

An illustration of a man in a blue and white striped suit crawling on a yellow desert floor. He is carrying a black briefcase in his right hand and has a red and black striped object protruding from his back. The background shows a blue sky with a yellow sun and a green cactus.

Working Time Impact Study

December 2005

In partnership with



FREIGHT TRANSPORT ASSOCIATION

In denial about property?

NAI FullerPeiserTM
COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

Contents

| | |
|---------------------------------------|----------------|
| Introduction | Page 2 |
| Executive summary | Page 3 |
| The findings | Page 6 |
| 1. In denial? | Page 6 |
| 2. Property requirements | Page 6 |
| 3. Relocated distribution centres | Page 7 |
| 4. What's going on in the Midlands? | Page 8 |
| About NAI Fuller Peiser | Page 11 |
| How the research was conducted | Page 12 |
| Contact information | Page 12 |

Introduction

On 4 April 2005, the Road Transport Directive (RTD) came into force. This is the part of the EU Working Time Directive (WTD) that applies to the transport sector. The directive has major implications for companies either employing, or reliant on, heavy goods vehicle drivers within complex supply chain infrastructures – such as industrial manufacturers, retailers and third party logistics services providers. This is because it limits driver hours to a 48-hour average week (over a 17-26 week reference period), a 60-hour maximum working week and places a 10-hour limit on night work (although this can be extended by workforce agreement).



Setting the scene

In this, our third Working Time Impact Study, we have examined some of the key issues that have developed into a reality for the transport and logistics sector in the first six months since the directive became law in the UK.

The signs are that many of the predicted trends outlined in our initial set of research data and explored in the first of these reports are beginning to appear as real business concerns – suggesting that long-term RTD compliance is going to involve some serious thought about the shape, size and location of current and future property assets.

Partnering with the Freight Transport Association (FTA) on this research has allowed us to draw some interesting conclusions about the impact of immediate business responses to RTD compliance and future implications for sustainable and efficient adherence.

It was also important for us to commission this research in partnership with the FTA as the organisation played a key role in drafting the directive and because their members operate over 200,000 goods vehicles (almost half the UK fleet) across the country.

'Long term RTD compliance is going to involve some serious thought about the shape, size and location of property assets'

Executive summary

In denial?

UK transport and logistics companies are still not facing up to the long-term impact that RTD will have on their property portfolios.

Our research reveals that companies have made significant strides in removing two of the principle barriers to RTD compliance: almost two thirds are now making use of collective or workforce agreements to complete the required 26-week reference period and over 80% successfully negotiated with trade unions regarding RTD interpretations and implementation decisions.

However, one in seven companies still don't actually know if the directive has influenced a change in their property requirements – demonstrating that many businesses are ignoring the extent to which the directive will affect their operations. It also highlights that most are pursuing measures that only delay the point at which they will have to deal with the impact that the directive is having on one of their most vital assets.

Property requirements

Six months after the RTD became UK law, one in 20 companies feel that it has affected their property requirements more than they originally expected it to. However, anecdotal evidence from focus groups run in parallel with the quantitative research suggests that, in the future, more companies will experience this effect. For example, companies conceded that some established long-distance delivery runs are no longer achievable under the new legislation and that they have had to increase staff – and therefore expenditure on wages – in order to remain compliant.

Looking further into the future, issues such as these, together with supporting evidence from the initial predictions contained in our first Working Time Impact Study, makes it clear that companies will only be able to sustain these kinds of increases in the short term and will need to look at their property locations to maintain profitable deliveries over the longer term.

Relocated distribution centres

1 in 16 companies noted that the RTD is directly influencing their decision to acquire smaller, strategically located distribution centres. Based on predictions from the original research, we expect to see even more companies pursuing this strategy over the next 2-3 years, although its unlikely, in our judgement, that we will see this at any greater level by the first anniversary of the RTD's entry onto the UK statute book.

It is also interesting to note that feedback from our most recent transport and logistics seminars demonstrates that many companies are not planning to use these new acquisitions as replacements for their existing larger centres – but rather as complimentary sites to support RTD requirements for shorter journey times and driver working hours. A fact also highlighted by one of the UK's largest DIY outlet chains at one of our RTD focus group sessions, which states that it has added two new sites in anticipation of future directive requirements.

