



insight 
by mountpark 

SECOND EDITION 

WHY LABOUR IS IMPORTANT TO
EUROPE'S LOGISTICS SECTOR

DEC 2018

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INTRODUCTION

ONE OF THE KEY CHALLENGES FACING THE LOGISTICS SECTOR IS THE AVAILABILITY OF SUITABLY SKILLED AND PRICED LABOUR. GIVEN RELATIVELY LOW UNEMPLOYMENT AND A SHRINKING WORKFORCE WITHIN EUROPE, THE SUPPLY OF LABOUR HAS BECOME A CRITICAL LOCATION DECISION FACTOR.

This issue is particularly acute for companies requiring large logistics facilities, which often demand significant numbers of employees. Whilst the balance between human and technology based labour will undoubtedly change, we believe people will remain a critical component of logistics supply chains.

Europe's logistics sector has been at the centre of an industrial upcycle and Europe's economic fundamentals remain supportive of logistics demand. As outlined in our first Insights edition earlier this year the logistics/industrial sector is also benefitting from secular tailwinds such as the rise of e-commerce and shifting space demands. European e-commerce sales are predicted to see double digit annual growth out to 2021.¹ This is welcome news for the logistics industry, as demand shifts away from traditional retail centers towards logistics and reinforces the critical importance of securing logistics locations with sufficient labour capacity.



Source: ¹ Ecommerce News. "Ecommerce in Europe: €602 billion predicted for 2017"

WHY IS LABOUR SO IMPORTANT?

DESPITE TECHNOLOGICAL ADVANCES AND MORE WIDESPREAD AUTOMATION, THE LOGISTICS SECTOR REMAINS A RELATIVELY LABOUR-INTENSIVE INDUSTRY.

Around a quarter of the costs at logistics firms are staff related.² A shortage of skilled labour can have negative consequences for the efficiency and profitability of the industry. Factors including employee attraction and how well employees are qualified, trained and retained can have a significant impact on the overall performance of logistics companies.



IS THERE A LABOUR SHORTAGE IN EUROPE?

AT AN AGGREGATE LEVEL, THE UNEMPLOYMENT RATE ACROSS EUROPE IS NOW BELOW ITS PRE-CRISIS LOW.

On this basis, we might conclude that capacity is tightening in the labour market, though this does not reflect all unused labour potential – for example people who work part-time but want to work more hours. However, the jobless rate varies widely across Europe and even national averages can mask large differences at a regional or local level. Germany and the UK for example are at virtually full employment, with unemployment rates of around 4% or less.

This compares with elevated rates in Spain and Italy, where unemployment remains high, albeit falling. The Italian unemployment rate actually fell below 10% in July 2018, down from a peak of 12.8% in 2014, and Spanish unemployment rates have dropped even more precipitously, falling to 14.6% in July 2018, after peaking at 26.3% in 2013. On balance, labour markets appear to be tightening, but the headline data suggests there is still slack in several European countries.

Source: ²Transport Intelligence. "Labour shortages in the global logistics industry"



