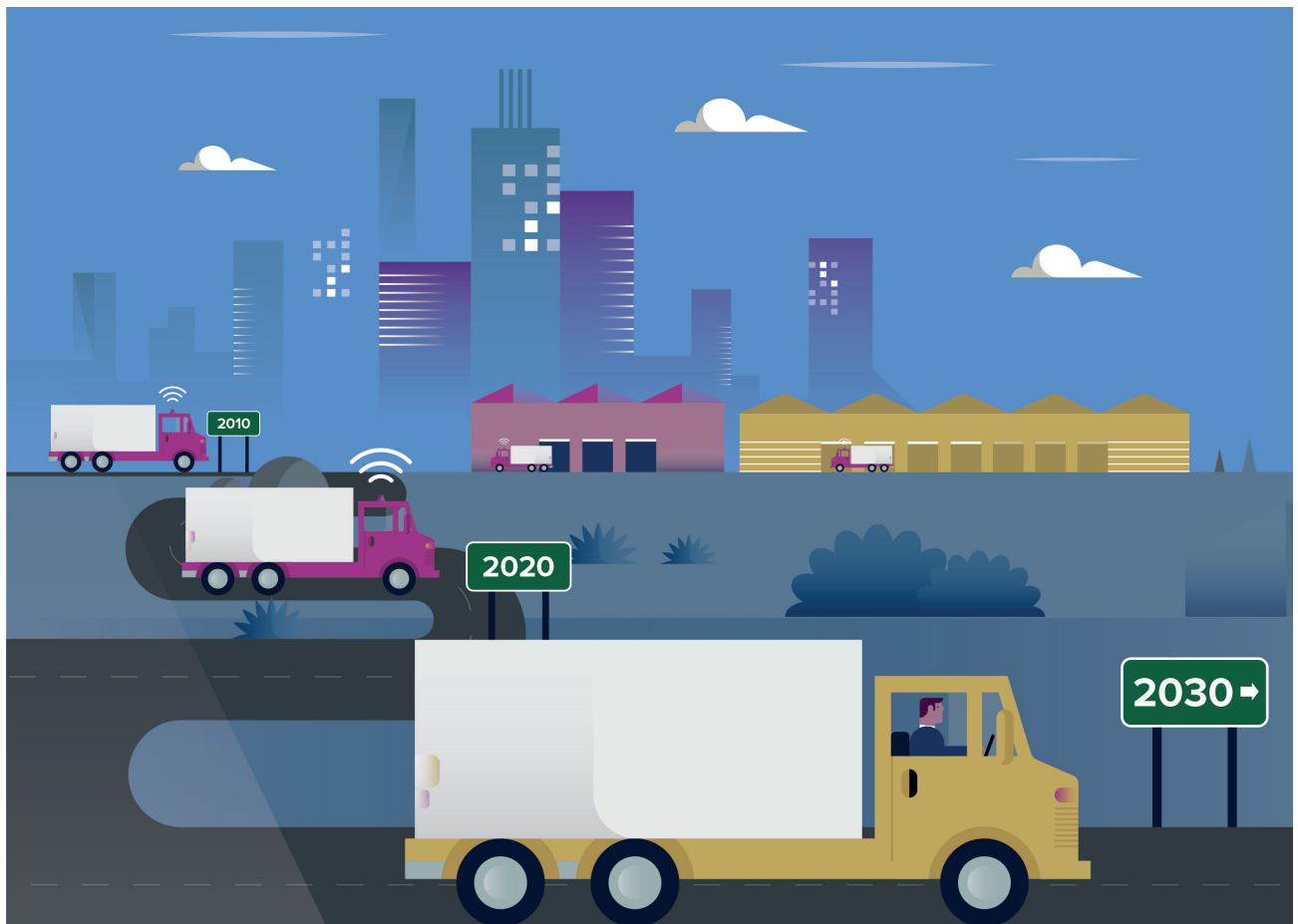


# BACK TO THE FUTURE: 10 YEARS OF DTRE AND NO CANNES DO

2020 marks the tenth anniversary of both DTRE and the traditional pre-MIPIM Industrial and Logistics gathering at the Oxo Tower in London, No Cannes Do. With the postponement of MIPIM until June, today's event takes on even more relevance, as over 500 invited guests discuss the whys and wherefores of the latest trends affecting the sector.



