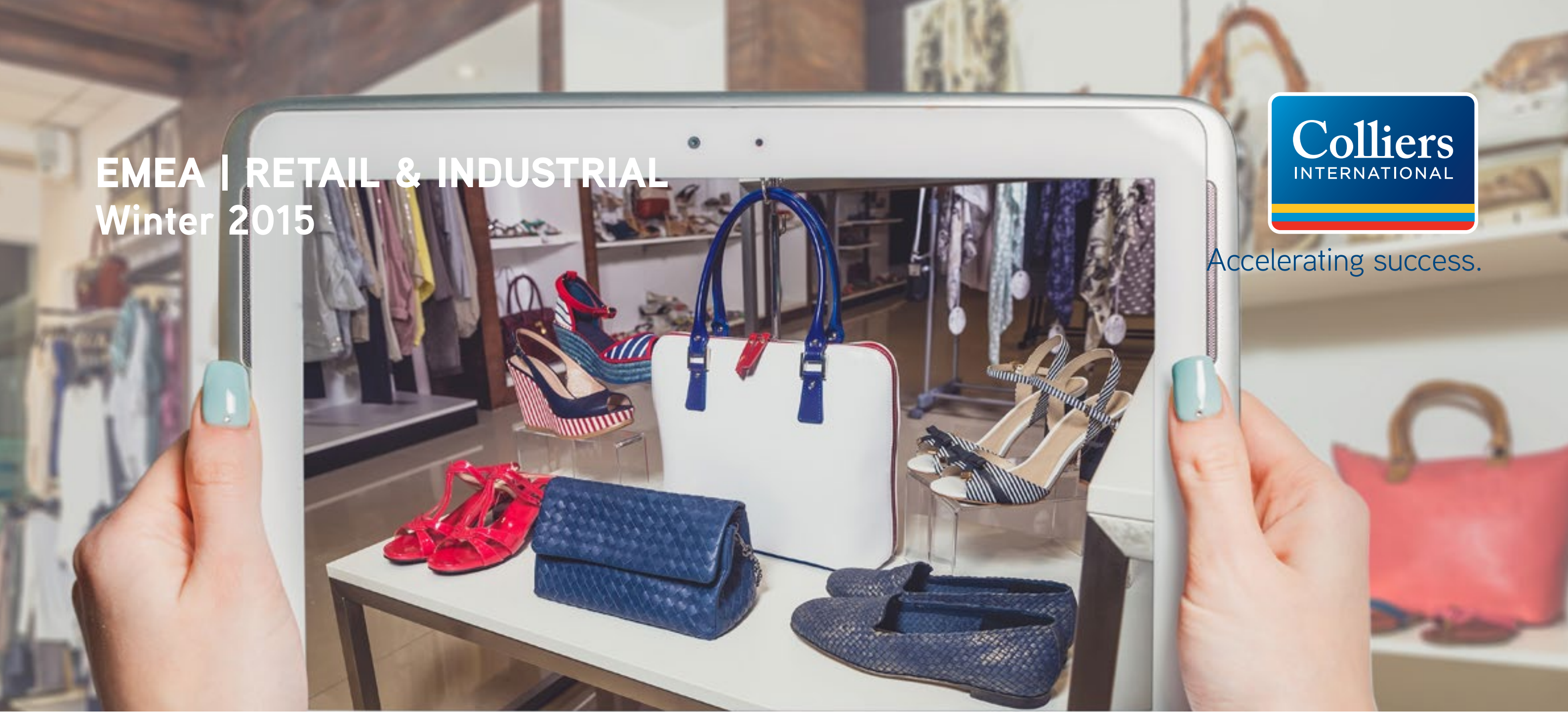


EMEA | RETAIL & INDUSTRIAL
Winter 2015

Accelerating success.

Colliers European Retail & Logistics Insights

From Sheds to Shelves

Executive Summary

The emergence of retail logistics as a new type of property investment reflects wholesale changes in the way people shop and the way retailers do business.

Britain leads Europe in its composition of prime retail and logistics assets, driven by the highest demand in Europe for e-commerce with at least 15% of sales now made online. We expect this to rise to at least 20% by 2020, which reflects similar forecasts in many other established global markets.

Continental Europe is not far behind, with online sales in Germany at over 11%, followed by the Netherlands, France and Nordic markets. The rapidly evolving CEE markets led by Poland and the Czech Republic are helping to drive European online sales to over 8% of all retail activity, ahead of the US.

Table of Contents

From Sheds to Shelves

While many investors rightly separate different asset classes and invest accordingly, never have the fates of the retail and logistics sectors been more closely aligned.

In the age of 'online everything', we have seen the symbiotic growth of large distribution centres (DCs) fuelled by soaring retail demand. Much of that admittedly has come from online-only companies. But established players on the high street now have bigger stores than ever before and mighty online machines to match. Confusingly though, online players are now starting to emerge in the real world, with Amazon recently opening up a book store in Seattle.

What it highlights is the pace at which the omni-channel and multi-channel revolution has quietly emerged over the last five years. As social media has grown in importance and as mobile shopping has ballooned, companies have had to respond. The solution is to cater to changing demands by making the most out of your assets. Whether that means reconfiguring billboards to have Minority Report-style insight into passers by or simply adjusting inventory levels based on footfall, technology plays a key role in supporting existing retail – and not by shifting it all online.

Coupled with this, the infrastructure that supports both the first mile and last mile of the journey is also crucial. The evolution of deep water ports, super-sized container ships and inter-modal logistics hubs combining road, rail and sea has been fascinating. The arteries that sit beneath the skin of retail are vital for the whole economy and what is clear is that a far greater level of awareness is needed of the role they play and the barriers they face.

In our first European Retail & Logistics Insights report, we have researched some of the emerging trends across these fascinating areas, using case studies and fresh local market analysis to highlight how Europe's retail and logistics market is evolving.

This report ties into Colliers' **recent global study** on how Europe's network of ports and logistics hubs connects globally with the retail sphere.

It's fair to say that traditional warehouses have seen a reinvention of sorts into tech-focused DCs. Competition for land around key European urban centres combined with the need to support same-day delivery, could see new facilities emerge, but sprawled across several storeys - just as they are in Hong Kong, Singapore and Japan. These DCs will be orbited by smaller urban logistics bases from which consumer deliveries can be deployed. And there may be scope for such locations to make use of old office stock or assets that could not have been used for housing.