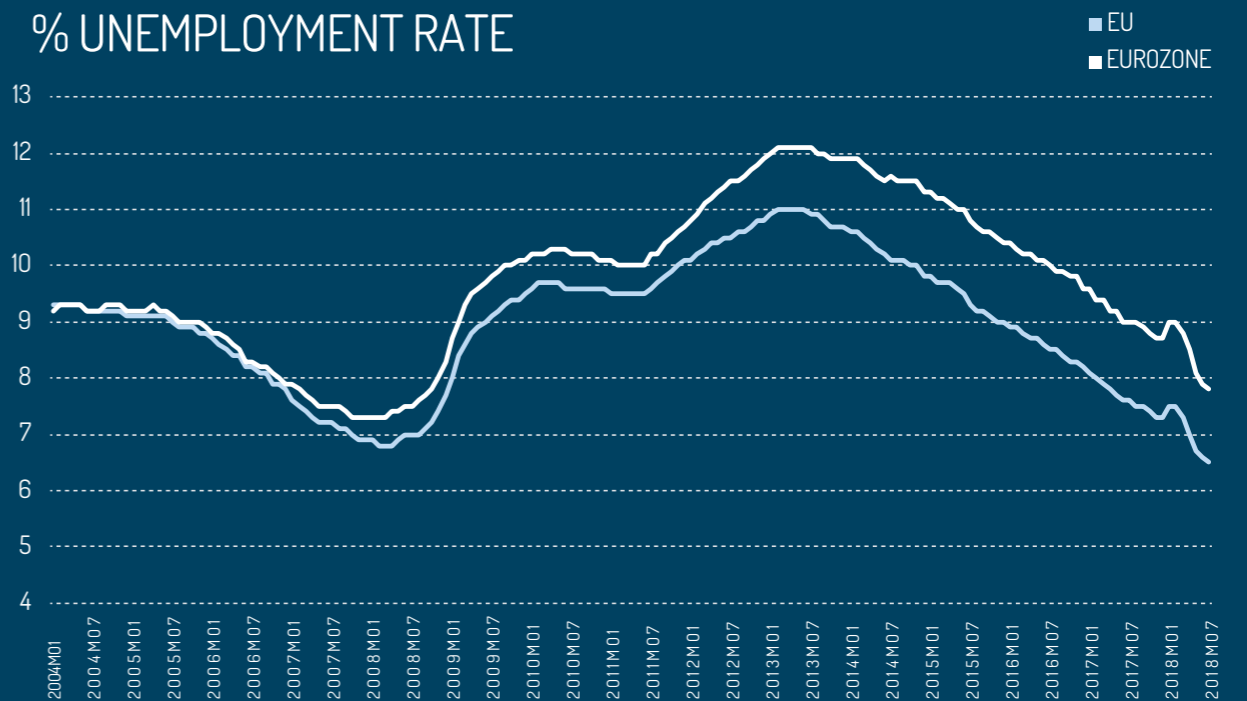
EXHIBIT 2: UNEMPLOYMENT RATES, 2004 – JULY 2018

THERE IS A GENERAL VIEW ACROSS THE SECTOR THAT QUALIFIED LOGISTICS LABOUR IS IN SHORT SUPPLY.

Shortages range from a lack of truck drivers and warehouse workers to problems in filling senior supply chain management positions. Although there are very few hard statistics to back up this assertion, there is an 'expert consensus' according to a recent World Bank study on the issue.³ Several national industry associations also claim that their members are facing labour shortages. In the UK, the Freight Transport Association reported a shortfall of 55,000 truck drivers in 2017. In Germany, the industry is expected to lose 250,000 truck drivers (around 40%) in the next 10 – 15 years to retirement, creating a shortfall of 150,000 drivers.

Qualitative survey data is another way to get a more detailed insight into the current labour dynamics. According to the quarterly European Commission Industry Survey, there are signs that capacity constraints are beginning to bite. In 2016, 10% of respondents reported labour constraints were a limiting factor. This figure has since doubled to 20%, marking the highest level on record and resulting in rising order backlogs.

Another qualitative factor, albeit based on informal discussions with industry participants, suggests that even in areas where unemployment is elevated, which might be considered a potential labour source to tap, it has sometimes been difficult for companies to find and retain workers. If the site is not easily accessible for employees (not too far to drive, on rail, bus etc.), the operator may still struggle to recruit, despite demographics that appear to be favourable.

