Logistics Unboxed

Box Clever 2.0

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Foreword

Ciaran Carvalho
Head of Real Estate

Online demand has meant the logistics sector is continuing to thrive. The sector is now proving to be one of the most resilient asset classes through the current global economic downturn.

In this guide our experts look at what investors want and how to supply it, such as through planning for new buildings, as well as trends such as e-commerce and how consumers today want the convenience of shopping online to be matched by delivery speeds. This underlines the crucial importance of urban logistics warehouses from which last mile deliveries are made and how logistics can explore drivers such as robotics and automation in warehouses, smart buildings, utilising blockchain and quick distribution. At the same time the fight against climate change and support of ESG is becoming increasingly important to consumers, occupiers and investors. Therefore, linking efficiency and sustainability of buildings is a key challenge.

Some of the trends are a natural progression of the sector but others have accelerated due to the pandemic – 5 years of change has been condensed into 1 year. We all hope that the world will return to normal but the changes in consumer behaviour have created a new normal in retail.

"The major catalyst for this sector's growth is the current global increase in ecommerce, accelerated by consumers and businesses shifting their activities online throughout the pandemic."

Surging sector

Macro trends and international context

Rise in investors' appetite for logistics assets

Decline of retail space attraction and rise of e-commerce

Customer relationship and ESG

Accelerating technology

Infrastructure – Distribution – Planning

Box Clever history

Interviews

David Sleath
Segro

Ekaterina Avdonina
Mirastar

Andrew Jones
LondonMetric

Eric Jansen
Eastdil Secured

Surging Sector

Forrester's latest forecasts indicate that **more than 25% sales will occur online by 2024**. Assuming industry standards of 75,000m² space for every EUR 1bn spent online, this indicates a need for an additional 16.7m² of logistics facilities in Western Europe to cater for the growth in online retail over the next five years.

Following the COVID-19 outbreak in the UK, the UK courier services expert ParcelHero says **home shopping is likely to double from 20% of all retail sales to 40%** as consumers switch from buying food and household items in stores to home deliveries.

As per Savills, **logistics leasing demand will remain resilient during 2021**, with online retailers and 3PLs competing for remaining logistics facilities in response to consumer trends. Industrial and logistics sector assets investment volumes increase sixfold in a decade.

In the UK **vacancy rates for warehouse space are around 6.5% and even lower in many parts of the country**. 40 million sq ft of new supply would be required to see vacancy levels rise to 12%; a tipping point for rental growth to stop.

The **average deal is now exceeding 300,000 sq ft** for the first time, denoting the trend for larger warehouses.

Industrial volume was dominated by distribution warehouses in 2020.

Leading the pack geographically in the UK are the East Midlands, the South East and Yorkshire where new take-up records have been set.

Logistics companies are increasingly seeking sites and premises with sustainability credentials, meaning new, high quality stock which offers energy efficiency and good links to public transport is in high demand.

Macro trends and international context

Box Clever 2018

The top two concerns for retailers regarding Brexit centre on new customs requirements (**44%**) and the declining popularity of British brands and products among EU buyers (**35%**).

Brexit and COVID-19
Brexit has now taken place and the prospect of a ‘no deal’ cliff edge was not an appealing one to our real estate sector leaders. 71% of them agreed that COVID-19 made a trade deal between the UK and the EU even more important.

Unsurprisingly the sector is also overwhelmingly concerned (88%) about the impact on the economy of national debt incurred as a response to COVID-19. 80% also acknowledge that the pandemic crisis is already having an adverse impact on their organisations.

International Trade Rules and Regulations
As recovery and confidence hopefully return in 2021, logistics will continue to play an important part given the sustained need to import goods for consumption and production.

