



Warehousing under pressure?

The current 'credit crunch' looks set to put considerable pressure on trade and with it, demand for storage facilities around Europe, as delegates at a recent conference on the warehousing sector heard.

Robin Meczes reports.

The current global credit crunch is likely to result in slower growth over the next couple of years in the volume of goods being moved around the world and a sharp realignment in both occupier demand for warehousing and commercial property values as a result, according to speakers at the recent Sheds conference in Wales.

"There is real uncertainty about how serious things are going to be," said Roger Bootle, MD of economics consultancy, Capital Economics. "The notion that all that is wrong with the world is a little local difficulty in the US sub-prime market is incorrect. What's gone wrong here is very deep-seated with major, major consequences."

The world has passed through over a decade of financial excess based on low interest rates and is now feeling the effects. But not everywhere is going to feel the pinch the same way, he suggested. While a slowdown is now inevitable in the US, Asia, for example, is still



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likely to experience around 9% growth in the next couple of years and in China, retail sales are predicted to grow by some 14% in the next few years.

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In the Eurozone, which is heavily dependent on the US market for trade, the UK will be hardest hit by the credit crunch, with growth falling to just 1.5% next year and interest rates falling to 4.0% at the same time, said Bootle – all of which could lead to much reduced demand for warehousing and a fall in the capital value of warehouses of some 25%.

Elsewhere in Europe, the effects will be less severe. "The financial excess hasn't been anything like as strong in mainland Europe as it has in the UK and consequently, I have some hope that the downturn will be much more modest. I think the Eurozone will hold up relatively well."

There are still some areas of concern in mainland Europe, however – Bootle cited Spain in particular, where around 10% of gross domestic product (GDP) and 12% of employment is based on the construction sector – a sector just starting to slide into slowdown.

In other EU states, like Germany, things look a lot more solid, however. "Germany hasn't been having a boom at all, though things are now starting to look a bit more optimistic. That key central part of the Eurozone economy will

hold up pretty well and that will provide support for places like Belgium, Holland, France, and to a lesser extent, Italy," said Bootle.

Warehouse hotspots

Because of increased trade with other parts of the world, like China, the hotspots for warehousing in the next few years are likely to be at or near large international ports, suggested Gary Anderson, president and chief operating officer for Europe at industrial property developer, Prologis. "Over 90% of all goods by volume move by sea, so a strong presence near or connected to major global seaports is critical for success in our view."

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European ports have certainly been showing strong growth lately, he added. "If you look, for example, at the port of Hamburg, the number of containers handled there rose from just over 2m in 1991 to approaching 9m in 2006. While trade with the US at this port has been relatively static, there has been a major boom in trade between different European countries and between Europe and China, and China is going to have a much bigger impact in the medium term on the EU economy than almost any other location – the number of containers handled in Chinese ports, for instance, was up 2000% in the last year alone."

Ongoing expansion of the European Union →



1. **Roger Bootle**, Capital Economics: "fallout from 'credit crunch' could have major consequences."
2. **Gary Anderson**, Prologis: "large number of western warehouses are 'functionally obsolete.'"



→ is also generating fresh demand for transport and warehousing. “The expansion to the east is stretching historical transport corridors, making the CEE marketplace much more important today as firms move there not just to distribute goods but also to manufacture, taking advantage of the low labour costs and very educated labour force and actually very good transport infrastructure,” he said. “It’s our view that this will support property fundamentals in the CEE market for years to come...”

Warehousing in western Europe also needs some reconfiguring, however. “It has been estimated that 35-45% of existing warehouse stock here is functionally obsolete. Much of it was originally designed for single tenants, for local distribution and was, frankly, in the wrong location,” said Anderson. “Today these buildings are generally too small and lack the features necessary to support high value throughput, which is where we’re all heading today. Couple that with increasing transportation costs, and you have a very strong argument for continued reconfiguration of the marketplace.”

