Occupier Perspective

Motorways of the Sea - An Update

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Occupier Perspective
Motorways of the Sea - An Update
An evolving European network

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Contents

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- ‘Motorways of the Sea’ was a project initiated by the European Commission in 2001, the purpose of which was to shift cargo traffic from the heavily loaded road network to environmentally-friendly waterways. This report provides a brief update on the implications of the ‘Motorways of the Sea’ project on logistics real estate markets, and more specifically for occupiers. It also provides a comparison of the relative costs of major European logistics markets, with a particular focus on ports.

- Growing trade in Europe is a critical catalyst to growth in the logistics market, with businesses increasingly operating on a European and global scale. Since the Eastern enlargements of the European Union (EU) in 2004 and 2007, cross-border trade has witnessed significant growth. According to the OECD, trade between the EU27 and the rest of the world increased by 14% between 2007 and 2011. At the same time, trade between EU member countries also flourished.

- Despite an increase in cross-border trade, Europe’s transport system remains congested and heavily weighed down by insufficient connections between the regional markets. In recognition of the key role the European transport system plays in the regions’ economic recovery path, the European Commission recently introduced a plan for a new unified core transport network to be established by 2030. This aims to improve transport connectivity, ensuring enhanced links between East and Western Europe and stimulating continued growth in port activity in less mature markets.

- Improved connectivity between different modes of transport will provide logistics occupiers with greater scope for more extensive location strategies. Occupiers will also benefit from cost saving opportunities in some markets, such as the more established ports of Antwerp and Rotterdam where rents are expected to remain stable over the five-year forecast period. However, some of the smaller and less developed markets (i.e. Baltics) are likely to witness rental growth over the next five years, due to growth in trade. This is a factor which occupiers need to be mindful of moving forward.

Motorways of the Sea

Introduction

In 2005 and 2008, DTZ Research published '*Motorways of the Sea*'[1] and *'Motorways of the Sea II'*, which examined the European Commission's 'White Paper - European transport policy for 2010' and considered its implications on major European logistics markets.

Growing trade in Europe is a critical catalyst to growth in the logistics markets, with businesses increasingly operating on a European and global scale. Since the Eastern enlargements of the European Union (EU) in 2004 and 2007, cross-border trade has witnessed significant growth. According to the OECD, trade between the EU27 and the rest of the world increased by 14% between 2007 and 2011. At the same time, trade between EU member countries also flourished.

In the past, transport systems in Europe developed largely along national lines. This led to poor transport connections at the borders, or along key trade corridors. During the 1980s, the European Union (EU) initiated the development of key European infrastructure projects through the construction of a trans-European transport network (TEN-T). A priority project of TEN-T was "Motorways of the Sea", which was introduced in 2001. This project aimed to create efficient, safe and environmentally-friendly maritime transport operations. One of the mains goals was to reduce road congestion and improve access to peripheral and island regions, thereby strengthening the networks between EU candidate countries and those countries already part of the EU. Ultimately, the project sought to make the sea become an integral part of door-to-door logistics chains and offer an efficient and competitive alternative to land transport.

Europe's transport system is today heavily weighed down by congestion, accessibility gaps and insufficient connections between the regional markets. In order to improve the internal transport connections, the European Commission recently introduced an updated TEN-T policy which aims to establish a core transport network by 2030. The Motorways of the Sea will be a key implementation tool in the deployment of the new European network.

With this short update, DTZ Research aims to provide a review of the European Commission policies affecting major European logistics markets, focusing on ports. We also provide our view on the relative costs of major European logistics property markets.

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[1] The 'Motorways of the Sea' and 'Motorways of the Sea II' reports can be downloaded from our website on www.dtz.com/global/research

Motorways of the Sea

Section 1: Progress to date

Background

The purpose of the 'Motorways of the Sea' (MoS) project was to shift cargo traffic from heavily congested land networks to environmentally-friendly waterways. In order to achieve this, the EU proposed four major routes: Baltic Sea, Motorway of the Sea of Western Europe, Motorway of the Sea of South East Europe and Motorway of the Sea of South West Europe. The project promoted nearby less-developed ports to take a share in the growing market as major European ports had become highly congested. One of the major and most successful MoS projects to date is the one connecting the hubs of Aarhus (Denmark), Gothenburg (Sweden) and Tallinn (Estonia).

Currently, MoS has 19 ongoing projects, representing approximately EUR 170m in EU grants. More than five of these are supporting the development of Baltic ports. In 2010 and 2011, 15 new project proposals were selected for funding of more than EUR 140m. Most of the proposals addressed safety, ICT logistics platforms and new organisational schemes for ports.