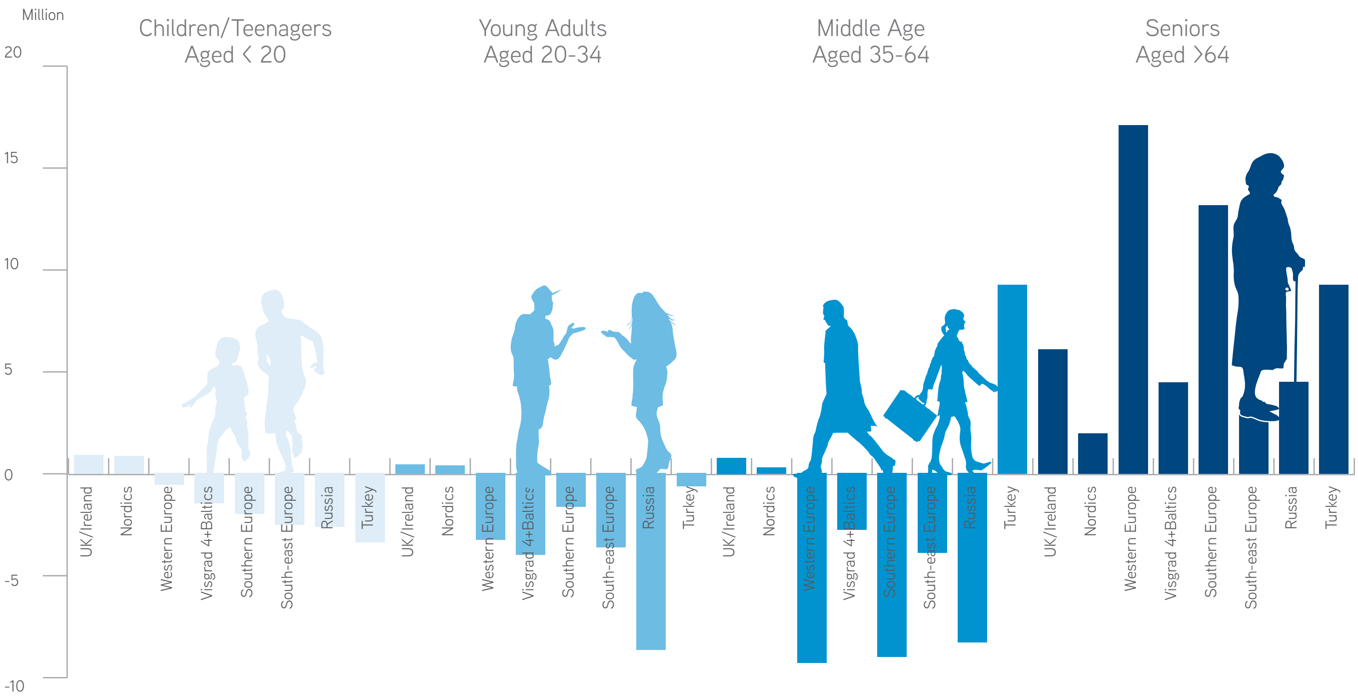
Nevertheless, urban logistics rents will have to compete with other uses. Someone will have to pay - and that someone is likely to be the consumer. Will that mean higher delivery costs for consumers who demand everything today? Perhaps.

What we do know is consumers are fickle. Less than a decade ago, major supermarkets were building massive stores that sold everything from garden furniture to car insurance. Now everyone has decided they prefer the lure of convenience and supermarket land-banks are being cashed in for residential development. This should be a stark reminder that while we will continue to see fundamental structural change across both the retail and logistics sectors, nothing lasts forever in an ever-changing market place.

Consumer Demand and Macro Trends

- While Europe will see its population dip over the next 25 years, it will see its digital urban population – consumers living in urban communities, connected on-line and accustomed to digital consumption – rise by 30% to over 600 million. The most significant growth rates will be in the Nordics (58%), the UK/Ireland (48%), Turkey (48%) and western Europe (39%). The biggest growth in customers will be in western Europe, the UK/Ireland, Turkey and southern Europe.
- Although European growth is significant, it pales into comparison relative to China, India and the North American markets. The digital, urban populations of India, China and North America are likely to grow by 74%, 65% and 44% respectively. China is set to have over 1 billion digital, urban consumers by 2040. India will have over 600 million and North America (US, Canada and Mexico) 500 million. This helps explain why many European retailers are shifting their attention to these other global domiciles, with awareness of the growth potential in India seeing a more recent uplift. As China switches from manufacturing to consumer economy, this trend is likely to accelerate.
- The biggest demographic shift globally will be that of the growth of seniors – those over 64 years old. This will mean that the current supply of youth-focused fashion brands will have to refocus their attentions in order to maintain business. Or perhaps it will create a whole new set of brands to rival H&M and Zara - Forever 61, for instance.

Fig. 1: Population Growth to 2040 by Key Consumption Group: European Sub-regions [Million]



