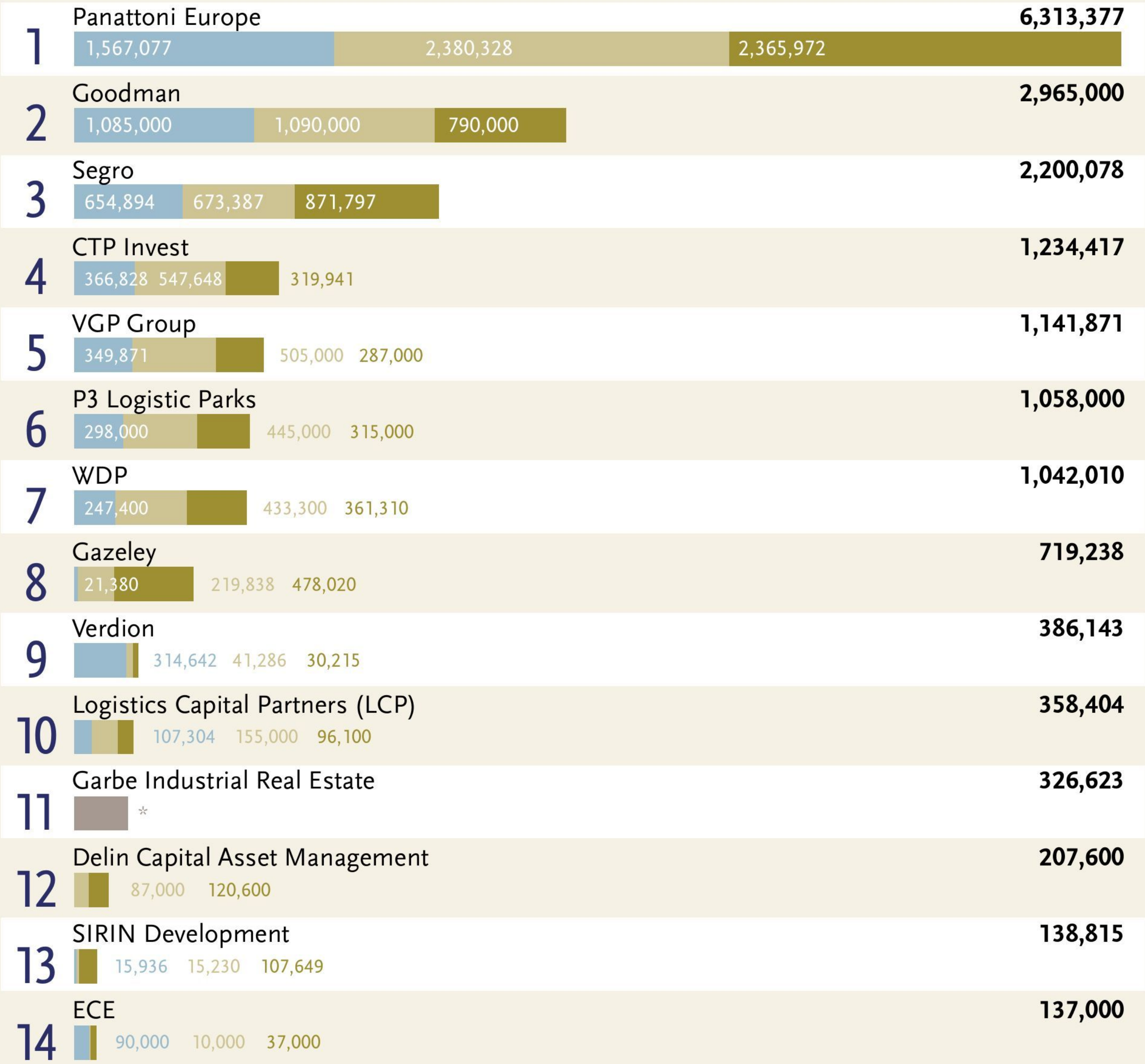
Robert Dobrzycki, CEO of privately held developer Panattoni Europe which tops our ranking for the fourth year

Panattoni leads ranking 4th year in a row

The 14 companies which took part in our 2020 Top Logistics Developers survey delivered a combined 18.2 million m² of industrial and logistics space across Europe between 2017 and 2019. Seven participants reported completions in excess of 1 million m² for the three-year period, up from five last year (which included Prologis, who did not take part this year). Three players in this year's ranking reported a delivery total in excess of two million m², with Panattoni exceeding the 6 million m² mark at 6,313,377 m².