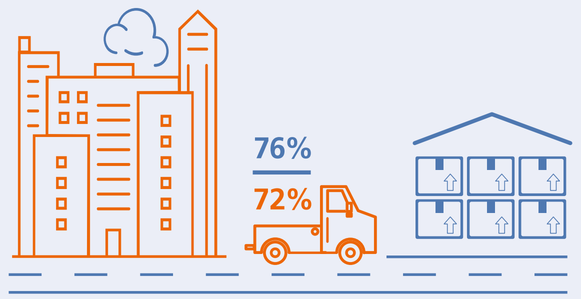
The UK can also take the opportunity to grow its exports in the lists of the Brexit and other trade deals and despite new levels of red tape.

> “The pandemic is an accelerator of the change to the logistics sector that was already in the system. Trends that we were expecting to take years to come to fruition have done so in a matter of months and, in some cases, weeks.”

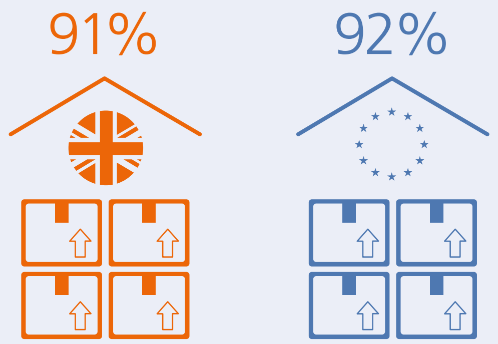
Andrew Jones, LondonMetric

Rise in investors' appetite for logistic assets

Box Clever 2018



Large, out-of-town warehouses are almost equally as popular among real estate sector respondents (**76%**) and retailers (**72%**) who both envisage increased demand in the short-term.



91% of real estate professionals think demand for warehouses will increase in the UK and **92%** across Western Europe over the next 2 years.

Big Box attraction
Big box logistics demand is on the rise – larger out-of-town warehouses.

Outside London and the South East, in the big box market rental growth is likely to be more modest due to greater land availability and the ability of developers to bring new supply through.

In the 'big box' market (typically distribution units of 100,000 square foot and over) retailers are the most active source of demand, acquiring around 45% of all industrial units so far in 2018, according to Radius Data Exchange.

"We are seeing high levels of interest in UK and international logistics assets. We have been incredibly busy working on some of the largest deals in the market over the last few months."

Chris Luck, CMS

Small central warehouses in demand
Small centrally located warehouses – last mile, speed of delivery.

As consumers increasingly expect same-day delivery of goods, logistics and retail occupiers are shifting their distribution strategies to focus on urban, last mile-relevant locations.

In last mile logistics, there's very meaningful potential for rental growth, with limits to the supply side particularly stark given increasing land values driven by alternative uses and urbanisation trends. We plan to push even further into smaller 'infill' assets within or proximate to the ring roads of major cities.

In London for example, there has been an intensification of positive supply/demand dynamics with the conversion of industrial land, notably in places like Battersea, to residential. Rents are moving up significantly as a result. Over time, secondary office parks may also become locations where e-commerce occupiers try to secure space.

Decline of retail space attraction and rise of e-commerce

> "Retail and online shopping are now inextricably linked and having suitable logistics in place is vital for businesses to survive and thrive."
>
> David Crossley, CMS

Decline of retail space attraction

The last couple of years saw the rise in popularity of distribution and logistics property, which appealed to 74% of the real estate professionals we polled, with industrial property also appealing to 61%. It is this sector that has been the beneficiary of the structural shift towards e-tailing, since online fulfilment requires about three times the warehousing space of traditional store-bound models.

Despite an understandable focus on the negatives of retail closures, it is worth noting that there are several great British success stories in the online retail world, notably Ocado and ASOS.

Ocado announced a deal in November 2017 to supply its software to French giant Groupe Casino and build an automated warehouse for them. Future growth plans focus on becoming a provider of technology to other grocery retailers, including warehouse robots, shopping websites and delivery scheduling software.