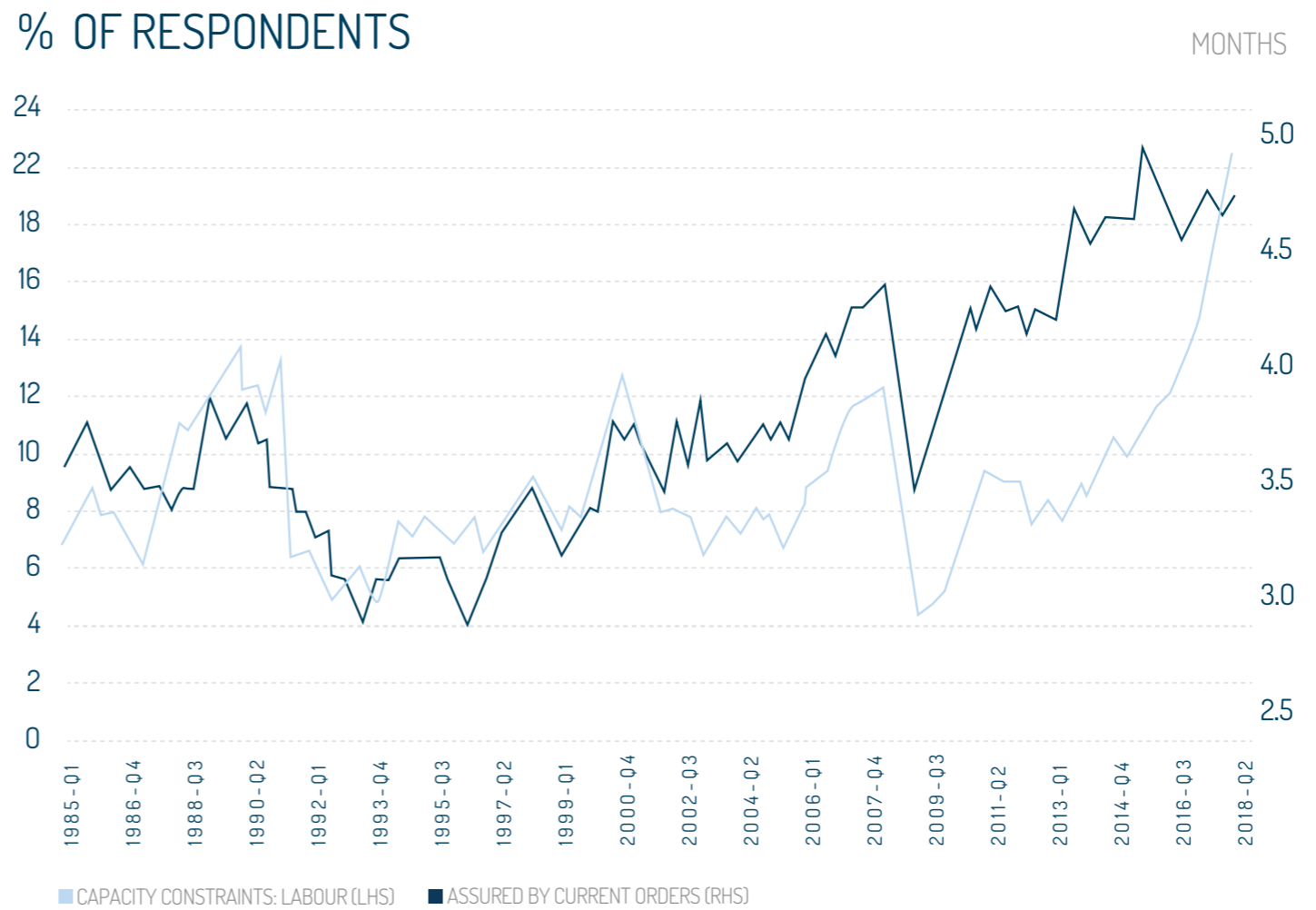


Source: Eurostat, July 2018

³ World Bank Group (2017) Logistics Competencies, Skills and Training: A Global Overview



EXHIBIT 3: EUROPEAN INDUSTRIAL CAPACITY CONSTRAINTS AND ORDER BACKLOGS



Source: European Commission, Q2 2018



REAL ESTATE AS PART OF THE SOLUTION

THERE IS A PERCEPTION THAT THE OVERWHELMING REASON FOR LABOUR SHORTAGES IS A SUPPLY ISSUE, OVER WHICH THE INDUSTRY HAS LITTLE CONTROL.

Alleviating the supposed logistics skill problem will certainly demand a multi-stakeholder approach, involving governments, logistics associations, higher educational institutes and vocational training institutions among others. Beyond this, there is also an effort to ensure real estate is part of the solution. An understanding of customer dynamics and shifts in logistics networks and labour markets is vital for building the right facilities in the right locations. Recognising these trends, the logistics sector will invest more in automation, robotics and AI, which will also mean buildings need to be capable of supporting large amounts of data and internet bandwidth as well as having a sufficient and reliable power supply.

Our approach is to focus on locations where there is currently sufficient quality and quantity of labour within a reasonable drive or transit time. With an occupier view in mind, we conduct substantial labour studies on potential sites to ensure that the project will be suitable for our occupier partners into the future. In doing so, we can establish if there is or will be a sufficient pool of labour to recruit a workforce and whether it is sustainable in the face of competition from other employers.

In response to labour concerns, we are also working with occupiers to ensure our logistics development projects provide best-in-class work environments that will support talent attraction and retention. The days where logistics facilities were perceived as dark storerooms that existed simply to store inventory, are gone. Modern, forward-looking warehouses include improvements to both their internal and external designs in an effort to make buildings more attractive to employees and labour-hungry occupiers.

