



SUPPLY CHAIN INSIGHTS

SIX THEMES SHAPING THE NEAR-TERM LOGISTICS REAL ESTATE MARKET

The COVID-19 crisis has caused a shift in customer behavior towards e-commerce that's likely to act as a catalyst for more automated, regionally located supply chain facilities. We look at the implications for logistics real estate over the coming years.

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At a very basic level, the logistics industry meets human beings' requirements for consumption. So when a pandemic like COVID-19 profoundly impacts what and how people want or need to consume, there are long-lasting implications for global supply chains.

Not least of those is the need for more automated and regionally distributed warehouses that bring businesses closer to their customers and give them a chance of competing with the e-commerce giants who can offer same or next day delivery.

With many experts forecasting that pandemic-related changes in consumption could be here to stay, we are seeing six themes in particular that are likely to dictate where and how businesses decide to deploy supply chain real estate.

1. An acceleration in e-commerce and omnichannel development

As a result of global lockdowns, the world has seen a massive rise in e-commerce. This had already been a growing trend, but in April 2020 alone its growth matched that of the last seven years combined.



Omnichannel is now a reality for the majority of DHL customers and most argue that there is no going back. To succeed in this new fast-paced arena, businesses will need to do more than just add new functionality to their websites, they will have to re-consider their whole distribution operation and warehousing strategy.

Real estate consultancy Knight Frank expect some of the consumer shift to online retailing to stick: "Many shoppers who previously did not shop online, or did not do their grocery shopping online, are expected to continue using it in the future. Results of [a] RetailX attitudes survey revealed that 24% of respondents said that after the Covid-19 health issue is over, they will carry on shopping as they are now. Grocery retailers may need to ramp up their online operations faster than previously planned."

The result of this will be an even higher demand for logistics space. In particular there will be demand for more temperature-controlled space but also for modern buildings that are taller, more efficient and have natural light and employee amenities to ensure a safe and enjoyable work day.

2. Employee wellness at the core of sustainable process optimization

With the increase in e-commerce business, and growth of the major players, the competition to attract warehouse employees has intensified during the last few years. The pandemic has highlighted working conditions in the large picking operations that support customers' demand for nearly instant fulfillment.

A core component of an organization's commitment to sustainability, operations that ensure safety and focus on employee wellbeing will reap the benefits of higher retention rates and attract new talent in the immediate term.

Nigel Godfrey, Head of Real Estate Solutions UKI, at DHL Supply Chain says: “The subject of employee wellness and sustainability has been brought into even sharper focus by the pandemic, especially as employees return to the workplace.”

3. The advance of automation

Today’s facilities are increasingly being designed with automation in mind. This includes next-generation warehouses being built much taller, providing up to twice the clear height and storage capacity per square meter. This maximizes operating efficiency with the space utilization advantages of automated storage and retrieval systems.

Automation can help businesses develop omnichannel operations at scale and quickly. Faster and more efficient movement of goods, thanks to design for automation, generates efficiency and productivity gains which can offer a significant return on investment in the medium to longer term.

In addition, this digitalized focus enables more robust business continuity and flexibility in case of any future disruptions, whether caused by infrastructure, another pandemic or geopolitical circumstances.

Retail research analyst Jordan Speer points out that robotics can partly mitigate the risk of a human workforce vulnerable to illness. He says that even before COVID-19 “the adoption of robotics, automated material handling equipment, artificial intelligence (AI), voice, and other advanced technologies into warehouses and distribution centers (DCs) was on the rise, driven by the need to manage high-velocity operations with limited – and increasingly expensive – labor resources while meeting the ever-changing demands generated by digital commerce.”

The robots that operate in many DHL warehouses around the world have helped facilities to run efficiently when social distancing rules for employees are in place, and hundreds more will be deployed in the coming months.

The use of other digital technologies has also proved its worth for DHL Supply Chain during the pandemic. CEO Oscar de Bok says: “We have spent a lot of time developing our data and analytics capabilities, and that has dramatically improved visibility across our operations. That data was critical to support our decision-making in the crisis. We could immediately see where we had capacity and how we could move resources to keep operations running and meet our customers’ needs.”

4. A switch from B2B to B2C

With shutdowns effectively forcing many businesses to close temporarily around the world, we have seen a switch from business-to-business (B2B) to business-to-consumer (B2C) volumes.

For example, with sectors such as restaurant, bar and hospitality largely unable to trade, there has been a dramatic reduction in activity there, while consumers’ online purchases of food, drink and other essential goods have been higher than ever.

With the online spending habit expected to only become even more engrained as a result of COVID-19, we could see a greater demand for larger logistics facilities with space for the consolidation of legacy warehouses. Businesses benefit from the resulting efficiencies and reductions in cost. In the UK, the new Manton Wood facility (see sidebar) is an example of just such a dense, multi-user space aimed at meeting the needs of today’s consumers.

5. The return of higher inventory levels and simplification

In recent years, customer organizations have been focused – driven usually by their Finance and Procurement teams – on lowering costs wherever possible, and therefore on minimizing stock levels, while SKU counts have proliferated to cater to perceived consumer desires.

