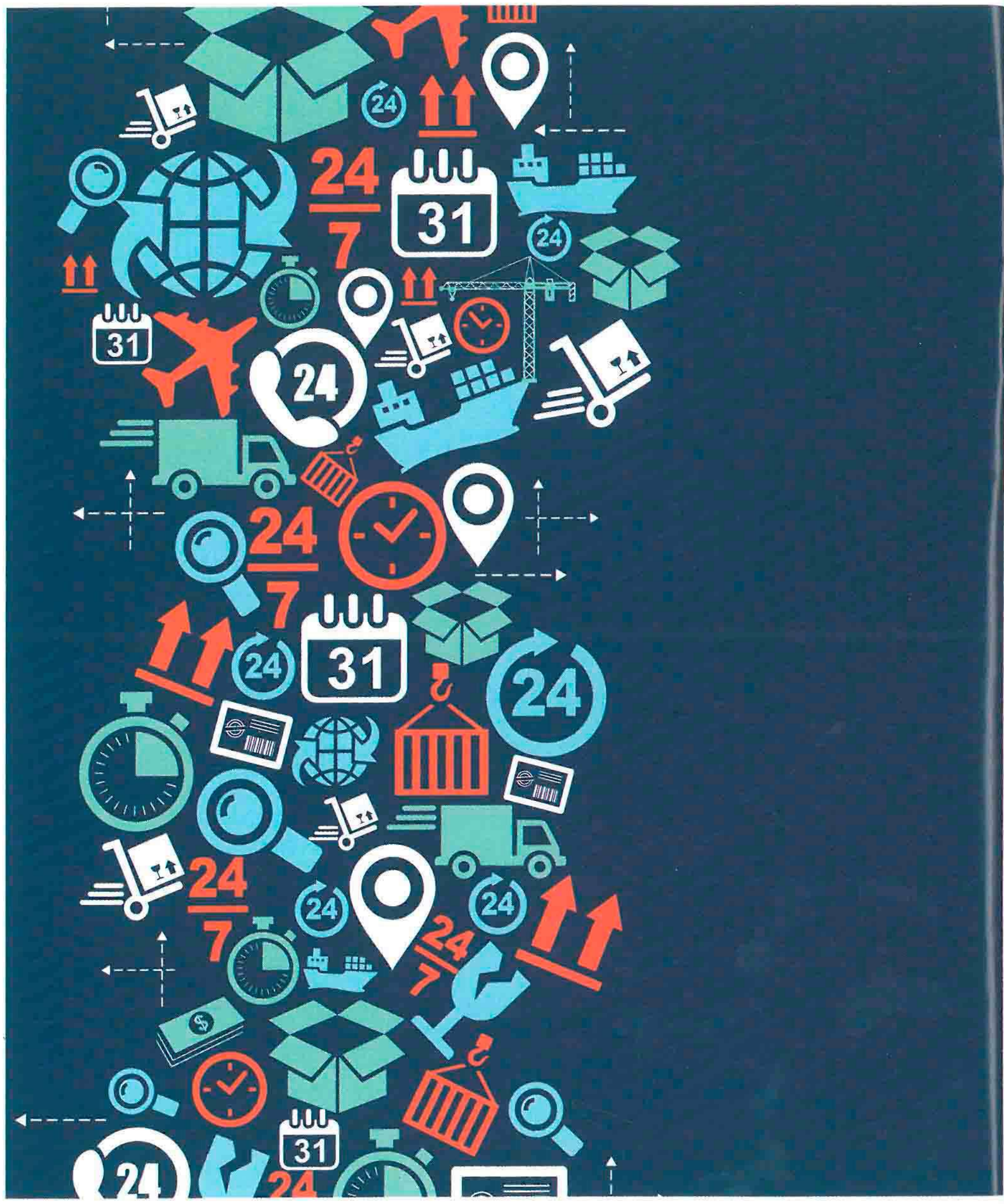


Booming multichannel sales should mean a huge surge in distribution building across Europe and even further afield. Yet while multichannel fulfilment has been the standout success of the retail sector, the market positives continue to be counter-balanced by caution based on a variety of factors, including previous over-development, future protection and the unpredictability which both marks ecommerce as an opportunity and a challenge.

Sat in the centre of this rapidly evolving market are third-party logistics providers, which typically service retailer distribution or provide shared platforms for those retailers to manage their own retail space. In a market that still wears the scars of the past and uncertainties over the future, they are now playing the multi-hat roles of developers, owners and operators.