Combined total delivered logistics floor space (in mln m²)*

Total delivered logistics floor space in m²



SOURCE: PROPERTYEU RESEARCH

NOTE: PROLOGIS AND LOGICOR DECLINED TO TAKE PART IN THE RANKING THIS YEAR
* GARBE HAS NOT SPECIFIED INDIVIDUAL VOLUMES PER YEAR

in a row, divides his view of the market into a short, medium and long term. In the near term, 'decisions are either being slowed down or held back, which certainly interferes with doing business, and as a result much less than expected is going on now', he tells PropertyEU. Restrictions in movement are also hindering local viewings of buildings for both tenants and investors who would like to see sites or completed investments. For the moment, therefore, the company is focusing on current projects rather than completely new transactions.

Amid the outbreak, for example, Panattoni announced it was proceeding with the construction of a warehouse in Germany for Amazon Logistics, its fifth project for the e-commerce giant in the country to date. The latest scheme, located in Wilhelmshaven, Lower Saxony, will be used by Amazon to process last-mile B2C deliveries. In total, Panattoni currently has 1.8 million m² of projects under construction across Europe.

In the middle term, Dobrzycki sees a recession as 'highly likely' and a scenario that 'certainly could negatively affect our business'. However, in the long run, when lockdown measures are lifted and the coronavirus pandemic is over, 'there should be a rapid rebound on all levels', he predicts.

E-COMMERCE DRIVER

The Panattoni chief expects 'a full economic rebound by 2021', with the industrial facilities sector bouncing back faster than all other property classes. E-commerce will play a big role in this. 'I am convinced that the present switch in consumers' preferences in favour of online shopping will translate into their future behaviour and, consequently, to a higher demand for warehouse space,' he says.

'Over the past few weeks, things have turned upside down and the bulk of consumers have moved from conventional distribution channels to the web. Online stores have seen record numbers and volumes of orders, and e-commerce has become a crucial driving force, affecting the warehousing sector, too. The current move by consumers to online channels will change their behaviour in the future. That is why, even in the face of the anticipated slump, the segment of industrial and warehouse facilities is and will be in good form.'

US industrial giant Prologis, too, believes that any recession is likely to be temporary and that the effects for the industrial sector will be shortlived. In a business update webcast and conference call with investors in early April, the company's head of global strategy and analytics, Chris Caton, said that 'the consequences of a recession will lead to lower demand for our industry, but it will be temporary and last perhaps six months'.

Among the immediate effects of the pandemic for Prologis' global operations, according to the company, are delays to development starts and a decline in the availability of construction financing. This trend is more pronounced for speculative projects than for built-to-suit schemes. In addition, work on projects already underway in areas with the worst outbreaks has slowed due to work restrictions and a pause in inspections in a range of municipalities.

HIGHER INVENTORIES

A key lesson from the current crisis flagged by Prologis and others is that it will likely lead to companies holding higher inventories in future to deal with supply constraints. Ultimately, this will benefit logistics real estate as businesses scale up their space requirements to stock surplus goods. 'We anticipate that all customers will tune their supply chains for resilience versus efficiency – 5% to 10% more inventories will translate to real demand for logistics real estate,' said Prologis' Caton.

Globally, the pandemic has underscored the need for flexibility and business continuity during times of crisis,

> 'Structural trends driving occupier demand may even be strengthened by the crisis'
>
> DAVID SLEATH, SEGRO

and as the cost of carrying surplus stock declines – alongside ultra-low interest rates – this looks set to become a strategy that is broadly embraced by retailers and manufacturers.

The founders of Blackbrook, a new pan-European investment firm targeting 'business-critical' real estate assets, also highlight the move to more inventory space.

'We see the current crisis accelerating a number of trends that were in the property world globally,' says company chairman Gordon DuGan, formerly of Gramercy Property Trust. 'Eventually this is to the benefit of industrial real estate, as people see that supply chains need to have a bit more redundancy in them and require a little more space for stock.'

