INDUSTRIAL EVOLUTION

CITY LOGISTICS

REAL ESTATE STRATEGIES IN POST-PANDEMIC EUROPE

CUSHMAN & WAKEFIELD

CONTENTS

INTRODUCTION

CITIES ARE VITAL PLACES FOR PEOPLE TO LIVE, WORK AND PLAY. THEY ARE THE FOCAL POINT FOR ECONOMIC ACTIVITY AND THEY ARE COMPLEX, OFTEN CHALLENGING, PLACES IN WHICH TO MOVE PEOPLE AND GOODS AROUND.

Not all cities are the same – so how do logistics strategies change for different cities?

And how have cities changed – or not – in the post-pandemic environment? And what difference does it make to the real estate that businesses need to make effective city logistics strategies? And what do real estate stakeholders – including occupiers, developers and investors – need to think about when it comes to locations and real estate?

This report explores the key issues of city logistics in the post-pandemic environment, how logistics for cities across Europe are different and the ways in which city logistics and city logistics real estate is evolving.

WHAT'S CHANGED? WHAT HASN'T CHANGED?

IN THE POST-PANDEMIC ENVIRONMENT, WHAT HAS CHANGED FOR CONSUMERS, BUSINESSES AND CITIES THEMSELVES?

WHAT'S CHANGED?

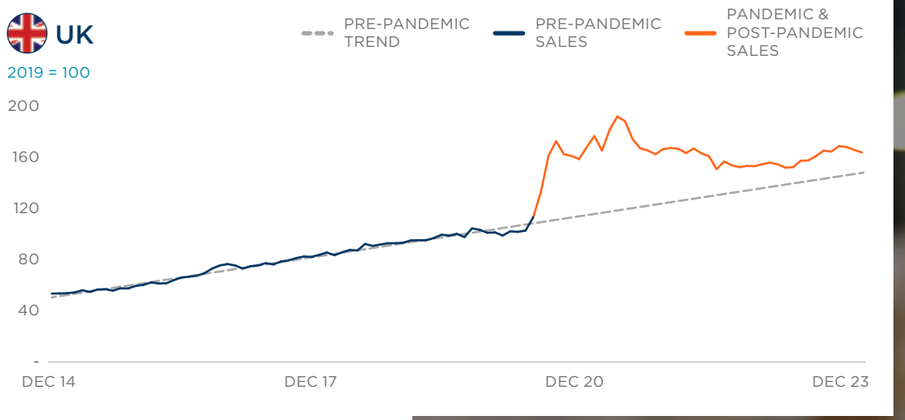
ONLINE RETAIL SALES HAVE FALLEN (BUT ARE STILL HIGH)

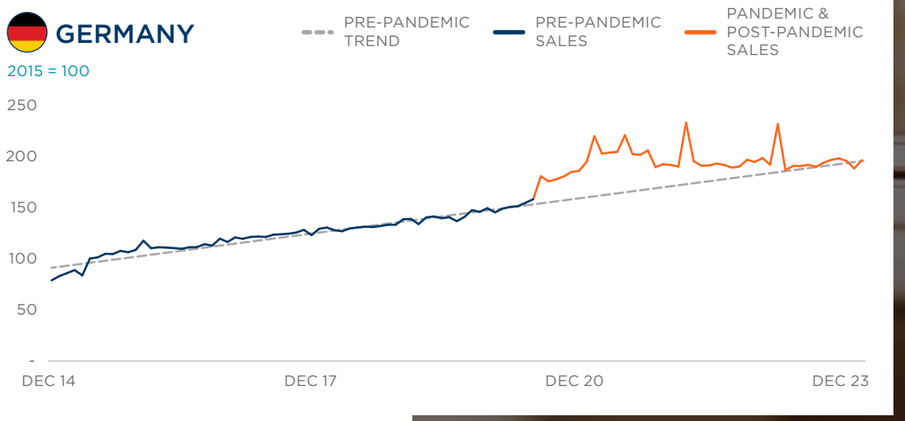
During the pandemic, online retail sales grew massively – in some geographies, the equivalent of five years' worth of growth was seen in less than a year. This was due to the forced closure of retail outlets and the inability for people to shop instore during periods of community lockdowns.

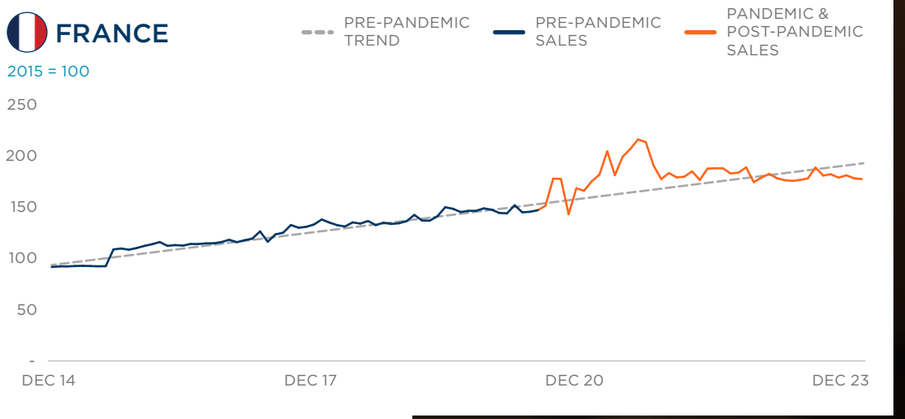
As a result, **online retailers and retailers with online platforms needed to pivot their logistics operations** to be able to respond to the enormous growth in demand for online fulfillment. This led to huge growth in requirement for logistics warehouse space to meet this demand from consumers.

In many places however this was a continuation, albeit at a highly accelerated pace, of the growth in demand for logistics space to meet the increasing demand for online retail.

However, since the end of pandemic, **online sales of goods have fallen:** people have returned to shopping in stores both for enjoyment, especially as the in-person experience of shopping is a desirable pastime, and for economic reasons, as retailers are increasingly offering instore discounting that is not being offered online in order to attract people back into stores.





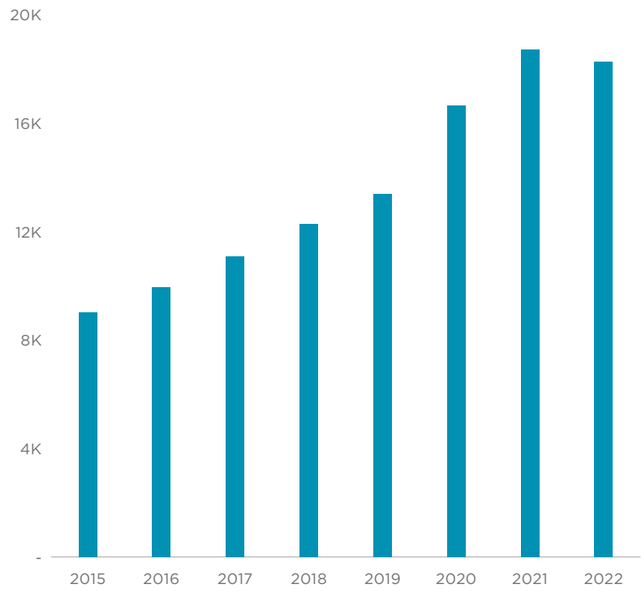


But, it is important to note that whilst retail sales have fallen back from the extraordinary levels experienced during the pandemic, **online retail sales are still high** relative to where they were in the five years leading up to it. In France and Germany, 58% and 52% respectively higher than at the end of 2015. However, in the UK, Italy and Spain, sales are more than 100% higher than where they were at the end of 2015.

This means that the **need for online retail fulfilment of parcel deliveries is still high.** Research from Effigy Consulting shows that whilst overall parcel volumes moved in Europe have fallen between 2021 and 2022, at over 18 billion items, the number of parcels moved in 2022 is still double that in 2015.

COURIER, EXPRESS AND PARCEL MARKET VOLUME IN EUROPE

MILLION PIECES



SOURCE: EFFIGY CONSULTING

WHAT'S CHANGED?

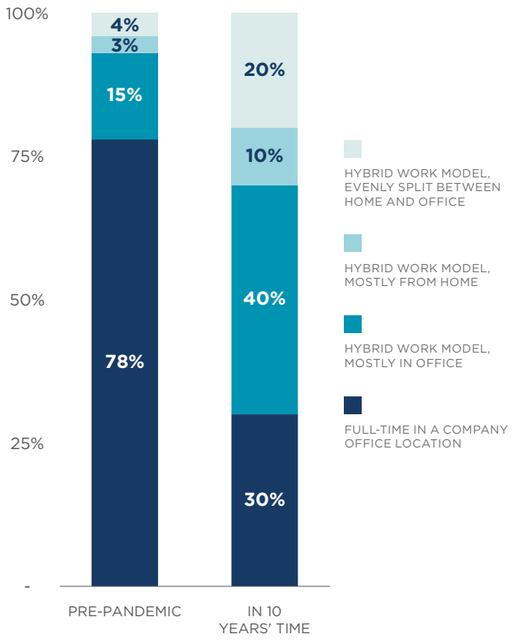
MORE PEOPLE ARE WORKING FROM HOME

During the pandemic, those people who were able to were being asked to work from home. Most people in this position were often in desk-based jobs that could be conducted in a similar fashion in an office workplace or in their own homes.

Since the end of the pandemic, the trend for working from home has persisted. Many people now actively choose a form of home working – either entirely or in hybrid combinations with working in the office – in the way in which they work.

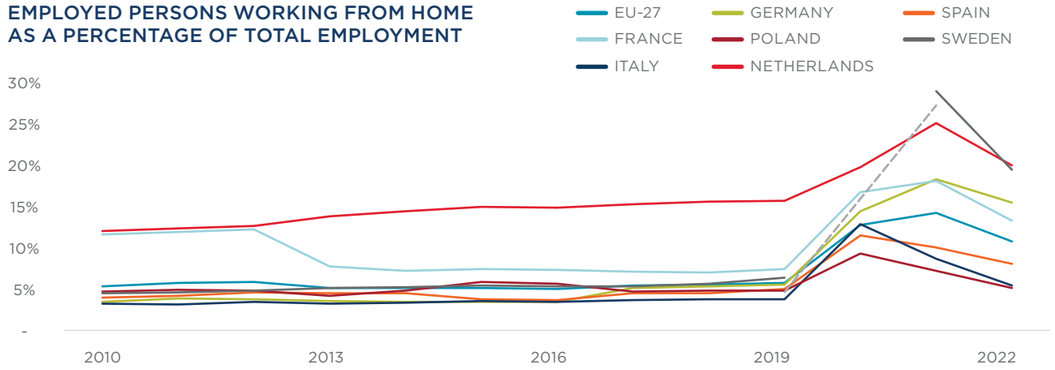
And businesses are expecting that hybrid working patterns will remain part of the future of work: a recent survey by the Global Centre on Healthcare & Urbanisation of over 250 board members, C-suite executives and business leaders of major multinational enterprises found that whilst prior to the pandemic, 78% of companies' employees worked full-time in the office, in ten years' time, it is expected that **70% of employees will engage in some type of hybrid home-office work model.**

TYPICAL WORK MODELS FOR THE MAJORITY OF EMPLOYEES IN RESPONDENTS' BUSINESSES



SOURCE: GLOBAL CENTRE ON HEALTHCARE & URBANISATION EXECUTIVE OUTLOOK ON THE FUTURE OF WORK, 2030 AND BEYOND

EMPLOYED PERSONS WORKING FROM HOME AS A PERCENTAGE OF TOTAL EMPLOYMENT



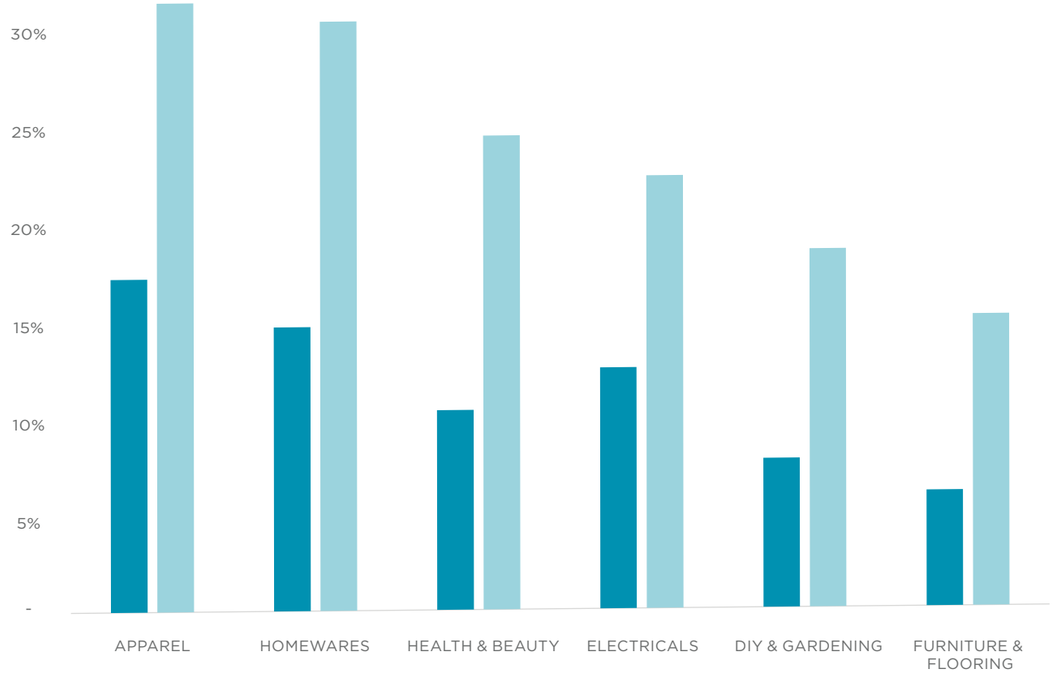
SOURCE: EUROSTAT

This consequence of more working from home is that **more people are spending more time in their homes and their resident neighbourhoods** rather than travelling to places of work, notably city centres. This means that more people are likely to be at home more often – which means that the likely distribution requirements for retail goods generally and online deliveries specifically will be closer to or directly to shoppers' homes.