Since the MoS project was initiated, the European logistics sector has faced challenges on several fronts - the deteriorating European economy, rising oil prices, climate change and growing congestion. At the same time, freight transport is expected to grow by 80% by 2050, according to the European Commission. The European transport system must find a way to support this growth and simultaneously cater for overseas trade and internal market needs. The current transport system is characterised by considerable flaws. Oil dependence is nearly 90%, congestion costs are rising and the accessibility gap between central and peripheral areas is widening. One of the biggest challenges is to ensure efficient connections of the internal markets. The transport systems of Western and Eastern Europe need to unite in order to satisfy sufficient mobility across the entire continent. The transport network also has to accommodate large trade flows from Asia and the Americas.

Connecting Europe Facility and the new TEN-T network

As an answer to the challenges described above, the European Commission started revising the TEN-T Guidelines in 2009 and will continue to do so until mid-2013. The new TEN-T programme will be developed under the Connecting Europe Facility (CEF). The CEF plans to invest EUR 31.7bn to upgrade Europe's transport infrastructure, build missing links and remove bottlenecks.

The new TEN-T programme will prioritise the most important links and nodes in the European network, to be fully functional by 2030. In a nutshell, it aims to link 85 important economic centres and their airports, 138 sea and inland ports and 28 cross-border points with third countries. Essentially, the network will ensure the effective connectivity of the Eastern and Western parts of the Union and its peripheral regions to the central ones. The implementation of the core network will be facilitated through 10 different corridors. The Motorways of the Sea will be the maritime dimension of the core TEN-T network - allowing European economic nodes and ports to connect.

Established hubs and the Baltic ports going strong

Currently, transport bottlenecks and missing links are affecting the East and South-East to West connections, seriously dampening economic growth in these areas. Via its new network policy, the European Commission supports new member countries through grants, thus ensuring connectivity between East and West. This will be of great benefit to the continued growth in port activity in less mature markets. The largest increases in port activity (tonnage of goods handled) in 2010 were recorded in Poland, Estonia and Finland. In fact, Tallinn became the 19th largest cargo port in Europe in 2010. The Baltic countries in general have great growth potential as they provide gateways to Russia. Several MoS projects to be completed in the next few years will give further connections to and from the Baltic rim.

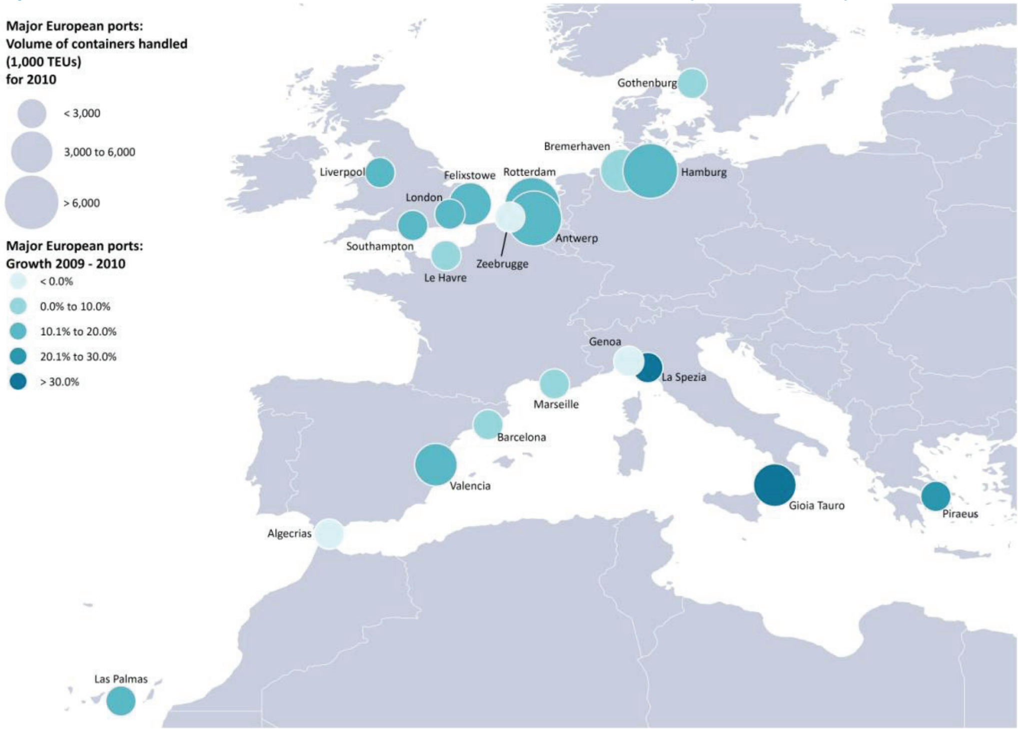
Map 1 and Map 2 overleaf show the top 20 container[2] ports in 2010 (on the basis of volume of containers handled), as well as the top 20 cargo[3] ports in 2010 (on the basis of gross weight of goods handled). Unsurprisingly, the top three ports in terms of container traffic - Rotterdam, Antwerp and Hamburg - are also the top three ports in terms of overall cargo traffic, having consolidated their positions in 2010 with double-digit growth rates in terms of gross weight of goods. La Spezia (Italy) and Piraeus (Greece) are the fastest growing container ports, whilst Tallinn is the fastest growing cargo port, having witnessed an increase in weight of handled goods of 15.5%. However, 70% of the cargo handled consisted of liquid bulk goods, and as such, Tallinn does not feature in our list of 20 top container ports. Interestingly, whilst Rotterdam and Antwerp are the largest container ports currently in operation, they witnessed considerable growth in 2010, of 15% and 16% respectively. However, Genoa (Italy) and Zeebrugge (Belgium) both saw the volume of containers handled fall, by 22% and 2% respectively.

