Growth of Mega DCs in Germany, the Netherlands and Belgium

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1 Rapid growth of logistics real estate

The Covid-19 pandemic causes major shockwaves throughout the world economy. Logistics is one of the economic sectors that has been hit, but due to the rise of e-commerce and the importance of food (r)etail the need for warehousing remains high.

Everyone is talking about the crucial role of logistics in Europe and the demand for logistics real estate. Demand for space, construction activity and investment volume is at high levels. The more the overall economic uncertainty increases, the more the question is whether logistics real estate is a viable asset class in the long term. What are the differences between the diverse types of properties in the logistics property cosmos? What regional patterns can be identified over time, and perhaps the main question is: where is the journey heading?

E-commerce is one of the most dynamic demand drivers for logistics real estate. This sector in particular requires large-scale properties for its processes. The plot sizes required for Mega DCs (larger than 40,000 sqm) tend to be found outside the boundaries of metropolitan areas. However, they are situated not too far away from major cities to benefit from the labour pool.

The demand for logistics warehousing in Europe has been growing in the past years due to a number of factors:

- the pre-corona booming European economy, leading to more consumer and business demand;
- the rapid growth of e-commerce, leading to more demand for specific e-commerce warehousing with e.g. packing and return logistics facilities;
- the growing global trade, which has led to an increase in European distribution solutions at American and Asian multinationals;
- the low interest rates which make financial investments in warehousing attractive.

The growth in logistics warehousing volume has been especially high in the transport corridors from the major European ports Rotterdam, Antwerp and Hamburg to European markets and consumers. In this white paper, we will focus on the past and future of warehousing developments in the main Western European markets Germany, the Netherlands and Belgium.

2 Mega DCs drive the market

There is a wide range of building parameters, location variables and space configurations that result in a great variety of warehouse and logistics properties. Distribution properties are primarily used for distribution and picking of goods. Users of modern distribution properties are primarily active in contract logistics. Depending on the proximity to the customer / sales market, these properties can serve as central or regional warehouses. Value Added Logistics can also be offered as an additional service.

The e-commerce sector is growing enormously and enjoys a growing popularity. However, the various products, which are to arrive at the end customer within the shortest possible time, require physical storage space and the possibility of fast and smart processing, which are offered to them in fulfilment centers. In addition to picking, packing and shipping of goods, returns management and the disposal of returned goods are becoming increasingly important. The logistics processing in fulfilment centers is special and can be distinguished from standard distribution properties. The products are mostly shipped in packages with a small number of individual items. For these reasons, more and more Mega DC's (more than 40,000 sqm; sometimes called XXL DC's) have been realized in recent years.

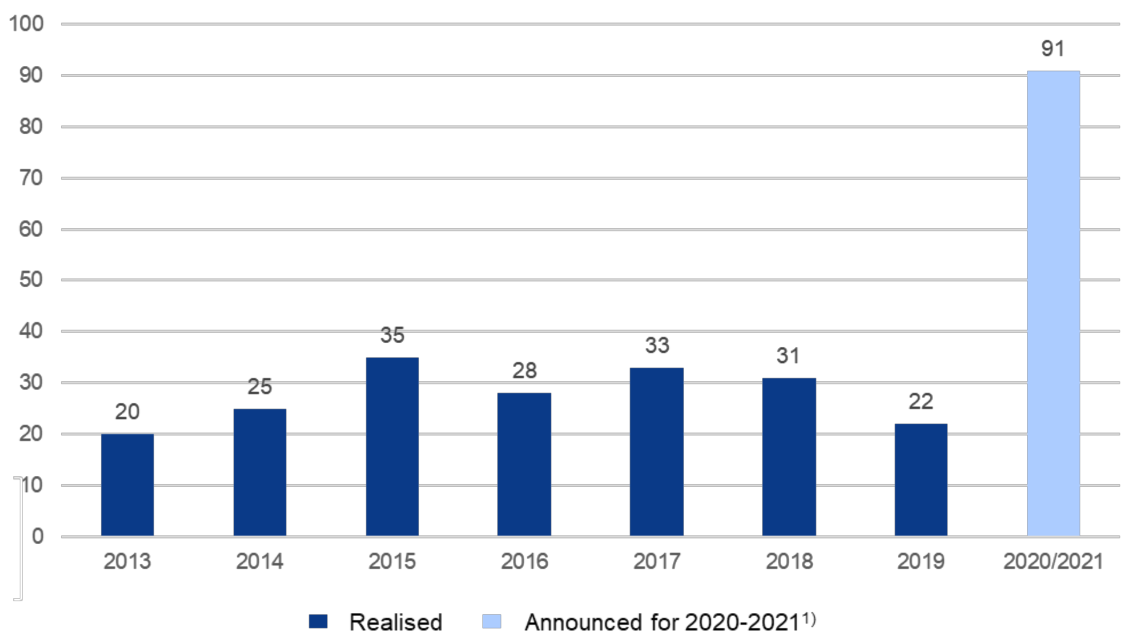
Mega DC's have also been set up for a variety of other reasons:

- increased trading volumes, and necessary scale for investments in material handling, automation and robotization;
- effectiveness in costs and sustainability when building and using Mega DC's; a Mega DC can also be rented out in blocks to several customers.

Germany

In the period 2013-'2019'[1)] 285 new Mega DC's were established in Germany with in total 18.7 million sqm of floorspace.

Figure 1 New Mega DCs (> 40,000 sqm) in Germany: 2013-'2019'[1)]

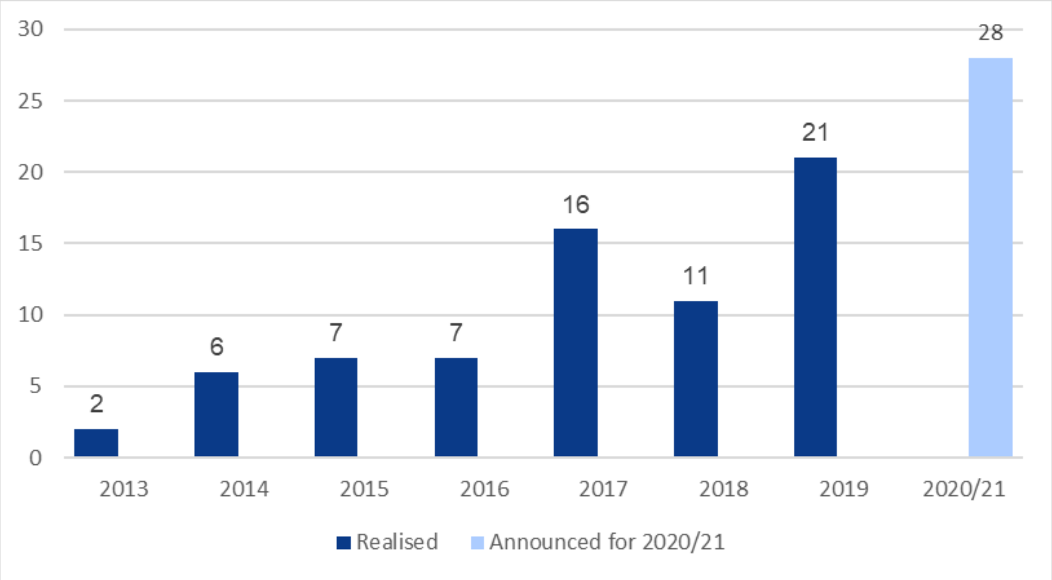


1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

The Netherlands

In the same period 2013-'2019' 98 new mega warehouses were established in the Neth-erlands with 7.1 million sqm of floor space.

Figure 2 New Mega DCs (> 40,000 sqm) in the Netherlands: 2013-'2019' [1)]