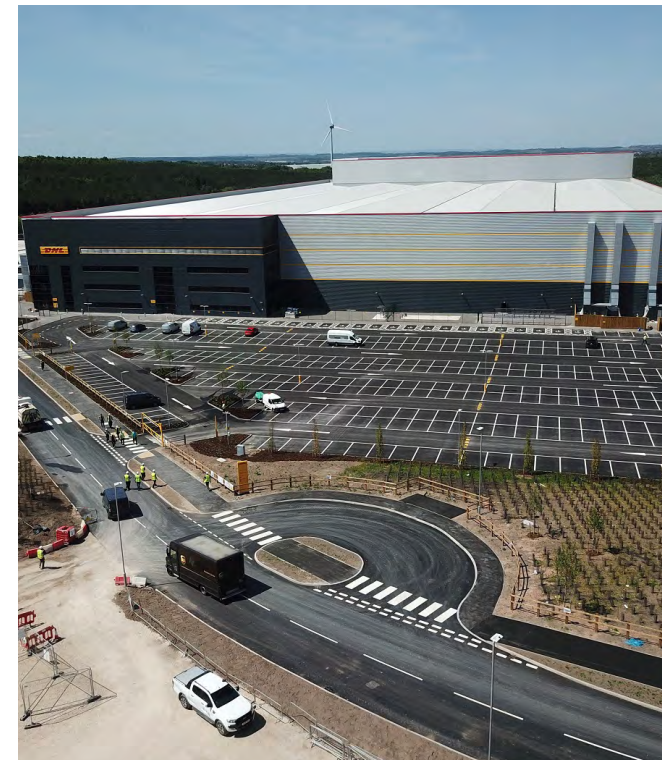
However, Jan Gora, Global Head of Real Estate Solutions Strategy at DHL Supply Chain says: “The COVID-19 crisis has exposed the fragility of the minimum inventory approach and

REDEFINING LOGISTICS AT MANTON WOOD

The Manton Wood facility in the UK’s East Midlands is a prime example of the new, larger facility that is helping to redefine the logistics industry.

This multi-customer facility houses automation systems, top-tier COMAH storage and integrated packaging capabilities. By integrating these features into their operations, customers achieve the benefits of each, with reduced capital investment, and the ability to scale up or down.

Designed to the highest warehousing specifications and close to transport links, the facility can better serve the retail and consumer industries across the UK.



MODERNIZATION OF LOGISTICS INFRASTRUCTURE – THE CHINA EXAMPLE

It has been estimated that around 60 to 70% of China's current warehousing space requires modernization. With land allocation largely influenced by the central government, we have seen logistics facilities being deprioritized in favour of manufacturing operations. However, the spotlight that has been shone on supply chains by the pandemic, and the realization that inbound and outbound solutions are essential for the manufacturing sector, means that we should see a reappraisal of that approach.

As with other regions, the rise of e-commerce is forecast to assist the growth of the logistics real estate sector in China. Property specialists CBRE speculate that retail space which is no longer required could be repurposed as smaller, more local logistics facilities, or collection points for e-commerce shoppers to pick up purchases.

Meanwhile, in the near-term, the country is expected to see large investments made in modernizing its logistics services with smart warehousing and data storage two of the key areas for investors.

Looking further ahead, despite COVID-19, the country's retail sales are forecast to grow at an annual rate of 9.5% from 2019 to 2030 when they are expected to reach RMB 112 trillion. Its Grade A warehouse market will, in line with that, "be bigger, more complex, more mature, and even more essential than it is today" according to JLL.

we are now seeing a refocus on quality solutions and stock levels that can better support future surges in demand"

Ariel Ko, Asia Pacific Real Estate Solutions Business Developer at DHL Supply Chain adds: "Currently, across Asia, customers are looking for overflow space to prevent stock outs in case of another wave of border closures – reinforcing the need for local volumes."

Of course, higher stock levels means that more warehouse space is required, most likely closer to consumers. Select customers are questioning the SKU proliferation and refocusing on stocking sufficient quantities of the highest throughput SKUs.

Commercial real estate broker JLL backs this assessment, commenting in its analysis that "companies with very lean supply chains (with low inventory cover) may seek to increase their inventory levels."

6. Sustainable, next-generation real estate facilities

According to the World Economic Forum, buildings are responsible for nearly 40% of global greenhouse gas emissions,¹ creating a strong imperative for the real estate industry to take action and invest in zero carbon buildings. Governments are also establishing strategies towards achieving net-zero carbon buildings by 2050 or earlier, furthering the need to solidify a robust sustainability strategy for real estate.

Technologies aimed at decarbonization, electrification, efficiency and digitalization are an effective strategy to meet building sustainability commitments and achieve significant cost efficiencies and productivity boosts. Some of the technologies built into new warehouses include solar panels, heat pumps, daylight harvesting, intelligent LED lighting, and use of grey water for toilets and landscape irrigation.

Sustainable facilities are a crucial element of a real estate strategy with robust Environmental, Social and Governance (ESG) priorities. These represent interesting opportunities for real estate investors and business occupants who can leverage of these facilities to achieve their own sustainability targets.

Ben Segelman, Global Real Estate Solutions Capital Markets at DHL Supply Chain says: "Sustainability is a key investor decision criteria and warehousing/ fleet charging is a significant lever to decarbonize supply chains

Conclusion

Covid-19 has taken an incredible human and economic toll. It has also put supply chains in the spotlight and exposed their weaknesses as well as accelerating trends. "We have to seize the opportunity to develop resilient supply chains that can deliver the e-commerce future today," says Jan Gora.



¹ <https://www.weforum.org/agenda/2020/01/zero-carbon-buildings-climate/>