And those people in roles that are able to be done from home are typically higher paid roles, which means that they are more likely to spend more online overall as well. And people who work from home have shown higher tendencies to shop more online: a 2022 survey by Retail Economics showed that **those people who work more from home expect to permanently shop online more across all product groups.**

AS A RESULT OF COVID 19, WHAT SHOPPING DID YOU SHIFT ONLINE DURING THE OUTBREAK AND EXPECT TO PERMANENTLY CONTINUE?

PROPORTION OF CONSUMERS AGREEING



SOURCE: RETAIL ECONOMICS ECOMMERCE DELIVERY BENCHMARK REPORT 2022

WHAT'S CHANGED?

PEOPLE HAVE CHANGED WHERE THEY LIVE (BUT CITIES ARE RESILIENT)

Having followed many years of growth, some major European cities have seen population growth either stabilise or even marginally fall since the pandemic.

The primary driver of these slowdowns and marginal declines has been a decrease in net migration: whereas before the pandemic many people were moving into big cities, during the pandemic, many were choosing to move out or not move there in the first place.

However, this type of interruption to population growth trajectories has happened before throughout history but **cities, larger metro areas in particular, will remain compelling places for people to live and work**.

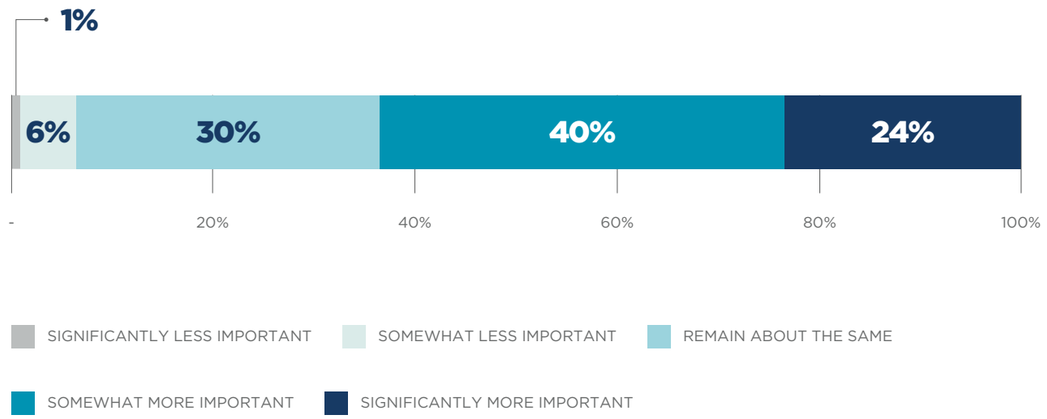
This resilience is because the main reasons why cities exist in the first place remain true in the twenty-first century:

- **Amenity:** cities are places where people and businesses find value in being closer to the broader collection of amenities that cities offer, be it access to social, commercial or cultural pursuits, synergistic business opportunities or flows of ideas and knowledge
- **Agglomeration:** cities provide efficient interactions through access to customers and collaborators and they create a magnet for talent, which creates deeper and more predictable labour markets
- **Serendipity:** because there are more people, businesses and places where there can be encounters, cities provide the opportunity for more interactions that can lead to beneficial outcomes for people and for businesses

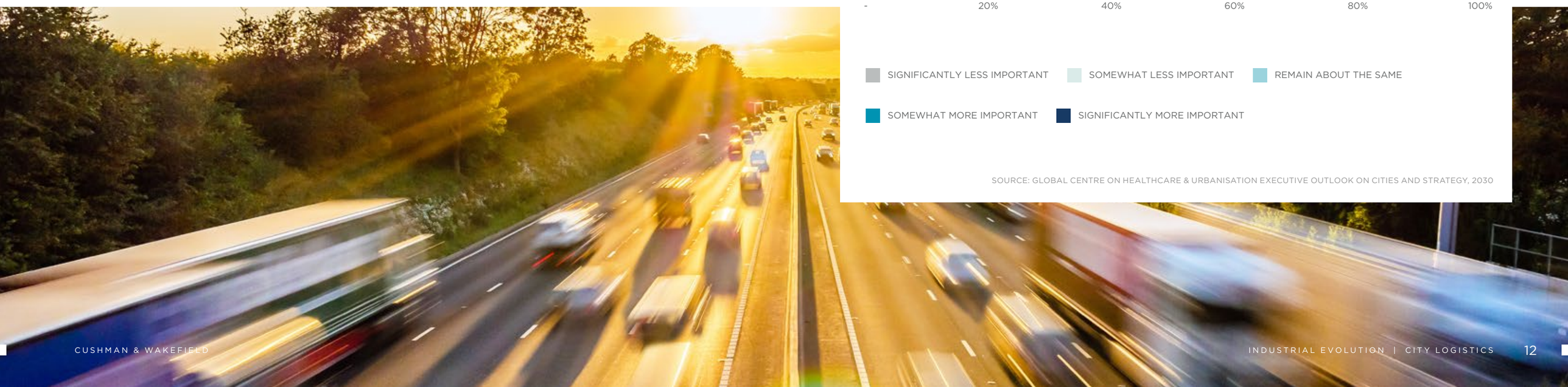
A recent survey by the Global Centre on Healthcare & Urbanisation of 200 C-suite business leaders of major multinational enterprises found that 64% of corporate leaders agree that **the role of cities for business will increase during the next 10 years** and anther 30% agree they will remain as important as today. In addition, the majority of these business leaders also agree that the benefits of size, significance and prestige – that is, characteristics of larger, established cities – will increase for their businesses: globally, this viewpoint is shared by 51% of business leaders but this increases to 64% of leaders in Europe.

This ongoing resilience of cities to be able to attract people and businesses to location within them means that **cities will always require city logistics and appropriate real estate to facilitate it.**

WHAT ROLE DO YOU ENVISION CITIES PLAYING IN YOUR BUSINESS IN 2030?



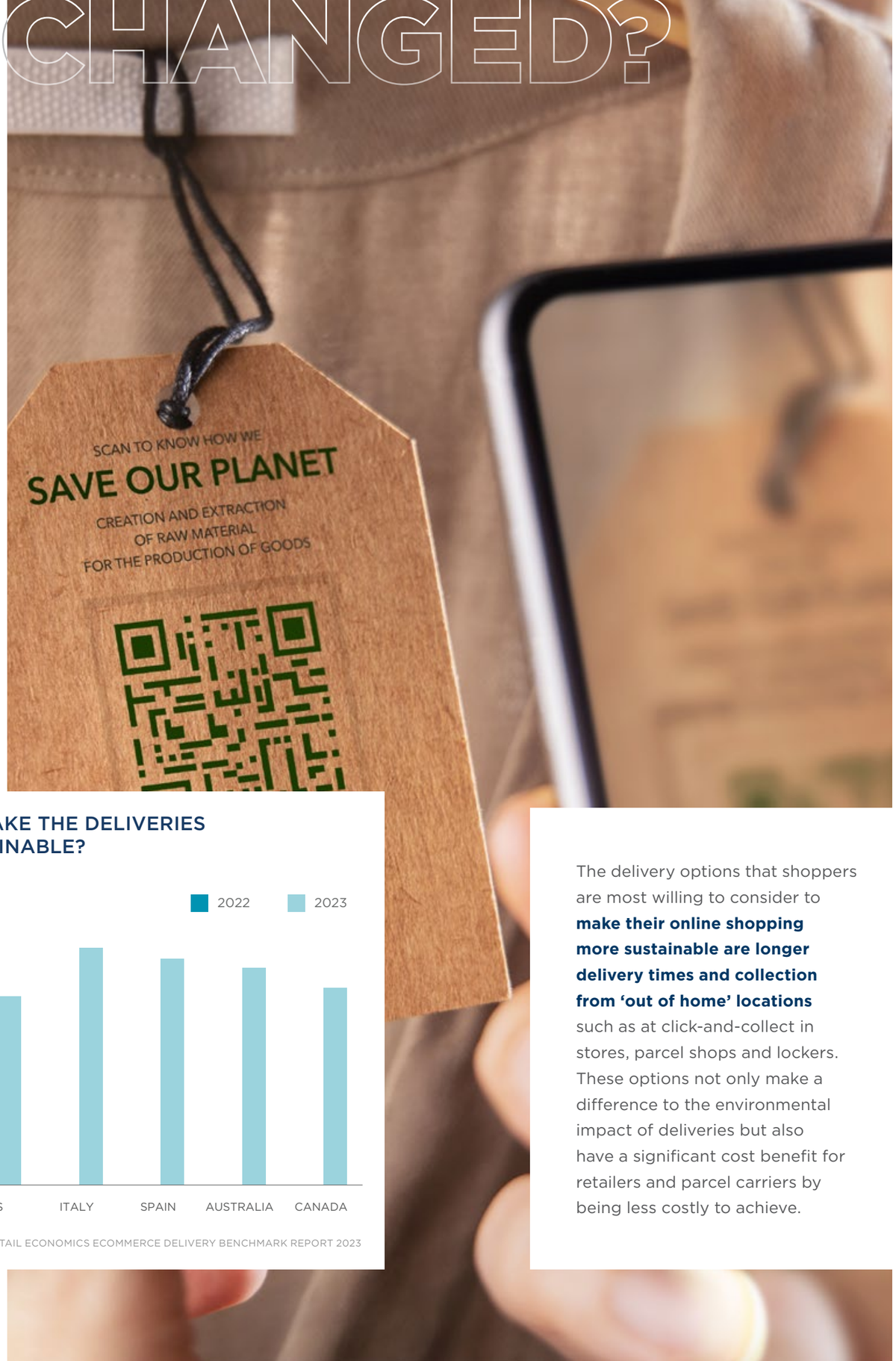
SOURCE: GLOBAL CENTRE ON HEALTHCARE & URBANISATION EXECUTIVE OUTLOOK ON CITIES AND STRATEGY, 2030



WHAT'S CHANGED?

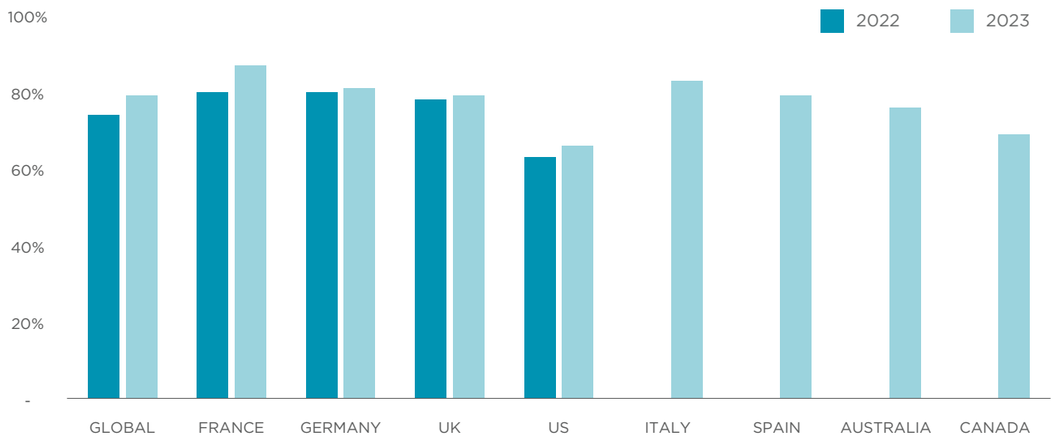
PEOPLE ARE MORE MINDFUL OF SUSTAINABILITY IMPACTS FROM THEIR ONLINE SHOPPING

Online shoppers are not only **becoming more conscious of the environmental impact that the delivery of their online purchases have,** they are also more likely to take action to mitigate it. DHL's 2023 survey of online shoppers found that a combined 64% of shoppers said that sustainability is quite important or very important when shopping online. And in a 2023 survey by Auctane and Retail Economics, a higher proportion of online shoppers than in 2022 in France, Germany and the UK said that they would be willing to consider **options to make the delivery of their online orders more sustainable.**



WOULD YOU CONSIDER OPTIONS TO MAKE THE DELIVERIES OF YOUR ONLINE ORDERS MORE SUSTAINABLE?

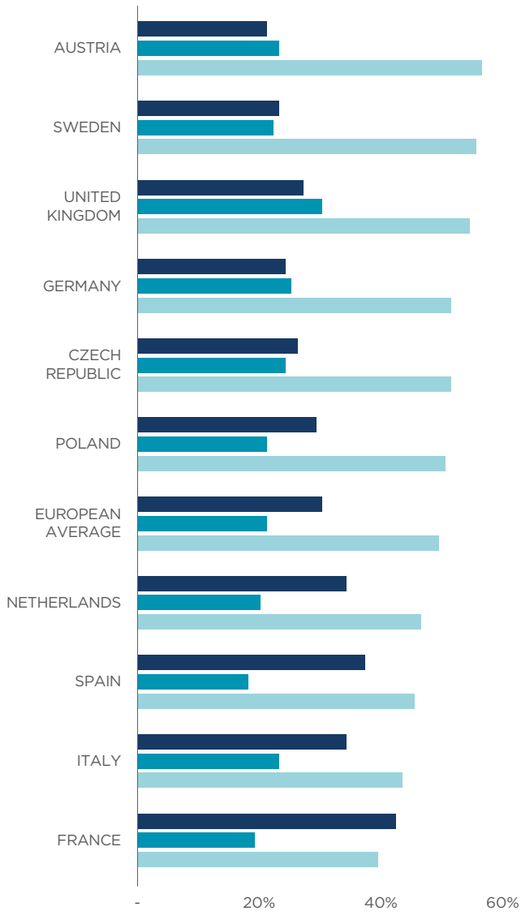
PROPORTION OF CONSUMERS AGREEING



SOURCE: AUCTANE, RETAIL ECONOMICS ECOMMERCE DELIVERY BENCHMARK REPORT 2023

The delivery options that shoppers are most willing to consider to **make their online shopping more sustainable are longer delivery times and collection from 'out of home' locations** such as at click-and-collect in stores, parcel shops and lockers. These options not only make a difference to the environmental impact of deliveries but also have a significant cost benefit for retailers and parcel carriers by being less costly to achieve.

