

LOGISTICS

OUTLOOK

2020

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E-commerce,
technology and
labour trends
will dictate space
requirements

INTRO

Logistics space requirements will depend on how occupiers choose to take advantage of key structural drivers, a trend towards urban living, e-commerce growth, transformation of supply chains and appetite to invest in the sector. Since the emergence of the European logistics property sector almost 20 years ago, structural trends have fuelled demand for space in the absence of any meaningful economic growth.

As we step forward into the next decade starting with 2020, a few trends - e-commerce, technology, and labour shortages - that are already transforming warehouse operations by altering internal and external space distribution, will continue to have the most noticeable short-term impact on buildings. There will be increasing competition for the best location as the retail revolution in particular continues.

A combination of a shorter construction period when compared to office and retail

assets and the emphasis on cost efficient supply chains, makes the logistics sector more quickly adaptable to changing market conditions and structural trends. Furthermore, while most active markets benefit from a steady flow of demand for standard 10,000-30,000 sq m warehouses, evidence points to short-term trends that are fuelling increasing levels of demand for larger warehouses (XL & XXL). Above 50,000 sq m, XL and XXL warehouses are almost exclusively developed on a built-to-suit basis, which gives occupiers the opportunity to customize buildings.

In the Netherlands, warehouses are getting bigger in response to growing demand for e-commerce goods and the consequential stream of returns.

The average transaction size in the Netherlands increased from 9,000 sq m ten years ago to 13,500 sq m in 2018. There has also been an increase in the average size for newly built warehouses to over 20,000 sq m. Countless examples of this trend are occurring across the Netherlands including a newly constructed 140,000 sq m warehouse in Bleiswijk for German eRetailer Zalando and other recently built XXL warehouses for eRetailers: Action, Bol.com, Wehkamp, Coolblue and Lidl grocery chain.

The main conclusion to be drawn is that bigger warehouses are being built and e-fulfillment centres need to be a larger size to be efficient than previously seen. Further segmentation; warehouses and e-fulfillment is expected for the logistics market. Technology and growing demand for same day delivery will further impact on location, size and fit out of logistics properties.

E-commerce Europe estimates that the EU's B2C (business to consumer) sales grew by **12.7%** or €602 billion during 2018 and forecasts that it will maintain this pace (between **12-13%**) over the next few years. As Europe's population increasingly succumbs to the convenience of online shopping, the ongoing structural shift from retail to warehouse space is gaining momentum. At **67%**, Western Europe accounts for the lion's share of online sales in Europe, with a stake on total retail sales ranging from **3%** in Italy to **18%** in the UK.

E-commerce operators require up to three times more space than traditional warehouse users. That's because of the greater diversity in products they handle and the need to have them immediately accessible.

Neil Johnston,
ID Label CEO



E-COMMERCE GROWTH

WHAT ABOUT LABOUR?



Whilst there is a trend towards optimising the number of people used in warehouses and e-fulfillment centres there is still a challenge in attracting the right labour.



Improving the workplace experience in warehouses is requiring an increase in both internal and external space. This is emerging on new, and often more remote markets where land plots are large enough to accommodate constantly expanding European distribution centres (EDC).

In Belgium, to accommodate its EDC park, currently with 11 buildings comprising a total of 300,000 sq m, Nike was able to find a suitably sized site near Laakdal. Despite the park's remote location, Nike succeeded in attracting a workforce of 3,000 employees.

Ownership of the total park has made it possible for Nike to expand both external and internal space, as amenities or building features are added or modified. Sensitive to a younger generation of workers who prioritize corporate responsibility, Nike took a sustainable approach to construction and warehouse operations, in addition to adding onsite amenities such as an indoor gym that includes fitness classes and personal trainers, a running track, and a basketball court. A step further, Nike makes electric bicycles available to staff with more than 15 km. commuting distance.



TECHNOLOGICAL INNOVATIONS

Today, the share of all warehouses equipped with full robotic and automated technology remains small – roughly 10% on average across Europe. However, as the industry increasingly turns to technology, significant investments in off grid energy sources to charge electric trucks, vans, robots and automated/ autonomous equipment will be necessary.

