

Where's the best location for your European distribution centre?

14/Aug/2009 by Thomas Cullen



The property sector has been central to the problems of the world's economy. Both residential and commercial real estate has crashed in value in most of the developed world. Yet according to the Commercial Real Estate Agency, Cushman & Wakefield, the fundamentals of the European logistics property market remain surprisingly stable. Both on a short and long term perspective, the sector has not been heavily affected by the present economic turmoil.

Although the building of new developments has stopped, demand for existing and newly finished facilities has continued at a stable level. Crucially rents have suffered only minor falls over the past year in the core markets of the Netherlands and Belgium. And core markets they remain. Although world trade may have fallen heavily, location next to the leading ports of Rotterdam and Antwerp combined with proximity to the some of the wealthiest markets in Europe means that the Benelux and the parts of Germany and France bordering it, remain the favoured choice for major logistics properties such as European Distribution Centres.

Every year Cushman & Wakefield compiles an index of the competitiveness of different regions in Europe for the location of logistics property. Based on the European Union's 'NUTS' methodology, it is a weighted measure of factors such as transport costs, labour costs and property costs that underlie the economic viability of logistics property. This yields some surprising results. Most remarkable is the poor scores of the Netherlands. Although core regions such as North Brabant and Limburg still are in the upper quarter of the index they certainly not at its top. Its big problem is the price of land. As Jef Van Doorslaer, Head of Research for Cushman & Wakefield, observes "it's a victim of its own success". Although the Dutch are working to alleviate this problem it is unlikely to go away as the Netherlands remains the most popular location for major warehousing infrastructure, particularly distribution centres that hold tactical inventory for pan-European markets. However the effect is to drive-up both the cost of land and of labour substantially.

The strongest competitors for the Netherlands remain the neighbouring regions in Belgium, but also northern France and parts of western Germany along the Rhine. As Van Doorslaer points out, the authorities in some of these regions place a lot of land on the market and this keeps prices relatively low, compensating for their greater distance from major ports.

In terms of rival geographies one location with an emerging strength is the Nord-Pas de Calais region. Van Doorslaer cites its strength in offering both plentiful and comparatively cheap high quality warehousing. It also has an advantage in serving both southern Europe and the British Isles, the latter due to its location near the Channel Tunnel. Lesser 'hot spots' include the Kassel area in Hesse which in part reflects the growth of demand in central Europe, but eastern Germany in particular.

Despite this cost differential, it is clear that the underlying geography of inventory locations is not changing that much. Although the centre of gravity for inventory is moving eastwards as the economies of central and eastern Europe grow, it has not yet diminished the attraction of the Netherlands. Van Doorslaer estimates that up until twelve months ago around half of major European distribution centres were being built in the Netherlands.

One change that Cushman & Wakefield is noticing is the increasing attractiveness of 'multi-modal' locations. Concerns about transport costs, congestion and changes in transport needs in the future are making customers consider locating central inventory at hubs with access to road and river transport. "People are thinking in fifteen years time will road congestion make it possible to distribute by road in the way they do now? So they are looking for sites that offer them alternatives," Van Doorslaer commented. For example Liege is boosted in attractiveness due to its inland container port facilities linking it to Antwerp port, yet offering cheaper land prices. In Germany a similar location is the port of Duisburg on the Rhine.

However it appears that the key process of 'stripping containers' shipped from China and storing stock in an EDC is not changing. Supply chains may or may not be adapting to new economic realities, but so far the property market still reflects the need of big importers to be near to major container ports. Of course this might change in the future if supply chains, for example, rely more on production based in central Europe. But at present this is not happening.

Indeed the effects of the growth of the central European economies is surprisingly muted. Although the attraction of locations around the North German ports, for example, may be increasing so far the main impact on the property market has been to increase demand for secondary level warehousing serving the domestic markets of central European countries.

The present recession may affect the property market to a degree. For example Jef Van Doorslaer suggests that Dutch locations may see a fall in the price of labour, pushing-up their relative competitiveness. He also observes that the customers for warehousing developments, and third party providers in particular, increasingly require a high degree of flexibility in the amount of space they need. They are also increasingly unwilling to sign leases for more than a few years.

Overall however the change is modest. As Van Doorslaer observes, "the centre of gravity of European distribution is shifting a little bit eastwards towards Germany as Europe becomes larger, but also southwards towards Hainault and the Pas-de Calais". This illustrates that, although major economic changes may be anticipated, at present the geography of the European logistics sector and the European economy in general has not changed that much. It is probable that despite the growth of eastern European economies as well as changing trade patterns the business will remain centred on the ports of Netherlands and Belgium.

Interested in further analysis of the European logistics market? Ti's [Global Distribution Strategies Conference 2009](#), 6-7 October 2009, at the Radisson Blu Hotel, Brussels will be packed full of insight from a range of Ti analysts and industry leading speakers. For more information follow the link or contact Sarah Smith on +44(0)1666 511872 or by email: ssmith@transportintelligence.com.

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