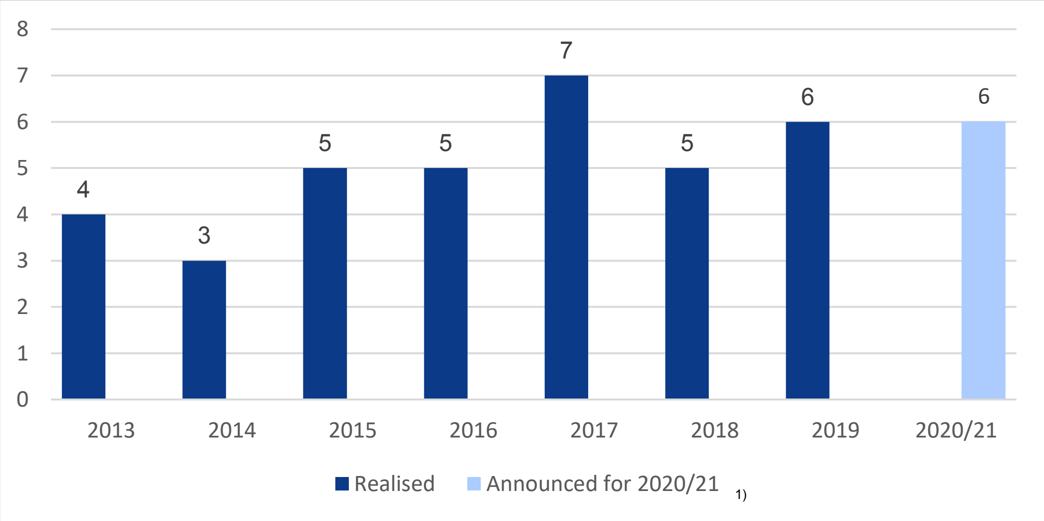


1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

Belgium

Belgium saw between 2013 and 2019 41 new warehouses realised/announced with 3.1 million sqm of floor space.

Figure 3 New Mega DCs (> 40,000 sqm) in Belgium: 2013-'2019'



1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

In the period 2013-‘2019’ (including announcements/start of constructions of DC’s to be opened in 2020/2021) there are 285 Mega DC’s established/announced in Germany, in the same period in the Netherlands 98 Mega DC’s and in Belgium 41. Altogether an enormous number of 424 new Mega DC’s in the logistics heart of Europe are (being) realized.

3 Rising demand meets short supply in metropolitan areas

As can be seen from the developments over time throughout Germany, the Netherlands and Belgium, the demand for logistics space has risen steadily over the last few years. For the current and coming year, even more increasing numbers of project developments are to be expected. Which regions will be able to profit from this the most?

The mantra of ‘location, location, location’ is particularly relevant for logistics properties. The optimal location is determined by a number of parameters, including rapid access to sales markets or the availability of labour. Looking at the total number of project developments in this segment of logistics real estate, one comes across well-known hotspots that have already seen high completion rates in the past.

Germany

In addition to the logistics regions around classic A-cities such as Hamburg, Düsseldorf and Frankfurt am Main, a large number of Mega DCs are currently being realized in the Hannover / Braunschweig logistics region and in the Rhine-Ruhr logistics region, and will continue to do so in the future. In relation to their gross floor area, these regions each account for a share of around 5 to 7 percent of the Germany-wide market. The four logistics regions with the most realised Mega DCs account for approximately the total usable space that is being built in peripheral regions throughout Germany. One reason for this is that the shortage of space described above prevails in the metropolitan areas. Space for new construction projects is difficult to find, which is why logistics companies are increasingly settling in the surrounding area.

Table 1 Top-5 Logistics Regions Ranking in Germany – Mega DCs (2013-‘2019’) 1)

#	Logistics Regions	Number	Share (%)	Gross Floor Area (sqm)	Gross Floor Area (%)
1	Rhein-Main / Frankfurt	18	6,3%	1.184.000	6,3%
2	Hannover / Braunschweig	17	6,0%	899.000	4,8%
3	Hamburg	17	6,0%	1.321.000	7,1%
4	Düsseldorf	16	5,6%	1.049.000	5,6%
5	Rhein-Ruhr	15	5,3%	1.193.000	6,4%
/	Periphery	70	24,6%	4.427.000	23,7%

1) These are DC’s announced/started construction in 2018/2019 which will be opened in 2020/2021

The Netherlands

The majority of Mega DC's in the period 2013-2019 in the Netherlands has been realised on the transport corridor Rotterdam to Venlo, in the provinces South Holland, North-Brabant and Limburg. Almost 75% of all Mega DC square meters have been realized in these three provinces, which are the traditional logistics hot spots in the country. These three provinces remain popular, but in the last few years Mega DCs are also realised in other provinces because it is easier to find the right area there, the land prices are lower or the availability of logistics labour is more guaranteed.

