



EMEA Industrial & Logistics Market Response to Covid-19

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LESSONS FROM APAC

It has been a ca. 4 months since the first cases of the coronavirus were identified in China, 2 months since the WHO declared Covid-19 a public health emergency of international concern and ca. 3 weeks since the WHO upgraded the status to a pandemic.

From very early on in this tragic timetable of events, China was very quick to enforce a 'lockdown status' which is now starting to yield some levels of success in returning people and businesses back into operation and, as a result, restarting the flow of goods and services.

Although the supply chain from China and the APAC region is slowly coming back online, global sentiment and demand has weakened until the situation in Europe and elsewhere becomes clearer, with many border restrictions causing bottlenecks.

A big question mark for the APAC markets is how quickly Europe and North America will recover, allowing multi-national corporations more clarity in their decision making. In particular the automotive, aerospace and related industries that have a large footprint in Europe. On the positive side, certain sectors, related to the food-based and pharmaceutical logistics are thriving.



HOW HAVE OCCUPIERS BEGUN TO SAFEGUARD THEIR EMPLOYEES?

It is fair to say that no occupier would benefit long-term from being reckless in such times and thankfully, despite the negative impact on businesses, the lives and safety of people are being put first. Many people in the production environment are still required to work closely with each other despite the implementation of new technologies, so we have seen large parts of industry halt production. The automotive sector stopped activity in mid-March for an initial 2-week period, and in many cases this has been extended until mid-April.

Upon return to production, certain health & safety measures will no doubt have been reviewed. Some countries and many employers have provided guidelines and/or necessary supplies in relation to hygiene, through the use of masks, gloves, sanitizer gels, distancing (min. 6ft/2m), temperature checking etc. which will take some adjustments. Some companies have introduced new split shift patterns to clean down after each one with no interaction allowed between warehouse and office staff. This is not being adopted by every company and it may slowdown stock replenishment and distribution operations.



WHAT IS THE LANDLORD POSITION?

The question that everyone's asking, of course, is how long this situation will last and, while we can draw on some level of optimism coming out of China, there are similarly no guarantees. As a result, the response from landlords across EMEA, has been varied in line with the guidelines and level of measures imposed by individual governments.

The majority of landlords are working with their occupiers, partners and suppliers to find workable solutions around a range of scenarios including rental deferrals, short term lease renewals, space reductions, lease renewals and sale and leasebacks. In unfortunate cases, preparation is being made for potential closures or early terminations.

Many of these scenarios require a level of compromise on all sides and for landlords to consider accepting rent deferrals in return for amortising any deferred months into the remaining lease or extending the lease term by an equivalent period. Typical lease lengths in many markets are 5 years and above, but landlords are also considering short-term leases to accommodate the growth in demand for essential goods. Some delays in construction activity may stem supply but overall demand remains strong as long-term planning changes shape but moves forward.

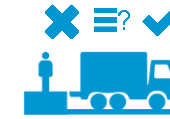


HOW WILL COVID-19 IMPACT AND SHAPE THE FUTURE OF I&L?

Covid-19 will persuade many to speed up the pace of change or question the status quo. Supply chains will come under significant scrutiny in the event that disruption continues for a longer period, particularly as border closures and freedom of movement cause disruptions.

There have been significant innovations in the way I&L properties are built and operated in recent years, and also in the technologies being used by occupiers. Prior to the pandemic, many markets were facing a shortage of skilled labour and seeking ways to achieve greater productivity.

Some of the innovations that have been designed, developed and implemented and we can expect to see ramping up include: Smart-buildings with systems and sensors to monitor and manage energy, air quality and equipment components to help improve safety, manage costs and minimize down-time. Increased adoption of autonomous robots and vehicles, drones, IoT devices, 3D printers, AI and data analytics will continue to improve and drive efficiencies and speed in both manufacturing and logistics.



HOW IS OCCUPIER ACTIVITY CHANGING ACROSS EMEA?

The businesses that have been hardest hit and required to suspend activities, have been eagerly awaiting government announcements on financial aid packages to help protect their futures and their employee's incomes. As a result some leasing activity has slowed down, at least until the future situation stabilises or becomes clearer.