LIKELY ACTIONS TO MAKE ONLINE SHOPPING MORE SUSTAINABLE



SOURCE: DHL EUROPEAN ONLINE SHOPPER SURVEY 2023

WHAT HASN'T CHANGED?

ONLINE RETAIL IS STILL GROWING

An important question that is being asked is **does the need for urban logistics real estate still exist in the post-pandemic environment?** The answer is a resounding yes.

Online retail is still high: as demonstrated above, whilst the levels seen during the pandemic have fallen back, online retail still typically accounts for a higher volume of retail sales than before the pandemic.

And when considering the trajectory of growth, there is still a lot more to come: **online retail sales across Europe as a whole are expected to grow by 42% between 2022 and 2027,** a CAGR of 7.3%.

And the expectations of growth are widespread across Europe, from the largest markets – including the UK, Germany and France – to smaller markets – such as Central and Eastern European countries like Poland, Czech Republic, Romania, Hungary, Slovakia and Bulgaria, all of which are expected to grow strongly. Turkey is also forecast to see substantial growth with online retail sales expected to more than quadruple by 2027.

But not all online retail sales are likely to require movement as small deliveries (which form the majority of demand for city logistics real estate). Products such clothing & footwear, small consumer electricals, health & beauty products and other small consumer goods are more likely to be delivered as parcels than larger items (like furniture, floor coverings and DIY & gardening materials). Additionally only a small proportion of groceries will be delivered from depots as more supermarket businesses are choosing to deliver direct from stores or use collection points.

WE ESTIMATE THAT EUR 407 BILLION IN ONLINE RETAIL SALES WILL BE DELIVERED AS PARCELS IN 2027.

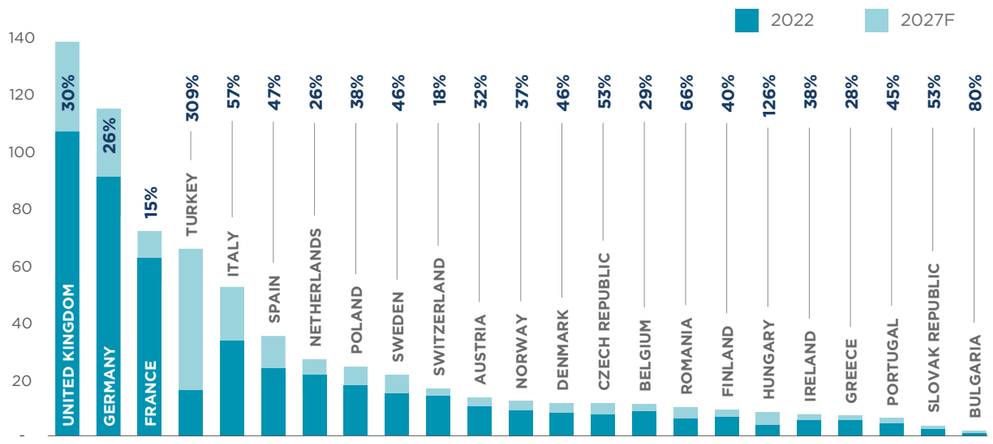
When refining these forecasts to the **products that are likely to be delivered as parcels**, **growth is still high.**

Of the EUR 676 billion of online retail sales in 2027 across Europe, we estimate that EUR 407 billion - 60% of the total - will be delivered as parcels, either directly to consumers' chosen points or to collection locations.

The majority of the online sales moved as parcels will be clothing & footwear, electricals and health & beauty products.

ONLINE RETAIL SALES BY COUNTRY, 2022 AND 2027F WITH GROWTH RATES

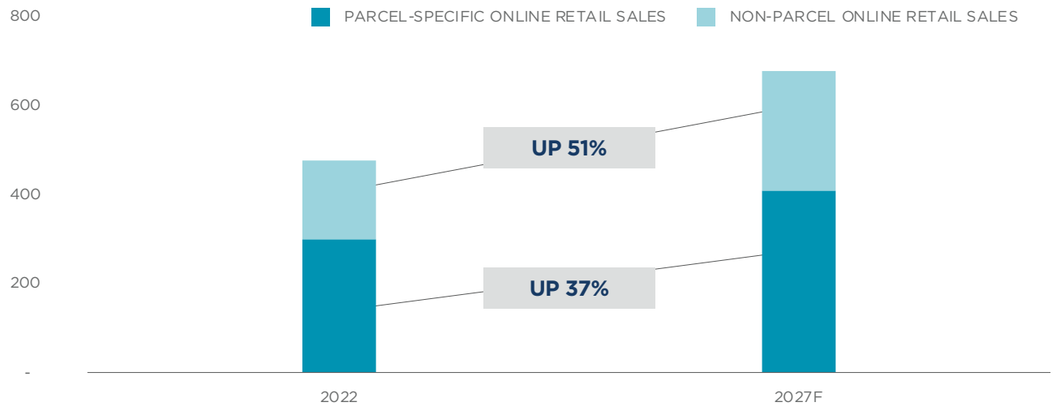
EUR BILLION



SOURCE: GLOBALDATA

EUROPEAN ONLINE RETAIL SALES BY DELIVERY TYPE

EUR BILLION



SOURCE: GLOBALDATA, CUSHMAN & WAKEFIELD RESEARCH ANALYSIS

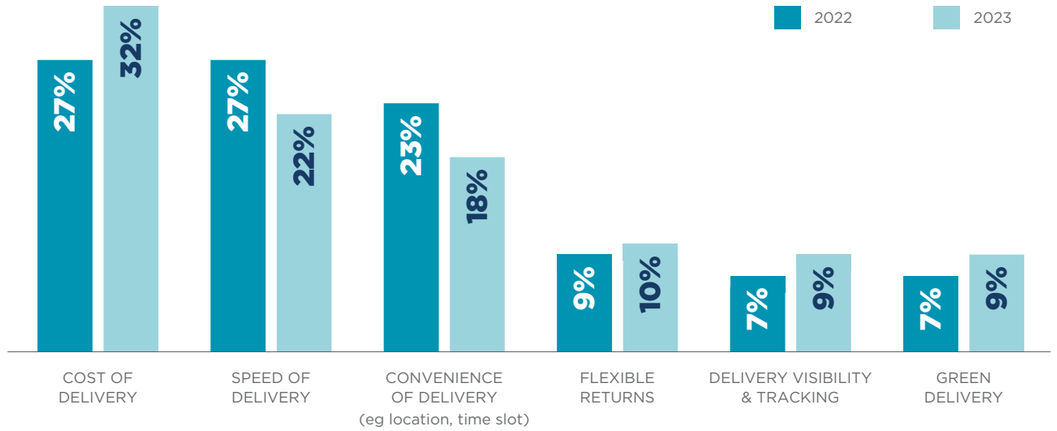
WHAT HASN'T CHANGED?

ONLINE SHOPPERS DON'T ALL WANT THE SAME FROM THEIR DELIVERIES

It is important to consider **what customers actually want when it comes to online deliveries.** We might be tempted to think that consumers want everything delivered quickly but actually speed is only one consideration – **cost is by far the primary driver of decision-making around delivery** – which has become even more pronounced as shoppers are under cost pressure – followed by speed and then closely by convenience. Flexibility, delivery visibility and sustainability are all increasing in importance for online shoppers.

IMPORTANCE WHEN SHOPPING FOR PRODUCTS ONLINE

PROPORTION OF CONSUMERS AGREEING



SOURCE: AUCTANE, RETAIL ECONOMICS ECOMMERCE DELIVERY BENCHMARK REPORT 2023

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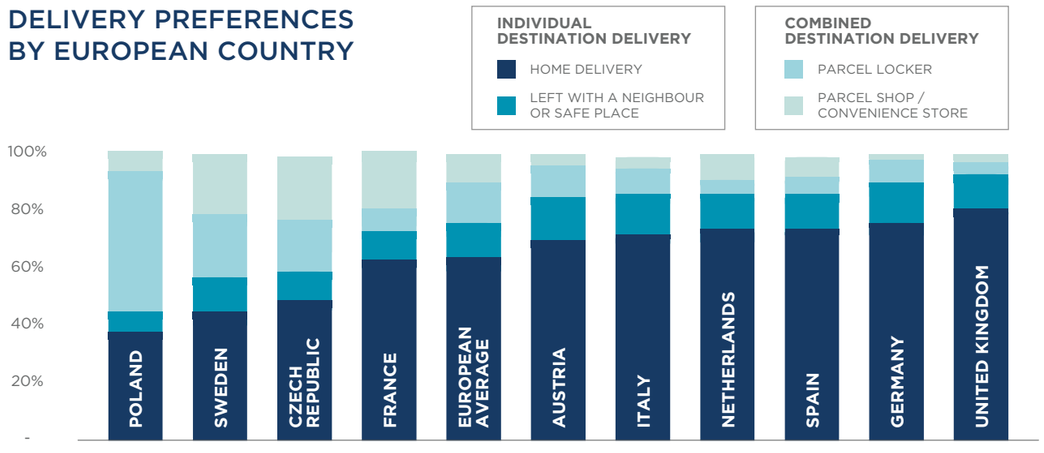
Similarly, **not all consumers want their goods delivered to the same type of destination.** Often it is assumed that home delivery is the overwhelming preference of shoppers. This is true in some cases but not all: recent research from DHL shows that **shoppers in different countries prefer their deliveries to be made to different places**.

British, German, Spanish, Italian, Dutch, Austrian and French shoppers are more likely to want deliveries of individual parcels made to a unique destination such as their homes whereas Polish, Swedish and Czech shoppers are more likely to prefer to collect their orders from lockers or parcel shops.

DELIVERY PREFERENCES BY EUROPEAN COUNTRY



SOURCE: DHL EUROPEAN ONLINE SHOPPER SURVEY 2023

This makes a big difference to the **cost of delivery and the risk to customer experience that retailers face.** Home delivery presents a significant cost and operating challenge to retailers and delivery partners due to the cost of transporting individual parcels to a huge number of final destinations as well as the risk of failed delivery, which also adds cost. It is also an area of significant customer service failure risk which can damage a retailer's brand and threaten customer loyalty.

Conversely, delivering a larger number of parcels to a single destination – such as a bank of **parcel lockers, a parcel shop or another click-and-collect location** – can be significantly more cost efficient: rather than delivering to a multitude of individual doorsteps, the same number of parcels can be delivered in one journey to a single location, reducing both the transport costs and labour costs (not having to take each one to the doorstep with ensuing administration such as signing and photographing) but also the risk of failed delivery.

WHAT HASN'T CHANGED?

PRODUCTS STILL NEED TO GET INTO CITIES IN BULK AS WELL AS IN SMALL PARCEL FORMAT

As well as small parcels, cities are the location for **huge volumes of product moved in bulk.** Store replenishment, business deliveries and other bulk product movements all need to be achieved within city bounds. The type of vehicles used to deliver these products are more likely to be larger goods vehicles – large trucks rather than light trucks, vans or bicycles – and the destinations they are likely to be delivering to are more likely to be single destinations for larger volumes – such as stores, including retail parks and shopping centres, other warehouses and office buildings.

The volumes required to ensure stores and businesses are well supplied, especially in large cities, can be significant: for example, in London, there are over 91,000 retail premises, 45,000 of which are in Inner London, whilst in Paris, there are over 61,000 stores.

The **challenges delivering goods in bulk in cities** -such as traffic congestion, limited times when LGVs are allowed to enter some streets, difficulties loading and unloading curbside – all create operational difficulties, add to journey times and reduce delivery time reliability. This all adds to operational costs as well as create risk of products not being delivered when they are required.

Consolidation centres are one way in which businesses, landlords and authorities are seeking to mitigate some of these challenges. A consolidation centre allows deliveries from all suppliers to a number of retailers and businesses within a designated area to be brought a single point outside of congested area. Deliveries to the different stores and businesses are then consolidated into one consignment and delivered to a schedule. In addition to reducing congestion – by replacing many goods vehicles delivering loads to the same area with a single vehicle with a larger load making multiple drops – using a consolidation centre also can reduce costs and environmental impact.

WHAT HASN'T CHANGED?

