EMEA Industrial & Logistics Market Response to COVID-19

April 2020

Trends Emerging and Accelerated by the COVID-19 Pandemic

Supply Chain

Even before the pandemic hit the world like a wrecking ball, there were already several issues appearing around the topic of global supply chain. The dependency on China and its huge growth had partially led to a trade war with the US, and within Europe the cost benefits had somewhat started to diminish. This had led **many to start reviewing other options**, including countries, such as Vietnam, in South East Asia or, bringing it back home to nearer shores in Europe.

The coronavirus has certainly highlighted that although **supply chains had reached extremely high and efficient levels** of quality, throughput and to some extent cost, there is **very little room for error**. Many manufacturers and business have had to close their doors to protect the spread of the virus, but others have also had to close as essential **materials, parts and products have been held-up due to breaks in the chain**.

Moving around Europe is quite complicated and is made up of many counties and borders, unlike large countries such as the US and China so, despite early signs of things getting moving again, there are still **major delays at borders**. Therefore, those relying on a just in time system will need to adjust their time expectations. These **delays are increasingly challenging** for those who deal with perishable items, which may well lead to increases in demand for additional units and, for example, refrigerated storage units.

Automotive

Many of the worlds leading automotive manufacturers are headquartered in Europe with vast operations all over the world. Most of the **production has been halted** over the past number of weeks which has had a huge domino effect on many related industries, including suppliers, shipping & logistics and car showrooms to name a few. However, early signs of hope are beginning to emerge as many of the OEM plants across Europe are **slowly recommencing production in phases**, although disruption in the supply chain, delays and restrictions at international borders, on top of **consumer concerns over future income and on large purchases**, will not make for an easy transition back to business as usual.

In addition, the automotive sector is not alone in having had its share of disruptive factors prior to the COVID-19 crisis, what with **fluctuating sales**, the push for **more sustainable / hybrid products, autonomous vehicles** and other innovations required to future proof the industry. This crisis again, like for many other sectors, may **accelerate these changes**, although to be realistic, these are hugely complex and bulky industries and it will take some time.

At present there is substantially **less car and public transport use** in many countries, as many people are working from home. How that trend continues we have yet to see but, given the option of a few **less commutes to the office** a month and more scrutiny around business trips, there might be quite a few takers. As a result, we might also see a rise in the **car sharing economy or mobility as a service** (Maas) for example.

E-Commerce

E-Commerce has certainly been **one of the few positive stories** that have emerged from this crisis although this has largely been down to the distribution of essential items including food, pharmaceutics and the much discussed 'PPE'. With the various lockdown restrictions in place and forced closure of most retail schemes across Europe, most people have had to resort to **shopping online as a necessity, whether they did it before or not**.

Other sectors of retail have had mixed results as many people are **putting off purchases of non-essential items and certainly larger purchases**. This comes as a result of the uncertainty around the security of people's jobs as almost every single employment sector has been impacted and has led to **cost and job cuts**.

Several things that have been highlighted recently suggest that due to the virus and potentially **large shifts in consumer behaviour**, retailers with greater growth potential will be forced to **upscale their online experience and fulfilment operations**. Afterall, even if restrictions are lifted on bricks-and-mortar retailing over the coming weeks, there will still be **measures in place surrounding the wellbeing of shoppers** for some months to come. These may include social distancing such as limiting the number of people in stores by sqm/sq ft or the number of cash desks; or impacts such as not being able to try on clothes for example.

Technology & Innovation

The rise of the machines already began a long time ago, partially off the back of **tight labour markets** and times like these only go to prove just how much of an important role they play now and will play in the future. Buildings in the I&L sector have become markedly smarter over the last few years to cope with occupier demands as their operations in turn become **increasingly more technologically driven**. Building Management Systems (BMS) now connect to all kinds of technology, helping to bring highly **useful data and insights to owners, technicians, suppliers and occupiers**.