[2] Includes large containers, Ro-Ro mobile units, other cargo
[3] Includes liquid bulk goods, dry bulk goods, large containers, Ro-Ro mobile units, other cargo

Motorways of the Sea

Map 1

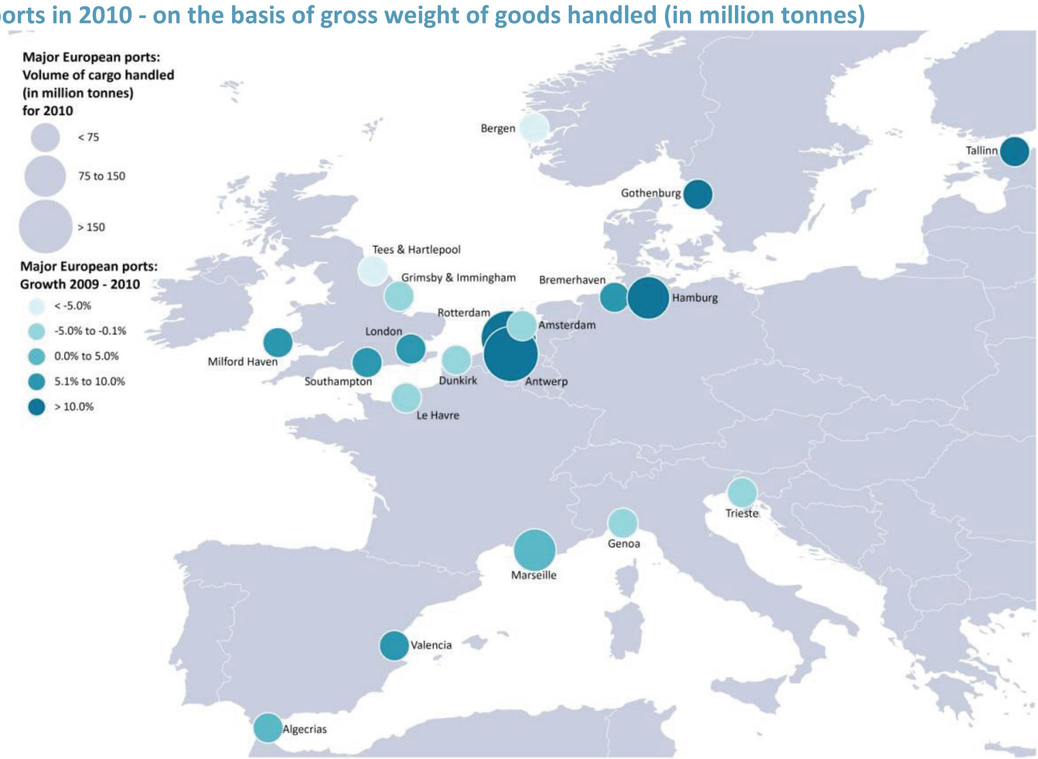
Top 20 container ports in 2010 - on the basis of volume of containers handled (in 1,000 TEUs)



Source: Eurostat, DTZ Research, ESR

Map 2

Top 20 cargo ports in 2010 - on the basis of gross weight of goods handled (in million tonnes)



Source: Eurostat, DTZ Research, ESR

Motorways of the Sea

Section 2: Impact on property

Enhanced connectivity provides more location choices

Since the last DTZ report in 2008, the European logistics sector has slowed in a market challenged by financial turmoil. Take-up of logistics space has been less dynamic than before the economic crisis and occupier expansion plans continue to be placed on hold as decision-making is taking longer than in the past. The efforts of the EU to improve the connections between different modes of transport will provide logistics occupiers with greater scope for more extensive location strategies. The enhanced connectivity will improve material handling efficiency and ultimately enable occupiers to consider establishing themselves in the hinterland of hubs which are benefitting from the TEN-T initiative.