Source: UN, Colliers International

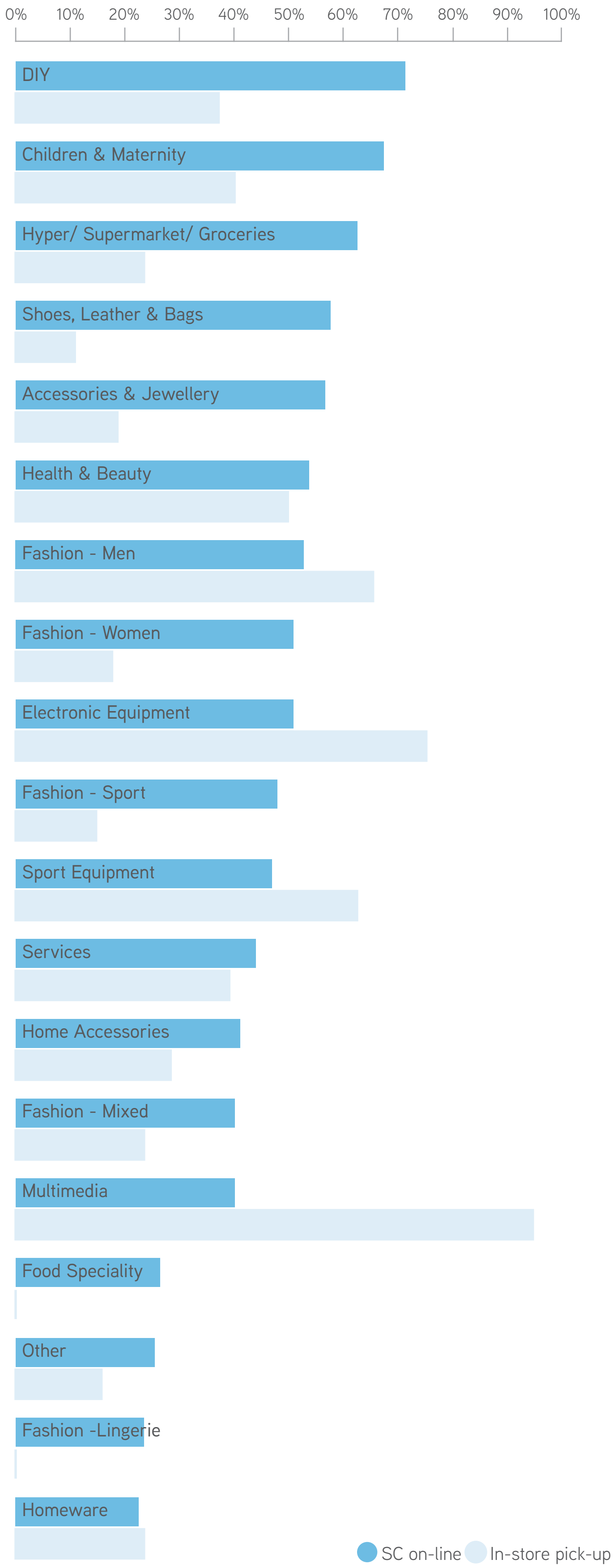
Digital Retail – The Last Mile

- With the volume of mobile traffic generated globally by smartphones predicted to grow tenfold by 2019 the market will increasingly need to turn its attention to expanding digital infrastructures to capture a large proportion of consumers.
- Ultimately the part of the supply chain that will attract the most attention from consumers will be the ***last mile***. Whilst drone delivery threatens to become part of the modern space race, retailers are already using existing infrastructure to resolve time and cost issues that have typically plagued the last mile.
- Collection points have grown as a natural solution in congested cities with consumer groups typically less willing to wait at home for a delivery. Around 33% of customers in the UK are now choosing in-store collection followed by 13% in the US, though experts at Colliers International expect these numbers will double by 2017.
- In Warsaw, Poland, over 45% of all shopping centre tenants now have some form of on-line service, to complement their retail 'bricks-and-mortar' footprint. Of these retailers, 35% provide an in-store click-and-collect service. This exemplifies just how quickly the market is moving, especially when considering the number of tenants with any form of on-line presence was close to zero five years ago.
- Towns and cities are going to a need more intricate network of urban logistics to cope with online demand. This will create a need to develop retail warehouses in and around the periphery of cities where land values are greater per m^2 than in far out places where large warehouses traditionally locate.
- Skyscraper sheds could be a rolling theme as land around our cities tightens. The world's tallest warehouses now reach 24 storeys, and accommodate automated systems. Many schemes across Hong Kong, Singapore and Japan are multi-storey and similar schemes are now being considered for in-fill development in tightly constrained US cities.
- In Britain, the typical clearing height of an out-of-town DC is a relatively small 10m, although heights are rising driving by the need for mezzanine floors. We expect this to change over the coming years, particularly given the UK government's push to regenerate brownfield sites and sell off public land.
- Traffic congestion in Britain and other European cities, coupled with the need to improve air quality and manage urban CO2 emissions is seeing an expansion of cycle logistics companies which are faster, and more importantly, greener. As urban warehouse footprints expand, these cycle logistics services are set to increase.