CITIES ARE MORE CONCERNED THAN EVER ABOUT HOW TO MANAGE TRAFFIC

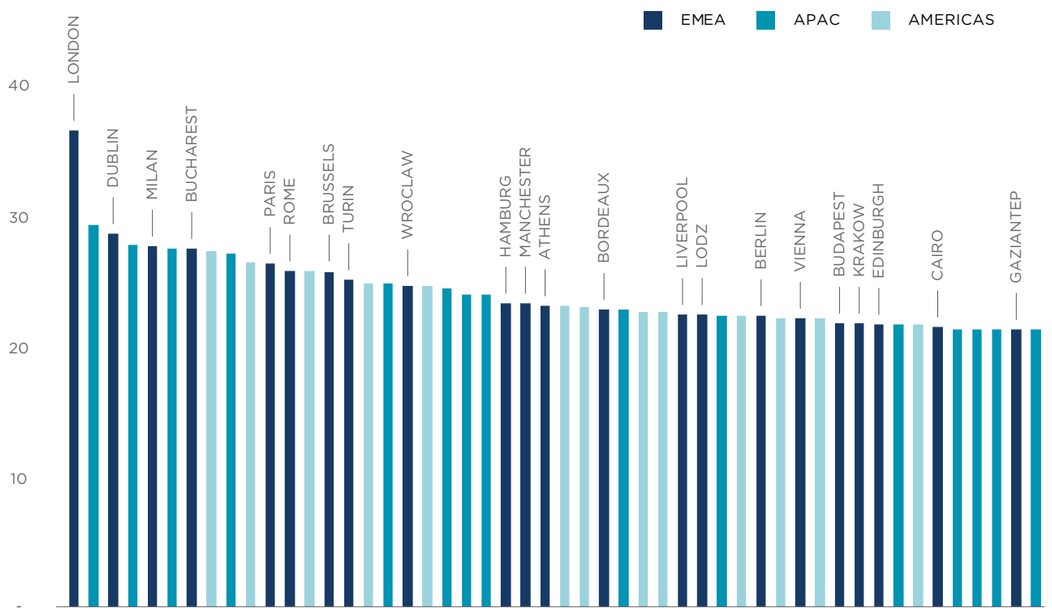
Cities in Europe are amongst the most traffic congested in the world. Congestion has a significant impact not only on the economic capabilities of cities but also on the wellbeing of the people who live and work within cities and on the planet.

Congestion has seriously impacted upon **travel times and speeds in European cities.** According to research by navigation technology company TomTom, 22 of the top 50 global city centres ranked by average travel times are in Europe with London, Dublin, Milan and Bucharest all in the top ten.

And over half of the European cities ranked (115 of 225 cities) saw an increase in journeys times between 2021 and 2022. This creates significant challenges for businesses trying move goods around cities, not least because time adds cost and also represents a risk of failing to meet customer expectations.

AVERAGE TRAVEL TIME IN CITY CENTRES (50 HIGHEST RANKED GLOBAL CITIES)

AVERAGE TRAVEL TIME PER 10KM (MINUTES)



SOURCE: TOMTOM TRAFFIC INDEX 2022

Traffic also causes significant challenges to the **wellbeing of people in cities through pollution.** Transport emissions represent around 25% of the EU's total greenhouse gas emissions with **mobility in cities responsible for 23%** of this total.

As a result, more and more European cities are now developing or implementing plans to:

- **Reduce traffic:** such as imposing congestion charges to drive vehicles of all types into city centres, or implement automated congestion management systems to regulate the flow of traffic into and around cities
- **Reduce pollution and carbon emissions:** such as implementing low emission zones (LEZs) with charges for the movement of higher-polluting vehicles in city areas, or of zero emission zones (ZEZs) where the entry of internal combustion engine vehicles is prohibited
- **Reduce road-collision related deaths and injuries:** such as limiting travel speeds on most streets within city areas

There are over 320 **LEZs** already in operation in European cities with that expected to rise to more than 500 by 2025; further there are 35 **ZEZs** planned with some already having been enacted such as in Oxford and cities across the Netherlands (specifically for logistics and freight). And cities across Europe – including Helsinki, Brussels, Zurich, Paris and 66 Italian cities – have introduced **speed restrictions** on urban roads, commonly limiting travel speeds to 30 km per hour.

These measures have a significant **impact on the ability to move products into and around cities.** Congestion adds time (and cost) and the risk of failing to meet customer expectations. Congestion charges and LEZs/ZEZs add operating cost (where charges are levied to enter a city) as well as potential capital costs (where new vehicle types need to be acquired to continue to operate within in the new zones). And speed restrictions add time (and cost).

How businesses manage these additional challenges will be a combination of changing delivery strategies as well as charging higher costs for delivery.

WHAT HASN'T CHANGED?

INDUSTRIAL LAND IN DENSELY DEVELOPED URBAN CITIES IS BECOMING SCARCER

Since the 1970s, many European cities have seen significant deindustrialisation – that is, the importance of industrial activities, particularly manufacturing, to their economies has declined - and the importance of service-based activities has increased. This has had a profound effect on the **need for different types of space in cities** with more office and services-based spaces demanded and production and manufacturing spaces being closed

As a result, **industrial land has been allowed to be redeveloped for alternative uses** to support population growth (particularly residential) and the transformation of city economies to more service-based (particularly office and retail).

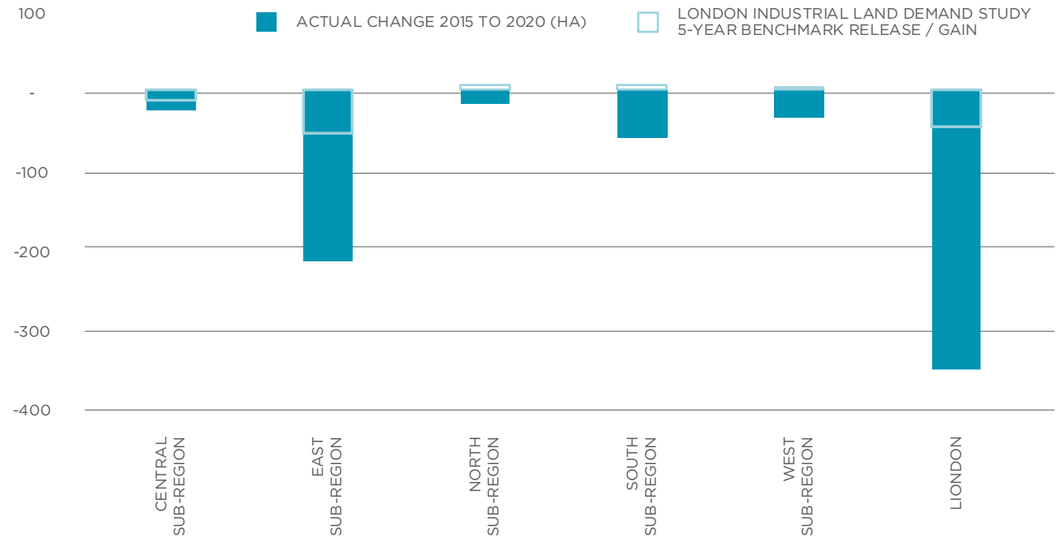
Giving greater weight to development of these types of spaces at the expense of industrial uses has meant that there has been **significant erosion of land availability for industrial uses,** including logistics, within cities. For example, in London, 1,483 hectares of industrial land was lost to alternative non-industrial use development between 2001 and 2020. In just the last five years of this period between 2015 and 2020, 352.2 hectares were estimated to have been released against a recommended benchmark of 46.5 hectares, more than seven times as much as recommended. In Brussels, industrial land within the city has been reduced by 100 hectares between 1997-2011, meaning that industrial land now covers just 3.8% of the city region's area (around 500 hectares).

However, since the mid 2000s, there has again been a focus on industrial activities in cities, be they smaller 'craft production' or 'making', larger-scale manufacturing or, increasingly, as ecommerce has grown, logistics.

The challenge is how to accommodate the demand for more industrial and logistics space within cities when the land earmarked for these activities has been given over to alternative uses.

CHANGE IN QUANTITY OF INDUSTRIAL LAND IN LONDON (2015-2020): BENCHMARK VERSUS ACTUAL RELEASE

CHANGE IN INDUSTRIAL LAND 2015 - 2020 (HA)



SOURCE: AECOM, GREATER LONDON AUTHORITY LONDON INDUSTRIAL LAND SUPPLY STUDY 2020

THE CHALLENGE IS HOW TO ACCOMMODATE THE DEMAND FOR MORE LOGISTICS SPACE WHEN LAND HAS BEEN GIVEN OVER TO ALTERNATIVE USES.

WHAT DOES ALL OF THIS MEAN?

Despite recent headlines regarding changes to online spending levels, consumer behaviour and where people choose to live and work in the post-pandemic environment, the need for city logistics strategies and appropriate real estate to make them work will prevail because:

- **Online retail sales** – particularly for the types of products typically sent as parcels – **will continue to grow**.
- Consumers want to be able to choose where and how their deliveries are made but the **majority of shoppers typically prefer to have deliveries made to their homes.**
- Consumers are increasingly prepared to wait longer for their deliveries to be made or will be willing to collect a parcel from a collection point if it means they are able pay less for delivery or have a **more sustainable delivery.**
- People have changed where they live – as demonstrated by urban population growth rates during the pandemic – and work – as shown in working-from-home statistics. **But cities remain resilient** and are expected to continue to attract people and businesses. And people who work from home are more likely to shop online and more likely to want deliveries to their homes. Which mean **city logistics will continue to be needed** to meet these demands.
- Cities themselves are **increasingly concerned about the impact the way people and products move into and around cities is having** and many are implementing controls which can make it more difficult and more costly to deliver goods in cities.
- Cities have also seen **significant loss of industrial land** to alternative uses which is putting pressure on the remaining land and buildings to deliver what cities need
- This means that **city logistics and their real estate strategies have to evolve** to respond to all the challenges of moving goods around cities

HOW DO LOGISTICS NEEDS VARY FOR DIFFERENT CITIES?

CITIES ARE NOT ALL THE SAME

What is also still true is that cities are not all the same. And nor do they all require the same city logistics strategies.

We have examined 33 key cities across the EU and UK to consider how they may be different to determine what logistics strategies are most appropriate and how that is likely to inform logistics real estate strategies.

Reach from edge-of-city locations

We conducted drivetime analysis to assess the **ability to reach the population of each city**. From this, we determined which city centres could be served from edge-of-city locations and which would require an inner-city location to be able to reach the city centre.

We also considered the **topographical characteristics** of cities. Features such as hills and mountains as well as coastline, waterways and rivers can make accessing different parts of cities more challenging and potentially inflect real estate strategies for city logistics.

Distribution of population

We also considered **how important city centres are** to each city by looking at the proportion of the city's population that lives within the inner core and that are therefore likely to see a disproportionate level of demand for parcels to be delivered to the city centre.

Similarly we considered how important the **suburban and outer areas** of a city are in terms of population distribution and therefore the likely demand for parcels to be delivered across a wider area. Where there is a wider spread population base, there is a higher likelihood of demand for more than one facility.

Likelihood of demand

We also considered the **likely demand for deliveries of parcels** to home by considering the level of online spending expected. Some cities are less likely to experience the demand for parcels, and therefore city logistics facilities, implied by their population distribution and city configurations because overall the level of online spending is still low in their countries.

Real estate strategies required

From these analyses we were able to determine whether an edge-of-city strategy would be sufficient or whether inner-city facilities would also be required. We also were able to determine how many facilities a parcel delivery operator would likely require for each city which can be served from edge-of-city locations: where a single operation can reach more than 75% of the population within a 30 minute drivetime, a single asset strategy is likely whereas for other cities, more than one asset will be needed to achieve similar coverage.

For those cities that cannot be served effectively from edge-of-city locations alone, we have considered what the needs of cities could be based on positioning facilities within the inner city areas themselves.

THE FOLLOWING MAP SHOWS THE TYPICAL STRATEGIES OUR ANALYSES SUGGEST WOULD LIKELY NEED TO BE EMPLOYED IN THESE 33 CITIES ACROSS EUROPE.

EUROPEAN CITIES BY TYPICAL CITY LOGISTICS STRATEGIES

The strategy classifications for these cities is based on our analysis and reflects what we would expect for a business seeking to distribute to the entirety of these cities.

The strategies employed – both in number of depots and their locations – may differ for different businesses based on parcel volumes handled and the areas served, reflecting the complexities of large city logistics.

Many cities will use not only depots in edge locations but will also incorporate inner city microfulfilment depots for transfer to alternative vehicles (such as cargo bikes) for final-metre delivery (particularly in cities where vehicle movement restrictions including LEZs and ZEZs are in place or are planned or where inner city road congestion is particularly challenging for efficient delivery). Use and location of microfulfilment depots will depend on factors such as parcel volumes and population distribution.