Aspiring to be the world's number-one online shopping destination for fashion-loving 20-somethings, ASOS is also enjoying remarkable growth in Europe, Asia and the US. It is reportedly spending £241m on infrastructure for warehousing and logistics. CMS provided advice to ASOS on its new purpose designed and built fulfilment centre, known as Eurohub 2, which has more than doubled stockholding capacity in continental Europe and almost quadrupled throughput capacity.

Rise of e-commerce

Still accounting for up to half of most UK institutional investors' property portfolios, retail is only appealing to 7% of the real estate experts we polled, dropping from 35% in 2016.

The sharp decline in sentiment towards the retail sector can be dated back to Black Friday in November 2017, when the power of e-commerce truly resonated with the property sector. Add in subdued trading due to COVID-19, the failure of a string of retailers, the spread of company voluntary arrangements undermining the very nature of the UK commercial lease, even adverse weather in the form of snow from the `Beast from the East', followed by the summer's extended heatwaves, and retail property has been under huge strain. Britain's biggest landlords are now seeing 10% plus falls in the value of even prime retail assets.

Online platforms make it easier and easier to buy online, e-commerce penetration increasing, decline of traditional shops.

Customer relationship and ESG

> "Virtually all institutional investors have greatly increased their ESG focus over the last year and environmental sustainability is expected to form a major pillar of their investments in the decade to come."
>
> Eric Jansen, Eastdil Secured

ESG

A key challenge is linked to the efficiency and sustainability of warehouse buildings. Interestingly, the real estate professionals we polled underestimate its significance relative to the retailers with 63% and 80% respectively. Retailers are perhaps more acutely aware of how their green credentials impact their overall brand.

There is a widespread view that big boxes impose upon picturesque countryside, destroy natural habitats and cause pollution. Local resistance has recently led to planning applications for extensions at some facilities being denied. Therefore, efforts are being made to make warehouses blend into their surroundings better.

For example, near Bridgwater in Somerset, a huge Morrisons distribution centre is clad in horizontal strips in shades of green to merge better into the landscape. And Gazeley have planted over a million trees to surround their facility in Lutterworth, creating a publicly accessible wood with a wildlife-rich fishing lake.

In a number of Europe's cities, warehouses are being set up in underground parking complexes. Functioning as cross docking centres, these 'virtual warehouses' are used by UPS for example to transfer goods from vans to fleets of electric bicycles.

Thinking even bigger, there are examples in the US of the creation of subterranean sheds. In Kansas City, an estimated 10% of commercial space is underground in a 5 million square metre, manmade limestone cave, making it the largest underground storage space in the world. Closer to home, commercial document storage company, Deepstore, uses a 200 million metre cubed salt mine in Cheshire to store over 36 linear kilometres of records for the National Archives.

Carbon neutral

Some of the big changes to be expected will be the increase of warehouse automation for big boxes and the growth in electric vehicles in urban locations. EVs are much more imminent because the pressure on air quality will only grow as deliveries increase. We know several customers are trialling a range of electric vehicles for last mile delivery. With EVs, battery limitations will mean that urban warehouses will need to be very close to the final delivery point.

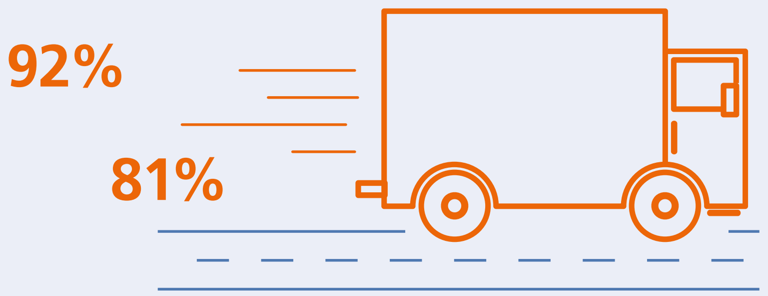
When it comes to the inter-relationship between warehouses and the environment, Nike's European Logistics Campus in Belgium is a pioneer. It uses 100% renewable energy and the facility is fed by canals, meaning 99% of inbound containers arrive by water, not road, saving 14,000 lorry journeys a year.