Fig. 3: Cycle Couriers

Source: Pony Zero

Fig. 2: Warsaw: Shopping Centre Tenant Analysis

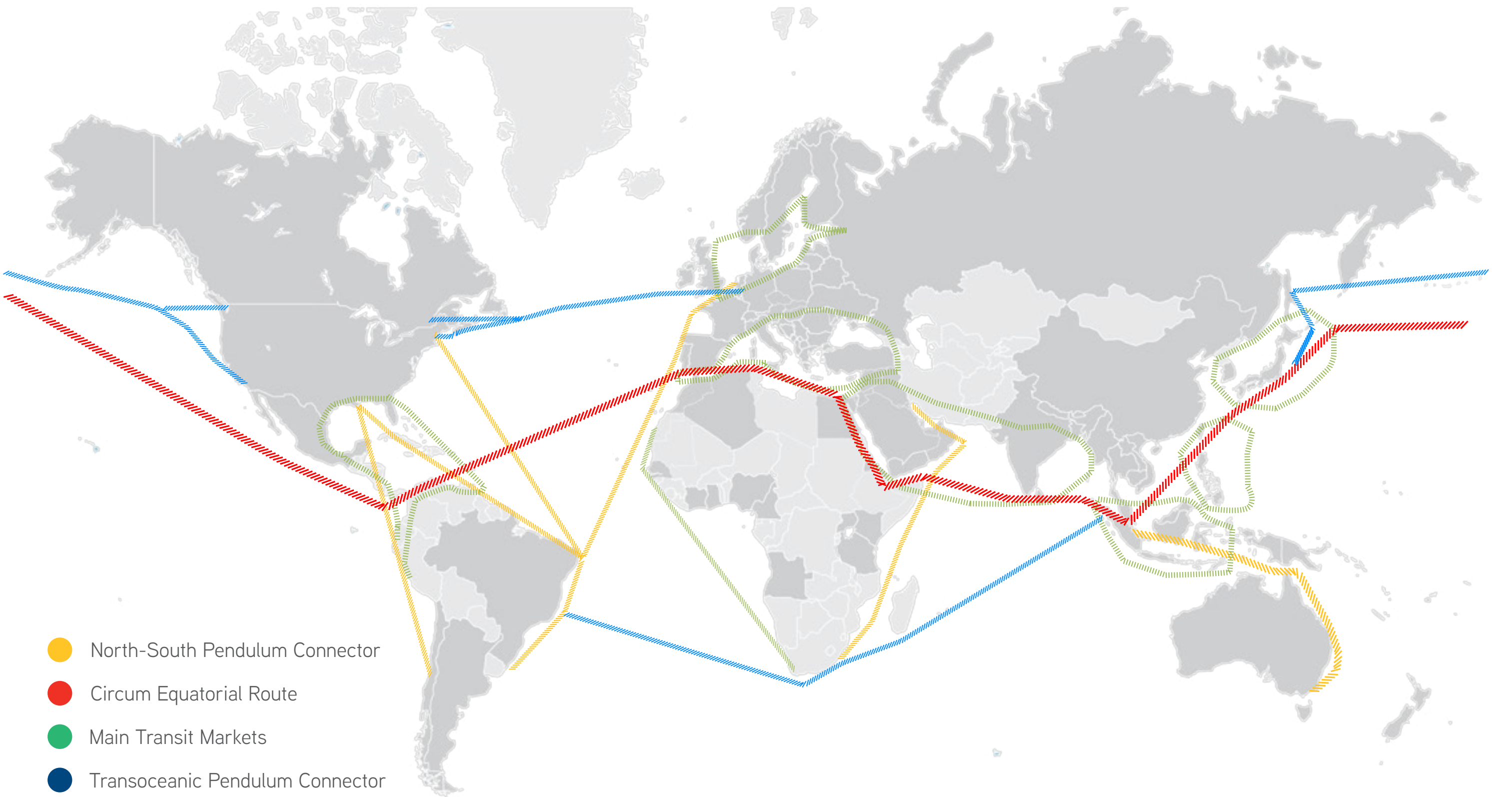


Source: Colliers International

Global Trade-flow Clusters

- Hugely increased vessel sizes are reshaping the layout of ports worldwide. As containerised shipments have grown by 290% over the last 15 years, vessels are now around 25 times the size of their 1970 equivalents in order to cater for the extra cargo.
- In a post- Panamax and post-Suez world, the port options available for the shipment of goods are greater than they ever before. While the dominant ports of the European and North American markets remain at the top of the list when it comes to managing trade flows, new deep-water ports, notably those proffering strategic alliances with shipping companies, are showing the highest growth rates. The ports of Athens, Sines (Portugal) and Gdansk in Poland are by far the fastest growing ports in Europe.
- This is leading to the deployment of a 'four corners' strategy, which shippers are using to engage both the European and North American markets.
- Beyond the ports, countries in Europe are increasingly turning to intermodal freight as road transit reaches capacity. The UK was an early-mover in the creation of integrated distribution parks served by road and rail, supported by congested roads and government policy. However, the role out of these kinds of parks across the rest of Europe is only just beginning, and will be key to sustainable trade flows as road freight becomes more congested.

Fig. 4: Key Global Trade Flows



Source: Colliers International

...countries in Europe are increasingly turning to intermodal freight as road transit reaches capacity.

Investment Trends

- In the UK, industrial property is set to outperform all other forms of commercial property along with bonds and gilts from 2015-2019. It has been one of the best performing asset classes in the UK and Europe over the last two years.

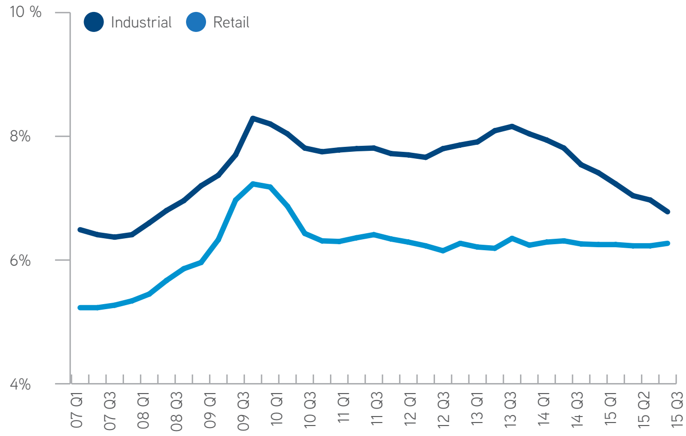
IPF - UK Total Return Forecast: 2015/19

Industrial	Office	Standard Retail	Retail Warehouse	Shopping Centre
8.3%	8%	7%	6.8%	6.7%

Source: Colliers International

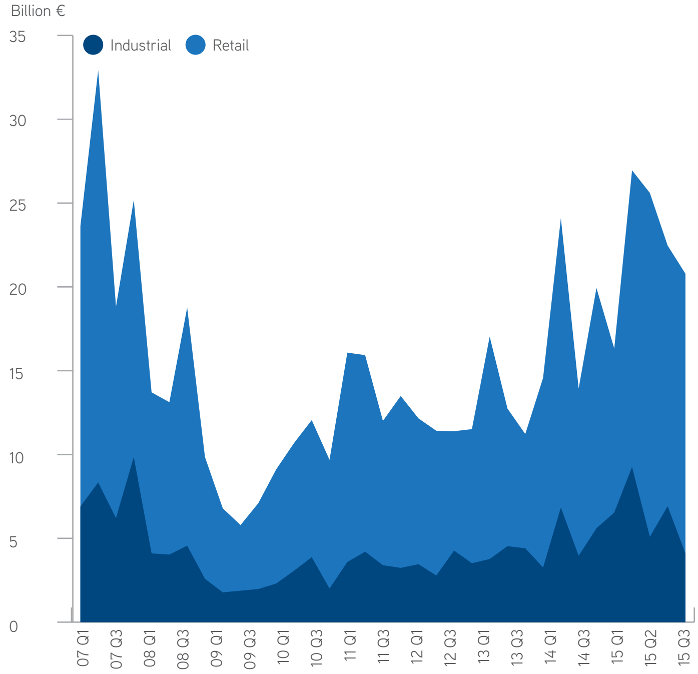
- The IPF forecast that UK industrial real estate is expected to generate more than 15% in total returns at the close of 2015, based on a combination of capital growth and income. We expect core European markets will post lower, but similar high returns in response to capital growth.
- European industrial yields have compressed considerably since Q1 2013, from an average of 8% to 6.8% as of Q3 2015. Over the same period of time average European retail yields have remained relatively static at around 6.3%.
- When it come s to prime assets, yields for prime logistics in core European (and global) markets are now below or at 5% such as Singapore, Hong Kong, San Francisco and now in the UK. In some markets such as Chicago, Seattle, Vancouver, Miami and even Rio de Janeiro and Mexico City, prime industrial yields trade at a premium to prime retail.
- In volume terms, however, European retail remains as popular as ever, comprising twice as much of European deal-flow than that of industrial. This is partially due to the defensive strengths of major shopping centres, which remain very attractive assets. It is also driven by the fact that retail values are usually least four times higher than those of modern logistics.
- Both sets of assets are in short-supply, however. Holding periods for many prime shopping centre assets in Europe now extend well beyond 10 years, which exemplifies their popularity. There is a different pattern for prime logistics in that they are typically new, but also because many of these new facilities are developed on a built-to-suit basis for specific occupiers, they aren't built as readily available investment product.
- Nevertheless, because occupiers such as Amazon or Tesco, or parcel delivery companies like Hermes, have to compete so heavily for a restricted number of modern buildings, they sign long leases up to 25 years. This compares to average commercial property leases of around 6.8 years.
- Investors therefore see industrial property as a quasi, fixed-income play that offers a far higher return than bonds or gilts, which remain at record lows. A lack of speculative development has reduced supply further underpinning prices. While rent rises have not been as positive as in city office markets, for example, they are traditionally far more stable and fluid which is preferable for institutional investors such as pension funds, who value steady income.