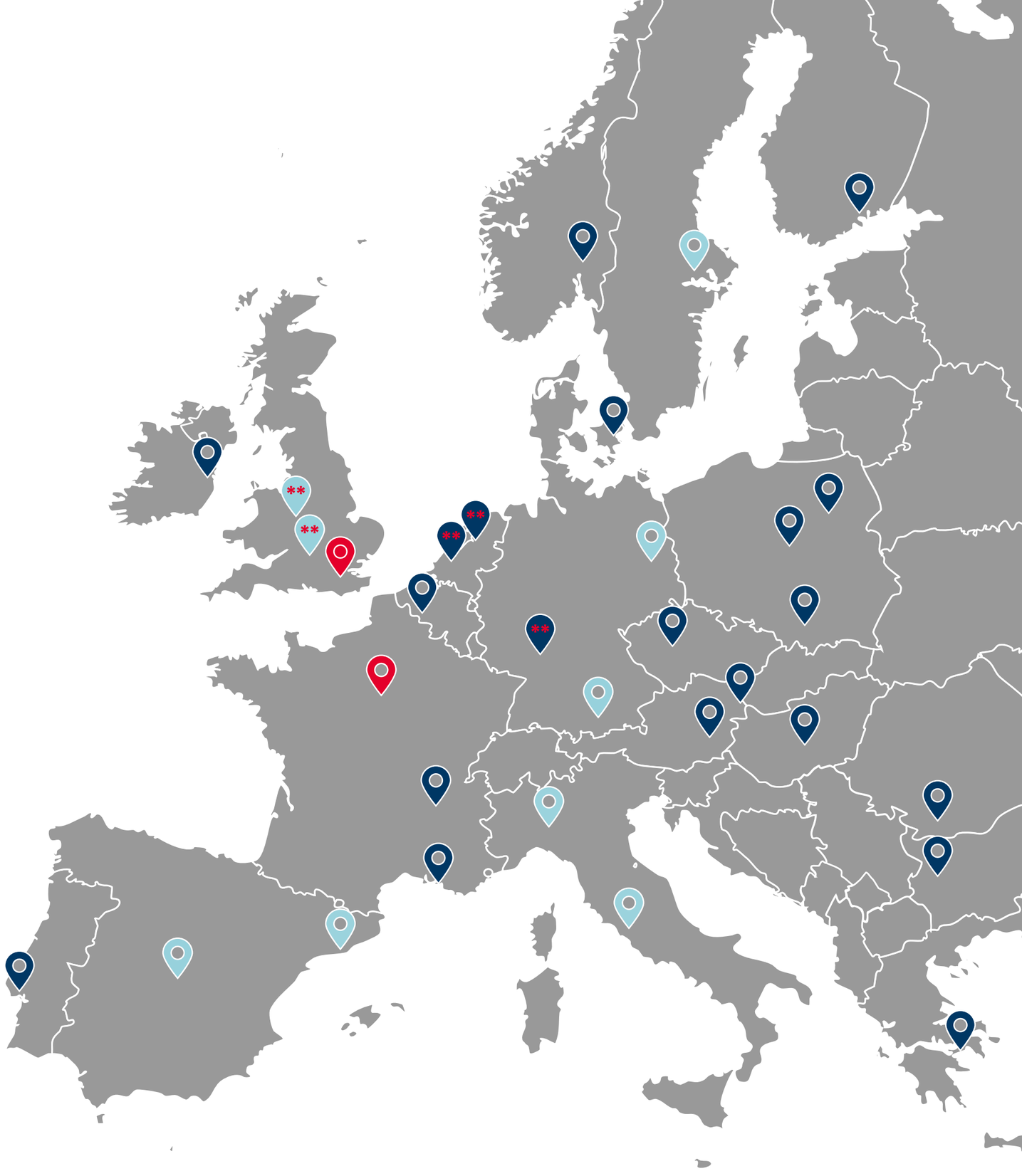
SINGLE EDGE-LOCATION FACILITY STRATEGY

MULTIPLE-FACILITY STRATEGY CITY INCLUDING INNER CITY FACILITIES

MULTIPLE EDGE-LOCATION FACILITY STRATEGY *

* Operations to serve these cities are likely to involve multiple facility strategy from edge-of-city locations but have the potential to require facilities in inner city locations. Depending on volumes and population distribution, strategies may also include inner city microfulfilment depots for final-metre delivery (particularly where vehicle movement restrictions are in place or are planned).

** Facilities serving these cities are likely to serve larger 'city regions' rather than a single city. For example, a depot serving Amsterdam is also likely to serve Haarlem, Lelystad and other population centres. These depots may also be complemented with inner-city microfulfilment delivery hubs to achieve last-metre delivery such as by cargo bike.



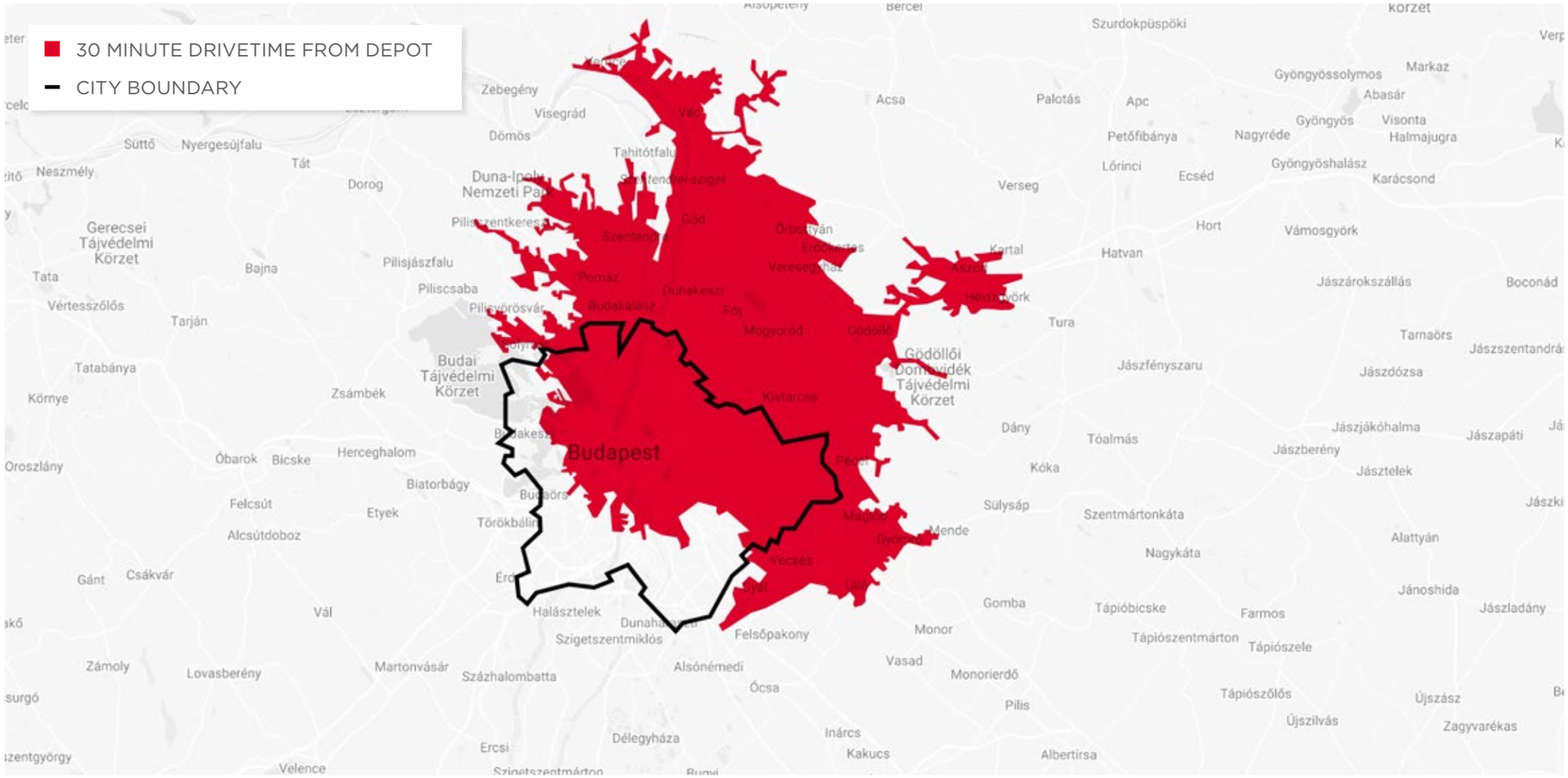
DIFFERENT STRATEGIES FOR DIFFERENT TYPES OF CITIES

To show the difference between different types of cities, these maps show the **drivetime reach of facilities for Budapest, Berlin and London.**

Please note that these analyses are indicative of possible strategies businesses seeking to deliver into these cities could take but will be dependent on a number of factors including expected delivery volumes likely to be managed, growth expectations, service level agreements with contracting clients, and the availability of appropriate real estate.

BUDAPEST

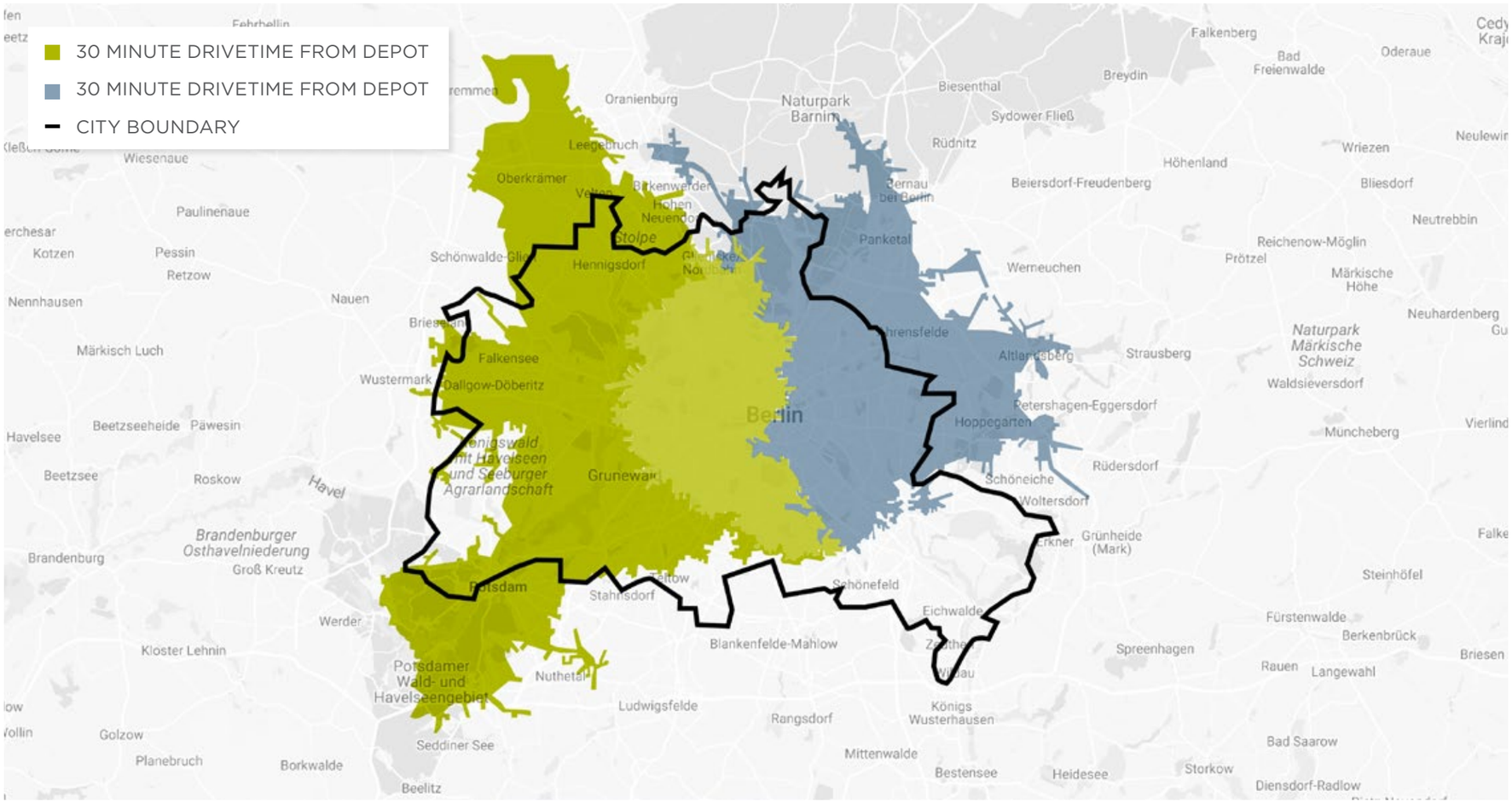
From a single location on the outskirts of Budapest, **77% of the population of the city can be reached within 30 minutes drivetime,** including importantly to the **city centre where over 25% of the city's population live.** This suggests that a business interested in delivering into the city could adopt a single asset strategy.



BERLIN

In Berlin, the reach of two single facility individually achieve around **63-68% coverage of the city's total population.** Given the size of the city population and the likely demand for parcel delivery, this would be particularly taxing for a single depot to manage.

When combining the reach of two facilities, they achieve coverage of 90% of the city's population. This suggest that an operator delivering to the entire population of Berlin - not only the city centre but also the **important suburban areas** where over 40% of the city's residents live - could be likely to adopt a multiple facility strategy.

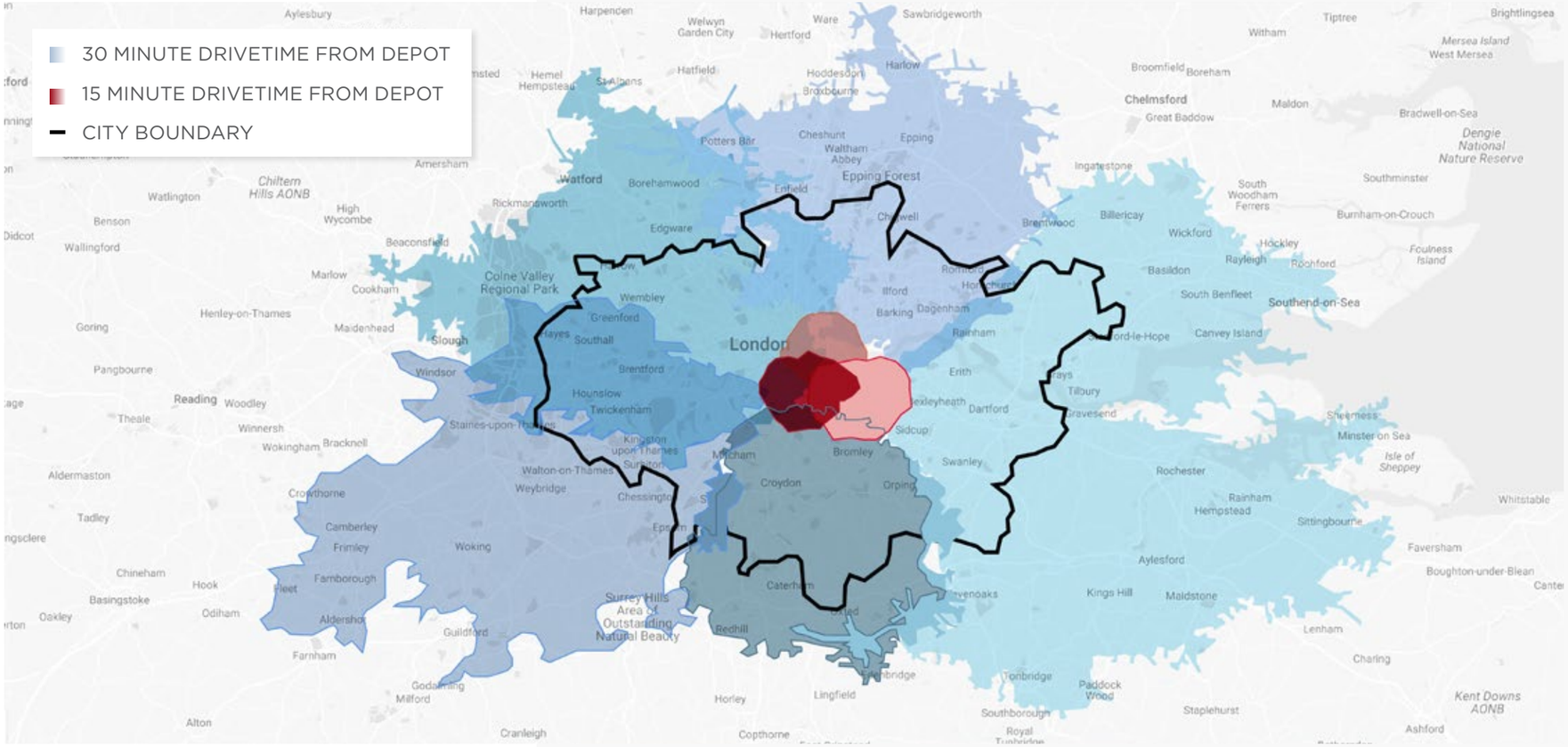


LONDON

In London, the size of the city and the spread of the population mean that a multiple facility strategy will be required and will also include the need for inner-city locations, particularly to central serve areas with **high levels of demand from people and businesses.**

This map shows that coverage of the city is achievable using a suggested strategy of five facilities in city-edge locations distributing in a 30 minute drivetime and three in highly central locations, **distributing to a smaller area of 15 minutes but with high demand.**

This is an indicative strategy only but serves to illustrate that given **London's geographic size, population and population density as well as likely volume of parcels,** a multiple facility strategy to cover the city is required. Together they achieve near total coverage across London.