There are so many areas in which technology is helping to improve the way buildings are run and the operations that go on inside them but, here are a few examples: **Energy supply, monitoring and optimization** is a big area as electricity for one is a costly part of any tech driven operation and needs careful planning. **Robots, autonomous forklifts, 3D printers and drones** are a few other examples of tech that have been in use for some time already and is constantly evolving (although not by itself at the moment). Having said that, there is **Artificial Intelligence** (AI) and a variety of systems (including HVAC) that for example can predict or react to monitoring sensors to **optimise performance**, automatically warn of upcoming failures or low stock levels and order replacement parts or products based on the data received and analysed. This means that any **impact on operation or business is kept to an absolute minimum**. There was no preparing us for this pandemic but, investment into technology and innovation may help soften the impact, should the pandemic drag on or indeed repeat itself in future.

Views from Colliers Experts Around EMEA

PETER KUNZ

One unfortunate by-product of the pandemic's impact on the economy is higher levels of unemployment rate. While this will have some impact on consumer markets initially, it does mean that the availability of labour will improve. Prior to the crisis, labour markets across much of Europe had become very tight and costs were rising considerably. For these and many other reasons, we expect further development and investment into digitalisation and automation of operations, especially in the area of e-commerce that is expected to grow at a much faster pace. We also expect to see a shift of supply chains towards Europe as the crisis rapidly highlighted weak links that have had major impacts of some industries.

LEN ROSSO

We expect an increase in demand for flexible storage space, ideally with an element of fit out as retailers look to hold stock flowing into their businesses. In addition, we expect occupiers to re-think their supply chain requirements, particularly for perishable items. This may result in increased demand for chilled space in close proximity to port-centric hubs. Great challenges bring innovation and will change people's attitude towards shopping - some occupiers will be prompted to find new ways to streamline deliveries. The grocery sector will be positively impacted – it has become visible that there is very little physical space capacity in the market and the advances in technology will support supermarkets to increase capacity as consumers continue to buy their goods online.

KAREL STRANSKY

The crisis is very likely to create more pent up demand, and this will maintain the landlord favourable conditions across many markets in Europe. We expect more demand for manufacturing in Europe's' nearshore locations including Central and Eastern Europe, Northern Africa and Ukraine. Looking ahead we also expect more demand for space subject to further penetration of online sales in markets, for example in CEE, where current figures range between 5 and 15% as opposed to the UK where figures are getting closer to 25%. Regardless of what or how things have happened in the past, all market participants will need to adapt to a potentially very different world that does not represent how their businesses worked just 2 months ago. In addition, while we hope economies will recover sooner rather than later, consumer habits and priorities may well also have shifted.

MACIEJ CHMIELEWSKI

COVID-19 is having the least negative impact on the warehouse market among all asset classes. For this reason, warehouse properties are and will be (even after the recession) perceived as the most attractive asset class. We expect a decrease in the number of speculative investments, while the development of the 'last mile' warehouse market may accelerate. This is directly related to the increase in sales in the e-commerce sector, and thus, the growing demand for warehouse space. Many retail companies will probably change their sales strategy from traditional channels to omnichannel. It is worth noting that many companies may consider diversifying the location of their business and move part of it to the home country (re-shoring/back-shoring) in order to minimise the risk of loss of liquidity in the supply chain.

HARRY BANNATYNE

During 2019 we saw the return of spec development, mainly due to demand outstripping supply and much liquidity within the I&L sector. This has decreased dramatically due to the crisis but could quickly rebound in sought after locations when trade returns, as clients with needs for more space quickly, are faced with little limited availability of space. Coming out of the crisis, developers with key permitted land positions, with no strict planning restrictions, especially on height and power will be in an advantageous position to jump on any new wave of demand coming from re-shoring and automated warehouses.

