



**EXPERT REACTION** CONTINENTAL EUROPE FRANCE LOGISTICS UK & IRELAND

# Why 'true' urban logistics are well set to outperform post-pandemic

2 Jun 2021 | by Christian Jamison

**Catch all term is being frequently misused**



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It has been well documented that the pandemic has accelerated demand for urban logistics space in key European

markets. But as restrictions are eased and we prepare for a gradual return to normality, what might the recovery mean for the sector and what are the prospects for rental growth?

First an important clarification: we define [urban logistics](#) typically as: lots of between 5,000 and 100,000 sq ft; located in proximity to major urban centres; with a primary use to access millions of the population; and typically in under an hour via an established road network. Increasingly we are seeing “urban logistics” being used as a catch-all term for any industrial space in a built-up area, which in our view can be misleading when forecasting rents and future performance.

Looking at the outlook for 2021, demand continues to be concentrated around a core group of major European hubs. London and Paris, where more than 80% of our portfolio is located, top this list. These are not only two of Europe’s largest cities, they are economic engines, accounting for up to one-third of their respective national GDP’s.



Valor acquired a 54,000 sq ft estate in Crawley in March

These are also the capital cities of two countries where online retail penetration is among the deepest. In the UK, online retail sales peaked at 36% in 2020, up from just below 20% pre-pandemic, and are forecast to level at out at circa 25% after the artificial conditions of lockdown are removed.

France lags somewhat behind – just over 13% of goods are estimated to have been bought online in 2020 – but there are signs that the pandemic is accelerating changes in consumer behaviour. A survey by GlobalWebIndex conducted last year showed that 27% of consumers aged 16 to 64 planned to continue to shop more on-line and less in-store.

Moreover, they are both old cities, with dense centres bisected by rivers, and sprawling suburbs organised around uneven road and public transport networks. This urban footprint makes the movement of goods inherently challenging, and so increases the importance of well-located last-mile facilities.

### **Rising rents but still a fraction of overall cost**

The paradox is that while last-mile distribution space is critical to the growth of retailers' online channels, rent still represents a very small proportion of last-mile costs.

In the typical model the primary cost is transport – accounting for circa 50% of last-mile delivery costs – followed by labour, which represents about 25%. Rents will account for between 5% and 10%, underlining that property cost is not a critical factor in overall profitability, and therefore can increase in line with demand.

In the UK demand for industrial space reached unprecedented levels in 2020, with take-up totalling 50m sq ft. Close to 700,000 sq ft was let in London, where Knight Frank estimates vacancy is now below 3%. In Paris, take-up was frustrated by a lack of supply of smaller light-industrial space, which is needed for last-mile distribution, with rents growing strongly within the A86 orbital route.



The boom in home delivery has seen demand for dark kitchens soar

However, demand shows little sign of abating, and we are seeing new uses, such as dark kitchens and grocery collection points – both an extension of this theme of escalating consumer demand – now adding to the competition for inner-city space.

To meet growing demand, more innovative warehouse formats that intensify industrial land use will become viable, but we are still some years from these going mainstream. Multistorey warehousing is seen as a part of the solution in cities where there is also pressure to deliver housing, but development has been constrained by concerns around rights of light and the impact on neighbourhoods. As a result, there is speculation about underground logistics.

Although going underground makes sense from a land use perspective, rents would need to move on considerably to justify the significant cost of excavating space in these urban areas. However, the utilisation of existing underground space, such as former car parks, is starting to happen in city centres. As rents increase, we are likely to see the development of more “ultra-urban” logistics, perhaps converting retail or even

office space, and co-locating smaller industrial spaces with residential.

Consumer demand for efficient and superior service will only place more emphasis on “last leg” logistics, underpinning occupier demand, in particular for space able to accommodate different types of vehicles (including electric bikes and scooters, as well as vans). It is Europe’s metropolises where this demand is most acute, and with consensus that the e-commerce journey is far from finished, those managers with existing portfolios and the expertise to continue aggregating stock in highly granular markets are well placed to be the big winners of the current boom.