This supports our finding that 1 in 14 organisations acknowledge an increase in the number of distribution centres in closer proximity to urban

areas as a direct result of the RTD. Again, we expect to see this trend to become even more pronounced in the future.

Reshaped distribution centres

1 in 25 companies felt that the RTD has influenced the amount of yard space they required to a greater degree than they originally anticipated. This is supported by comments made by The Lane Group during our most recent round of focus group sessions which stated that, "Parking facilities for



both commercial and private vehicles are never adequate at general purpose warehouse facilities and this is something which needs to be taken into consideration with future design and build".

1 in 20 companies believed that the RTD has had more impact on the number of loading bay doors and materials handling equipment required. With initial predictions running at 32%, we expect to see a continued increase in this trend over the medium to longer-term.

Daily deliveries and rising costs

1 in 6 companies say that the RTD has created a need for them to reduce their daily deliveries. However evidence from our transport and logistics seminars shows that while they might wish to do this, companies are actually having to increase the number of deliveries they make every day – to meet their customers' demands while having fewer driver hours available to them.

This is supported by comments made by a confectionery manufacturer at one of our recent focus groups. They noted that their customers require smaller more regular deliveries in order to maintain minimum levels of stock – often on much smaller premises. Over the longer-term, this may lead the company to re-evaluate its property requirements across the UK – especially as it potentially creates a challenge to efficient and affordable RTD compliance.

It might also explain why a large food manufacturer – also present at one of the focus groups – stated that it has experienced an increased demand for HGV drivers as a result of the RTD. They noted particular problem areas across the East Midlands, the Thames Estuary and the North West of the country.

What's going on in the Midlands?

At this stage of RTD compliance, the Midlands appears to be facing some of the most difficult challenges in comparison to other regions across the UK. One in four companies in the Midlands say that the RTD is affecting the need for them to reduce daily deliveries. This could place them under more financial pressure than their counterparts in other parts of the country when taken in conjunction with the points made in the previous section.



Furthermore, twice as many Midlands-based companies state that the directive is affecting the need to locate closer to urban areas – and, more than anywhere else in the country, feel it

is creating a need for warehouses with a greater proportion of yard space, loading bay doors and materials handling equipment.

Conversely, the situation in the Midlands may present an opportunity for other areas of the country – such as the North West England, where the relatively low density of distribution centres has kept driver and warehouse staff wages at a lower rate as well as property prices at a more competitive level. This may explain why, according to our survey results, the region has, so far, experienced the least amount of impact from the RTD. As companies shift emphasis towards long term RTD compliance it will, therefore, be interesting to monitor the relative impact that the directive has on the different regions.

The findings

1. In denial?

Almost two thirds of transport and logistics companies are now making use of collective or workforce agreements to complete the required 26-week reference period.

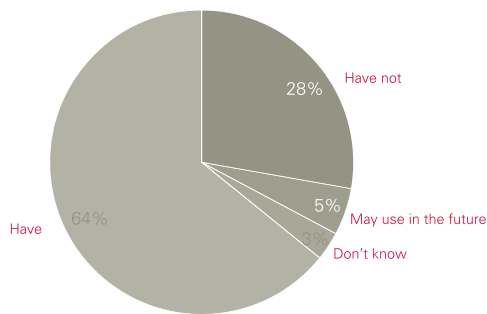


Fig 1: Transport and logistics companies that have or have not made use of collective or workforce agreements to complete the required 26-week reference period.

Over 80% of companies have successfully negotiated with trade unions regarding RTD interpretations and implementation decisions.

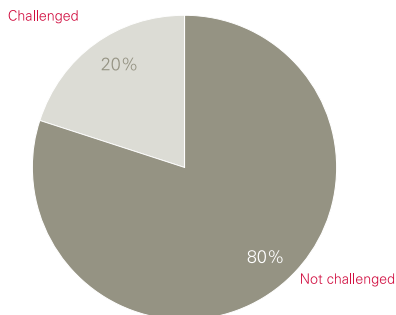


Fig 2: Percentage of companies whose decisions were challenged/ not challenged by trade union representatives.