Market updates activity from around EMEA

UK

Our latest research reveals that food production is currently up by 50 per cent, due to panic buying with all the major supermarkets and online grocery services having huge backlogs of orders. As a result, the COVID-19 pandemic has unleashed an uptick in flexible requirements for industrial and logistics assets. Subsequently, occupiers who manufacture or distribute essential items are in urgent need of flexible space to keep up with increased demand. There has also been a rush for stockpiling essential items and purchasing goods which can alleviate social isolation such as fridge freezers, gym equipment and other such items. We expect investors and developers to slowdown, if not pause, their development pipeline programme to de-risk their financial exposure while working more closely together with their occupier base to find mutually beneficial solutions.

Germany

In recent weeks, the systemic relevance of the logistics sector has become apparent. The supply function of the population has moved further into the foreground. The closure of the bricks-and-mortar retail trade has led to increased demand for short-term solutions to store goods that cannot be sold to the customer. Besides this, online retailers such as Amazon recorded a sharp increase in orders. On the other hand, slumps in contract logistics in the automotive industry are to be expected. In the medium to long term, however, it is expected that the market could learn some lessons from the current situation, for example in the restructuring of supply chains or the expansion of local storage capacities and local production.

Netherlands

The logistics market in the Netherlands is still strong despite the circumstances, with some large lease agreements signed in the past month. E-commerce and the food industry are the least affected so far, while the floricultural sector has been hit hard. Delays in international transport and capacity are affecting delivery times in general. There are more risks expected on the industrial market related to cash flow compared to the logistics sector. Despite large-scale government support, smaller companies will feel the effects. On the investor side, demand is still strong, and we expect that to remain positive in the 3rd and 4th quarter of the year. However, suddenly increasing supply may influence pricing.

Italy

Italy is starting to see light at the end of the tunnel, with the numbers tapering off, and restrictions slowly starting to being lifted as of 4th May. On the Investment side, there hasn't been much change: anything pre-COVID still continues, and although interest is still high in logistics, and pure industrial to a lesser degree, the market is in a holding pattern. On the occupier side, things are brighter, with little visible concerns to date. E-commerce continues to give buoyance to the sector.

Poland

Compared to other sectors, industrial & logistics so far seems to be the least affected by the negative effect of pandemic. Some of the industrial transactions are on hold now or have been postponed. Currently, we observe increased demand for short-term agreements as well as extensions of existing contracts. Projects in the construction phase are still progressing but some delays may be expected due to the limited number of employees and access to materials. A decrease in the number of speculative investments is expected, however, development of city logistic projects may accelerate, related to the increase in sales in the e-commerce sector.

Czech Republic

We are still seeing good results throughout this period. High demand in E-commerce means some companies are having to take more space for stockpiles that cannot currently be exported. Developers still are moving forward with construction, while the main delays are on the side of the tenants as they have more people involved in the decision-making process, making it harder to A reach quick consensus. Demand is still strong and though we will see a dip at some point, a surge in demand is still expected once manufacturers and suppliers reconfigure their supply chains.