Much of the reshaping of the sector is based on the recent past. For the UK especially, development peaked wildly in 2007 and the sharp crash that followed left huge swathes of shed space vacant.

Most of that has now been absorbed but, as Legal & General head of business space research Bill Page points out, this year's 1.5 million sq ft of speculative space under development may be a significant uptick on previous years but needs to be set against the 13 million sq ft of speculative development in 2007.

Positive investment

In 2014, progression is being driven by three main factors: design and build development, mixed targeting of larger shed locations and urban/edge-of-town sites for parcel hubs, last mile logistics and cross-border consolidation.

Most of the figures are positive. A total of €8.7bn was invested into European industrial real estate during the first half of 2014, a 25% increase versus H1 2013, and the highest first half total since 2007, according to CBRE. The UK continues to capture the lion's share of industrial investment, with €3.46bn invested in the sector this year (40% of total investment). Germany, France and the Netherlands also saw significant activity.

"All areas of the market are functioning well, the transaction pipeline and size of deals is growing and the occupier-led development cycle is starting to produce some very interesting dynamics again," says James Markby, head of EMEA industrial and logistics investment at CBRE. "It's a market where there are a lot of positive drivers, such as ecommerce and the improving economy, and very little bad news. Although we haven't seen a lot of rental growth in Europe yet, recent transactions suggest that values are pricing in rental upturns."

Occupational demand for warehouse space in core EMEA countries increased 42% year on year, with Paris, Milan and Budapest experiencing the strongest improvements in leasing activity, followed closely by Dublin and Amsterdam, adds Amaury Gariel, head of EMEA industrial and logistics at CBRE.

"The availability of modern stock in well-located areas is limited, which leaves occupiers with the option of taking space in secondary locations, or initiating a build-to-suit project," says Gariel. "Therefore most newly completed space tends to be build-to-suit, although we are now seeing renewed appetite and some speculative development in the more strategic western European markets."

"It's a market where there are a lot of positive drivers, such as ecommerce and the improving economy, and little bad news

James Markby, CBRE

€8.7bn

The amount invested into European industrial real estate during the first half of 2014

SOURCE CBRE

Three is the magic number

As multichannel sourcing, delivery and shipment increases across borders, there is no doubt that the already influential 3PLs will become even more important in providing the logistics infrastructure to support international expansion, finds **Mark Faithfull**

€3.5bn

The amount invested in the UK industrial warehousing sector during the first half of 2014

SOURCE: CBRE

3PL Norbert Dentressangle offers warehousing hubs in strategic locations

3PLs to the rescue

This is in part where the 3PLs come in. As well as managing warehouses for big-name retail customers, the major 3PLs have their own facilities which they operate on a shared basis. Taking space in a 3PL-owned and operated facility allows a retailer to test new markets, and for smaller retailers it means tapping into an established network cost-effectively.

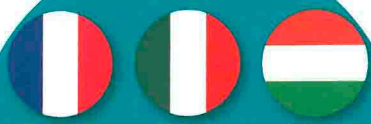
The UK is currently the number one location for e-fulfilment operations, believes Martin Palmer, business development director at Norbert Dentressangle Logistics. "There is unrivalled expertise and experience in the UK market and the major parcel carriers are continually improving their services, which makes it possible to deliver quickly into most European markets. Employment conditions are also more favourable than in, say, France or Germany," he says.

"That said, some of our more established customers are also weighing up hubs in other strategic locations as they expand across Europe, for example, Paris for northern Europe, Marseille for southern Europe and Poland to open up Eastern Europe."

Activity among the big 3PLs and investment companies supports this claim. Guy Gueirard, head of EMEA logistics and industrial at Jones Lang LaSalle notes that while increasing demand for logistics space has been driven by the change in retail patterns, over the past five years (between 2008 and 2013) 3PLs have been the most active occupier group, taking up 40% of the total European take-up during this period, followed by retail companies at 32% of the total.

"As retail is embracing omnichannel offerings, in particular smaller retail brands are often struggling to build the required complex and extensive logistics networks quickly enough," says Gueirard. "This creates significant opportunities for 3PL companies that offer a wide range of services."