NAI Fuller Peiser comment

Transport and logistics companies across the UK could be making property work for them as part of their RTD compliance strategy – while also avoiding costs associated with shorter term measures such as taking on more staff.

2. Property requirements

One in 16 companies noted that the RTD is influencing their decision to acquire smaller, strategically located distribution centres, one in 14 organisations stated that the RTD has forced them to increase the number of distribution centres in closer proximity to urban areas and one in 20 companies feel that the RTD has affected their property requirements more than they originally expected.

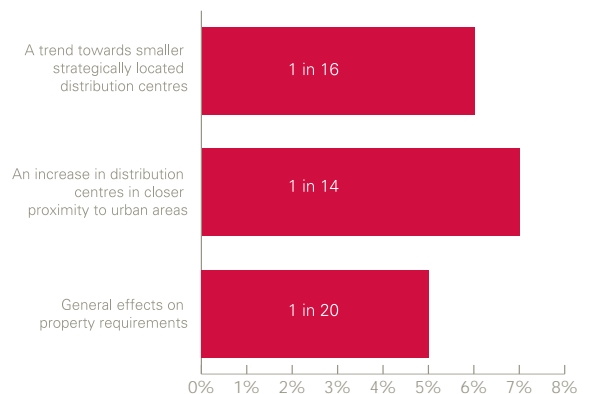


Fig 3: Comparison of how the Working Time Regulations have influenced organisations' property and relocation needs, more than originally forecast (by 'a lot/ a great deal').

NAI Fuller Peiser comment

This is just the tip of the iceberg. Expect to see a substantial increase in the number of companies that have their property requirements influenced by the RTD over the next few years – particularly if consumer demand for goods increases across the country. This could happen suddenly as organisations will, generally, try all other avenues before looking at ways in which property could solve their problems. Transport and logistics companies up and down the country should, therefore, take the early indicative trends that are highlighted here as a call to action.

As these trends continue to emerge, land resources will come under increased pressure and the planning process may become more complex in 'hotspot' areas. As time goes by, companies will have to think of increasingly strategic and creative ways in order to strike a balance between property requirements, sensitivity to the needs of local communities, RTD compliance and maintaining a profitable business. The simplest solution is to start thinking long-term now while short term adherence measures provide some degree of flexibility.

3. Relocated distribution centres

One in 25 companies state that the RTD has influenced the amount of yard space they require to a greater degree than anticipated originally. One in 20 companies feel that the RTD has had more impact on the number of loading bay doors and handling equipment than thought previously and one in six companies say that the RTD has created a need for them to reduce their daily deliveries.

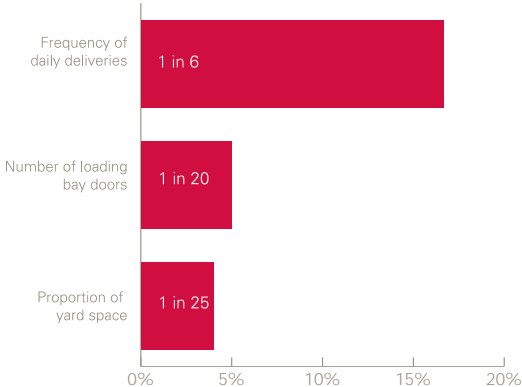


Fig 4: Comparison of how the Working Time Regulations have influenced organisations' warehouse requirements, more than originally forecast (by net 'a lot/ a great deal').

NAI Fuller Peiser comment

Increased pressure to keep drivers on the road and out of entry or exit queues at distribution centres is creating a need for more efficient warehouses. In order for drivers and companies to make use of Periods of Availability, these sites need improved parking facilities. It also means that goods have to be picked, packed and loaded as quickly as possible. As such, it's not surprising that the directive is driving companies to require more parking bay doors and materials handling equipment and a greater proportion of yard space.