Hungary

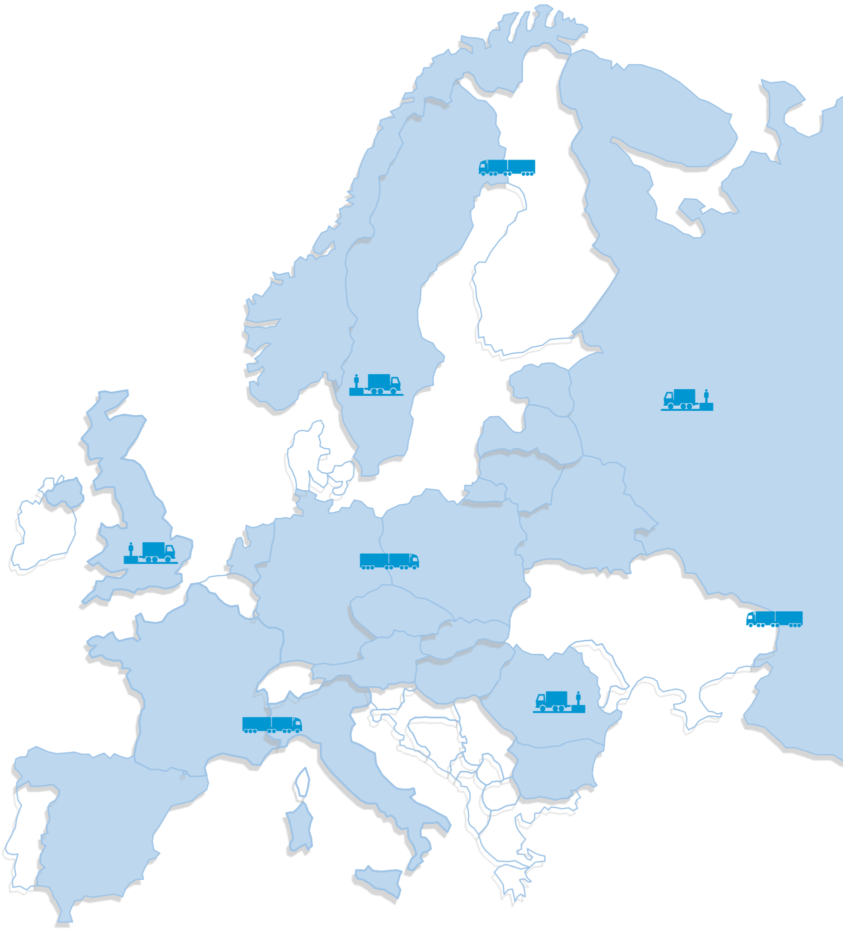
Heavily dependent on the automobile industry which has been stopped, there are serious concerns around a drop in GDP and unemployment, leading to a recession. Regarding rents though, there is little concern, as even prior to the pandemic there was a large lack of available space, which even now cannot be appeased. The current uncertainty and the 'wait and see' status indicates that Q4 2020 and into 2021 could bring significant changes, in terms of market players and the opportunities.

Slovakia

Heavily dependent on the automobile industry, the closure of the OEM's and their suppliers has impacted the local I&L scene heavily. In recent days some manufacturers have re-opened again, such as Kia, Samsung and Sony, however supply chain problems are continuing to cause hiccups for others such as Embraco. Speculative development and land sales are generally on hold. As the government looks to begin opening the economy up again from the 23rd of April, some relief should be in sight.