WHAT DOES CITY LOGISTICS REAL ESTATE LOOK LIKE?

Edge-of-city facilities

Buildings in edge-of-city locations used for city logistics are typically **5,000-20,000 sqm.** Their primary purpose is to handle large volumes of parcels for sortation and delivery to their end-destinations, but in some cases, can also store some products within the warehouses themselves, typically high-volume, high-demand products which can be reasonably expected to be in demand from the wider city area. **Parcel sortation is the primary function** within the buildings followed by dispatch and loading of parcels into delivery vehicles (vans and light trucks).

This type of operation typically requires **many doors,** either as full-height/level-access doors to allow for flexibility of vehicle type, or as dedicated van loading doors, often oriented on "fingers" which can either be part of the initial construction or can be added to the building as a tenant alteration (with landlord approval).

Yard space, however, is far more important as the number of vehicles required to be loaded, stored and, increasingly as more vehicles are electric, charged.

Locations are typically within existing industrial areas which are well connected to key arterial roads into major population centres. **Quality of building is less important than location,** although higher quality buildings typically make for more efficient operations and more attractive places for staff to work which is increasingly important to business for staff retention purposes, especially in outer city locations.

Inner city facilities

These are typically smaller buildings of **2,000-5,000 sqm** but serve a similar function to their larger counterparts in edge/outer city locations. They typically serve the purpose of moving parcels through from a delivery by truck to smaller vehicles for delivery to homes and other locations. **Eaves heights** are not a significant consideration as there is little to no storage done at these locations and is more about movement of goods and parcels quickly.

Yard space remains important for vehicle loading storage and charging although can be difficult to secure given the higher value of inner city locations. As a result, some locations include multi-deck carparking facilities to maximise the space for vehicles.

Location and access to end destinations is the most crucial factor, especially as these facilities will command a significant rental premium of 25-125% on times the rent in locations. Location is also more important than quality of buildings, especially as the **benefit to cost-to-serve** for parcel delivery is the primary reason for taking space in such costly locations.

Microfulfiment facilities for final metre

These are smaller again (as small as **500-1,500 sqm)** and are throughput locations for the disaggregation of parcel volumes into **smaller, individual deliveries,** usually by cargo-bike, traditional bicycle or even by foot. These locations are typically **very close to their final destinations** and are attractive for times when speed of delivery is highly valued. Location is key and the specification of these spaces are usually highly compromised
(for example, when using repurposed spaces such as underutilised carparking spaces, eaves can be as low as 2-3 metres).

However, given that these are **microfulfilment locations for moving goods to the final destinations,** so long as there is good **vehicular access** (albeit vehicle choices may be influenced by the final metre facility) with space for **loading and for charging vehicles,** these facilities can represent an opportunity for delivery businesses to achieve cost-to-serve efficiencies.

Consolidation facilities

Consolidation centres are by their very nature **located some distance from the central areas** they serve. The efficiency gains of moving goods in bulk translates to fewer individual vehicle journeys into central areas and instead a single larger vehicle can move what would have been many smaller deliveries into one consignment.

Buildings will typically be between **3,000 sqm and 20,000 sqm** (the size will be dictated by the scale of the market to serve) in edge-of-city locations. They require good **vehicular access** for HGVs, both for inbound and outbound deliveries, as well as potentially smaller vehicles, depending on the scale of the area served and the needs and frequency of inbound and outbound deliveries.

Consolidation facilities need to have **storage space** albeit goods will be stored for only a short period of time and will be trunked promptly on to their end destinations. This means that **eaves heights** are likely to be important and will need to be at least 8m.

Given the likelihood that areas using consolidation centres will demand use of lower-emissions vehicles, there will also need to be sufficient **parking space for appropriate delivery vehicles,** including large electric or other alternative energy source HGVs, along with charging infrastructure and sufficient power supply to the site to ensure business operations are secure.

WHAT DOES IT COST?

HOW DO LOCATIONAL STRATEGIES AFFECT TOTAL OPERATING COST?

Rental levels

Unsurprisingly, rental levels depend on location: City logistics buildings on the **edge of cities tend to be priced at similar levels for buildings used for more conventional logistics operations** with the following exceptions:

- **Multi-storey/multi-level buildings:** these buildings tend to have a higher rental profile on the basis that development costs are higher (albeit may find the occupier demand will be slimmer given the pricing)
- **Low-site density developments:** these include build-to-suit development of parcel depots and other buildings developments which include large yard space or additional parking facilities to store delivery vehicles buildings. As the net lettable area developed on these sites is therefore lower, a rental premium will be added to account for the lost income to the landlord

Rental levels for inner-city logistics facilities, however, typically command **rents between 25-125% higher than comparable city edge locations.** This is usually as a result of higher land values or alternative-value premiums being attached to logistics developments on these sites, particularly where the use class is being changed from a 'higher value' use.

Total operating cost

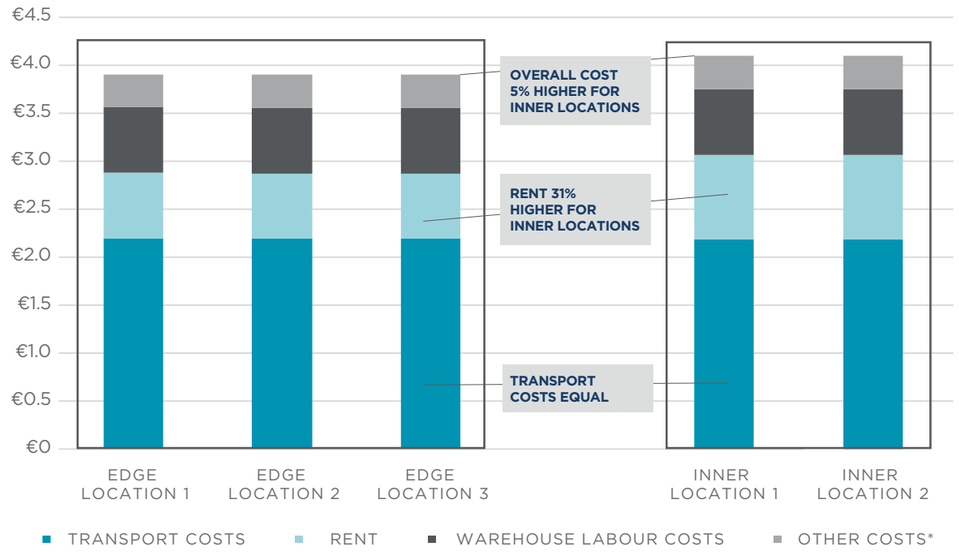
However, it is important to consider the **overall operating cost of a logistics facility:** logistics, especially retail logistics, is all about **cost-to-serve.** Therefore, locating operations in a building closer to the market to serve at a significantly higher rent can still be more cost effective than delivering from a further-away location at a lower rent. This is because the transportation costs of delivering from a closer warehouse are considerably lower.

We have modelled the operating costs* of utilising different real estate strategies for delivering parcels in three different cities to illustrate the impact on total operating cost and how this can inform locational choice.

*(*The costs we have modelled are estimates based on specific identified expense areas and actual costs will vary based on different business models, asset locations and the inclusion of other/different costs as required.)*

DUBLIN - ONE FACILITY SERVING WHOLE CITY

ANNUAL OPERATING COST (EUR MILLION)



SOURCE: CUSHMAN & WAKEFIELD RESEARCH* OTHER COSTS INCLUDE UTILITIES COSTS, TAXES AND OTHER COSTS

Dublin: For Dublin, drivetime and demand analysis suggests that a single facility would be able to serve the entire city within a 30 minute drivetime. We have modelled several edge and inner city locations to consider the overall cost resulting from serving all of Dublin within a 30 minute drivetime. Our analysis shows that, whilst the **transport costs to serve the whole city are almost the same from both types of location** (inner locations have a 0.5% saving), **rental costs are 31% higher for inner locations.** When adding in other costs, the overall operating costs for inner locations to serve the whole city are **on average 5% higher than an edge location.**

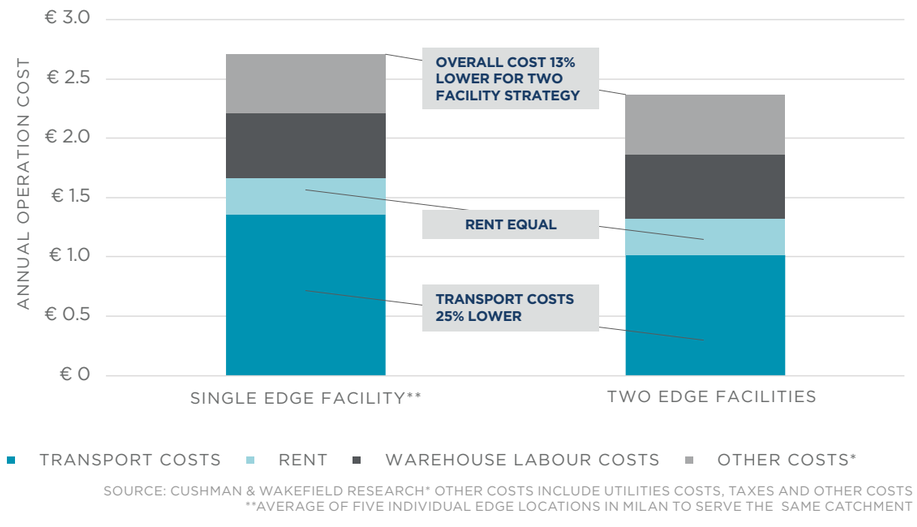
This suggests that adopting **a single-facility in an edge-of-city strategy would be most cost-effective for Dublin.** This could be complimented with microfulfilment locations to serve the city centre – for example, where parcels could be transferred to cargo bikes – especially as Dublin is currently considering implementing vehicle restrictions in the city centre under its Draft Dublin City Centre Transport Plan.

Milan: In Milan, drivetime analysis suggested that, given the size, distribution of population and likely demand for parcels, a two edge-of-city facility strategy would be most appropriate. We have modelled the cost of distributing to the entire city from a single facility (using a number of different edge locations) compared with a strategy of two smaller facilities each with a smaller catchment to serve but maintaining coverage of the entire city and delivering the same parcel volume.

Our analysis showed that **transport costs were 25% lower** when using two facilities with smaller areas to serve compared with just a single depot serving the whole city. Assuming that other costs of having two smaller depots rather than on larger one as broadly the same, **this resulted in a 13% overall cost reduction.**

MILAN - SINGLE-FACILITY STRATEGY VERSUS TWO FACILITY STRATEGY

ANNUAL OPERATING COST (EUR MILLION)



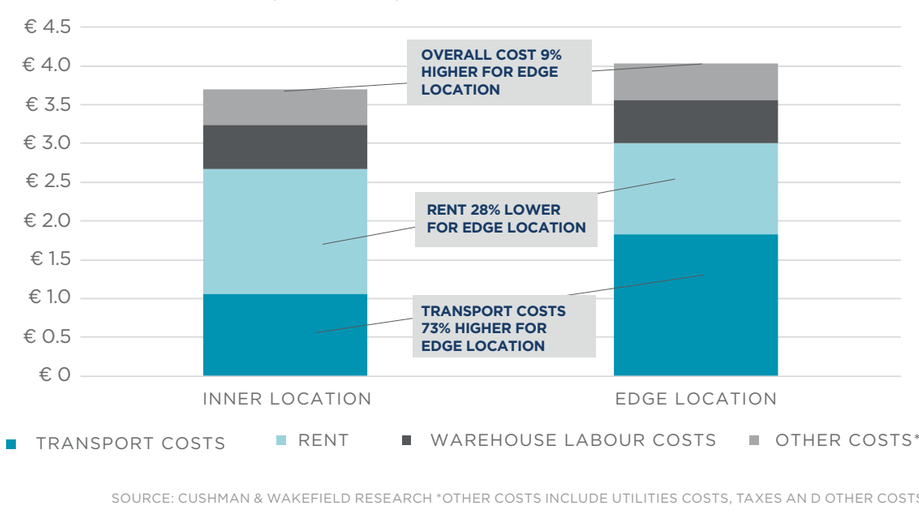
SOURCE: CUSHMAN & WAKEFIELD RESEARCH* OTHER COSTS INCLUDE UTILITIES COSTS, TAXES AND OTHER COSTS
**AVERAGE OF FIVE INDIVIDUAL EDGE LOCATIONS IN MILAN TO SERVE THE SAME CATCHMENT

West London: We have modelled the costs of delivering to a catchment of 15 minute drivetime around an inner London location (specifically Park Royal). A smaller drivetime is appropriate for London, given the density of its population and the expected demand for parcels, which will also inform the size of the depot. We then modelled the cost to serve the same catchment from an edge-of-city location (specifically Poyle) to compare the impact on the component of overall cost.