Table 2 Top-10 Logistics Regions Ranking in the Netherlands – Mega DCs (2013-'2019') 1)

#	Logistics Regions	Number	Share (%)	Gross Floor Area (sqm)	Gross Floor Area (%)
1	North-Brabant	34	34,7%	2.346.000	33,3%
2	Limburg	21	21,4%	1.695.000	24,1%
3	South-Holland	20	20,4%	1.370.700	19,5%
4	Gelderland	7	7,1%	441.000	6,3%
5	North-Holland	6	6,1%	398.000	5,7%
6	Flevoland	3	3,1%	295.000	4,2%
7	Overijssel	2	2,0%	217.000	3,1%
8	Zeeland	2	2,0%	143.000	2,0%
9	Utrecht	2	2,0%	95.000	1,3%
10	Friesland	1	1,0%	43.000	0,6%

1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

Belgium

A large majority of the Mega DCs realized in 2013-'2019' have been realized in Flandres. The provincies Antwerp with the port of Antwerp and East Flandres with the port of Ghent have been most popular. About 50% of all Mega DCs square meters have been realized in these two provinces. Mega DCs have also been realized at the corridor Antwerp to Brussel in Flemish Brabant, but in Brussels no sufficient area is available for Mega DCs. The corridor from Antwerp to Germany, through the provinces of Limburg and Liege, is also popular for new Mega DC's. The square meter prices for area in these provinces is in general lower, and these provinces are increasingly popular for building Mega DC's.

Table 3 Top-10 Logistics Region Ranking in the Belgium – Mega DCs (2013-'2019') [1)]

#	Logistics Regions	Number	Share (%)	Gross Floor Area (sqm)	Gross Floor Area (%)
1	Antwerp	12	29,3%	738.000	23,6%
2	East Flanders	9	22,0%	875.000	28,0%
3	Limburg (B)	7	17,1%	526.000	16,8%
4	Liege	4	9,8%	463.000	14,8%
5	Flemish Brabant	4	9,8%	245.000	7,8%
6	Hainault	3	7,3%	142.000	4,5%
7	West Flanders	1	2,4%	90.000	2,9%
8	Luxembourg (B)	1	2,4%	44.000	1,4%

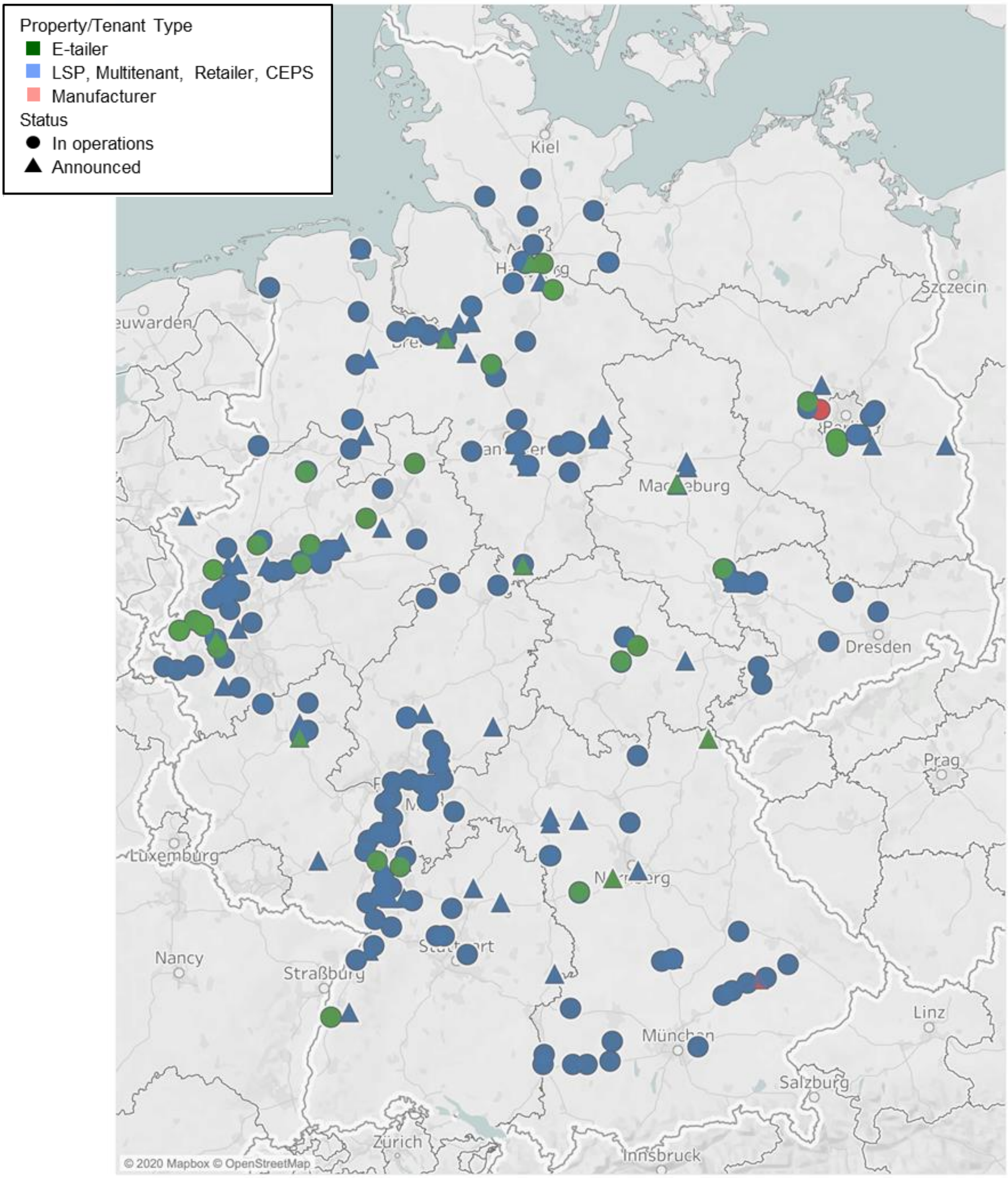
1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