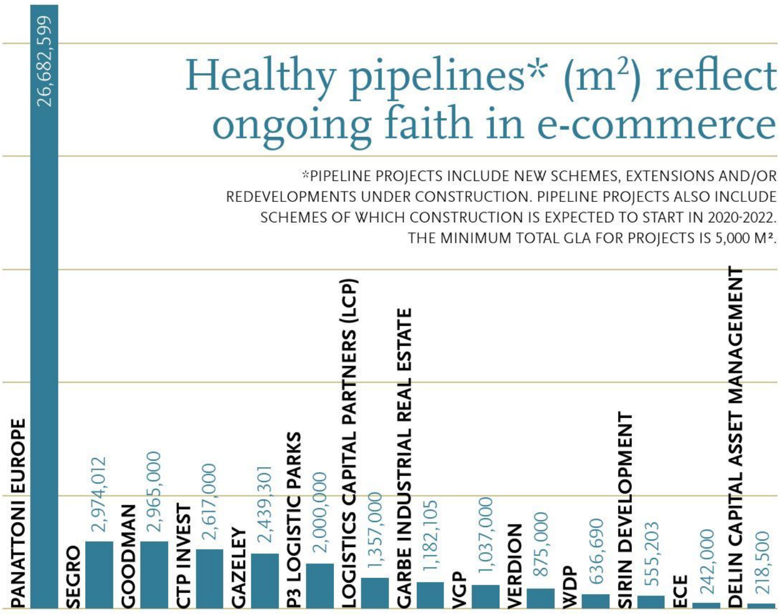
'It has long been noted that Europe has a shortage of last-mile and logistics assets,' adds Blackbrook's CEO Arvi Luoma, formerly of WP Carey. 'E-commerce on the continent has lagged the UK in terms of deliveries. The current climate is likely to push forward logistics development, along with more businesses using the hub and spoke strategy of warehousing and distribution.'

'Another aspect is the speed of delivery – if everyone is at home, people demand things more quickly, and this becomes self-perpetuating as it becomes the accepted norm.'

LESS OFFSHORING

Asset manager Warburg-HIH Invest Real Estate, which recently acquired two warehouse developments in Germany for a new logistics fund, pinpoints other supply chain changes.

'The ongoing coronavirus crisis has increased popular acceptance of e-commerce, and will boost its growth in the long term. In addition, we are expecting to see a trend towards changed supply chains, especially of system- and production-relevant goods that will roll back the offshoring to Asia and prompt increased onshoring in Germany, resulting in growing demand for logistics accommodation in Germany,' says senior transaction manager Lars Bothe. 'The logistics real estate sector stands to benefit from the trend accordingly,' he adds.



The bulging pipelines for 2020-2022 reported by many survey participants testify to the enduring strong demand for industrial facilities and sustained confidence in the long-term fundamentals of the sector. The anticipated surge in e-commerce – even before the coronavirus outbreak – is seen as one of the biggest growth drivers. Together, the pipelines of the 14 ranked companies amount to a whopping 45.8 million m², with Panattoni alone accounting for more than half of this at 26.7 million m². CEE-focused Panattoni is streets ahead of its nearest rivals Segro and Goodman, both of which have pipelines near the 3 million m² mark. Remarkable increases are chalked up this year by P3 and LCP, which have jumped from being midfielders in the 2019 ranking to reporting pipelines of 2 million m² (P3) and 1.4 million m² (LCP) this year. This compares with pipelines of 700,000 m² and 690,000 m² respectively in the previous survey. Verdion and WDP also book substantial increases this year, while Delin and ECE post slight declines.

Listed UK REIT Segro, which takes third place in our ranking this year, noted in a Covid-19 update in early April that many of its customers are involved in the supply of business-critical goods and that some are looking for additional space both for immediate occupation and to prepare for longer term growth once the crisis is over.

'Whilst current global events are unprecedented, we anticipate that the structural trends that have been driving occupier demand for high-quality, well-located warehouse space will remain intact and may even be strengthened by the crisis, as the importance of logistics supply chains has been thrown into sharp focus in recent weeks,' CEO David Sleath said.

Segro, a large pan-European player with a 7.8 million m² portfolio spread across the UK and seven countries on the Continent, said government measures to curb the further spread of the pandemic would delay most projects scheduled for completion during 2020. Development activity will also be hampered by constraints in securing materials and/or labour for construction sites, the firm said.

LANDLORD-TENANT DISCUSSIONS

Like Panattoni and Prologis, the London-listed company said it was working with customers experiencing cashflow issues as a result of the coronavirus crisis, to help them reschedule rental payments.

'We have a very diversified customer base across a variety of sectors, many of whom are involved in the supply of critical goods and services, but we appreciate that current circumstances are placing pressure on the cashflows of some of our customers,' Sleath said. 'Most of these businesses are fundamentally sound and we are working with them to provide appropriate assistance.'

Around half of the group's headline rental income is payable on the UK quarterly payment days, with rents in Continental Europe payable on a different timetable. For the most recent quarterly payment date, 25 March 2020, 71% of the rent due was paid, while around 25% is subject to what Segro described as 'reprofiling discussions'. At the same time last year, 96% of the rent had been paid.

