



insight 
by mountpark

FIRST EDITION 
EUROPEAN LOGISTICS OCCUPIERS
ON STEADY GROWTH PATH

MAY 2018

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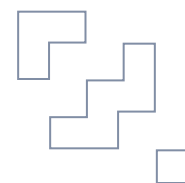
THE OUTLOOK FOR EUROPEAN LOGISTICS P.7



After a record setting year in 2016, logistics real estate occupiers provided another very strong year of demand in 2017.

The logistics market is thriving, boosted by synchronised economic growth which is stimulating exports, retail sales and consumption. Structural demand drivers including e-commerce penetration and supply chain reorganisation are adding further stimulus.

In seeking to understand this shift in momentum, this issue will address four key questions...



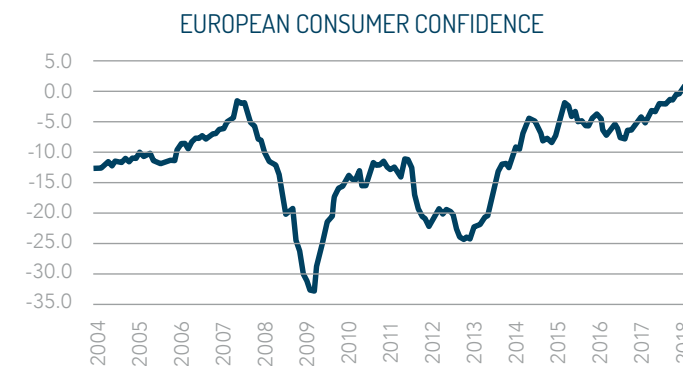
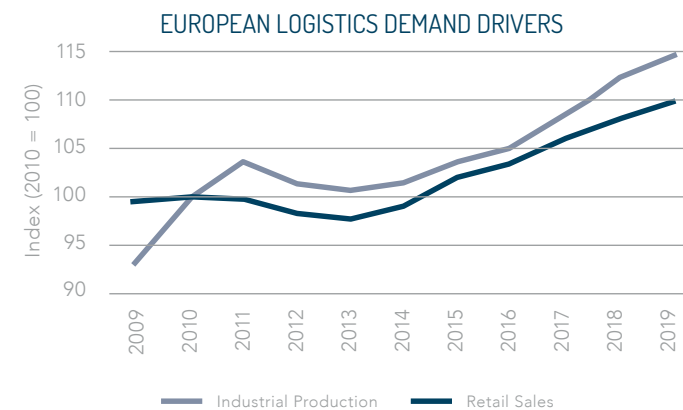
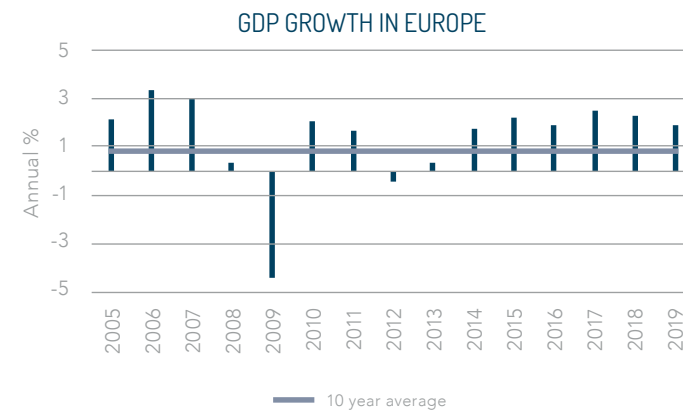
WHAT ARE THE TRENDS DRIVING DEMAND AMONGST LOGISTICS OCCUPIERS?

Logistics markets in Europe are linked to a range of demand drivers associated with a variety of industries, economic and demographic factors, and structural drivers.

- Strong trade growth has led to expansion of supply chains, which in turn has helped drive demand for logistics real estate.
- European exports continue to expand, boosted by broad based economic growth. The economic recovery in Europe, albeit mixed and volatile post-Brexit, suggests the economy still has considerable momentum.
- The Eurozone has experienced the strongest growth in a decade with the outlook indicating continued above trend growth.