Some production companies have taken a more proactive stance to fight back against the virus by repurposing production lines to help provide much needed products such as face masks, sanitisers and even advanced medical tools and equipment.

Some challenges exist for international logistics firms as long queues have formed at some borders, which are essentially closed, causing further disruption to the already challenged supply chains. The European Commission has proposed that all member states create 'Green Lanes' to prioritise trucks for essential supplies.

Therefore, businesses are taking a good hard look at how they operate, what geographical dependencies they have in their supply chains and how these can be resolved through alternative options, technology and/or new business models.

For domestic logistics, the picture is quite different, particularly for those involved in the food, beverage and pharmaceutical industries where demand is very high. This being driven by greater levels of e-commerce, as many brick-and-mortar stores are closed, and/or panic buying in certain markets. Overall, it appears that the supply of goods is not so much of an issue, it is mainly the case of not being able to restock fast enough. As a result, many companies have been looking for additional space on short term contracts (3-9 months) to cope with the situation. Whilst much of this space requirement is in the process of being fulfilled, the growth in demand for refrigerated space is more complicated to deliver under such conditions.

Overall, the sector is probably one of the least impacted by the situation and numerous longer-term negotiations are still ongoing, while remaining cautious, as they plan for the future, post Covid-19.



HAVING A DIFFERENT EXPERIENCE? WE WOULD LIKE TO HEAR FROM YOU.

We are doing our best to monitor the constantly changing situation on a daily basis, but please contact us if you would like to share your experiences so we can help advise others. Alternatively, you can share via a quick survey: [Covid-19](#)



Selected market activity and sentiment from around Europe

Germany

Overall, the leasing market in Germany has slowed down. Some transactions are closing, while others are on-hold or cancelled until the future situation is clearer. Logistics is doing very well off the back of increased socially distanced demand, driving more short-term requirements. Some manufacturers, particularly from Automotive have halted production for both safety and supply chain related reasons. I&L properties remain highly attractive; however, investment transactions have slowed down partially due to the challenge of physically viewing properties, but buyers and sellers alike are taking a wait-and-see approach.

UK

Our latest research reveals that food production is currently up by 50 per cent, due to panic buying with all of the major supermarkets and online grocery services with 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.

Netherlands

The Dutch Government has put forward a generous budget and measures to support companies and citizens to limit a long-term downturn in the economy. The investment market is currently cautious, but optimistic that the logistics sector will do well during and after the pandemic. The Netherlands, together with the UK, was already at the forefront of e-commerce in Europe and there appears to be further growth due to social distancing measures and closed stores. This particularly applies to the food sector and other essential goods for remote working from home and comfort in times of home insulation. Consumers do however need to be more patient in some cases before the goods arrive at home due to delays in international transport.

Austria

City logistics is increasing in importance due to the growth of e-commerce as a result of an increase in people shopping online, partially led by the pandemic. We also expect to see greater regionalisation and rising inventories creating greater demand for space. We also anticipate the diversification of manufacturing locations by pushing manufacturing to new near-shoring locations.

Italy

Even as one of the hardest hit countries by the pandemic, it is still too early to fully understand the impact that this will have on the country. The initial lockdown was due to end early April but, will almost certainly continue through much of April, especially in the worst affected regions. Most production facilities have closed since 21st of March for at least 2 weeks so, the effects of that will start to come through shortly. Logistics continue to work well, and we do not expect any major issues from this sector over the coming weeks. Investor appetite for I&L assets is strong but largely on hold, partially because site visits are not possible.