Baltics

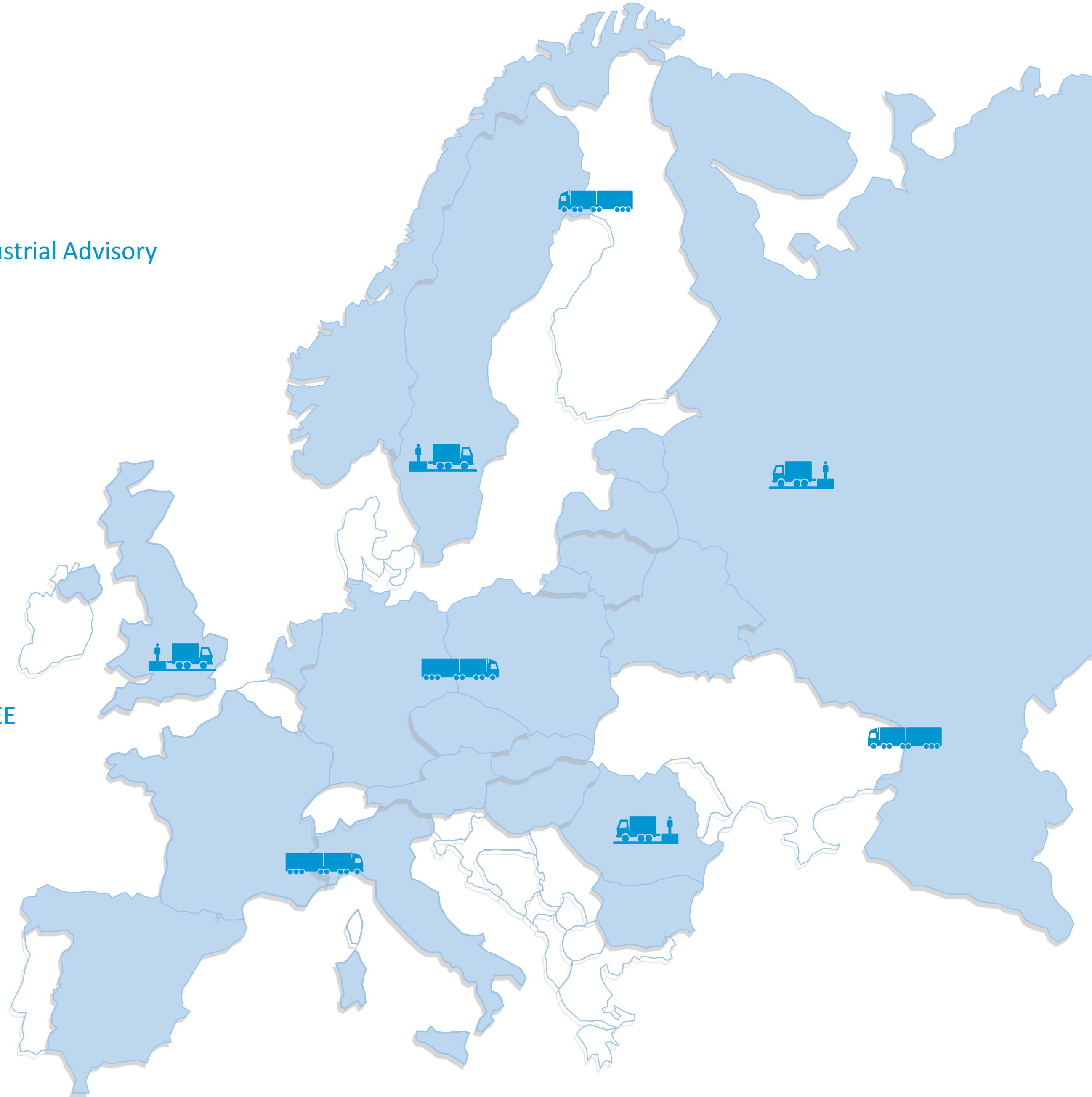
Due to current diminished demand, an increase in supply could impact rental rates by the end of the year, however, the market is still relatively healthy and there are no indications of further significant growth in vacant stock. Many short-term plans are being put on hold although, long-term plans for expansion and relocations are still continuing . Overall, there is a ca. 50-60% slowdown in the volume of lease transactions, meaning the tenants are now in the driving seat. After the initial shock, the investment market is being cautious but, investors seem quite optimistic towards the sector.



Belarus

The Industrial and Logistics sector in Belarus has remained resilient due to the following market and economic conditions. Firstly, there is low vacancy on the warehouse market, since the last two years recorded very limited new-build space has come into the market. Secondly, Belarus has to-date not imposed any strict restrictive measures as a response to the COVID-19 pandemic. Therefore, industry, trade, inland transport and freight are still running. Business activity supports short time demand for storage space, and rental rates remain unchanged although, there is just a slight downward trend for rates in new transactions. The development pipeline for the coming months is not substantial, so the level of demand and vacancy are likely to remain stable.

Key I&L Contacts at Colliers EMEA



Peter Kunz
Head of Industrial & Logistics | EMEA
peter.kunz@colliers.com
+49 69 719 192 23

Karel Stransky
Director | Head of Corporate Industrial Advisory
EMEA Corporate Solutions
karel.stransky@colliers.com
+420 603 457 242

Maciej Chmielewski
Senior Partner | Industrial & Logistics Agency
maciej.chmielewski@colliers.com
+48 604 121 748

Len Rosso
Head of Industrial & Logistics | UK
len.rosso@colliers.com
+44 7831 436096

Harry Bannatyne
Partner | Head of Industrial Agency CEE
harry.bannatyne@colliers.com
+420 602 490 217

Kevin Turpin
Regional Director of Research | CEE
kevin.turpin@colliers.com
+420 606 725 032