



 *insight*   
*by mountpark*

FIFTH EDITION 

WILL THE RECENT SURGE IN  
ONLINE SALES BE MAINTAINED  
AND WHAT DOES IT MEAN FOR  
LOGISTICS REAL ESTATE?

JULY 2020

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## INTRODUCTION

ONLINE SHOPPING HAS EMERGED AS INVALUABLE DURING THE COVID-19 CRISIS. CONSUMER BEHAVIOUR HAS CHANGED SIGNIFICANTLY DUE TO THE PANDEMIC AND THE ONLINE RETAIL INDUSTRY HAS SEEN STRONG GROWTH. BUT, TO WHAT EXTENT IS THIS A TEMPORARY OR PERMANENT SHIFT?

The UK, Europe's largest e-commerce market, saw a strong rise in the value of sales online in May 2020. According to the latest data, the monthly value of online sales increased by 19.7%. Online retail sales as a proportion of all retailing soared to a record high of 33.4% in May as consumers switched to online purchasing following the pandemic. This exceeded the original record reported in the previous month (30.7%) and compares with 19.3% a year ago <sup>1</sup>. Given the likely persistence of some social distancing measures and the possibility of permanent changes in consumer behaviour, we think a significant share of the online sales activity will continue.

Source: <sup>1</sup> Office for National Statistics, 2020





## RISE OF E-COMMERCE ACROSS EUROPE

THE EXPECTATION OF FURTHER GROWTH IN E-COMMERCE WAS WIDELY ANTICIPATED PRIOR TO THE PANDEMIC.

Industry forecasts, made before the outbreak of COVID-19, indicate that online penetration rates in the UK were expected to reach over **23% by 2023**.



The current crisis has clearly accelerated this trend, with online penetration rates running as much as five years ahead of pre-COVID predictions. Even if the rate of e-commerce adoption slows, online penetration rates are likely to remain well ahead of expectations. E-commerce adoption should accelerate particularly for industries such as grocery where penetration rates have typically been lower. Healthcare segments are also poised for lasting e-commerce adoption. Although not all this growth may be permanent, much could be as new online adopters are now familiar with e-commerce and the convenience it provides.

We expect these trends to be mirrored across Europe. However, the picture will be nuanced due to variations in the length and severity of lockdown measures as well as differences in the maturity of e-commerce. Even before COVID-19 e-commerce growth was in evidence across Europe. **In 2012, the online share of total retail trade in the UK stood at just 10.6%. This compared with 5.9% in Germany and 5.4% in France. By 2018, these three markets made up 85% of Western Europe's e-commerce and online penetration had increased to 17.8% in the UK, 15.1% in Germany and 10.1% in France.**<sup>2</sup> Southern Europe has traditionally been behind the rest of the region in terms of adopting e-commerce and potentially has the most scope to catch up. Lockdown measures have forced consumers in the region to embrace e-commerce. Indeed, according to Nielsen data, online shopping turnover grew by 178% y/y in the week beginning April 12th in Italy, while turnover increased by over 77% y/y in Spain.<sup>3</sup>

Source:<sup>2</sup> Centre for Retail Research

Source:<sup>3</sup> Nielsen. <https://www.nielsen.com/eu/en/insights/article/2020/covid-19-tracking-the-impact-on-fmcg-and-retail/>



## ACCELERATED E-COMMERCE ADOPTION REQUIRES INVESTMENT IN LOGISTICS

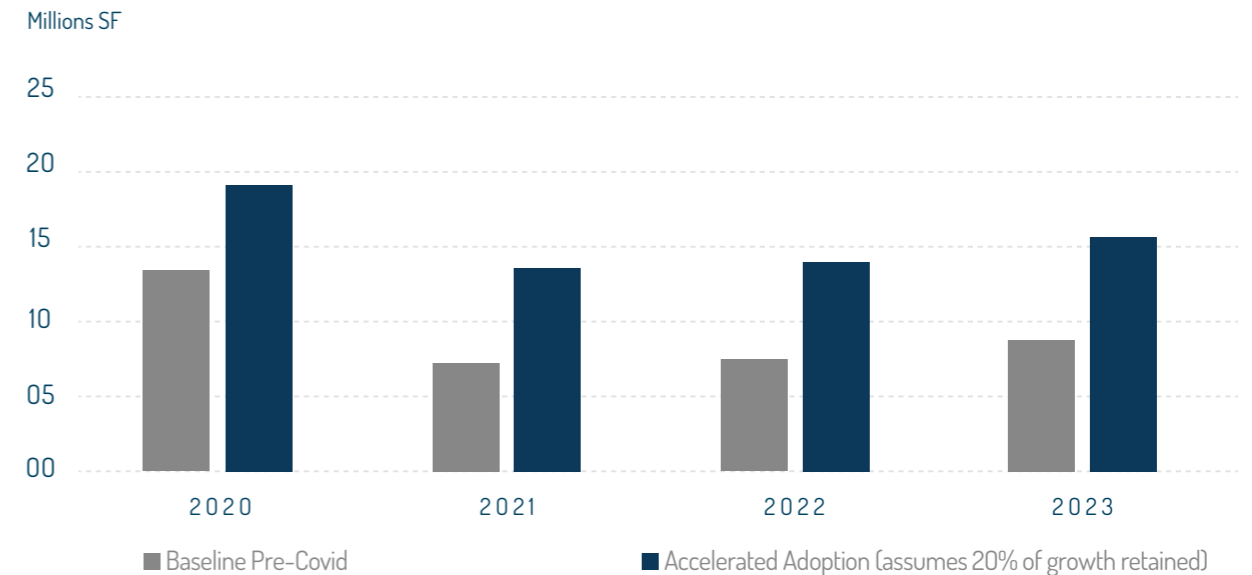
THE GROWTH IN E-COMMERCE IS A WELL-ESTABLISHED TREND. HOWEVER, THE RECENT SURGE IN ONLINE SALES APPEARS TO BE DOWN TO TWO SPECIFIC FACTORS.