Note: Only 8 provinces with Mega DC's in 2013-'2019'

4 Locations of Mega DC and development over the years

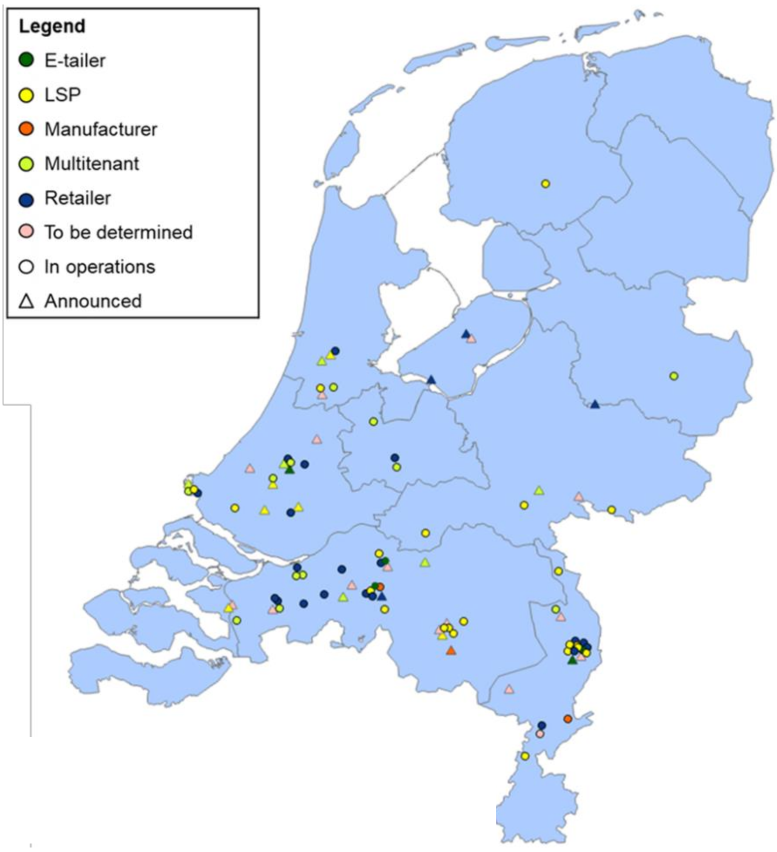
The locations mostly chosen for the 424 new Mega DC's in Germany, the Netherlands and Belgium are along the major transport corridors from the ports of Rotterdam, Antwerp and Hamburg towards the heartland of Europe. Also, Mega DC's are ideally situated in the vicinity of metropolitan areas, especially Mega DC's from retailers and e-tailers. However, in the past few years more and more Mega DC's have been realized in locations further from main transport corridors and metropolitan areas. The reason is that it has become difficult to find the right spot with sufficient labour for a Mega DC along corridors and near metropolitan areas. This trend has led to a less concentrated pattern of Mega DC's among the geographical area of Germany, The Netherlands and Belgium.