Czech Republic

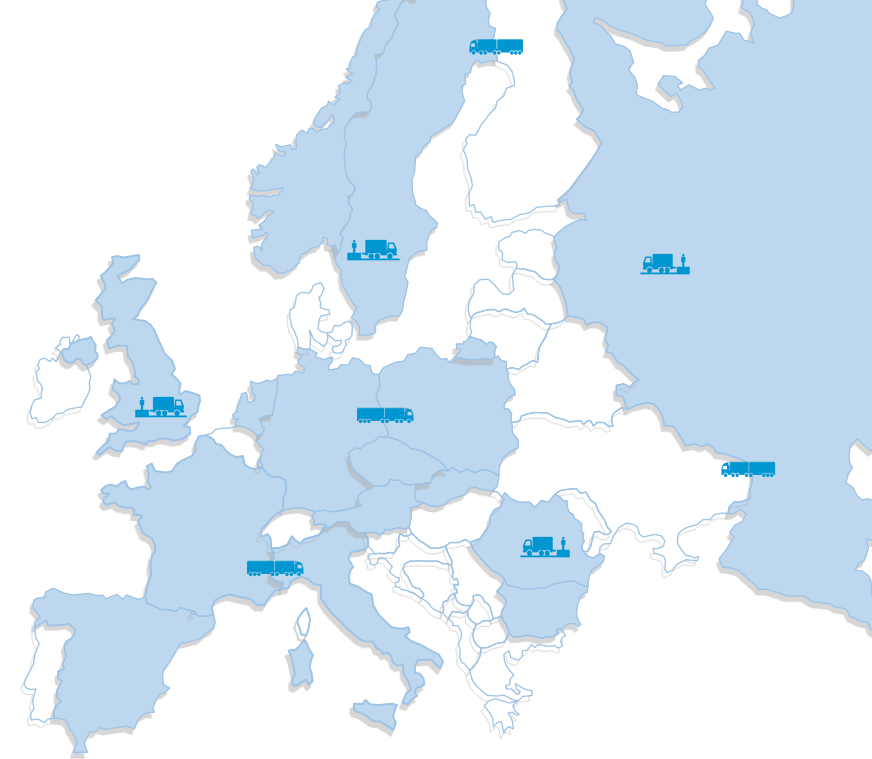
The logistics sector is highly active with an increase in demand for additional space under short term conditions. Landlords are being flexible in their approach despite the low vacancy that is an issue in many markets across Europe. Space under construction is still progressing but some delays can be anticipated if there is increased pressure to close sites due to health and safety reasons or lack of available materials. The major automotive producers, Skoda, Hyundai and TPCA have all ceased production for an initial 2-week period but there is a good chance that this could be extended and will certainly affect suppliers and other related industries.

Russia

Despite the influence the pandemic is having on the Russian and global economy, many industries continue to function successfully. Like many other markets the demand for logistics and longer-term industrial sites continue as short-term demand spikes and companies still plan ahead. However, if the number of cases increases then we may witness more of a slow down in transactions. The disruption of the supply chain from abroad may lead to a decrease in output of the engineering and automotive sectors, as well as other sectors related to the production and extraction of natural resources.

Bulgaria

Logistics companies have seen a rise in revenues due to the initial rapid increase in demand for food and other essential items. However, due to border closures drivers are experiencing additional delays at customs and in some cases, drivers are required to go into quarantine for 14 days therefore reducing the pool of available drivers. Besides, food, drink and pharmaceuticals, electronics have also been in high demand to support the home office movement. Many restaurants are offering home delivery in order to save their business from going completely under. Production companies, like elsewhere, are facing the most negatively impacted by closures; however many companies and industry clusters are looking at how they can help with providing the most required items such as protective equipment for medical staff, sensors and filters.



Spain

It is still too premature to make specific predictions on the impact for Spain; however we do expect some softening of yields and investors may hold on decision making and wait for new opportunities. In the leasing markets, food and staple items are in high demand and therefore, space usually taken by secondary items is being cleared to accommodate this. In addition, new requirements are being recorded and landlords are willing to consider shorter lease terms to accommodate the urgent need.

Summary

The majority of markets across EMEA, including, but not limited to France, Norway, Poland, Romania, Slovakia and Sweden are all facing similar market conditions. There are small variations in the timing of the impact, relevant to when certain measures were introduced and the level of restriction and/or disruption this has caused. Disruption is especially acute for retailers of non-essential items and those in the engineering and automotive sectors. Some are taking full advantage of the upside in business; others are choosing the waiting game and seeing what opportunities come up, while the majority hope this is all over as soon as possible. What is clear is that the next few months will be crucial as to how many market players will successfully adapt or survive.