A commitment to sustainable business activities has been found to improve employee recruitment, retention, absenteeism and productivity. Research has shown that companies that undertake sustainable business activities can reduce average turDecer by between 25% and 50%.⁴ Designing and developing buildings to meet recognised sustainability certifications, is key to delivering best-in-class projects that enable more efficient customer operations. Beyond initial certification, it is important to work with building managers and occupiers to drive sustainable improvements through operational efficiency, including how to continually manage the operation of the building effectively.

It is well known that optimising the lighting system within warehouses can dramatically improve energy savings. For example, installation of LED lighting or skylights can significantly reduce energy costs for customers. However, there are also additional benefits, including improved visibility levels in the workplace, enabling employees to clearly see their surroundings and enhanced indoor environmental quality for warehouse employees. Research shows these alterations can increase employee productivity and attendance.⁵

A focus on health and well-being is also becoming more common within the logistics sector as companies seek to become the employer of choice to both new and existing staff. Encouraging health and well-being programmes and incorporating amenities within the warehouse such as cycle storage, can all contribute to improving staff retention. More and more occupiers also welcome the development of social facilities, child care and retail amenities in the vicinity of parks to help attract and retain workers.

Source: ⁴ UKGBC (2018). "Capturing the value of sustainability"

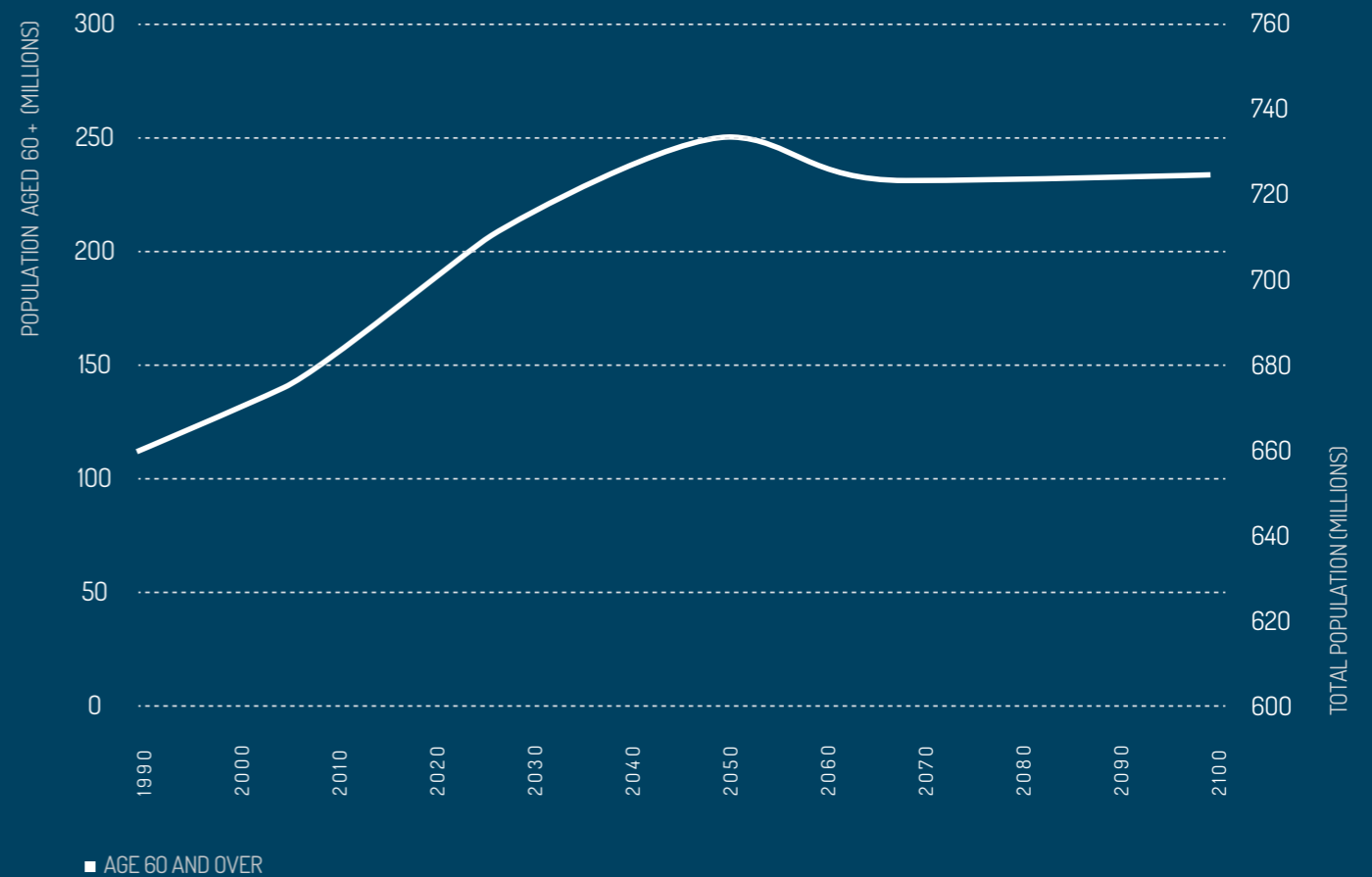
⁵ https://www.mmh.com/article/7_trends_in_sustainable_design/sustainability