CONSUMPTION IS A CORE LOGISTICS DEMAND DRIVER SINCE MOST CONSUMER GOODS SPEND TIME AS WAREHOUSE INVENTORY AS THEY FLOW THROUGH THE SUPPLY CHAIN.

- Retail sales have grown steadily through 2017, underpinned by robust consumer confidence. There is some downside risk, given the politically sensitive climate. However, consumer confidence has surpassed the pre-crisis peak, with the forecast for retail sales indicating continued steady expansion.
- Omnichannel is a net positive for the logistics industry. Consumer habits are changing, with retailers investing in omnichannel capabilities which demand more of supply chains, compared to traditional in-store retailing.



Source: Affinius Capital Research, Oxford Economics, European Commission



IS E-COMMERCE STRENGTHENING DEMAND FOR LOGISTICS REAL ESTATE?

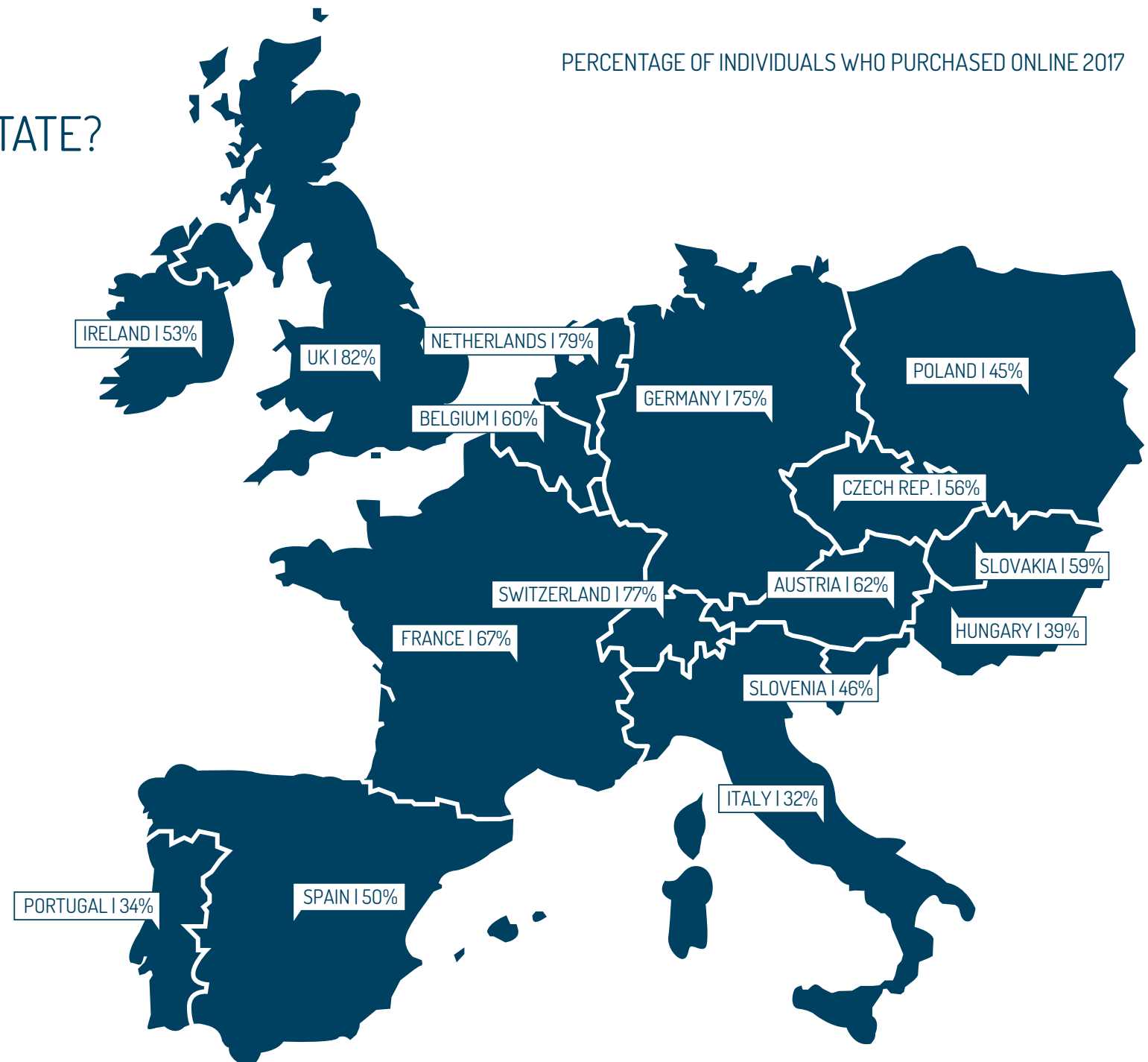
E-commerce is maturing across Europe, however, there is still further to go in the growth of this sector.