The conflict between the need to reduce daily deliveries due to the RTD and pressure from customers of transport and logistics companies is a worrying sign of things to come. Some companies at our focus groups admitted that they hadn't seen any increased labour demands in their particular sectors as there has been a drop in demand due to difficult trading environments. Transport and logistics companies may, therefore, find themselves under pressure to meet deliveries and maintain RTD compliance without hiring more staff and cutting into their profits. Many companies also noted that the RTD has made them more aware of inefficiencies in their supply chains.

4. What's going on in the Midlands?

One in four companies in the Midlands say that the RTD is affecting the need for them to reduce daily deliveries (see Fig 5). One in seven companies in the Midlands observe that the RTD is affecting the need to increase distribution centres in closer proximity to urban areas (see Fig 6), one in 11 organisations in the Midlands state that the RTD is affecting the trend towards smaller, strategically located distribution centres (see Fig 10), and one in 20 businesses in the Midlands comment that RTD is having an impact on the proportion of yard space required at warehouse facilities (see Fig 8).

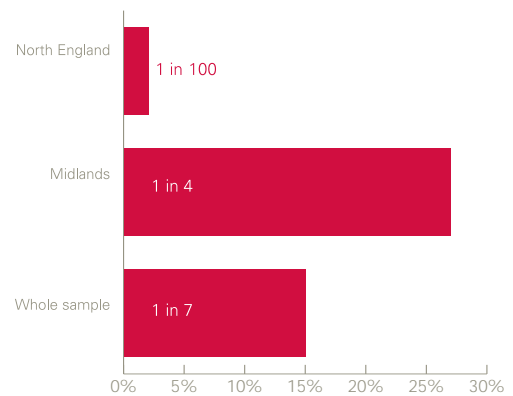


Fig 5: Number of organisations that say the RTD is affecting the need to reduce the frequency of daily deliveries, eg. to retailers, somewhat/ a great deal.*

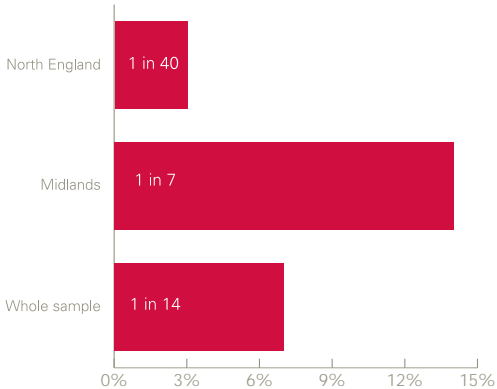


Fig 6: Percentage of organisations that say the RTD is affecting the need to increase distribution facilities closer to urban areas more than originally forecast.*

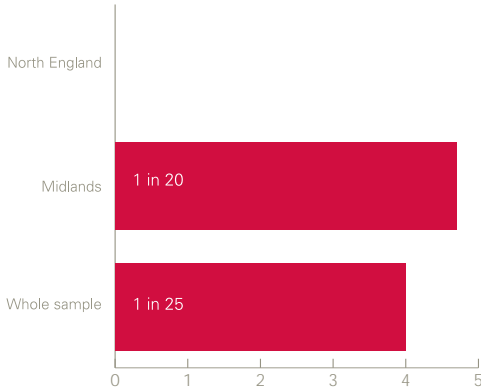


Fig 8: RTD influence on the proportion of yard space required at warehouse facilities.*

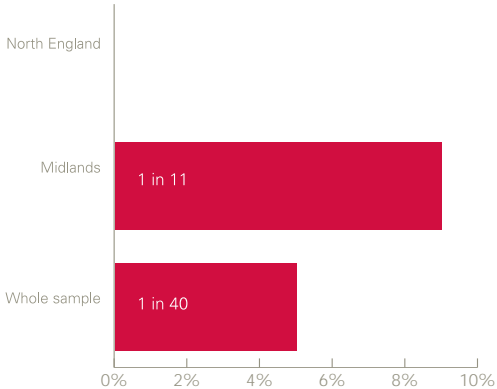


Fig 7: RTD influence on the requirement for more materials handling equipment than originally forecast.*