Fig. 6: European Yields; Trading Averages [2007-2015 Q3]



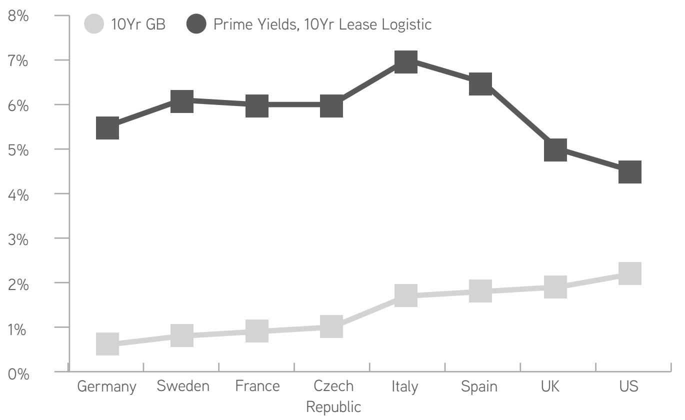
Source: RCA, Colliers International

Fig. 7: European Investment Volumes: 2007 - 2015 Q3 – Retail vs Industrial



Source: RCA, Colliers International

Fig. 8: Prime Logistic Yields vs 10Yr Government Bonds

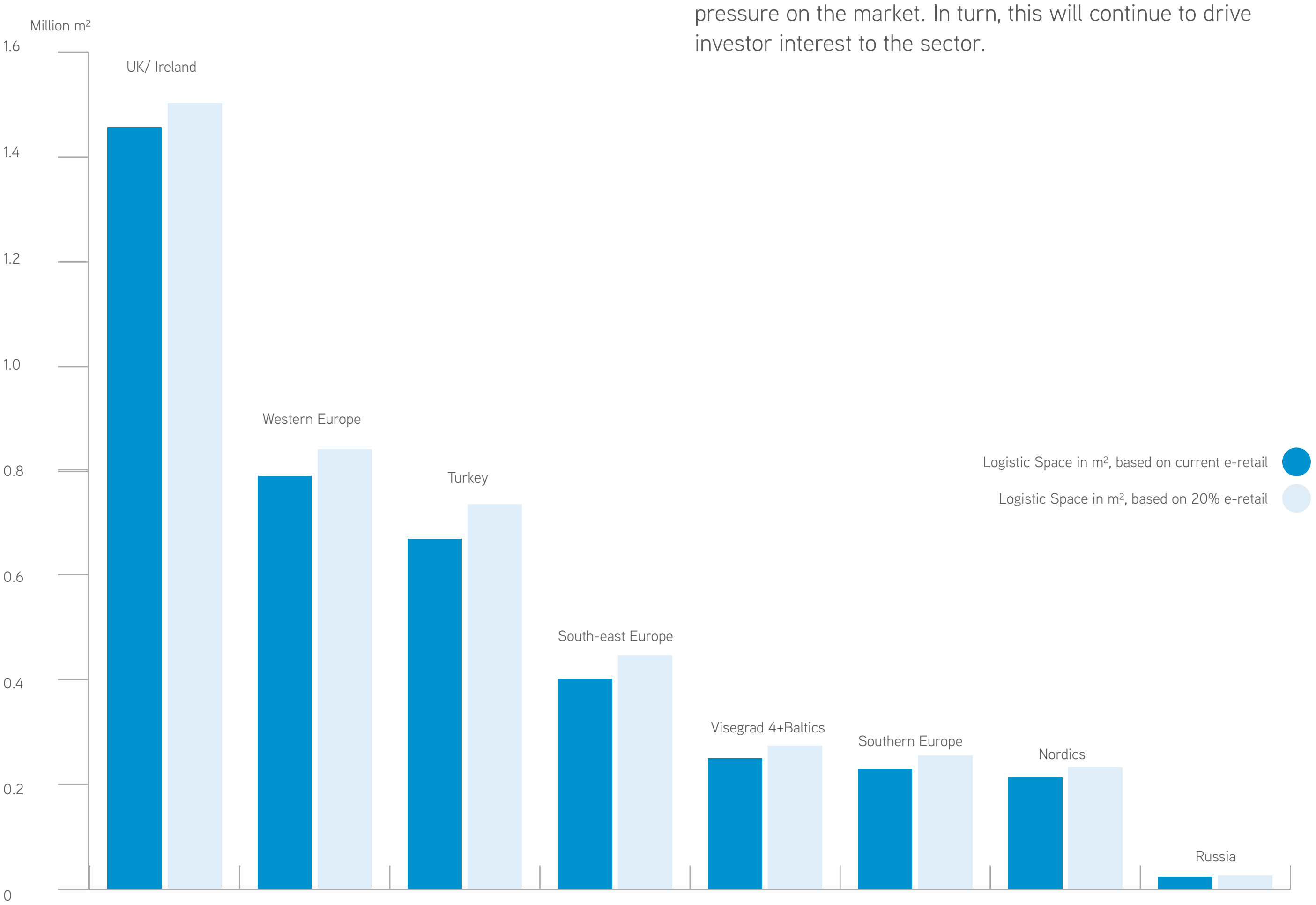


Source: RCA, Colliers International

Market Forecasts: European Warehouse Demand

- Most importantly this report sets out the key trends that will shape retailers and logistics specialist's property portfolios, to create sustainable supply chains that will withstand changing populations and consumer behaviors. Ultimately retailers will need to follow the global trend of growing digital urban populations but as competition for business gets more fierce they will have to come up with time and space saving efficiencies.
- We have forecast the potential growth in logistics demand in Europe to 2020, based on the combination of forecast population growth, household consumption levels and historic spending patterns on fast and slow moving consumer goods, by country. These forecasts have been aggregated to European sub-regions.
- In order to derive the potential quantum of space required to handle the growth in spending on consumer goods, we have analysed a number of European retailers to determine how much warehouse space they use in relation to their gross annual turnover. This allows us to estimate warehouse demand, using a number of scenarios which forecast the annual requirement per sub-region based on e-retailing rates.
- In the chart the blue bar represents what the annual warehouse/distribution space requirement could be based on existing e-retailing sales levels. The second bar represents what the annual warehouse/distribution space requirement could be based on e-retailing sales reaching 20% of all retail sales.
- Overall, our current estimates would increase 2016 demand levels across Europe by around 10-15%. As the market moves towards this higher e-retailing sales operating model, it illustrates the extent to which e-retailing will continue to drive much higher demand requirements on an already supply-constrained sector.
- We're not suggesting this requirement will create an immediate equivalent need, as some existing facilities will be able to service and increase in requirements through improved utlisation of existing capacity. Indeed, the more sophisticated DC's become, one expects the warehousing requirement to stabilize as more efficient stores, supply chains and warehousing are enabled to manage a higher throughput and flow of goods per m2.
- But until such time as the market comprises these superior, technologically driven-DCs and their supporting infrastructure, the growth in demand for more warehousing will put increased pressure on the market. In turn, this will continue to drive investor interest to the sector.

Fig. 9: E-Retailing Warehouse Space Requirement: Annual to 2020



Source: World Bank, Colliers International, OECD, Various

*The warehouse space requirement figures provided in Fig 9 are based on a combination of forecast population growth, consumer spending levels and trends for each European country. These forecasts have been converted to warehouse space requirements using a proprietary Colliers model based on retailer revenues relative to their warehousing/distribution platforms.

Views From the Top - Tritax Big Box

Bjorn Hobart,
Deputy Fund Manager at Tritax Big Box

WHAT HAVE BEEN THE FACTORS IN THE REVIVAL OF INDUSTRIAL PROPERTY SINCE THE LAST DOWNTURN?

- During the recession the previous over-supply of quality logistics buildings was largely taken up. Yields were high and the sector appeared under-valued against other asset classes. At the same time, the evolution of internet retailing triggered a structural change in shopping habits, shifting retailers' focus from traditional outlets to logistics facilities.