- Online penetration varies across Europe. Generally, the market is more mature in the North-west compared to the South and East.
- European e-commerce sales are predicted to have reached €602 billion in 2017, an increase of 14% compared to 2016. Double digit annual growth is expected to continue out to 2021.¹
- Despite a lower proportion of online sales in markets such as Poland, the lower cost of order fulfilment and proximity to neighbouring markets including Germany, has bolstered the logistics market which has matured rapidly over the last decade.
- The highly intensive nature of e-commerce operations, requires two to three times more space than traditional retail, due to additional storage and order fulfilment requirements.
- Logistics facilities are going through a dramatic redesign to support growth of e-commerce. Increasingly they are pioneering new technologies, whilst seeking to maximise space utilisation, improve performance and create sustainable facilities.

Source: Affinius Capital Research, Eurostat. Includes goods and services.

¹Ecommerce News. "Ecommerce in Europe: €602 billion predicted for 2017" June 26, 2017. www.ecommercenews.eu.

PERCENTAGE OF INDIVIDUALS WHO PURCHASED ONLINE 2017



WHAT DO OCCUPIERS WANT FROM LOGISTICS LOCATIONS?

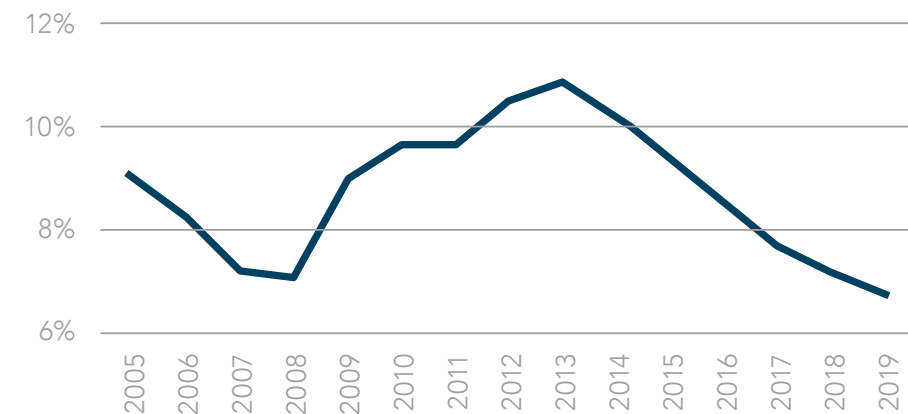
Our analysis and experience working with logistics occupiers, reveals a range of factors influencing requirements.

- Access to major population centres is fundamental. As e-commerce matures and penetrates more markets, occupiers are optimising supply chains to focus on key logistics corridors. New locations are also being added to networks to satisfy demand.
- Service delivery factors are driving decentralisation of supply chains. Demand for urban logistics space is growing in line with consumer demand for ever-faster delivery.
- Proximity to labour is rising on the list of criteria. Both availability and cost are important considerations. Finding employees is increasingly an issue, especially with unemployment continuing to tighten. Understanding the nature and depth of talent, through access to detailed labour analytics, is critical.
- Underpinning the logistics sector are infrastructure networks, controlling the speed and cost of journeys. Quality varies significantly across Europe. Road infrastructure in the Netherlands, for example, is ranked 5th out of 137 in the world. This compares to Romania where road infrastructure is amongst the worst, ranking 120th.²
- Overall costs remain important, however site-selection is often a balancing act between finding locations with proximity to population centres and roadways, while ensuring sufficient depth of labour and a favourable regulatory environment.