However, creating such expansive green campuses is often not feasible for warehousing close to urban areas. So, if warehouses cannot blend in, could a solution be for them to be hidden altogether?

Infrastructure – Distribution – Planning

Box Clever 2018

Distribution and logistics is by far the most appealing asset class at **74%**, with industrial property not far behind at **61%**. By contrast, retail property has dropped from **35%** of those polled saying it appealed in 2016, down to a mere **7%** in 2018.



92% of real estate sector respondents and **81%** of retailers see consumer demand for ever faster delivery as being a key challenge.

Infrastructure
Easy access to roads, airports, ports is of course vital to the delivery of effective logistics. Though the second least popular amongst the retailers we polled, activity in the European industrial and logistics markets shows there is increasing interest in multi-modal logistics. But progress remains slow due to reliance on the development of new infrastructure, which is essential to boost the competitiveness of this type of freight relative to road-only transport.

Utilising waterways and railways to complement road transportation helps reduce traffic congestion and carbon footprint, so this is likely to be driven up the agenda as environmental pressure grows on the logistics industry.

Furthermore, we are seeing developers using infrastructure as a means to help secure consent for large-scale logistics schemes. Planning for nationally significant infrastructure projects (e.g. rail, water, energy) can be obtained through a development consent order, which provides the developer with wider powers than a traditional planning consent.

There are numerous multi-modal centres in operation in the UK, with major ones including Dirft, the Daventry International Rail Freight Terminal near Rugby and iPort near Doncaster. Planning has recently been approved for Mossend International Railfreight Park, which will be the largest in Scotland.

"Infrastructure has always played an essential role in the success of the logistics sector for servicing both out-of-town warehouses and last mile locations. The pandemic has emphasised the importance of infrastructure to logistics and highlighted the need for new development."

Daniel Walsh, CMS

Infrastructure – Distribution – Planning

> "The UK planning system needs to up its game to plan for and help deliver new sites for sustainable development to meet the ever growing demand for logistics."
>
> Martin Evans, CMS

Planning

Most challenging of all, as agreed by 96% of real estate professionals and 83% of retailers, is the lack of space for 'urban logistics' warehousing. This issue is closely linked to another key challenge: planning constraints.

In most major cities, industrial land is rapidly being lost as it is re-zoned for or lost to other uses. With land values rising and the housing crisis high on the political agenda, many developers understandably prefer residential development over industrial in central locations. Unless there is a rebalance to acknowledge the true value of retaining land to meet demand this picture is likely to worsen for the logistics sector as housing delivery is also being given renewed impetus from Government with its 2020 White Paper proposals to impose increased housing delivery targets especially in London and the South East.

73% of real estate professionals and 82% of retailers agree that more land needs to be made available for warehouse and logistics use.

In addition, 75% of the retailers we polled think all new housing developments should also have an allocation for logistics space. However, persuading developers and local authorities to create communities and logistics centres side-by-side can be an uphill battle.

In London for example, there has been an intensification of positive supply/demand dynamics with the conversion of industrial land, notably in places like Battersea, to residential. Rents are moving up significantly as a result.

Operators are lobbying local and central government to make the case for the need for logistics to be central to local plans given that it is a key driver of economic, employment and productivity growth.