Firstly, the growth in net new consumers within certain sectors, particularly Food, Household Goods, Home Gym/Office Equipment and DIY. Secondly, we have observed the shifting behaviour of current consumers from shopping offline to shopping online. This second trend has been reflected across Europe, even amongst retailers with stores still open (particularly supermarkets). However, the acceleration of growth appears largely based on store closures due to lockdown measures. As governments continue to ease restrictions and physical stores reopen, we will be closely monitoring to see if e-commerce growth reverts to pre-lockdown levels. That will help us to understand to what extent this surge in online consumption will stick around.

We think it is likely that many e-commerce purchasing habits could continue even after the pandemic is over. Pre-Covid-19, online penetration was expected to climb 4 percentage points by 2023. The pandemic has, through necessity, driven more people to shop online. Those who may not have considered shopping online previously could now become converts as they become accustomed to the convenience. Even if only 20% of the e-commerce growth seen in recent months is retained, the UK could see penetration rates jump by more than 2 percentage points in 2020 alone.

Source: <sup>4</sup> Assumes only 20% of the growth in e-commerce seen in April 2020 is retained

## Additional Logistics Square Footage Required to Accommodate E-commerce Growth



Source: Affinius Capital Research

Evolving consumer habits, coupled with the COVID-19 pandemic, is resulting in a boost to online sales and, with it, an increase in the demand for logistics real estate. UK e-commerce sales were approximately £88 billion in 2019 and could reach over £150 billion by 2023.<sup>4</sup> Using a conservative industry-standard approach of 1 million square feet of logistics space, which is required for every £1 billion spent online, indicates a need for as much as 60 million square feet of space in the UK over the next four years. It is clear that e-commerce growth will require substantial logistics development. Even before the pandemic, baseline forecasts project a significant requirement for logistics real estate.





