

AT A GLANCE

The COVID-19 outbreak and implications for logistics real estate – some observations

The Covid-19 pandemic is raising questions about the current strength of corporate supply chains and the logistics infrastructure. One fact is beyond doubt: it has already exposed the vulnerabilities of many companies, especially those who have a significant dependence on China to fulfil their need for input materials or finished products. Whilst national governments are wrestling, jointly or individually, with their responses to tackle escalating economic crisis, we believe that firms will reconsider and actively reverse production strategies taken after the GFC, when a focus on supply chain optimization, reducing capex and making working capital more efficient, has removed buffers and flexibility to absorb disruptions. Supply chains have globalized, specialized but as we now painfully discover also more exposed to breakdowns of cooperation.

Despite numerous supply-chain upheavals caused by natural disasters in the last decade, e.g. the eruption of Eyjafjallajökull in Iceland, the tsunami in Japan, most companies and sectors have found themselves unprepared for the Covid-19 pandemic with its global impact and the various national emergency measures that aim to contain it. Already now, firms draw the lessons from this crisis and plan investments in fortifying their supply networks, with emergency stockpiles as well as making them more diverse and accessible, so they do not have to operate blind when the next event occurs. This will require significant investments in logistic assets.

In particular we expect to see significant investments in the logistics sector in Italy and Spain, both at the centre of the Covid-19 outbreak in Europe and behind logistics penetration in Europe. We already see evidence for this in our ongoing conversations with market participants and tenants.

Local market observations show that, due to low vacancy rates, short-term leases are already being concluded for properties that are no longer up to date, while demand for build-to-suit properties is recording significant increases. In particular, the most urgently needed and at the same time in part most vulnerable supply chains in the food and pharmaceutical industries require immediate additional capacity and will continue to expand this more strongly in the future. In addition to the supply chains of the manufacturing industry, the retail segment appears to be hit twice. The closure of shops due to the current state of emergency in most countries is leading to tremendous sales losses while E-Commerce continues to thrive. Particularly in Southern European countries, where the market share of E-Commerce was still small compared to Western Europe, online retailers seem to be the big winners. The crisis and related measures are penalising retailers who have not developed the necessary online capacities. The first and possibly most important step, the creation of an online account, will further strengthen the already rapid growth of e-commerce and will result in increasing demand for logistics capacity.

Gain more insight through our whitepaper on Southern European logistics:



Important Notice: This document serves informational purposes only. It constitutes neither an investment advice, an investment service nor the invitation to make offers or any declaration of intent; the contents of this document also do not constitute a recommendation for any other actions. The validity of the provided information is limited to the date of preparation of this document and may change at any time for various reasons, especially the market development. The sources of information are considered reliable and accurate, however we do not guarantee the validity and the actuality of the provided information and disclaim all liability for any damages that may arise from the use of the information. **Historical information cannot be understood as a guarantee for future earnings. Predictions concerning future developments only represent forecasts.** Statements to future economic growth depend on historical data and objective methods of calculation and must be interpreted as forecasts. No assurances or warranties are given, that any indicative performance or return will be achieved in the future. The terms Aquila and Aquila Capital comprise companies for alternative and real asset investments as well as sales, fund-management and service companies of Aquila Group ("**Aquila Group**" meaning Aquila Capital Holding GmbH and its affiliates in the sense of sec. 15 et seq. of the German Stock Corporation Act (AktG)) . The respective responsible legal entities of Aquila Group that offer products or services to (potential) investors/customers, are named in the corresponding agreements, sales documents or other product information.

A publication of Aquila Capital Investmentgesellschaft mbH. As of April 2020. Author: Peter Schnellhammer