Last mile

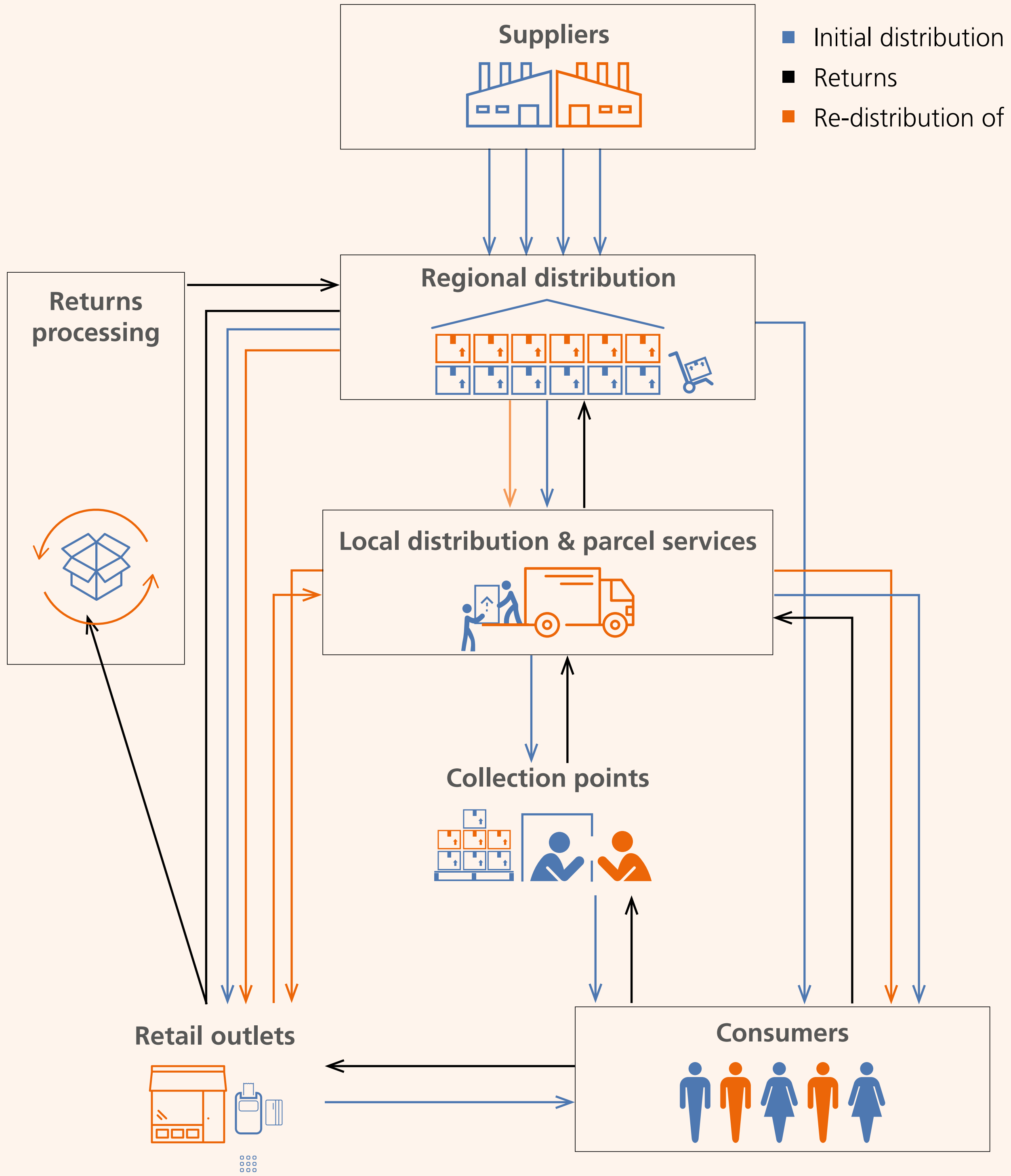
There is a fierce battle between online and traditional retailers over speed of delivery and develop more urban hubs.

Last mile to last metre

Adding yet another layer to the increasingly complex delivery puzzle, there are some businesses which are now trying to make marginal gains in terms of the last metre and not just the last mile. The last leg of the supply chain accounts for an estimated 28% of the total cost of moving goods.

It is easy to see why drones appear to be an attractive solution for last mile delivery, since they can soar above congested roads. But there are hurdles they may struggle to overcome in being used as a full-scale delivery solution. There is a limit to how far they can travel and the weight of goods they can carry. More challenging still are existing laws and regulations for flying objects and noise pollution. Wheeled delivery robots are another option for last mile delivery, with Starship Technologies launching a commercial deployment in Milton Keynes in March 2020.