- The economies of scale and relatively low overheads of logistics space - versus the physical retail footprint – has beem attractive to major retailers. The limited availability of such space has led to upward pressure on rents while a compelling story to invest has fuelled yield compression.
- Big boxes have various barriers to entry and are contentious with planning for many obvious reasons. But while they create high traffic flows of HGVs people are starting to realise they are crucial for the way society now functions.
- The average box size for the largest retailers has increased. Bigger floorplates and higher eaves along with multiple mezzanine floors help maximize space. However, it means units are expensive to build and the floor slabs are highly sophisticated.

FROM AN INVESTMENT PERSPECTIVE, BIG BOXES ARE SEEN AS A QUASI-FIXED INCOME PLAY. DO YOU THINK THE MARKET WILL CONTINUE TO ACT IN THIS WAY?

- The weighted average lease term of our portfolio now stands at 16.8 years. We have created a long, robust and sustainable income stream which is intended to provide a growing return for investors. Due to the high levels of Capex that the tenants invest into these big box units they commit to long leases to provide them security of tenure for their supply chain. Given the barriers and competing land uses we're faced with, this trend will continue.

HOW ARE BIG BOXES EVOLVING TO RESPOND TO E-COMMERCE IN TERMS OF THEIR TECHNOLOGICAL AND SPACE REQUIREMENTS?

- Due to the distinct lack of availability of ready to occupy big boxes in the UK (currently only one over 500,000 sq ft), the majority of units taken by occupiers are subsequently Built-to-Suit (BTS). There is a two-fold reason for this. Firstly, there were no units available in the higher size band from the last speculative funding cycle. Secondly, new speculative funding is limited due to the prohibitive capital commitments and potential void costs. Consequently, BTS accounted for 50% of take up in the first half of 2015. Also, the average logistics deal during 2015 has increased to 265,000 sq ft with 56% of deals closed above 200,000 sq ft.

HOW FAR OFF ARE WE FROM FULLY AUTOMATED SHEDS OR DOUBLE OR EVEN TRIPLE-DECKER BIG BOXES?

- In some cases the internal fit-out of the most sophisticated units can exceed the build cost of the shell development and investment value. Other than some cold stores, most of these buildings are rentalised on a ground floor only basis but as rents rise and rent rolls on big boxes increase, occupiers will look to further increase efficiencies. This may be achieved through multi-storey design, especially as the technology becomes more established. The concept of true multi-decked warehouses, as distinct from multiple mezzanines, has however, yet to be proven as a format which tenants will use. The viability of such buildings is most likely in high value land locations.

HOW ARE THE NEW SHIPPING ROUTES AND SUPER-SIZED CONTAINER SHIPS CHANGING THE LANDSCAPE FOR PROPERTY?

- Port-centric facilities have grown in importance and are a major consideration for some occupiers. Locating logistics facilities on or near container ports reduces drive time journeys. Improved speed and reliability of goods into the warehouse ensure that occupiers can more confidently plan and deliver goods to smaller satellite warehousing, to stores or to the doorstep of the e-commerce consumer. Together with increased mechanisation, this has brought down delivery times from e-commerce point of sale to the doorstep. The container ports are often rail freight connected to allow national distribution without the need for HGV, thereby reducing costs and emissions. We believe that these too will become increasingly important distribution nodes.