DTRE thought it would be an opportune moment to reflect both on where we and the sector have come from in the years since the inception of both, as well as bringing out our crystal ball and gazing into the future to see where the sector will be in 10 years from now.

### 'The Tens'

March 2010, DTRE is in its infancy with 6 people in 1,800 sq ft offices on Bond Street and the first No Cannes Do is about to take place. It would have been difficult, perhaps impossible, for anybody to foresee quite how we've got to where we are today.

Since the start of 2010 we have had four elections, (2010, 2015, 2017, 2019), three prime ministers, seven

governments and three referendums. Donald Trump has gone from reality star to the White House, and Facebook from a celebrated way of keeping in touch with old school friends to a very real threat to the workings of liberal democracy.

In property terms, despite numerous external threats, the sector has been on a bull run. In March 2010, the preceding 12 months had seen industrial rental growth drop to -4.1%, according to IPD, and take the crown of the worst



performing sector. It would continue to do so for another three years. SEGRO's share price, as good a barometer as any, was running at 318, today it stands at 884, a rise of 178%!

In 2013 it all turned around. In March 2013, the internet accounted for just 10% of total retail sales, but as of January 2020 that number now stands at 19.9%. The amount we shop online has doubled in just shy of 7 years and the accompanying infrastructure and scale required to enable this has seen a boom across the sector.

The phrases and jargon of today, 'urban logistics', 'fulfilment centres' and 'last-mile' were in their infancy, but now make up critical components of an ever-increasingly complex and expanding logistics network. The expected saturation point of online retail sales is anything from 30-60%, depending on whose research you believe. With that in mind, where will the next ten years lead us...

### 'The Twenty20s'

Predicting what the next ten years will hold, whilst living in such complex and turbulent economic and political times, is almost impossible to know, but as Bill Gates famously said, "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself

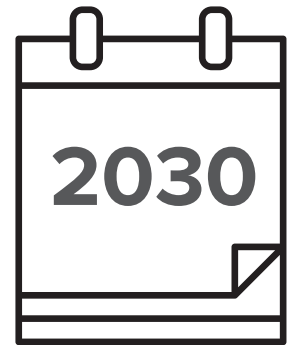
**"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction."**

**Bill Gates**



be lulled into inaction."

With Bill's quote in mind, we have focussed on the three trends and changes that whilst currently the talk of the town, in reality it'll be 2030 before we see their real value and impact, particularly on the industrial and logistics sector. So don't say you were not warned;



### I. Autonomous Vehicles

The world's biggest technology and motoring companies are lining up to produce autonomous vehicles, and with the market set to be worth \$2.8tn by 2030, it's not hard to see why they want a slice of the pie.

Whilst the Utopian idea of completely self-driving vehicles on motorways seems some way off, the trucking industry has been trialling the idea of 'platooning' for some while now, with regular testing taking place across the globe.

Whilst just one of many uses of autonomous vehicles, 'platooning' could dramatically reduce the cost of point to point journeys, as vehicles are tethered together electronically. This allows one driver or crew to control a whole platoon of vehicles for the long-distance element of a journey, with the convoy being split and multiple drivers completing the last leg. Scientists from MIT suggest that fuel savings could be anywhere between 20-30% by following in each other's slipstream. As the transport costs reduce what will be the impact on distribution real estate?

The UK's logistics industry is centred around the "Golden Triangle" and it remains an important centre for logistics as over 98% of the UK population can be accessed within a four-and-a-half-hour drive from the region.