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Rail and air

A further trend in the European warehousing market is a move towards rail-connected facilities. “There has been a big shift towards rail for pan-European distribution and increasingly, we’re seeing EU governments becoming more active in pushing rail freight activities,” noted Anderson.

In one recent instance, a shipment being moved from Beijing to Hamburg – a total distance of around 6,000 miles – was transported by rail across six different countries in 15 days. “The rail operators involved say they can reduce that to 10 days and if they can, that would make it twice as fast as the traditional sea route and cheaper than air. Clearly, this is never going to replace the volume of goods travelling by sea... but it does begin to demonstrate that there are applications that are viable across Europe for rail.”

Walter Hens, group executive director

at warehouse developer Segro, suggested that airports, too, would be a key area of growth for warehousing in the next few years – among his firm’s many current developments is 200,000 sq m of logistics space at the new Berlin airport, for example. “There is no doubt that at some point in the future, fewer goods will travel by road as the existing road network becomes saturated and as oil prices continue to rise.”

Warehousing growth will also be stimulated by the growing third party logistics sector, which will also give rise to more multi-user sites. “There is currently wide variation in levels of outsourcing across Europe, but the trend towards using 3PLs is growing in all parts of Europe as occupiers seek ever more flexibility and an increased level of service from suppliers,” said Hens.

Two-tier market

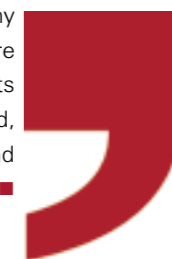
Overall, the European market continues to be very dynamic for now with solid occupier demand – though there remains huge disparity in the amount of warehousing stock per head of population from one EU country to the next. In the UK, said Hens, there is nearly

3 sq m of logistics floorspace per person, while in other places, like Romania, it’s just 0.2 sq m.

“Clearly, there are two markets in the EU – first the mature markets to the west, like France, The Netherlands, Germany and Belgium, which are moving slowly but steadily; and second, the emerging markets to the east which continue to show huge takeup and regular growth, Poland being one of the best examples.

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“Ten years ago, the heart of the logistics business was around the UK, The Netherlands, France and Belgium but now, it’s all moving further east, with Germany becoming much more central and Eastern hotspots currently including Poland, the Czech Republic and Russia,” he concluded.



3. **Walter Hens, Segro:** “two-tier warehousing market in the Eurozone.”

Events calendar

Date, Event, Location, Website	Overview
16 April Fastlog Belgium Charleroi, Belgium www.fastlog.be	Annual conference and exhibition on transport and logistics covering all forms of freight transport, logistics services, logistics infrastructure, IT systems and handling equipment.
22-25 April Transrussia Moscow, Russia www.transrussia.ru	International freight transport exhibition and conference. Exhibition will feature more than 400 exhibitors over 10,500 sq m; conference will focus on all modes of transport including road, rail, air and sea, as well as logistics and supply chain management issues.
24-27 April Transport and Logistics Riga, Latvia www.bt1.lv/bt1/translog	International exhibition and conference on transport, communications and logistics.
7-8 May Transport & Logistiek Utrecht, The Netherlands www.easyfairs.com/shows/detail.aspx?ShowID=474	Transport and logistics exhibition with all the latest in distribution, logistics, warehousing, transport packaging, supply chain management and multimodal transport.
14-16 May IRU World Congress Logist Istanbul, Turkey www.iru.org/index/en_2008_istanboul_exhibition	Road transport, intermodal systems, loading & unloading, storage and logistics industry fair, held concurrently with the 31st IRU World Congress.
26-30 May Handling and Storage Equipment 2008 Moscow, Russia www.mvk.ru	Sixth international specialist handling and storage equipment salon.
27-31 May CeMat Hannover, Germany www.cemat.de	Massive international exhibition of handling, storage and warehousing technologies. Preceded on 26 May by special CeMat conference, Future of Logistics.