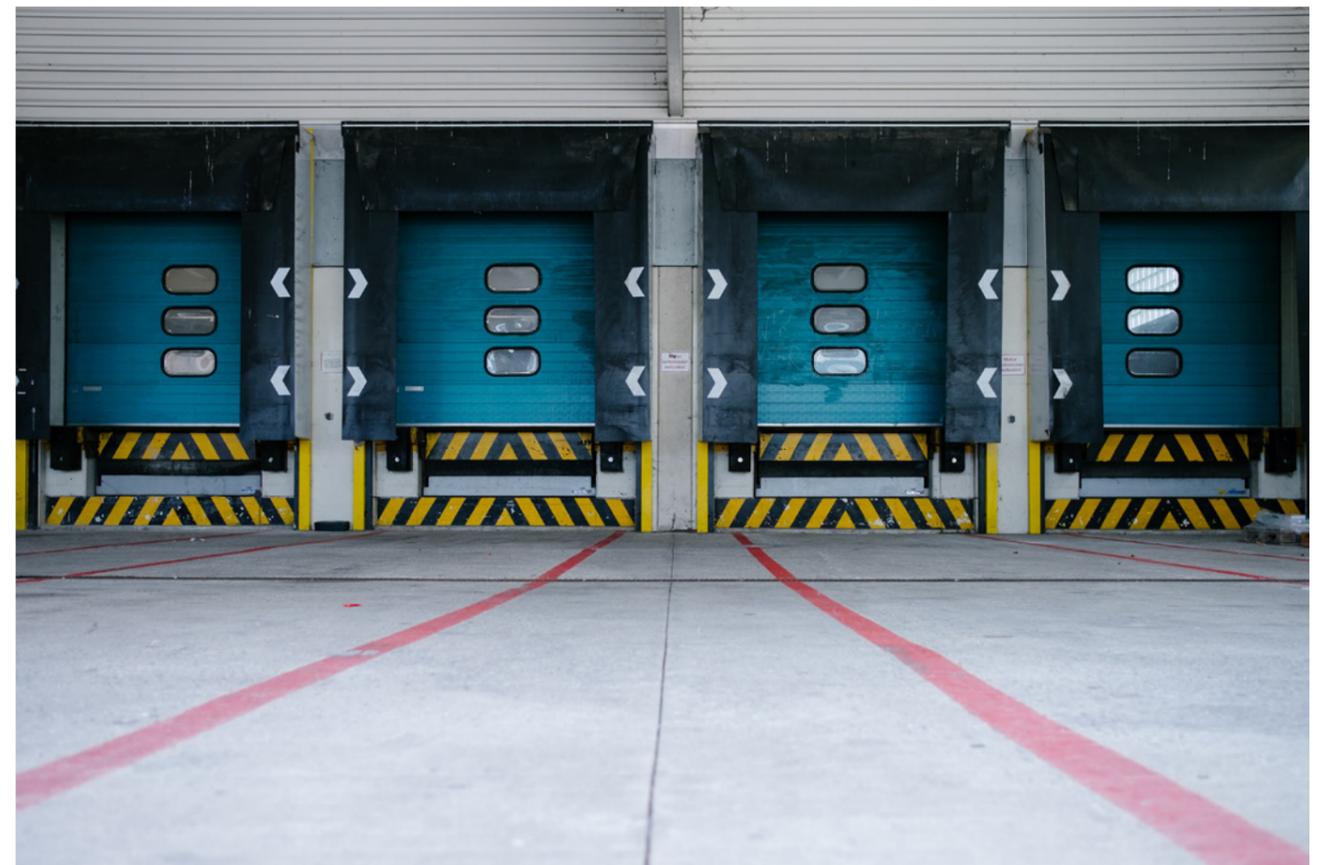
Increased amounts of technology often require dedicated floorspace to accommodate robots, automated equipment, charging stations, parking stations, and additional office space for equipment managers and IT specialists.

Recognising the need to customise warehouses to accommodate its Kiva robots, a major e-commerce player has taken building configuration to the next level. This new generation of eFulfillment centres, like those found in Barcelona (Spain) and Castelguglielmo (Italy) are both XXL and either multi-story or multi-mezzanine.

Kiva technology requires special floors to map out 'street and highway' grids on smooth floor surfaces in which evenly spaced 2D bar codes are fitted to help guide robots. Customizing floors at an additional cost implies dedicated

secured areas, or floors, in which Kiva robots operate. In both cases, 'dedicated' has translated into 'extra' space or XXL buildings – 150,000 sq m in Barcelona and 190,000 sq m in Castelguglielmo – both multi-level platforms.

A growing segment of the occupier market is requiring more customised space that can only be realized through built-to-suit construction. Today, these non-standard buildings represent a relatively small share of total new construction. If possible, most occupiers with immediate requirements lease existing or speculatively built buildings to avoid long lead times. However, in coming years, as more companies navigate the changing landscape of e-commerce, technology, and labour shortages, demand for non-standard building specifications will undoubtedly increase.



WHAT YOU NEED TO KNOW IN

2020

While the average size of warehouses will indeed continue to rise, not all large space enquiries will require new construction. In fact, many institutional grade buildings can probably be adapted to accommodate most requirements. Given the observable impacts that are already changing space requirements, occupiers and investors alike need to pursue opportunities that offer flexibility and to some degree future-proofing.

1

Larger (XL & XLL) buildings - to fulfil a maximum number of requirements, larger buildings will remain important. Existing buildings will be lauded if they offer opportunities to enlarge (either horizontally or where permitted, vertically) and / or offer extra high ceiling heights to take advantage of M³ expansion possibilities.

2

The cost of the last link will see an increasing demand for assets that are closer to the consumer / final recipient.

3

As the voracious appetite for e-commerce and next day, same day, next hour delivery continues, **there will be increasing levels of competition for the 'best' sites.**

4

Greater levels of analytical rigour will be undertaken to understand exactly how distance / location / time / expectation all work together to highlight the optimum location to address particular needs.



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