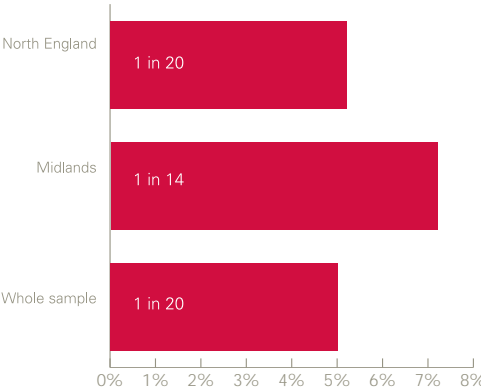


Fig 9: RTD influence on the requirement for more loading bay doors than originally forecast.*

*Note: whole sample includes other regions not covered above.

NAI Fuller Peiser comment

The heart of the UK's logistics industry is clearly feeling the greatest impact. This may be a precursor to the problems that the rest of the UK will face in the next 6-12 months. Moving forward it will be interesting to monitor the Midlands region copes with longer-term compliance, as it will likely provide a blueprint for the rest of the country.

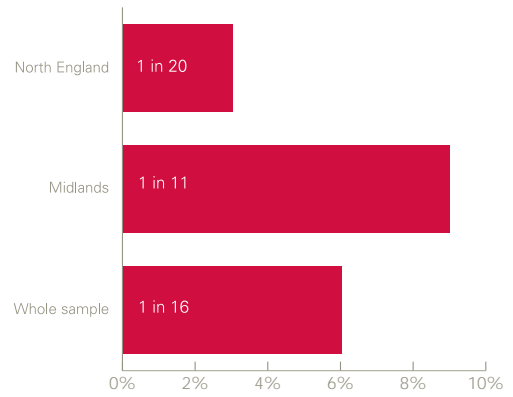


Fig 10: Percentage of organisations that say the RTD is affecting the trend towards smaller, strategically located distribution centres somewhat/ a great deal more than originally forecast.*

*Note: whole sample includes other regions not covered above.

About NAI Fuller Peiser

NAI Fuller Peiser is a leading property consultant to the industrial and logistics sector and acts for corporate owners or occupiers of property at a regional, national and international level. The company has agency instructions on over 1,114,800 sq m (12 million sq ft) and 323.76 hectares (800 acres) of land across the UK. It also has extensive experience in the retail, leisure and business markets; and provides specialist consultancy advice in the areas of education, healthcare and life sciences.



NAI Fuller Peiser is headquartered in London, with regional offices in Birmingham, Bristol, Manchester, Sheffield and Edinburgh. It currently employs 213 people.

NAI Fuller Peiser is the UK member of NAI Global, the world's leading managed network of commercial real estate firms. NAI Global's managed network structure, entrepreneurial culture and best-in-class technology helps clients anywhere in the world tap into 3,500 experts in 300 offices in 40 countries.

NAI Fuller Peiser's clients include:

- ACR Logistics
- Asda
- AXA REIM
- BAE Systems
- Bombardier
- Boots
- Cadbury Schweppes
- Channel 4
- Exel
- Fedex
- FKI
- Gazeley
- Hutchison Ports
- J D Wetherspoon
- Peel Holdings
- Pirelli
- Prologis
- RREEF
- Rolls-Royce
- Slough Estates
- Swish UK
- The Body Shop International
- UK Coal
- UPS
- Wincanton

NAI Fuller Peiser offices

Southern Region

Whittington House
19-30 Alfred Place
London
WC1E 7EA

Tel: 0870 700 2233

Midlands Region

Waterloo House
20 Waterloo Street
Birmingham
B2 5TB

Tel: 0870 700 2233

South West Region

Broad Quay House
Prince Street
Bristol
BS1 4DJ

Tel: 0870 700 2233

North West Region

Fourth Floor
Northern Assurance
Buildings, Albert Square
Manchester, M2 4DN

Tel: 0870 700 2233

North East Region

Belgrave House
Bank Street
Sheffield
S1 2DR

Tel: 0870 700 2233

Scotland

Hanover Buildings
66 Rose Street
Edinburgh
EH2 2NN

Tel: 0870 700 2233

For the latest updates visit: www.workingtimeimpact.com