Distribution in the omni-channel world



REBOUND & REMODEL

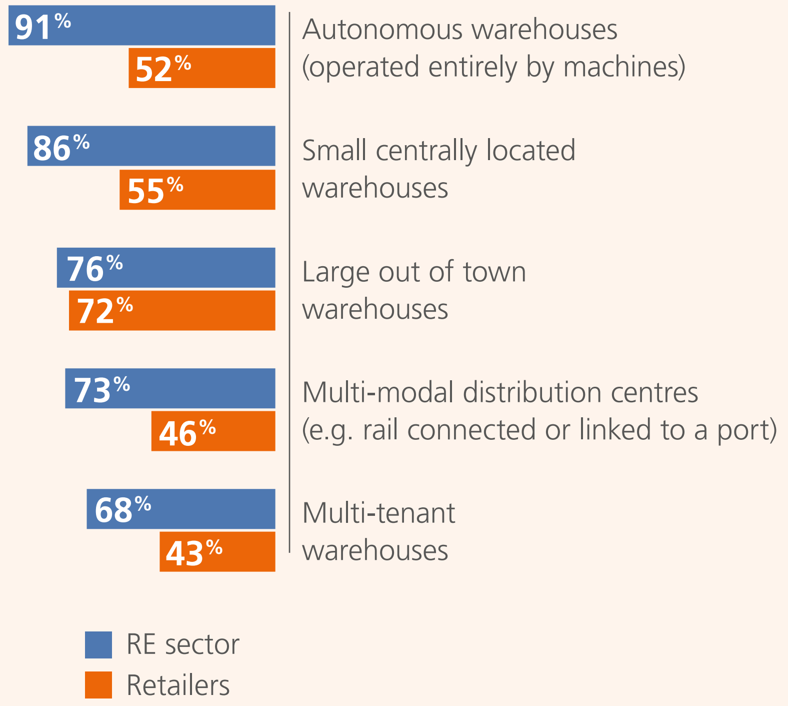
Nick Deeks
Scannell International

The uncertain nature of retail real estate investment is going to worsen as vacancies grow across the high streets of Europe. Meanwhile, an avalanche of funds are chasing logistics investment opportunities. Covid has certainly accelerated the move from bricks to clicks. A factor perhaps most clearly seen in last mile logistics, where significant growth over the last 24 months, which is not abating, has facilitated the shift in how goods are delivered to customers. Proximity to the customer is the key driver for online retailers enabling them to maximise economies of scale and seen them competing for urban property opportunities. For example, a former retail park in Mill Hill, London was recently bought by Amazon and Prologis acquired Ravenside retail park in Edmonton. Last mile operators are becoming more and more willing to pay what it takes to get closer to their customers and both landlords and tenants are increasingly prepared to be imaginative in what they will consider. Securing permitting for logistics uses across Europe is rarely easy and unless governments move to ease the path, this limiting supply side factor will aid the investment prospects of the sector.

Accelerating technology

Box Clever 2018

Real Estate Sector and Retailers: In which types of logistics space do you expect increased demand over the next two years?



Smart buildings

New concepts for building logistics can lead to substantial savings in cost and time. It also leads to better traffic flow, less harmful emissions and less inconvenience for the surroundings. For example, the number of inner-city trips to and from the building site can be reduced by about 50% to 80%.

Smart building technology has the potential to deliver significant benefits. If sensors can tell what is going on within and around the building, it is possible to take quick and effective decisions to respond – leading to lower maintenance costs, lower energy use, increased efficiency, and a better working environment for employees in the building. The challenge is to process the data collected and analyse capabilities to support decision making and operations. Interpreting the data produced by smart buildings is of prime importance here. Care also needs to be taken from a data protection perspective with using any data from smart buildings that may identify individuals.