Our analysis shows that distributing parcels from an **edge of city location has an overall operating cost that is 9% higher than for the inner location.** This is because whilst the rental cost on real estate is 28% lower, the transport costs to serve the same area are 73% higher. This shows that adopting a strategy that used inner city locations to deliver to smaller catchments in densely populated London is cost effective on an overall basis, despite higher rental levels.

WEST LONDON - SERVING AN INNER CITY CATCHMENT FROM INNER AND EDGE LOCATIONS

ANNUAL OPERATING COST (EUR MILLION)



SOURCE: CUSHMAN & WAKEFIELD RESEARCH *OTHER COSTS INCLUDE UTILITIES COSTS, TAXES AN D OTHER COSTS

WHAT DO WE NEED TO CONSIDER FOR THE FUTURE?

What all of this means is that whilst there is likely to be ongoing demand for city logistics space, especially to serve the growing demand from online shopping, **not every city is the same and city logistics strategies and real estate strategies differ by city**.

THERE ARE SEVERAL KEY EVOLVING THEMES THAT WILL IMPACT THE WAY IN WHICH CITY LOGISTICS OPERATE AND THE REAL ESTATE THEY WILL REQUIRE IN THE SHORT, MEDIUM AND LONGER TERMS.

INFRASTRUCTURE

Of course, all logistics, including city logistics, rely on **effective use of transport infrastructure.** And in cities, not only is the demand placed on infrastructure high, it comes from a variety of sources and not just for the movement of goods.

As cities move towards **more sustainable, less impactful movement of people and goods,** the way city logistics is delivered will continue to evolve. This will include making better use of **existing infrastructure** such as:

- **Roads and pavements:** as the movement of motorised vehicles will become more restricted, especially as cities move towards pedestrianisation, more widespread use of **cargo bikes and foot for final-metre deliveries** is expected to grow. Cities may also look to create **dedicated freight routes for goods** moving into and around cities as well. In addition, use of autonomous vehicles (AVs) for deliveries on roads and pavements may be more widely adopted. This could range from final-metre delivery by small robots / vehicles to the longer-term development of AV-specific freight corridors into and around cities.
- **Public transport:** including shared use of public transport such as trains for passenger and cargo movements
- **Waterways:** greater use of rivers and canals could create opportunities to remove deliveries from roads, reducing congestion and environmental impacts as well as improving reliability of journeys, although there may be challenges in the short-medium term in terms of infrastructure, the ability to achieve economies of scale (and therefore compete with road on cost) and complexity

Cities are also likely to need **new infrastructure** including:

- **Electric vehicle (EV)** charging facilities: especially as more cities implement restrictions on internal combustion engine vehicles
- **Aerial drone facilities:** including dispatch facilities, landing stations and marshalling areas for last-metre delivery by bike/foot

DHL Parcel boat service on the River Thames, London

Having shown the effectiveness of combined land and waterways transportation in Amsterdam and Venice, DHL launched its daily riverboat parcel service in London in 2020. Parcels are sorted at a DHL hub and then transported to Wandsworth Riverside Quarter Pier by electric vehicle. From there, they are loaded on a high-speed boat and taken to Bankside Pier in Central London, where final delivery is completed via DHL courier bicycles. Around 50,000 parcels per year are delivered by river with plans to expand. The use of the river not only reduces environmental impact and road congestion but it is also reduces transit times compared with moving goods by road as well as improving journey time reliability.

IMAGE SOURCE: DHL EXPRESSBOAT SEPTEMBER 2020

Drone deliveries in urban areas

A number of major drone businesses have been making plans to expand their delivery capabilities into more European locations in the near term. In October 2023, **Amazon Prime Air** announced that as well as expanding availability of ultra-fast drone deliveries to a third US city, it would also be offering it in the UK and Italy from late 2024. **Prime Air drone deliveries** will be integrated into Amazon's existing fulfilment network, deploying from same-day delivery sites. The service will be offered from one site, yet to be announced, in both the **UK and Italy** by late 2024 when customers can opt in to drone delivery for delivery of selected items weighing 2.2kg or less—including household products, everyday essentials, beauty items, and office/tech supplies.

Wing, the drone delivery business owned by Google parent Alphabet, also announced in August 2023 that it would be establishing a **'rapid medical delivery network'** providing medical drone deliveries in South **Dublin** in partnership with NHS drone delivery company Apian.

The two companies will work with hospitals and pharmacies in South Dublin to deliver pharmacy items, laboratory samples, medical devices and supplies. Wing's chief financial officer Shannon Nash said that the initiative is expected to "improve the patient experience while reducing traffic congestion and emissions in the community" adding that "medical drone delivery can provide a faster, more reliable, lower-cost solution than ground-based alternatives." The partnership also intends to explore opportunities to offer similar services in the UK.

Also in Dublin, drone delivery company **Manna Aero** has been offering delivery of **take-away food and groceries,** partnering with Tesco, by drone in the town of Balbriggan, north of **Dublin,** since 2022. In July 2023, the company announced it would be expanding its service to the north western suburb of Blanchardstown running a trial until Spring 2024 with plans to expand to other locations across Dublin.

INTENSIFICATION

One solution to the challenge of the issue of a scarcity of appropriate real estate and land – both within and on the edge of cities – is to make more out of less, that is to intensify the use of the land that there is.

The most common approach to build more floorspace on the same footprint of land is to **build upwards: multiple floor buildings** are being developed or considered in a number of European cities, following significant adoption of the model in Asian cities such as Singapore, Hong Kong, Tokyo and Shanghai. A less common approach is to **build downwards** and create underground warehousing spaces but this has a considerably higher cost – construction costs for underground development are typically 40-70% higher than for above-ground multi-storey development.

Multiple floor buildings are typically built as one of the following types of facility:

- **Multi-level buildings**
  (multiple floors but with vehicular access at ground level only)
- **Multi-storey facilities**
  (multiple floors with vehicular access to all levels achieved via ramps)

The **primary compelling driver** of multiple floor development is the **lack of supply relative to high level of demand** for space in that specific location coupled with **high rental levels.**

The attractiveness of multiple floor buildings is that **more income-producing space can be delivered on the same site** that previously would have been limited in its developable area by its plot size. Developing vertically means that developers can achieve more in locations of high-value. Municipalities can also benefit from compelling higher levels of intensification which not only creates more local property tax income but also supports jobs growth and diversification of economic activities within cities.

However, multiple floor developments also face **challenges to making schemes successful,** including:

- **Occupier interest:** key to securing tenants for multiple floor buildings is **occupier confidence** that their operations will comparable to a standard warehouse (which is much better understood from operational and cost bases). If potential users of these buildings are not convinced that they will be able to run them in a way that works for them, they are more likely to defer to standard warehouses, especially if there is a significant cost differential.
- **Development cost:** Research from Prologis and others suggests that **construction costs alone are between 20-40% higher** than for standard, single storey warehouses. There are also greater requirements for tall buildings – such as fire safety regulations – in some countries which also add to construction cost. **Land costs are also higher:** industrial land values for inner city locations can be as much as three time higher than those in the city hinterlands. And in some instances, the land price paid for a multiple floor warehouse development might even be at residential price.
- **Reduction in lettable area:** when multi-tenanted, there will be a **reduction to overall lettable area** on which income can be derived due to the need for common areas that allow access to upper floors – such as ramps, lifts, stairs and corridors. Research from Prologis estimates that the **total net lettable area will be reduced by about 25% in a multiple floor building,** compared with individual single storey buildings of the same footprint.
- **Speculative development risk:** these building types with a **higher level of development risk** than standard large-scale industrial developments because construction – and therefore capital expenditure – cannot be phased as it might be in a logistics park or industrial estate environment. **All the developable space must be built at the same time,** which comes with it the risk of prolonged void on some or all of the space, potentially threatening the viability of development.
- **Asset management challenges:** where multi-storey/multi-level warehouses are multi-tenanted, there can be **more challenging asset management issues** for landlords than for standard logistics parks or industrial estates such as higher maintenance costs for ramps and lifts as well as potential for higher levels of tenant engagement.

Overall, **successful development of multiple storey buildings** is most likely where there where there are **compelling market conditions** - where demand is high, appropriate land or buildings are scarce and achievable rents are sufficiently high to make developments viable given the increased costs.

Goodman, Barcelona

Goodman, well versed in multi-storey development from its experience in Asia, has developed several of these asset types in the vicinity of Barcelona in recent years, with more planned.

In 2021, Goodman built a 32,000 sqm two-storey building in **Molins de Rei,** about 25km from Central Barcelona for logistics provider DSV Solutions. The scheme uses the sloping topography of the site to provide vehicular access via ramp to the first floor. Goodman followed this with its second multistorey scheme in Barcelona, a speculative development in nearby **Castellbisball.** The two-storey building has 13,200 sqm on each floor with a two-lane ramp to the first floor in both directions. The building was let in total to logistics provider ESBO Logistics Systems in April 2023.

Goodman's latest multi-storey developments in Barcelona are also their largest: three two-storey buildings providing 81,613 sqm, 42,348 sqm and 20,619 sqm. Each will offer vehicle access by ramp to the upper floor as well as eaves heights of over 10m on each floor. The three buildings are to be built in the inner Barcelona area of **Zona Franca,** the former Nissan manufacturing site, close to the Port of Barcelona and El Prat airport as well as just 10km from Central Barcelona.

Segro, London and Paris

Segro has engaged in a number of multi-storey and multi-level developments in London and Paris over the past several years, considerably ramping up its activity in the past twelve months.

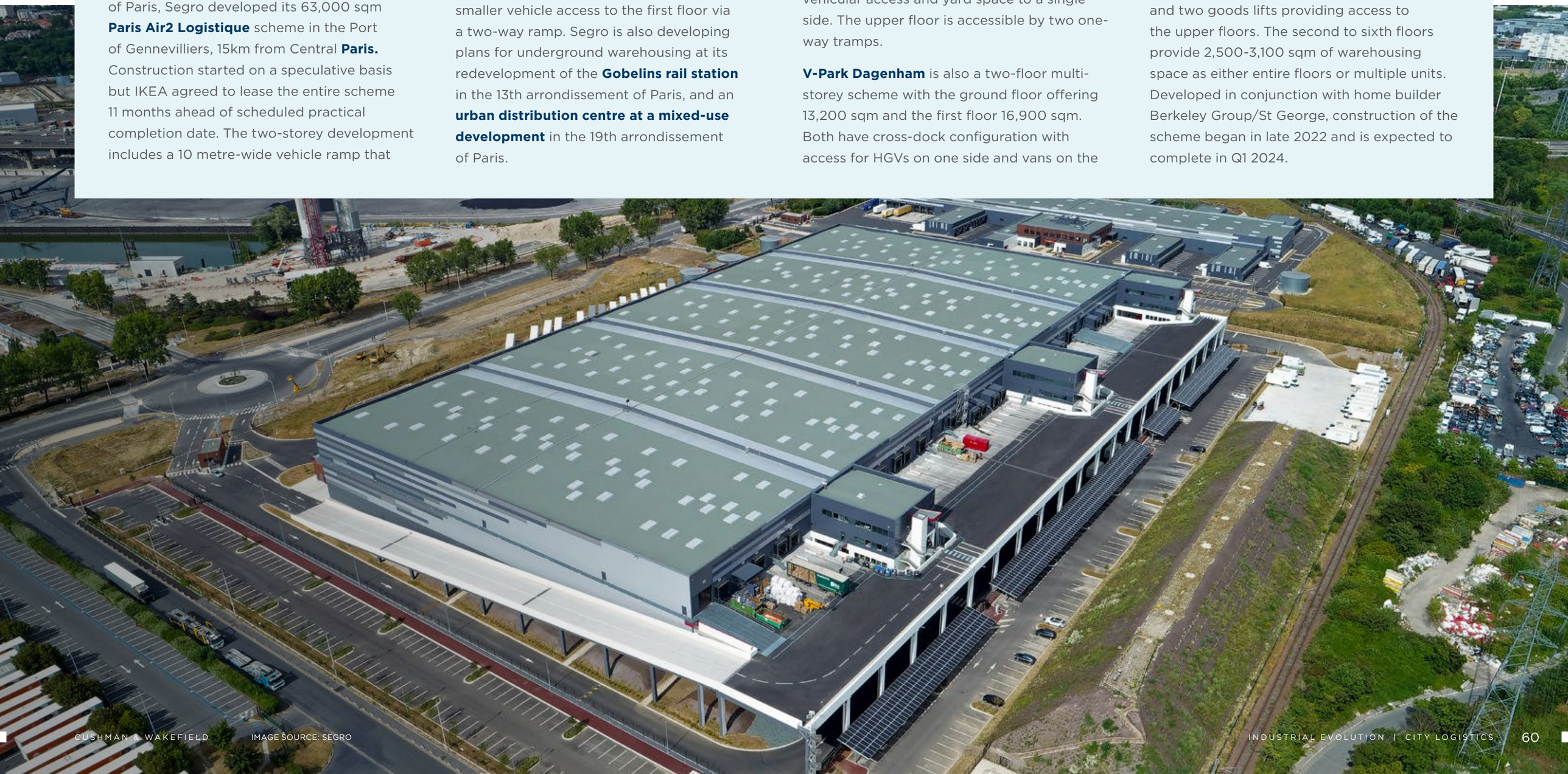
In 2018, through its subsidiary VAILOG and working with landowner HAROPA-Ports of Paris, Segro developed its 63,000 sqm **Paris Air2 Logistique** scheme in the Port of Gennevilliers, 15km from Central **Paris.** Construction started on a speculative basis but IKEA agreed to lease the entire scheme 11 months ahead of scheduled practical completion date. The two-storey development includes a 10 metre-wide vehicle ramp that allows vehicles to travel in both directions as well as doors on both sides of the ground floor anddoors on the single side of the first floor.