Figure 4 Mega DCs in Germany (2013 – '2019') [1)]



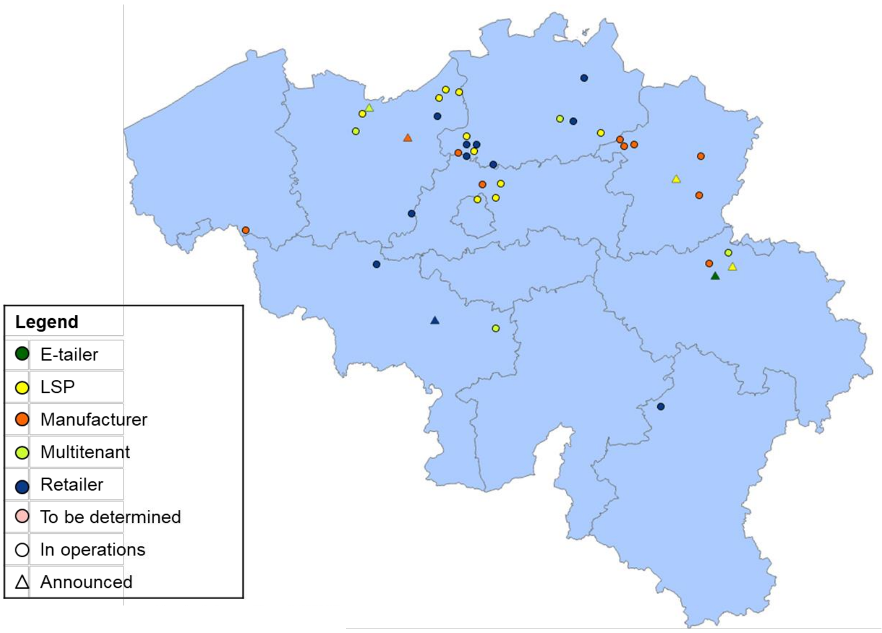
1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

Figure 5 Mega DCs in the Netherlands (2013 – '2019') 1)



1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

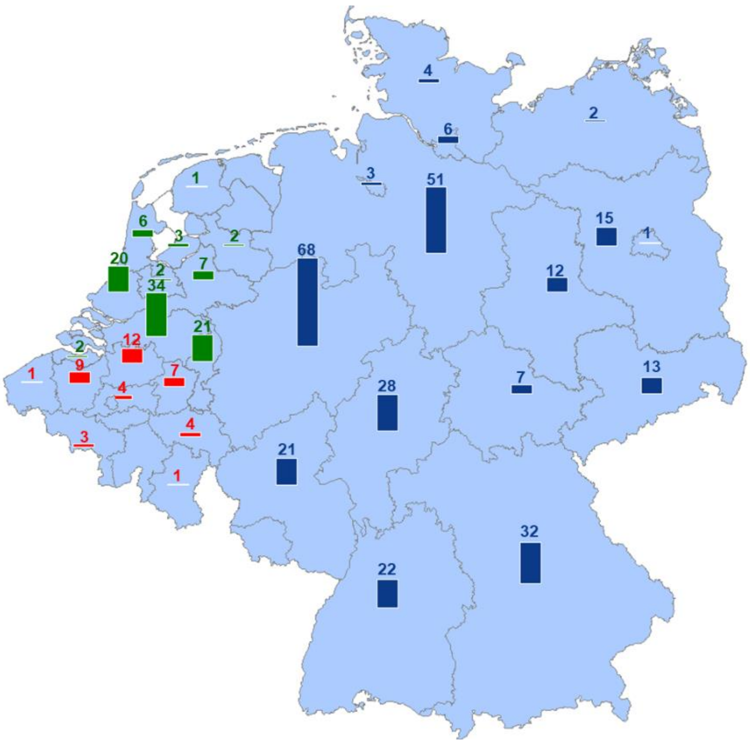
Figure 6 Mega DCs in Belgium (2013-'2019') 1)



1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

Figure 7 shows the Mega Distribution Centers in all three countries together.

