



Projected Impact of Covid Pandemic on Need for Logistics Floorspace

E-Commerce has revolutionised the logistics sector in recent years. The effects have particularly been seen in the UK as a high proportion of the population have access to Wi-Fi and are within easy reach for delivery.

ONS data shows that the proportion spent online increased to 27.9% in 2020. This compares with 19.2% in 2019 and 18.0% reported in 2018. On-line retailing has been steadily increasing since 2007 and the pandemic has caused a steep acceleration of this trend (see Figure 1 which illustrates this point).

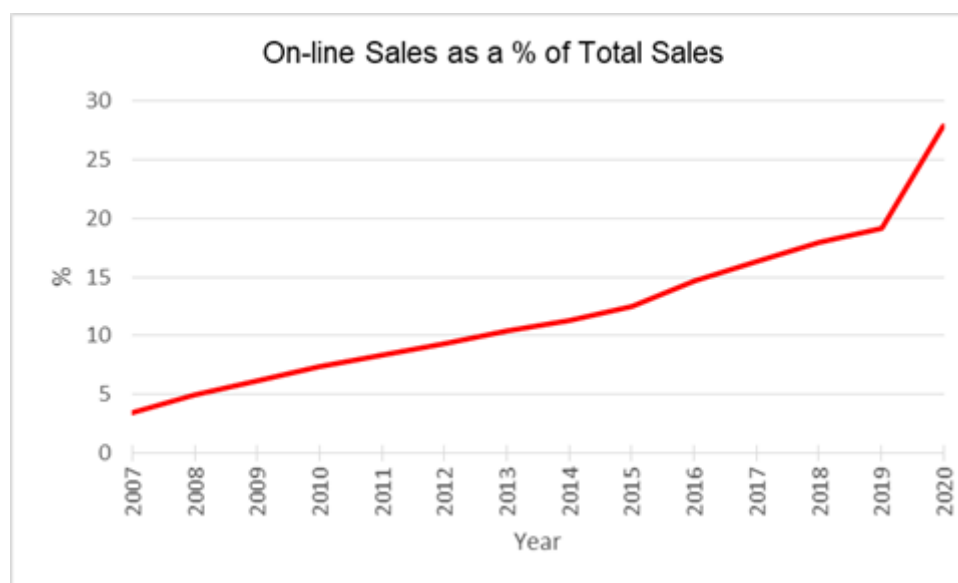


Figure 1: Online Retail Sales (Source ONS)

Most commentators are of the opinion that the pandemic has generated a step-change in the level of on-line retail, changing consumer behaviours and spending patterns. The consolidation seen across the retail sector has seen those businesses which can meet the on-line demand survive and grow, whereas those which are less able to adapt have been unable to compete.

Retailers have invested significantly in their on-line presence and supporting infrastructure and consumers have also removed barriers to access through necessity. These factors mean that the acceleration of the trend towards e-commerce will result in a long term economic restructuring as short term increases in market penetration are not significantly reversed.

Latest forecasts from Forrester Analytics demonstrate the long term trend and forecast over the next five years (Figure 2).

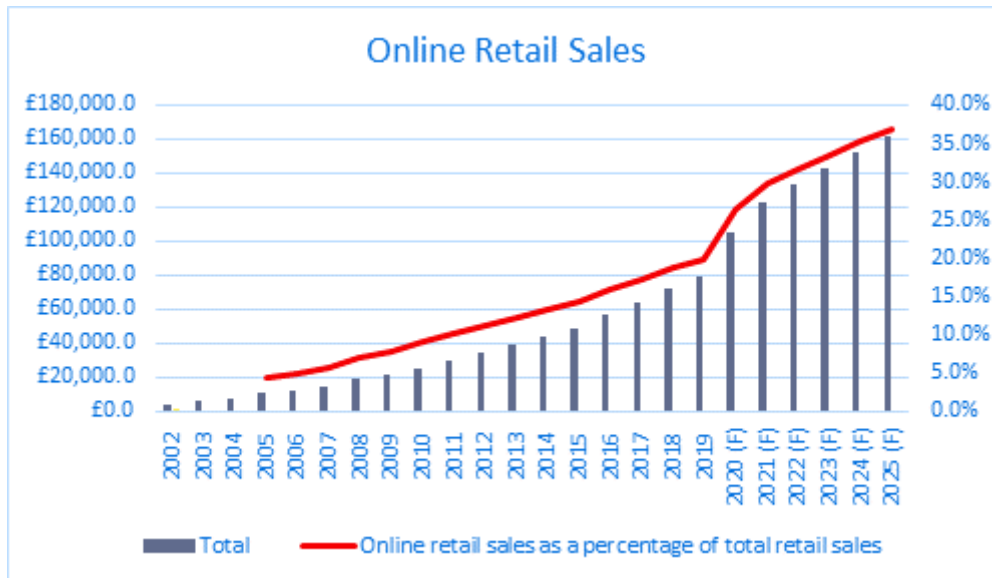


Figure 2: On-line Retail Sales Forecast (Source Savills/Forrester Analytics 2021)

The forecast suggests that by 2025, online retail sales will make up to around 37% of total sales, equating to £162.27 billion (Forrester Analytics 2021 Online Retail Forecast – Western Europe, April 2021).

By way of example of the long term restructuring which is taking place, ASDA recently announced that 3,000 in-store jobs are at risk as part of a re-structuring of the business towards greater on-line provision as a result of a shift in demand towards grocery deliveries. However, the business plans to create 4,500 new roles to support the growth of their on-line operation.

The growth in on-line retail and the recent steep acceleration of this trend has direct implications for the levels of demand seen from the logistics sector in terms of both the type and quantity of space required. According to research by Prologis, **three times as much warehousing space is required for online fulfilment compared with store-based fulfilment** for a number of reasons: all inventory is stored in a warehouse; digital storefronts offer more product lines; higher volatility in sales patterns requires more stock-holding; parcel shipping requires more space than pallet shipping; and e-fulfilment operations often include other activities such as reverse logistics (returns) and assembly. Highly specified, bespoke units, with particular requirements in relation to configuration, height and scale are necessary to meet the requirements of on-line retailers.

It is estimated that every additional €1bn (£739,480,449) of online sales results in on average an additional 72,000 sqm of demand for warehouse space. This equates to a **requirement for 97,366 sqm of additional warehouse space for every £1bn of online sales.**

According to the latest forecasts, there will be a total of £162.27 billion in online sales in the UK by 2025, compared to £104.83 billion in 2020 (an additional £57.44 billion). This suggests that there will be **a requirement for an additional 5,593,054 sq. m (60.2 million sq. ft.) of new warehouse space**, purely to meet the demands of the online sector by 2025.