Segro has also developed **Segro Park Elancourt**, a 13,000 sqm redevelopment on the site of a former office buidling, 30km from Central Paris. The two-storey building, which is divided into ten separate units, has HGV access on the ground floor and smaller vehicle access to the first floor via a two-way ramp. Segro is also developing plans for underground warehousing at its redevelopment of the **Gobelins rail station** in the 13th arrondissement of Paris, and an **urban distribution centre at a mixed-use development** in the 19th arrondissement of Paris.

In **London,** Segro has engaged in development of a number of multi-storey and multi-level schemes, particularly in inner London locations. **V-Park Barking** and V-Park Dagenham are both located in East London, just outside the inner ring road and 20 km from Central London. V-Park Barking comprises a multi-storey scheme of two floors with 5,100 sqmon each floor, both with vehicular access and yard space to a single side. The upper floor is accessible by two one-way tramps.

V-Park Dagenham is also a two-floor multi-storey scheme with the ground floor offering 13,200 sqm and the first floor 16,900 sqm. Both have cross-dock configuration with access for HGVs on one side and vans on the other. The upper floor is reach via a single 10m wide ramp which vehicles can run in both directions.

V-Park Grand Union, located in the key industrial area of Park Royal in inner North West London, is a multi-level scheme of six floors, four of which are warehousing. The ground and first floors are for vehicle parking and goods delivery with marshalling areas and two goods lifts providing access to the upper floors. The second to sixth floors provide 2,500-3,100 sqm of warehousing space as either entire floors or multiple units. Developed in conjunction with home builder Berkeley Group/St George, construction of the scheme began in late 2022 and is expected to complete in Q1 2024.



IMAGINATION

Part of the solution to the scarcity of appropriate industrial buildings and land will also involve imagination, that is, delivering city logistics space in creative ways.

This can take the form of **redevelopment** – that is, taking buildings that are underutilised or redundant as their existing use class and turning them into city logistics assets. There have been successful redevelopments of office buildings, retail warehouses and other types of buildings into logistics facilities, particularly in or near to major cities where values for logistics space are higher than or are close to the values of the redundant use.

This also can be through the **repurposing** of existing space. This could include using car park spaces or temporary structures for last-metre delivery or converting existing spaces in buildings such as retail parks, shopping centres, office schemes or other developments.

This presents **opportunities for landlords** with existing underutilised assets to consider how these buildings could be used for city logistics. Key considerations for repurposing will include **how city logistics operations can be managed within the asset alongside other uses** (for example, including a last-mile or consolidation facility within a shopping centre where retail and leisure is still being offered will need **careful consideration** so as not to disrupt the experience for shoppers and retailers).

APCOA Urban Hubs, Europe

APCOA, Europe's largest network of parking spaces, engaged in a series of initiatives over the past several years to drive use of their **car parks for urban logistics and mobility solutions**. Part of this has been a partnership with express courier UPS since 2021 to use APCOA parking garages as transhipment micro-depots - where deliveries are transferred from large containers to cargo bikes for last-mile delivery to end customers – starting in Dublin, Hamburg and Cologne.

In December 2023, APCOA announced its new corporate strategy would include restructuring part of its offering to include its "Urban Solutions" business line which centres on the transformation of car parks into **'urban hubs'**. These urban hubs will mean that APCOA's car parks will deliver multiple functions for cities including being used as urban fulfilment centres and for vehicle charging. As of December 2023, APCOA says that it offers 30 city logistics hubs across Europe with an additional 300 parcel collection locations, with a further 180 in the pipeline.

Tritax MetroBox, UK

Specialist UK retail park investment fund Tritax Metrobox are offering their tenants in selected appropriate schemes the option of **MetroBoxMini hubs** – small modular 'pods' which can be placed on surface car parks or ancillary space in their retail parks. These hubs are designed to be used for a range of options, including local delivery, customer pick-up or additional storage. They can be built to a size of 100-150 sqm with 3m eaves, access for delivery vehicles and the potential to include features such as automated collection lockers for out-of-hours customer collection and PV panels for sustainable energy generation.

Amazon, Croydon and Mill Hill, London

In May 2020, Amazon agreed a pre-let with a fund managed by Nuveen Real Estate for an urban distribution hub in **Croydon, south London**. The former Toys R Us retail warehouse was refurbished and extended to create 4,700 sqm of warehouse space and 400 sqm of office space as well as new loading doors and external yard.

Also in May 2020, Amazon acquired the nine-acre former Pentavia Retail Park in **Mill Hill, north London** for GBP 65 million. Planning permission for a 10,000 sqm urban logistics hub was granted by Barnet London Borough Council in March 2023 and permission to demolish the existing buildings was granted in July 2023.

INTEGRATION

Cities are mixed use places and yet logistics is often pushed to designated industrial areas or zones of cities. Logistics is an important part of making cities function and so bringing logistics into new developments and creating specific spaces that work well for logistics as well as for other uses is an important next step to ensure ongoing success for logistics strategies and for cities themselves.

However, this isn't easy to do. **How will hybrid buildings work with logistics integrated within them?** The logistics side of buildings doesn't mix very well with the people side of buildings – they are different beasts in terms of function and form. Architects and designers of retail, leisure and office space have rarely had to consider what it means to drive a lorry or manage the movement of thousands of individual products in sophisticated warehouses. Similarly warehouse architects haven't often had to consider the delight and enjoyment that a customer seeks in their experience of physical spaces in a retail or leisure trip and how that impacts real estate requirements.

So how can logistics be integrated into development effectively? It will take **bold, innovative ideas and designs** which considers carefully how the logistics space will function and the role it will play for the wider area. They will also need to carefully consider how the logistics parts of the scheme do not disrupt the 'people' parts.

This will more likely be effectively achieved in areas of single or **coordinated control** – such as single-landlord controlled centres, parks or precincts. Controlled environments are more able to drive change and efficiency gains through the adoption of technology or collaborative practices but this is far harder in wider areas where there are multiple stakeholders with different drivers.

But success will rely on truly **collaborative ways of thinking** about what buildings can do to make their uses work together. And this will mean stakeholders – including developers, landlords, occupiers and local and central government – will need to work together to make changes that really make a difference in terms of function, efficiency, sustainability and resilience of well-integrated, well-functioning city logistics facilities.

British Land - The Box, Paddington, London

In May 2023, British Land secured planning approval for The Box, Paddington, a 12,100 sqm logistics hub at its mixed-use Paddington Central scheme in Central London. This represents not only an ultra-urban logistics location but a scheme that seeks to bring logistics operations into the fabric of a mixed-use environment.

The Box at 5 Kingdom Street extends eastwards under the existing 4 Kingdom Street office building , the Hotel Novotel London Paddington at 3 Kingdom Street and 1 Kingdom Street buildings. The site, which is now vacant, was used as a materials storage site during the construction of the Elizabeth Line trainline which completed in 2022.

The development will have eaves heights up to 8m and will include a mezzanine floor, taking the total floorspace to over 14,100 sqm. The facility will be served by HGVs for inbound deliveries with outbound deliveries by smaller electric vehicles and cargo bikes, for which there are up to 200 spaces available.

Operations at the scheme are expected to remove around 100 vans from Westminster's roads each day, reducing traffic congestion and carbon emissions. By locating so closely to the market to serve, users of the facility will also enjoy the potential costs advantage that proximity and efficiency of operations can deliver.

IMAGE SOURCE: BRITISH LAND

WHAT DOES ALL OF THIS MEAN FOR REAL ESTATE STAKEHOLDERS?

FOR USERS OF CITY LOGISTICS FACILITIES AS WELL AS DEVELOPERS AND INVESTORS, IT'S IMPORTANT TO THINK ABOUT HOW TO ADAPT STRATEGIES TO THE EVOLVING NATURE OF CITIES. WE SUGGEST THAT THERE ARE THREE KEY AREAS TO CONSIDER:

BE CONSIDERED

Our analysis illustrates that **not all cities are the same** and that **different cities need different distribution strategies** and therefore property requirements.

For occupiers of city logistics space, understanding the nature of cities and the way strategies need to adjust will help to better inform **choices about real estate commitments**.

For developers and investors, understanding the way users consider their **overall cost position** and how assets in different locations within a specific city and of different specification can deliver cost and operational efficiency is crucial. This not only helps to inform **the opportunities and the risks** associated with specific assets but can help to shape **investment and development strategies** specific to different cities – one size most definitely does not fit all when it comes to city logistics.

It's also important to understand the likely demand for assets that specifically leverage their location for parcel distribution: there will be a specific type of user that will need these types of buildings in these locations (at elevated rental levels) but it will be **a limited amount of overall demand**. Therefore choosing to invest or develop these assets will take **critical appraisal of the likelihood that there will be user demand** for them in the specific locations in the specific cities.

BE CREATIVE

We have also shown that, especially in constrained inner city areas where there are many demands on the finite amount of land there is, **creative and innovative ways of creating city logistics space can deliver value for users and owners alike**.

For users, this could be thinking about **how to operate from multi-storey or multi-level space** or from facilities integrated into **mixed-use schemes where the location is highly compelling**. Where there is an operational need, different types of strategy and real estate could provide solutions, albeit ones that may require some more creative thinking than using traditional buildings.

For developers and investors/landlords, this could include **thinking creatively** about what more existing assets can do, such as identifying opportunities for **redevelopment or repurposing** or for **integrating logistics into wider mixed-use schemes**. It could be considering (selective) **multi-level/multi-storey development** but critically appraising where there is a likely demand for these types of buildings coupled with a critical lack of supply. Similarly, taking a view on how existing spaces which traditionally have not been used for city logistics could be converted to these uses could provide **income generation and attractive return opportunities.**

BE COLLABORATIVE

Finally, successful city logistics strategies for the future will depend on **multiple stakeholders working together**.

For users, this will mean **sharing with developers and landlords what makes city logistics spaces work for efficient operations**, especially when it comes to new development concepts. This will help to better inform development and refurbishment decisions which will lead to better matching users' needs to the specifications delivered as well as better choice of appropriate buildings.

For developers and investors, collaborating not only with users but with **wider stakeholders such as city authorities and transport bodies** will help to ensure real estate assets remain relevant to well-functioning cities and the logistics they need. Also, when considering the integration of logistics into mixed-use schemes, it will also mean **collaboration with other landlords and other users (such as office, residential retail and leisure occupiers)** to find solutions together that create mutual benefit. It's not easy to put all of these elements together when there can be conflicting needs to be best for each use group – but by working together, there is more chance of success of doing things in ways that create value for all.

SUMMARY

CITY LOGISTICS IS STILL ESSENTIAL

Online retail sales will continue to grow, leading to further growth in parcel delivery. Consumers want choice when it comes to delivery options but delivery strategies for retailers and parcel carriers will necessarily involve significant volumes moving into and around cities. **Cities will remain resilient** despite the global pandemic shifting some demographic dynamics over recent years. And cities are increasingly focusing on **traffic movements** around cities as well as the **availability of land** for logistics space to serve them. All of this means that **the need for thoughtful city logistics strategies remains high** - and this includes city logistics real estate.

DIFFERENT CITIES NEED DIFFERENT STRATEGIES

Different cities require different distribution strategies depending on size, population, likely demand for parcel movements and transport conditions. This is predicated on a combination of different factors but distribution reach and density and, crucially, **total operation cost will inform user distribution strategies and therefore real estate choices**.

TOTAL OPERATING COST WILL INFORM CITY LOGISTICS STRATEGIES

Considering **total operating cost for city logistics operations is crucial** when determining locational and real estate strategies. Determining the number and location of facilities will depend on the nature of individual cities and operations but will always be driven by principle of **minimising cost-to-serve**.

CITY LOGISTICS REAL ESTATE COMES IN DIFFERENT SHAPES AND SIZES

The type of real estate needed will vary according to the strategies required to meet the needs of businesses, volumes and city complexions. Real estate assets may be take the form of relatively conventional warehouses through multi-storey buildings (where location is critical and the high rental costs is outweighed by transport and other savings) to microfulfilment locations in areas of high demand such as city centres.

THE FUTURE OF CITY LOGISTICS WILL INVOLVE NEW APPROACHES

City logistics and therefore the real estate to support it will require new ways of thinking about key factors including **infrastructure** (both existing and future types), **intensification** (especially multi-storey buildings in cities with industrial land scarcity), **imagination** (including redevelopment, repurposing and non-permanent real estate strategies) and **integration** (integrating logistics operations and space within mixed use schemes and doing it efficiently).

STAKEHOLDERS WILL NEED TO BE CONSIDERED, CREATIVE AND COLLABORATIVE

Better understanding about what is required of city logistics and its real estate will lead to better outcomes for users, developers and investors. **Thinking creatively** about how to deliver space where it is needed – but paying careful attention to integration with other uses – will create value across stakeholder groups. **Higher levels of collaboration** is more likely to produce better outcomes over the longer term.

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