This four-and-a-half-hour mark is crucial, as it is the amount of time a truck driver is allowed to drive before he or she is legally obliged to take a break. But what if there were no drivers? Or forced breaks? Would distribution companies still locate in the Midlands or could the 'Golden Triangle' lose its appeal as occupiers look to cheaper alternatives to locate their distribution warehouses?

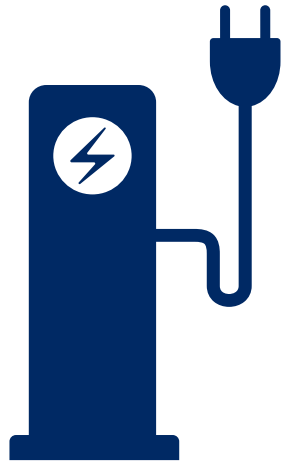
Whilst some occupiers and developers could take this view and locate in more secondary locations, the key will remain speed to market and autonomous vehicles will be able to add to logistics players abilities to deliver next day, same day and even within the hour to consumers. Autonomous vehicles will in theory be able to deliver around the clock, 24/7, therefore having fulfilment centres close to and within easy reach of urban centres will become even more critical than it is today. Of course this is predicated on sufficient capacity, both in batteries and with on-site charging to power the autonomous fleets of the future.

## II. Sustainability in Building Design

The buzz word of the day, but what does sustainability mean within the logistics and real estate worlds? The idea of sustainable building design has been around for a decade or so at least already, but we are yet to really see the demand from occupiers to push developers into creating truly sustainable and future proof building design. But it will come in the next 10 years.

As Environmental, Social and Governance (ESG) agendas move up in importance in the corporate agenda then expect to see the demand from occupiers reflected in the buildings being produced by developers.

Currently LED lighting, electric vehicle charging points, rain-water harvesting and photovoltaic roof panels remain more a 'nice to have' than a 'must have', but that is changing. Prologis, as an example, only had LED lighting in 27% of its portfolio by end 2018, but with a goal of 100% LED lighting by 2030. Within the next ten years, all of the big 3PLs, such as XPO, DHL and Kuehne + Nagel will simply reject proposals to occupy any building that did not meet their ESG criteria. ESG is coming so we all need to get used to it.



**“Customers love the transition of Prime from two days to one day delivery”**

**Jeff Bezos**

## III. The End of Free Delivery

“Customers love the transition of Prime from two days to one day delivery”, said Jeff Bezos on an earnings call last year, and he’s right.

We, as customers have gorged on an all you can eat buffet of free delivery in recent years, but despite appearing to be ‘free’ to us the customer, in 2019, shipping cost Amazon \$38 billion, or 28% of sales. Amazon’s logistics and fulfilment arm is outstripping its revenue growth currently and whilst this may not necessarily worry the likes of Amazon, smaller players are unable to compete and the reality of providing same day or next day delivery services are problematic to many businesses.



Delivery is the most expensive part of the supply chain and the expediated shipping demanded by us as consumers also means our packages may not be as consolidated as they could be, this leads to more cars and white vans required to deliver them, as well as an increase in packaging waste. Therefore, the whole expediated delivery cycle is adding more congestion to our cities, pollutants into our air and cardboard to our landfill sites.

This is unsustainable moving forward. Over the next decade expect to see the ramping up of delivery costs, the end of free returns, a widening of subscription charges and ‘delivery passes’ from nearly all of the major online retailers and an increase in the amount of ‘click & collect’ options that will be available at the checkout.

Expect delivery to be the new battleground for e-commerce players. Companies like Amazon, DHL and others are investing billions into technological advancements and by 2030 we could be as familiar with blockchain technology, and its role in delivery, as we are today with email and Whatsapp.

Only those occupiers who locate in the best urban locations, make the most of the automation and technological solutions that are available to them and can pass on these savings to the customer will thrive in a congested marketplace.

The next 10 years are sure to witness plenty change and where it will take the sector is exciting. But one thing that won’t change is that DTRE, with now 32 people in 5,000 sq ft above Oxford Street, will still be happy to buy anybody prepared to listen to our ‘sheddy chat’, a beer, or two.

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