LOOKING TO THE FUTURE

Over the long term, demographic changes mean that Europe's population is ageing at a faster rate than it is being replaced, which will impact further on the labour supply. Today, Europe's older population (60 and over) represents 25% of the total population. By 2050 the share of the older population will reach 35% in Europe, meaning there will be just two working age people per one elderly person. This will have a significant impact on the overall labour market, and logistics is no exception.

EXHIBIT 4: EUROPEAN POPULATION PROJECTIONS 1990 - 2100



Source: UN (2017) "World Population Projections"



THE GROWTH OF AUTOMATION AND ROBOTICS IN THE LOGISTICS SECTOR CONTINUES AS TECHNOLOGICAL ADVANCES ENABLE POTENTIAL EFFICIENCIES.

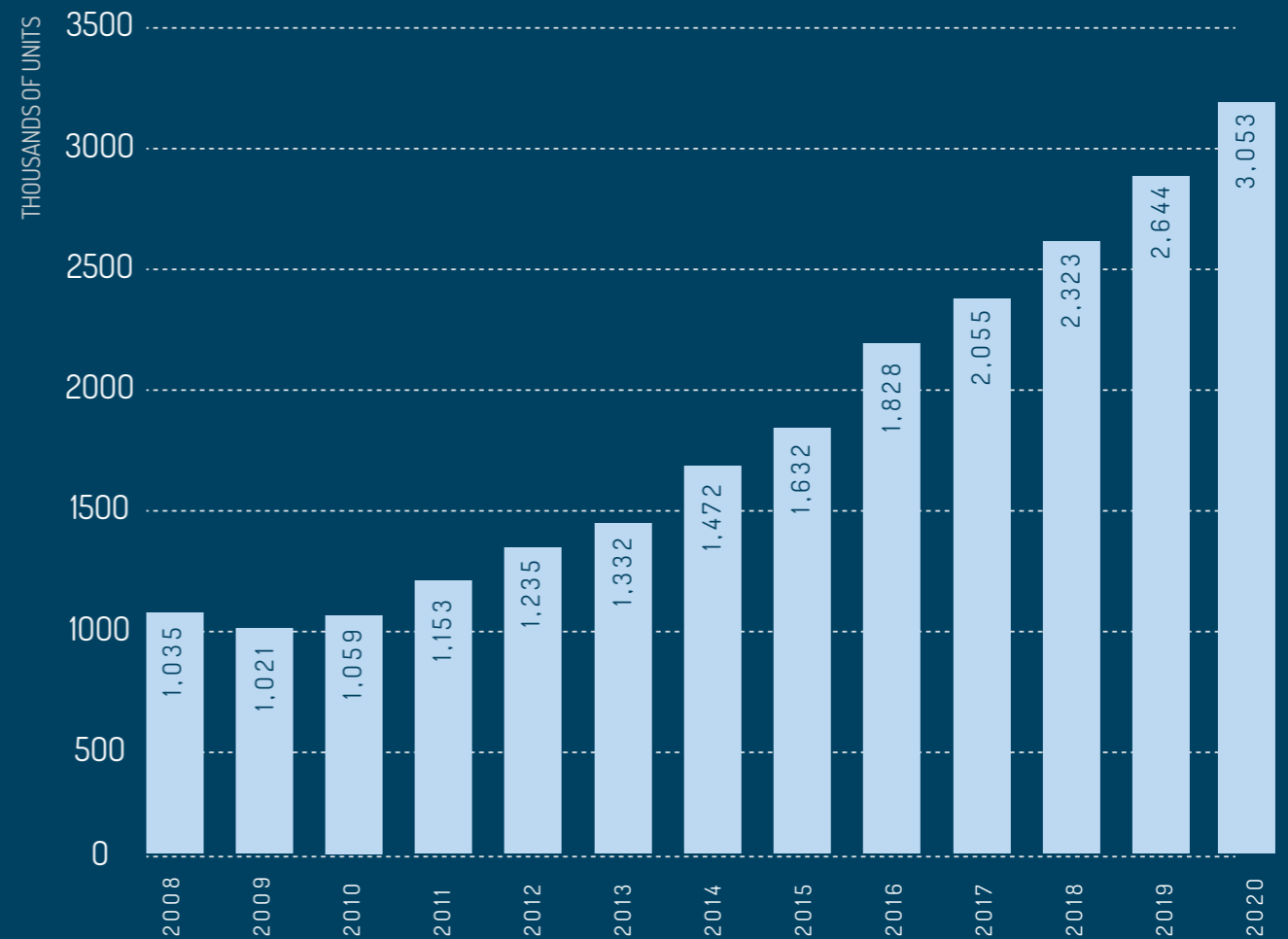
Global sales of industrial robots reached a new record of 380,550 units in 2017, an increase of 29% compared to the previous year.⁶