Fig. 10: Tritax Big Box - Marks & Spencer Facility

Source: Tritax Big Box

Views From the Top - SEGRO

Andrew Gulliford,
Chief Operating Officer at SEGRO

INDUSTRIAL PROPERTY CONTINUES TO OUTPERFORM COMMERCIAL PROPERTY, BONDS AND GILTS. WHAT ARE INVESTORS' VIEWS AND TO WHAT DEGREE IS THIS SIMPLY PART OF THE CYCLE AS OPPOSED TO A STRUCTURAL CHANGE IN THE ROLE OF LOGISTICS?

- With industrial property offering better income returns that any other use type logistics stock remains an attractive offering for equity funds. The e-commerce boom has motivated retailers' to reappraise their estates, and with rising rents there has been a growing incentive for companies like ours to increase development. The investor view of logistics has changed fundamentally for a variety of reasons. Where investors are buoyed by steady, long-term income, the sector is now seen to be able to deliver this through long leases, high quality tenants and institutional grade assets.

WHAT'S THE SITUATION WE'RE SEEING ACROSS EUROPE?

- The retail and logistics property market is effectively playing catch-up after the global recession which saw very little new development. Even in the most active markets - such as France, Germany and Poland – we are seeing vacancy rates drop to unprecedented low levels of around 5%-10%. Retailers are moving quickly to secure space as online sales grow across the continent. E-commerce is taking a bigger share of total sales which is having a pronounced effect on the demand for space. Companies like Amazon are taking up vast quantities, followed closely by parcel delivery firms who see a competitive advantage in getting in early, before the supply crunch worsens.

TO WHAT DEGREE IS NEW DEMAND FOR URBAN LOGISTICS CREATING AN EVOLUTION IN INDUSTRIAL PROPERTY?

- The UK retail and logistics market is now facing a new type of demand. The growth of e-commerce has meant that retailers are looking at both bigger fulfilment centres to store and sort stock and smaller distribution centres to offer fast, short range delivery. Retailers are looking for ways to shorten the supply chain as customers are increasingly expecting the option of home delivery or in-store collection.
- With pressures on delivery timescales the design of urban logistics schemes is around shifting as much stock as quickly as possible. The result will be warehouses in multiple locations with as much circulation space and loading points as possible to accelerate the flow of stock in and out of these hubs. The technology and design of bigger distribution centres will be of growing importance. We're already seeing higher buildings accommodating a number of mezzanine platforms with automation increasingly being used. The sector has proven it can adapt quickly and it will need to be able to do continuously over the next few years.

WITH SUCH A HIGH FOCUS ON HOUSING AND THE LOSS OF INDUSTRIAL LAND, WHAT SUCCESS WILL YOU HAVE IN CREATING URBAN LOGISTICS HUBS?

- London, for example, is in the midst of a housing crisis. Delivering new land for housing and making the best use of scarce land in the capital is a key priority. However, a measured and balanced approach must be undertaken that considers the needs of London's industrial and urban logistics sector and the role that it plays in supporting London's population and its continuing economic success. And yet London's supply of industrial land is diminishing at a faster rate than projected.
- So what's the answer? Two things really, education and innovation. We must continue to educate planning and transport policy makers on the important role that industrial development plays in the national and local economy. We must also innovate and find new ways to balance the need for homes and jobs. For example, SEGRO is about to announce its residential development partner for a mixed use scheme at the Nestle site in Hayes, Hillingdon. We have developed a master plan that will demonstrate that through good quality design the two can not only co-exist, but flourish. By taking an integrated approach all users, residents and employees on the site will benefit from the amenities, high quality landscaping and access to the canal frontage. This is how our industry has to adapt to the changing demographic face of London, but the approach could be delivered anywhere in the UK.

DO YOU THINK WE NEED BROADER POLICIES TO DEFINE INDUSTRIAL AND JOB CREATION SPACE THAT ALSO SUPPORT THE NEED FOR ADDITIONAL TRANSPORT INVESTMENT?

- What is needed is a better understanding of the role of employment space. Urban logistics occupiers do not just create jobs. They are meeting the needs of a growing population that are increasingly using technology to buy products and services. The E-commerce sector is booming, which is driving the need to identify suitable sites to service this growing demand.
- Whilst it is important that planning policy support the growth of this sector, so must transport policy. London's congestion is well-known, but policy makers should not adopt a knee jerk reaction by banning the 'white-van man' from the capital as has been commented on before. These businesses are playing a vital part of the supply chain, which is helping to keep London's economy ticking over.
- Over the longer-term retailers and third party logistics operators' desire for smaller hubs nearer customers and the pressure this will create on roads may make multi-customer and even multi-storey warehouses a reality. Legislative pressure to relieve congestion may lead to delivery "windows" from consolidation hubs where businesses with common customers can come under an umbrella provider. This is already happening at Heathrow airport, some larger shopping centres and Regent Street in Central London.
- We, and the majority of our customers, support the expansion at Heathrow airport and moves made by the current government to find answers to the challenges we face around rail and road capacity are encouraging.

Views From the Top - Prologis

Ben Bannatyne,
Managing Director & Regional Head of Centra & Eastern Europe

GIVEN THE UK'S STRONG PERFORMANCE, WHAT IS THE EUROPEAN MARKET OUTLOOK LOOKING LIKE?

- Each market is moving at its own pace and the maturity across Europe is varied. Despite retailers like Amazon establishing a number of large fulfillment centres in Central and Eastern Europe (CEE) there has still not been a full roll out of services to these markets; they are there to mostly serve western countries right now. Historically, the lack of demand from less mature markets has meant it is not commercially beneficial to establish services in these regions. But things are changing, not least off the back of improving technology and cheap land.
- Demand now exists and we are seeing a number of smaller local players such as Internet Mall and Sportisimo gathering pace with smaller automated sheds. Trends suggest that e-commerce is on the rise globally and I think we can expect to see some consolidation when the bigger operators move in and offer their services to larger regions.

HOW DOES YOUR STRATEGY DIFFER BETWEEN COUNTRIES?

- We take a full life-cycle approach to assets and tenants, working with them from the outset to identify opportunities and to create the right assets which we manage and invest in ourselves. This is why we have such high customer retention, which in turn is a positive thing for our investors. We are able to accurately track which locations are performing best.
- On the continent – especially in CEE - it's a different story: Poland, Czech Republic and Slovakia are all really strong with ample opportunities for development in the best performing markets.