Listed landlords like Segro and Prologis have been to keen to stress their own financial strength in enduring the coronavirus crisis. Segro said it was 'well-placed to weather the storm caused by the Covid-19 pandemic', while Prologis, which has a 18 million m² portfolio spread across 12 countries in Europe, noted that it had never been in better shape financially. 'We enter this period with the highest quality portfolio and healthiest balance sheet we have ever had,' chief investment officer Gene Reilly said. ■

Panattoni continues string of built-to-suits for Amazon

Hardly a week goes by without Panattoni Europe announcing a new development, extension project or lease contract. The bulk of these are in Poland, where the company has delivered 7.6 million m² since starting its European operations in 2005. The four biggest location hotspots in the country are Warsaw, Wrocław, Gdańsk and Poznań. A key customer is e-commerce giant Amazon, for which Panattoni has built a string of warehouses of varying size, both in Poland and Germany. In March this year, the developer announced the start of construction on its fifth project for the retailer in Germany, located in Wilhelmshaven in Lower Saxony. The 8,300 m² scheme will be used for last-mile B2C shipments. Panattoni earlier built three BTS projects for Amazon in Magdeburg, Kaltenkirchen and Knüllwald, near Kassel.

COMPLETED		LOCATION	VOLUME (M²)	COMPLETED
1	BTS Amazon	Gliwice	210,000	2019
2	Central European Logistics Hub	Łódź	163,000	2019
3	BTS Amazon	Szczecin	161,500	2017
4	BTS Amazon	Sosnowiec	135,000	2017
5	BTS Leroy Merlin	Piątek	123,600	2018

PIPELINE		LOCATION	VOLUME (M²)	COMPLETED
1	New Scheme	Biskupice	600,000	2020-2022
2	New Scheme	Jaworzno	590,000	2020-2022
3	New Scheme	Bolesławiec	450,000	2020-2022
4	New Scheme	Rzeszów	300,000	2020-2022
5	New Scheme	Wróblowice	300,000	2020-2022

Goodman exits CEE markets via €1b deal with GLP

Given that a substantial portion (40%) of its European pipeline projects for the next three years are in Central and Eastern Europe, Goodman's announcement in mid-March that it is pulling out of this vast region is a remarkable move. In a major deal with Singapore-based logistics group GLP, the Sydney-listed developer has agreed to sell its 1.3 million m² portfolio in CEE – as well as a 1.1 million m² landbank – for around €1 bn. Goodman said the transaction was part of its strategy of scaling up in the major consumer markets of Germany, France, Spain, Benelux and Italy, where it will focus on both smaller-scale properties for urban last-mile use as well as large distribution hubs. For GLP and its European arm Gazeley, the acquisition expands the group's European presence to 10 countries. The deal follows a broader European expansion since GLP entered the market at the end of 2017 via the acquisition of Gazeley.

COMPLETED		LOCATION	VOLUME (M²)
1	Metro Logistics	Marl	151,000
2	Zalando warehouse	Szczecin	125,000
3	Zalando warehouse	Gluchow	125,000
4	Amazon warehouse	Amiens	107,000
5	Metro Logistics	Marl	83,000

PIPELINE		LOCATION	VOLUME (M²)
1	Development	Gdansk	335,000
2	Development	Sevilla	192,000
3	Development	Satolas	162,000
4	Development	Wroclaw	127,000
5	Development	Ledziny	114,000

CTP seeks investment partner in bid to grow CEE portfolio

Central European developer CTP Invest, owned by Dutch entrepreneur Remon Vos, has grown steadily in recent years, adding to its CTPark network of high-tech industrial parks across six CEE countries. The company, which holds all the assets it develops, announced in February that it was looking for a strategic investment partner for its CEE portfolio, which it is seeking to double to 10 million m² by 2023. CTP said it had appointed Cushman & Wakefield as its exclusive advisor on this process. Some of the biggest warehouses to be developed by CTP in the last three years were in Romania, its second-largest market after the Czech Republic. In the next three years, the company is planning to scale up its presence in Hungary, Slovenia and Serbia, a market it entered in 2018.

COMPLETED		LOCATION	VOLUME (M²)
1	CTPark	Bucharest West	88,783
2	CTPark	Bucharest West	72,043
3	CTPark	Bucharest West	67,697
4	CTPark	Prague North	57,278
5	CTPark	Bucharest	35,806

PIPELINE		LOCATION	VOLUME (M²)
1	Development	N/A	90,000
2	Development	N/A	60,723
3	Development	N/A	49,000
4	Development	N/A	48,478
5	Development	N/A	48,085