According to the International Federation of Robotics, more than 3 million industrial robots will be in use in factories around the world by 2020. Automated solutions are already being implemented and their level of sophistication is increasing. For example, automated loading and unloading systems are already available and expanding in complexity.

This has focused attention around job disruption and displacement. Job restructuring is one potential outcome, as technologies replace certain tasks that are easily automated. Technology and automation are undoubtedly a game changer for the industry with far reaching implications. However, according to the Mckinsey Global Institute, very few occupations – less than 5% – consist entirely of activities that can be fully automated.⁷

As technology becomes smarter, there will inevitably be some competition with human labour. However, as noted earlier, the decline in working-age population in Europe will also be significant, and secular tailwinds favour the growth of logistics relative to other sectors. As a result, labour will remain a critical factor in determining the future location of logistics facilities, albeit perhaps with greater dependence on higher skilled jobs amid growing sophistication of the buildings.

EXHIBIT 5: ESTIMATED WORLDWIDE OPERATIONAL STOCK OF INDUSTRIAL ROBOTS



⁶Source: IFR (2018) "Robots double worldwide by 2020"

⁷Mckinsey Global Institute (2017). Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation

CONCLUSION

SUPPORTIVE ECONOMIC CONDITIONS AND CONSUMER DEMAND FOR GOODS WILL CONTINUE TO DRIVE THE EUROPEAN LOGISTICS SECTOR IN THE NEAR TERM, AND E-COMMERCE IS A SIGNIFICANT SECULAR TAILWIND.

According to a recent report on the logistics market, e-commerce logistics costs as a proportion of sales look set to rise in the coming years, driven up by a range of factors, including the cost of labour.⁸

Transportation and labour are top cost variables examined in the site-selection process. However, given current demands, some companies may be expected to trade transportation advantages for locations that have a desirable labour pool. After all, without an affordable high-quality workforce, an otherwise suitable location would be unproductive. This could drive greater business interest in less prominent logistics locations which offer attractive labour supply and cost dynamics. On the other hand, a focus on total logistics costs may encourage some companies to accept higher wage costs as a trade-off for being in popular hubs. Ultimately, where to locate, is a challenging question because every company is unique in their requirements and what markets they serve.

Technological advances and more widespread automation will facilitate increased production and demand, but it won't eliminate the labour component. If anything, growing sophistication of logistics space, will place greater emphasis on high-skilled jobs.

Overall therefore, it remains a mixed picture; huge strides have been and will continue to be made in automating activities but labour – or perhaps more pertinently the right sort of labour – will remain crucial to logistics operators. In this context, selecting a market and a property will remain business-critical decisions, with labour vital to site selection.



Source: ⁸Transport Intelligence. (2018) "E-commerce logistics costs set to rise"



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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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