HOW WILL YOU DIVIDE UP THE EMERGING SPLIT BETWEEN LARGE DISTRIBUTION CENTRES AND SMALLER URBAN LOGISTICS FACILITIES?

- While the UK market is focused on single tenant distribution centres the CEE market has substantial demand for large multi-user distribution centres. Broadly, we will be focusing equally on both.
- We've seen a sharp rise in demand for regional hubs from last mile logistics firms such as DHL and FedEx who are prioritising urban locations for faster deliveries in to the cities. We're now looking at around 40% of warehouse space being taken by last mile companies and this will surely rise as other European markets see their own e-commerce markets grow.

WHAT ROLE WILL REGIONAL HUBS ACROSS EUROPE PLAY IN SUPPLYING THE REST OF THE CONTINENT IN THE SAME WAY REGIONAL DISTRIBUTION CENTRES SUPPLY THE COUNTRY ON A MUCH SMALLER SCALE IN THE UK?

- Improvements in infrastructure have been vital to making Central and Eastern Europe viable regions for development. Large brands such as LEGO and Amazon are now moving to large fulfillment facilities in central Europe.
- A large volume of global shipments will continue to come through ports in northwestern Europe such as Rotterdam, Hamburg and Antwerp, but with the establishment of new deep-water ports, such as the newly renovated Gdansk port, the costs involved with shipping and distributing goods from Asia have been slashed. On top of this, new motorway networks are cutting transportation timescales and making regional distribution hubs connecting up the continent a very real possibility.
- However this growth could be stilted by poor, fragmented rail connections. If Europe is to commit to a tri-modal system that can serve the entire continent then rail authorities will need to join up to create a unified infrastructure plan. One of the biggest untapped opportunities I see lies around continental waterways to bring goods further in-land.

AFTER SIGNIFICANT YIELD COMPRESSION OVER THE PAST 2 YEARS INDUSTRIAL PROPERTY IS STILL OUT PERFORMING OTHER USE CLASSES, DO YOU SEE THIS TREND CONTINUING OVER THE NEXT 5 YEARS?

- Due to limited new supply in recent years, most demand has been absorbed by existing stock. This has resulted in market vacancy rates which are at an all-time low of around 6.2% across Europe. As we move into 2016, the combination of low vacancy levels and limited speculative development is likely to become a more significant driver of rental growth.
- In CEE, cap rate compression has meant that logistics properties have seen little to no increase in rents as landlords have had to take more flexible approaches to rental values. However as cap rates stabilise we are very likely to see steady rent growth.

Fig. 11: Prologis Park Budapest-Harbor

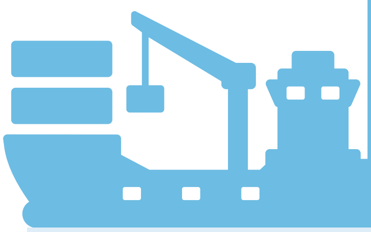
Source: Prologis

Colliers Outlook:
Top 6 Trends for 2016 and Beyond

While few people could have predicted some of the things we have seen over the last decade, we believe the next five years will see technology continue to have a seismic effect on the consumer trends and on the efficiencies of moving inventory around. Our six top trends for European retail and logistics in 2016 and beyond, are highlighted below:

1) High street face-lifts: In the UK, while the very worst hit high streets will die off, many regional and sub-regional centres will be revamped with cafes and leisure outlets, parcel collection points and shared work-spaces filling vacant shops. High street across Europe weren't hit as badly as those in Britain during the recession, largely because of Europe's differing shopping habits and more manageable supply of space. Just as major retailers are now content to be in just 50 locations rather than 200, new chains are filling vacant spots. They include brands like Doddle, where you can send and collect parcels. In the UK there is Byron, a high-end burger chain promising to open 10 restaurants every year as it expands nationally.

2) Super-sized warehouses: Soaring land costs mean developers will find more floor space on a site by building upwards. Companies like Next, River Island and John Lewis already rent millions of square foot of storage space. Being able to store closer to people's homes could streamline deliveries further and allow retailers to better use their supply chains and retail outlets as pick-up locations. In Japan, ProLogis Parc Narita III is a 661,000 sq ft (61,400 sq m) giant industrial facility spread over seven floors. Europe could soon get its own skyscraper sheds.



3) Deep water ports: Container vessels hold more than 25 times as much cargo compared with 1970 and ports have had to evolve to make room. Global logistics and shipping industries have evolved to capture and facilitate growth in trade. This is why deep water ports are now a necessity. Their emergence across Europe has seen trade through the Mediterranean soar as new shipping routes have grown. The continent remains far more fragmented than Asia.

4) Digital urbanites unite and take over: Research shows that urban-based, digitally-literate consumers will dominate countries' populations over the next two decades having a profound impact on how retail is shaped and delivered. While Europe itself will see comparatively modest growth, a surge across China and India will create huge opportunities for existing retailers who have the benefit of established infrastructure and brands which often attract emerging market consumers.

5) Drones could stay grounded: Despite the buzz around drone deliveries current airspace regulations could keep drones grounded. Instead, retailers could make better use of existing ***last mile*** delivery methods such as pedal bikes and Uber taxis. The practicality of flying DVD box sets to people in high rise buildings doesn't stack up – unless office blocks place post collection shoots on their roofs. And then there's the cost. While paid services like Amazon Prime offer free delivery, they often only do so for costlier products. Although time-conscious consumers want everything today, some may begin to wait a little longer for less urgent items if they realise just how much they can save. Plus, with increasing concerns over the environment, bicycle couriers or electric cars could well become a totem for sustainably-minded retailers.

6) Show rooming pays: "Show rooming" is jargon for when shoppers look but don't buy, or snap up a product online instead. This has been one of the drivers of companies reducing retail space and shifting capacity to more cheaply priced warehouses which can deliver straight to people's homes. However, smarter retailers will use technology – such as augmented reality, 3D printing and biometrics – to turn more of a profit from the theatre of real world retail. Offering unique experiences, bespoke products and additional offers can help build balance sheets and brand value.

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€1.75
billion in
annual revenue

160
mln sq m
under management

16,300
professionals
and staff

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