Figure 7 Mega DC's in Germany, the Netherlands and Belgium in 2013-'2019'[1)]



1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

5 Perspectives on Mega DC's

The development in the number of new Mega DC's has been different for the three countries.

- In *The Netherlands* there has been a doubling, so 100% growth in the number of new Mega DC's (60) in 2018-'2019' and announcements for 2020/2021 if compared to 2015-2017 (30);
- In *Germany* the growth has been 50% in the number of new Mega DC's (144) in 2018-2019 and announcements for 2020/2021 if compared to 2015-2017 (96);
- In *Belgium* there has been surprisingly no growth: the number of Mega DC's (17) in 2018-2019 and announcements for 2020/2021 was exactly the same as in 2015-2017 (17).

Also, the size of the user categories of Mega DC's have been a little different per country. In Belgium, manufacturers are the users of almost 25% of all new Mega DC's in 2015-2021, while in the Netherlands these share of manufacturers is only 2%.

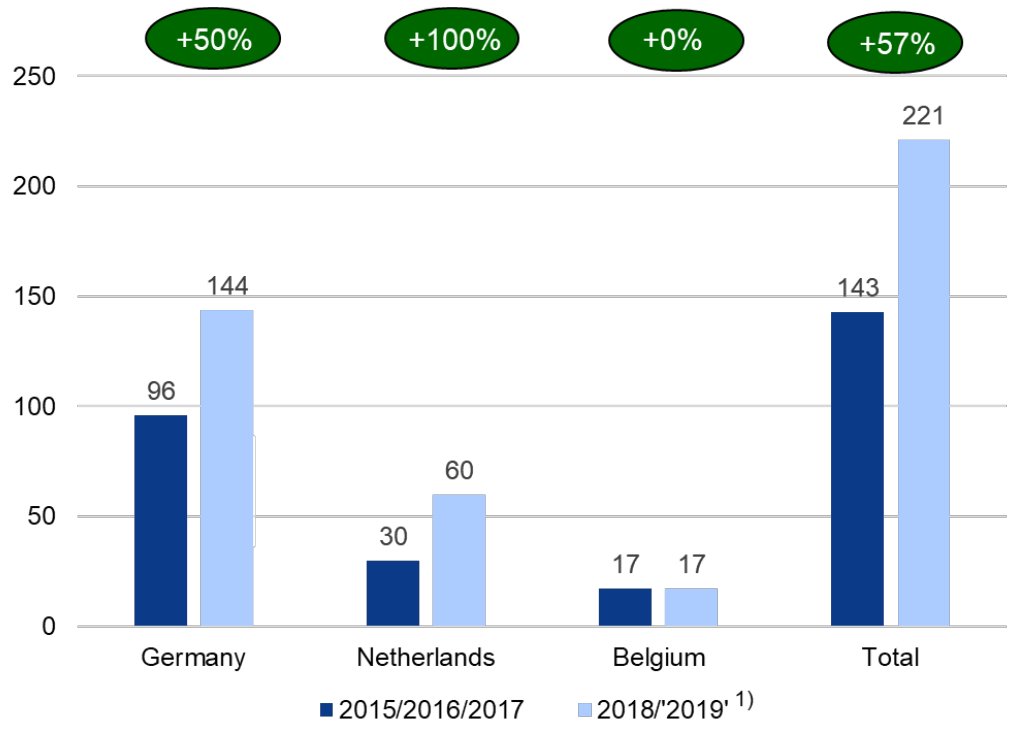
Looking at the completions of Mega DC's in Germany, it becomes clear that in the years 2020 and 2021 a large number of large-area completions in the logistics segment can be observed once again. Among these are some multi-tenant properties, which can be rented out as easily as possible to a large number of users in a short period of time due to their good third-party usability and the flexible use of individual sections of space in these large properties. Meanwhile, warehouses of production companies in XXL format are rather rare. For Germany it can be determined: production warehouses, which can be found in many places near the actual production facilities, are usually smaller than 40,000 square meters.