²World Economic Forum. "Global Competitiveness Report 2017-18".



EUROPEAN UNEMPLOYMENT RATE



Source: Affinius Capital Research

WHAT IS THE OUTLOOK FOR EUROPEAN LOGISTICS?

Many factors are influencing Europe's logistics market. Stand-out trends include: rapid technological change, the continued growth of e-commerce and the importance of the availability of qualified labour. In a rapidly evolving environment, logistics occupiers are seeking modern, flexible space and crucially, certainty of deliverability within their time scale.

- The rebound in economic activity, coupled with more intensive use of space by e-commerce related tenants, will continue to underpin demand for logistics real estate. Recent surveys point towards bullish export order books, which will continue to support demand for key logistics hubs throughout Europe.

UK MANUFACTURING INDICATES CONTINUED GROWTH AND IN THE EUROZONE, THE OVERALL PACE OF EXPANSION REMAINS ENCOURAGING.³

- E-commerce growth continues to surpass expectations and while growth is likely to moderate, it does so from a materially higher base. While e-commerce companies make-up only 20% of leasing activity, much of this is net new demand. E-commerce related occupiers will remain important drivers, both in terms of demand for logistics real estate and the effects on supply chain networks.

³Markit/CIPS. "Manufacturing PMI" May 2018

⁴United Nations. "World Urbanisation Prospects" The 2014 Revision

⁵Ibid



- 74% of Europe's population live in urban areas, up from 50% in the 1950s.⁴ This creates a need to service cities via effective urban logistics networks. Increased demand for urban logistics services is likely to exert pressure on land requiring unique solutions. The need to improve networks whilst minimising adverse environmental or social impacts, will preoccupy the industry.

IN EUROPE, 82% OF THE POPULATION ARE EXPECTED TO LIVE IN URBAN AREAS BY 2050.⁵

- Technology will create opportunities for outperformance. While self-driving trucks are unlikely to impact immediately, other advancements, such as 3D printing and automation are already altering supply chains and inventory requirements. The advancement of technology, is perhaps most evident in the logistics sector, as compared to other real estate sectors. Not only is the physical space impacted by the use of robots and automated systems, but supply chains will continue to be transformed by predictive ordering and artificial intelligence.





– Incorporating more technology into buildings will impact the way logistics facilities are built and maintained. Buildings will need to be capable of supporting large amounts of data, which can be stored and analysed. Facilities which are well connected to the internet and have abundant and reliable power supply will be favoured.

BY 2019, IT IS ESTIMATED THAT 60% OF ROBOTIC SALES WILL BE FOR LOGISTICS OPERATIONS.⁶

– It is unclear what impact technologies will have on the quantum of logistics space required in future. Many of these technologies are expensive and will require economies of scale to be viable. This could place emphasis on the need for facilities to be larger. At the same time, increased application of technology could create efficiencies.

⁶CBRE. "Supply chain revolution" 2017



– Labour will remain an important driver of logistics locations, particularly for e-commerce facilities, which can be up to five times more labour intensive than traditional distribution facilities. In the future, technology may reduce reliance on large local labour markets, if for example, fewer staff are required. However, demand for more specialised, technology savvy workers, will mean the right sort of labour remains crucial.

– Sustainability is also a key point. Expect a continued focus on optimising supply chains and, on improving the sustainability credentials of physical space. Whether it means installing photovoltaic systems on building roofs or minimising impacts through brownfield development. Related to this, is the growing popularity of so-called hybrid facilities, which combine a range of uses. This not only reduces the need for transport, but streamlines supply chains. Raising productivity and worker morale is also likely to be a priority, with growing focus on the wellbeing of staff in global supply chains.



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IS A THOUGHT LEADERSHIP INITIATIVE PRODUCED
BY MOUNTPARK LOGISTICS EU SARL.

We combine robust industry data with insights from leading international logistics occupiers to ensure we understand what our customers really want.

Mountpark Logistics EU Sarl is a Luxembourg domiciled joint venture between Mountpark Finco and Affinius Capital Europe Holdco B.V.

The venture was established to undertake logistics development across Europe, with particular emphasis on the UK, Western and Central European markets.

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