Looking to the future, it will be the ability to increase efficiencies along the whole supply chain and consolidate last mile delivery that will drive further outsourcing of logistics processes to 3PLs in order to reduce warehousing and transport costs, Gueirard concludes. ■



The cities experiencing the strongest improvements in warehouse leasing activity

SOURCE: CBRE

Major 3PL international deals in 2014

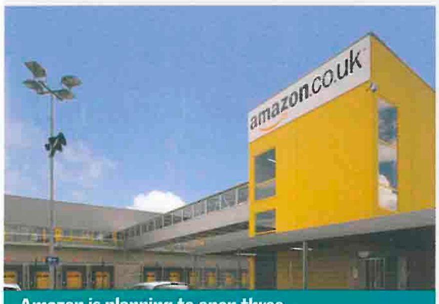
In the past 12 months, third-party logistics have helped retailers grow their national and cross-border sales, and it's this creation of nationwide platforms that's set to shift the market even further in favour of 3PLs.

There's certainly been no shortage of acquisitive deals to bolster 3PLs' position in recent months. Leading 3PL **Prologis** is developing two new logistics facilities in central and Eastern Europe, a 320,000 sq ft facility at Prologis Park Prague Airport in the Czech Republic and a 250,000 sq ft facility at Prologis Park Bratislava in Slovakia, which "will provide high-quality logistics facilities in two growing markets", says Philip Dunne, president of Prologis Europe. Prologis owns and manages over 150 million sq ft of logistics and distribution space in Europe.

Goodman acquired an 872,000 sq ft site offering 375,000 sq ft of logistics space at the Altenwerder Freight Village near the port of Hamburg in northern Germany and it plans to build a further 130,000 sq ft on the Hamburg site, representing a total investment in the area of €30m. The 375,000 sq ft property is currently leased on a long-term agreement to a Danish logistics service provider and will become part of the Goodman European Logistics Fund (GELF) portfolio, which is managed by Goodman.

Goodman is also developing a fulfilment centre in Wrocław for Amazon, which will be the largest free-standing logistics facility in Poland and is one of three such centres being opened in September and October this year. Raimund Paetzmann, director of EMEA real estate for Amazon, says: "We decided to partner with Goodman in Poland due to the firm's extensive experience in building similar warehouse facilities for Amazon in western Europe."

SEGRO's Warsaw logistics facility



Amazon is planning to open three fulfilment centres in Poland this year

Norbert Dentressangle operates 84 million sq ft of warehousing across more than 500 sites, of which around 200 are in the UK totalling around 38 million sq ft. Business development director, Martin Palmer, says retail and ecommerce accounted for 33% of group turnover – approximately €1.4bn – in 2013.

"Over the past couple of years, there have also been a number of major developments in mainland Europe. These include the acquisition of around 1.3 million sq ft at the Port of Antwerp in Belgium, the opening of a new facility in Ukraine, taking on 40 new sites (5.1 million sq ft) with the acquisition of Fiege's logistics activities in Italy, Spain and Portugal, and the acquisition of a further nine warehouses in France (1.9 million sq ft) from MGF," says Palmer.

"We're also building a 560,000 sq ft automated warehouse at Saint-Vulbas in the Lyon area as part of a 10-year agreement with sporting goods company Amer Sports and a 344,000 sq ft chilled warehouse for Albert Heijn near Utrecht, both due to become operational in 2015."

42%

The year-on-year increase in occupational demand for warehouse space in core EMEA countries

SOURCE: CBRE

AEW, **PointPark Properties** (P3) and **TIAA Henderson Real Estate** have all been active in the core Western and CEE markets, while UK-based **SEGRO European Logistics Partnership** set out its European ambitions when it acquired a portfolio of prime logistics assets and development land in Germany, Poland and France for €472m. The portfolio of 14 prime, modern logistics assets (10 in Germany, three in Poland and one in France) cover approximately 7.3 million sq ft of lettable space, including one building under construction, and 51 hectares of development land in Germany.

SEGRO has a £4.7bn portfolio of logistics assets across the UK and Europe and is continuing to see strong demand from the retail and distribution sector, according to Gareth Osborn, business unit director for Thames Valley and national logistics. "Our assets are strategically located in key cities across Europe and along major transport hubs and distribution corridors to provide retailers and third-party logistics providers with well-located premises from which to service the last mile delivery," he says.

Looking to 2015, Osborn predicts the industrial warehousing market will be made up of a mixture of bespoke and existing facilities.