Table 4 Development in total number and user category of Mega DC's between 2015-2017 and 2018-2020/21

	Germany			The Netherlands			Belgium				Total	
	2015 2016 2017	2018 2019 '2020'	Total 2015 – '2020'	2015 2016 2017	2018 2019 '2020'	Total 2015 – '2020'	2015 2016 2017	2018 2019 '2020'	Total 2015 – '2020'	2015 2016 2017	2018 2019 '2020'	Total 2015 –'2020'
A Numbers	96	144	240	30	60	90	17	17	34	143	221	364
B Volume x 1,000 sqm²	5,870	10,080	15,950	2,300	4,293	1,362	1,362	1,486	2,848	9,532	15,859	20,160
C Tenant type												
• E-tailers	18	15	33	3	2	5	0	1	1	21	18	39
• Manufacturers	0	2	2	1	1	2	4	4	8	5	7	12
• LSP/CEPS/multi tenant	78	127	205	18	31	49	9	8	17			
• Retailers				8	11	19	4	4	8			
• Other/unknown				0	15	15	0	0	0	0	15	15
Total	96	144	240	30	60	90	17	17	34	143	221	364

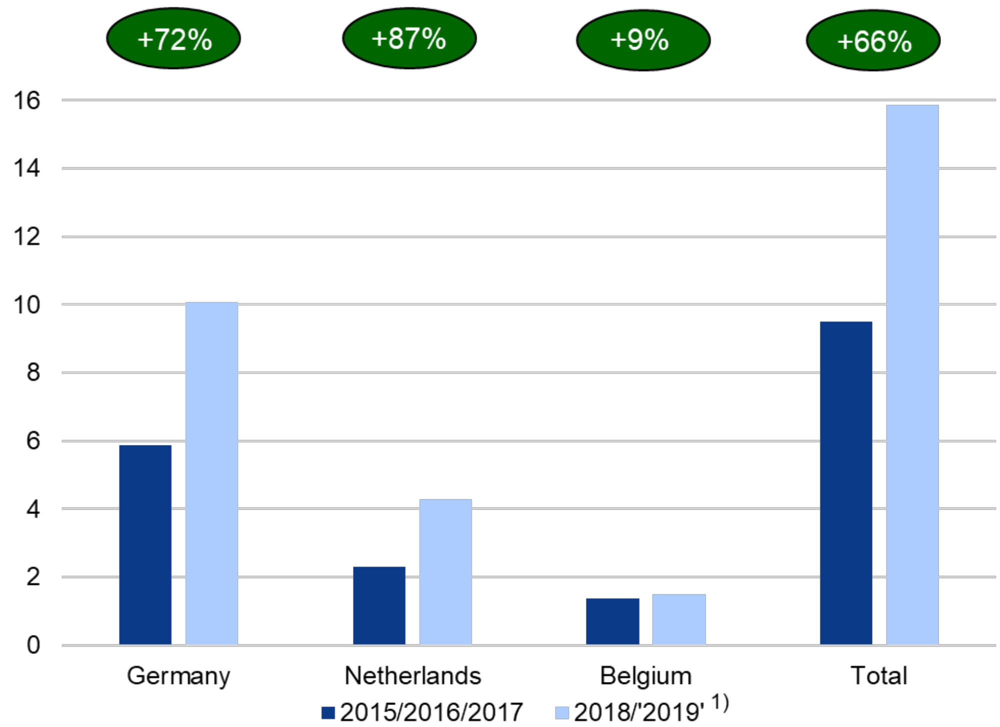
Source: Buck Consultants International/Bulwiengesa

Figure 8 Number of new Mega DC's in two periods



1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

Figure 9   Volume of new Mega DC's in two periods (x mln sqm)



1) These are DC's announced/started construction in 2018/2019 which will be opened in 2020/2021

The increasing demand for logistics services, driven by technological and social change, confronts the actors with the task of aligning their location networks to this additional demand. The decision criteria are in conflict between specific location preferences and restricting factors such as the availability of land for development or employees. One catalyst for the growing importance of logistics is e-commerce and the supply of end consumers, which is becoming increasingly important. In practice, obstacles have been encountered in many places to realign locations close to consumers. A high level of competition for building land – especially in the major cities – means that compromises have to be made in the choice of location in many places. The search for a stable location for the future is therefore a complex undertaking for which there is no single solution.

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