Heathrow most expensive location, whilst Budapest and Bucharest offer cost saving opportunities

Looking briefly at costs in major European logistics markets (which also includes airports), we note that London Heathrow commands the highest logistics rents in Europe at 161 EUR/sq m/year (Figure 1). Occupiers will pay a premium for this location due to its close proximity to Heathrow airport, which provides a strategic hub for air freight into and out of the UK. A shortage of space will continue to place upward pressure on Grade A rents, maintaining its position as the most expensive logistics location in Europe.

At the other end of the scale, Budapest offers the most affordable logistics rents at 39 EUR/sq/year. This low-cost location will continue to present occupiers with great costs savings. We expect rents to fall over the five-year forecast period on the back of continued weakness in the manufacturing sector and a stubbornly high vacancy rate in excess of 20%.

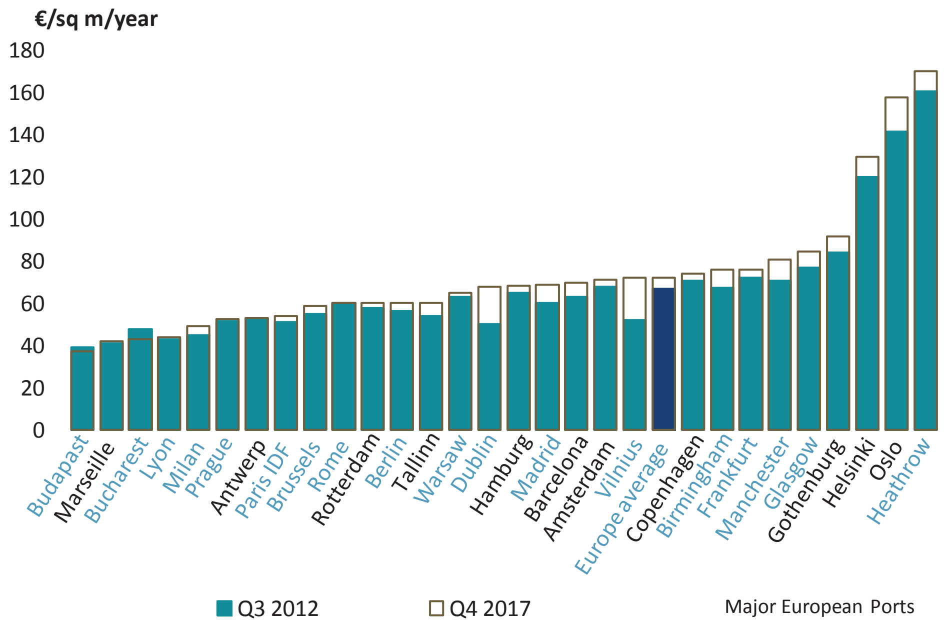
Stable rents in established ports with above average growth in key Baltic markets

If we look at the cost of occupying logistics space in major ports across Europe, we see that some of the most affordable markets are also the established markets of Marseille, Antwerp and Rotterdam. At the other end of the scale, the Nordic markets of Oslo, Helsinki and Gothenburg command the highest rents on the back of strong economic growth and robust occupier demand (see Figure 1).

On average, European logistics rents are expected to grow by 0.9% per year over the next five years. Above average growth will be seen in the growing Baltic markets of Vilnius (6%) and Tallinn (2%). Despite the gloomy economic outlook, the long-term growth prospects of the Baltic Sea area are promising. The area plays an important role for trade within the Baltic and Nordic regions, as well as through traffic to and from Russia and connections with Asian markets. The ports around the Baltic Sea offer interfaces to a wide range of destinations for goods and passengers alike. Furthermore, the volumes of goods transported in containers and trailers are forecasted to increase further.

Figure 1

European logistics rents, Q3 2012 and Q4 2017 - ordered by most affordable markets in 2017



Source: DTZ Research

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