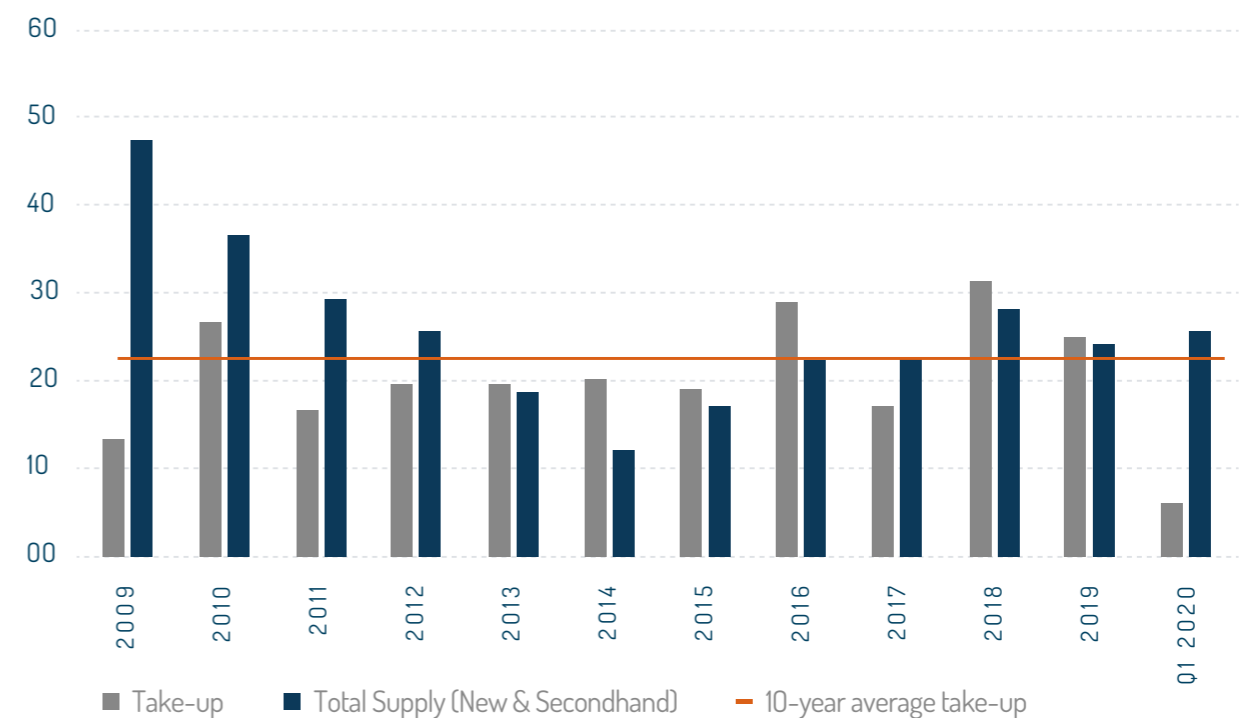
## DEVELOPING RESILIENT LOGISTICS INFRASTRUCTURE IS CRUCIAL

THE COVID-19 CRISIS HAS UNDERLINED THE NEED FOR EFFECTIVE LOGISTICS OPERATIONS AND SUPPLY CHAINS.

Despite sustained demand, the availability of new space, particularly larger facilities of more than 500,000 square feet is somewhat constrained.

Although completions have increased in the last year, development has been very disciplined. Logistics demand has continued to outpace new supply in Europe over this period. The relatively low amount of inventory development translates into a vacancy rate of around 4.8%.<sup>5</sup> There are still attractive opportunities for companies looking for logistics space. However, working with partners who can provide access to sites that are flexible and ready to develop is critical.

UK Logistics Take-up & Supply



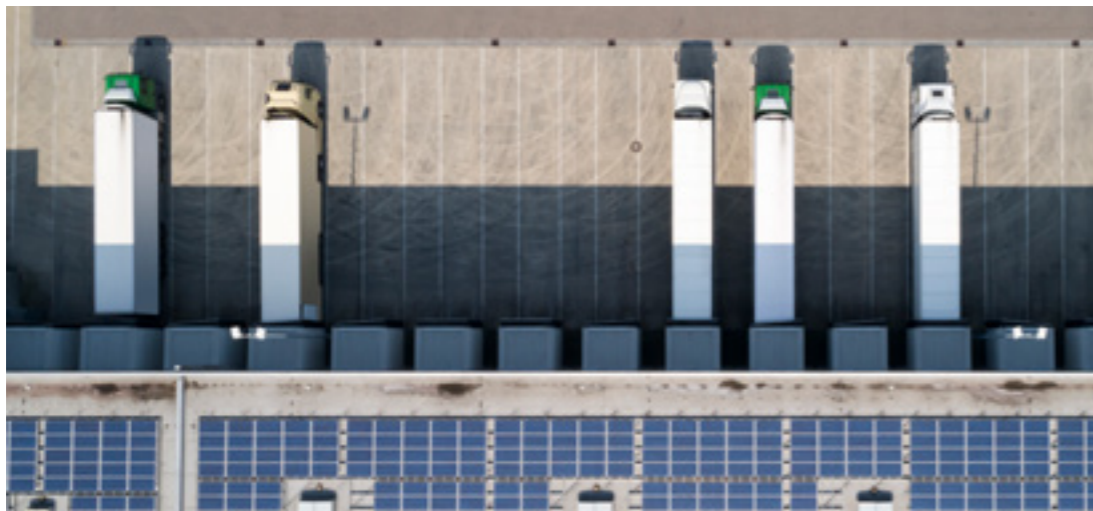
Source: CBRE

Source: <sup>5</sup> Savills [https://en.savills.nl/research\\_articles/251487/300234-0](https://en.savills.nl/research_articles/251487/300234-0)



## CONCLUSIONS

Looking further ahead, having the right infrastructure to support the fulfilment of rising online orders will be crucial. As the immediate turbulence of the pandemic subsides, we fully expect that the substantial change in shopping habits will generate further demand for a range of logistics facilities. It is essential to partner with developers that can provide expertise and access to the best locations. The Mountpark team has an enviable and proven track record in delivering successful and complex logistics development projects throughout the UK and Europe. Development currently spans seven countries, providing access to a strategically located network of logistics properties and a consented land bank across Europe's major supply-chain corridors.





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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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