> "Looking at the last few years, we saw significant investment by the occupiers in increasing efficiency and throughput of their DCs and e-fulfilment centres and a big push to upgrade the delivery network."
>
> Ekaterina Avdonina, Mirastar

Blockchain

Blockchain is widely recognised as one of the most crucial fields of innovation today, with far reaching impacts. 67% of the retailers we polled see its potential in logistics.

The basic idea behind the technology is that it makes it possible to structure large-scale networks, chains and markets without the need for a dominant, regulating party, which increases efficiency whilst still ensuring authenticity.

In theory, the trust that is required between stakeholders to share information on the blockchain creates intrinsic security. It could be useful for checking orders and inventory, especially in the circumstance that something goes wrong and items need to be recalled. Diamond-giant De Beers, for example, uses blockchain technology to track stones from when they are mined through to sale. This ensures the company avoids 'blood diamonds' and assures consumers they are buying the genuine article.

There are several start-ups such as Cloud Logistics who see an opportunity to provide blockchain-

Accelerating technology

enabled supply chain solutions. Gaining industry adoption is the most critical challenge which will determine the ultimate success of blockchain technology.

It is particularly useful provide logistics efficiency using a wide range of data from competitors while the technology to ensures accuracy and authenticity and trust without competitors having to share commercial sensitivity information.

Robotics and automation
It is easy to see why drones appear to be an attractive solution for last mile delivery, since they can soar above congested roads. But there are hurdles which may prevent them being used as a full-scale delivery solution. There is a limit to how far they can travel and the weight of goods they can carry. More challenging still are existing laws and regulations for flying objects, as well as concerns with their noise in urban locations. Wheeled delivery robots are another option, but these also face limitations around the amount they can carry and concerns that they will monopolise pavements.

In the big box market we are seeing continued major investments from e-commerce specialists like Amazon and Shop Direct, but we are also seeing traditional retailers such as M&S reconfiguring their supply chains and investing in automation to allow them to operate more efficiently.

> “In the big box market we are seeing continued major investments from e-commerce specialists like Amazon, but we are also seeing traditional retailers reconfiguring their supply chains and investing in automation to allow them to operate more efficiently.”
>
> David Sleath, Segro

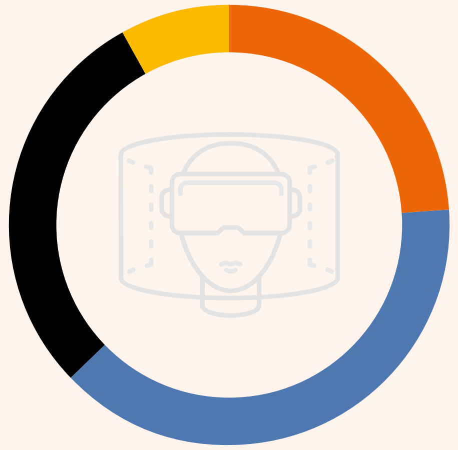
Autonomous vehicles

Retailers: Impact of autonomous vehicles on the logistics sector over the next two years

- **25%** Significant impact
- **44%** Slight impact
- **25%** No impact
- **6%** Don't know

Augmented and virtual reality

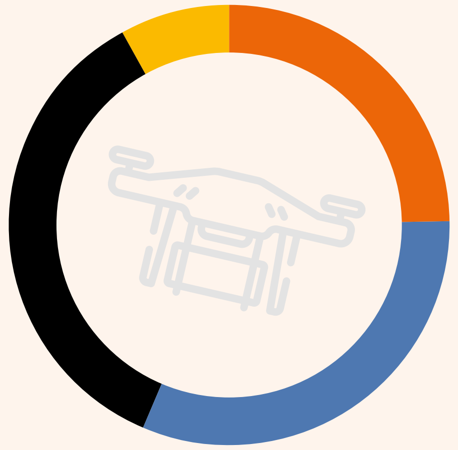
Retailers: Impact of augmented and virtual reality on the logistics sector over the next two years



- **24%** Significant impact
- **39%** Slight impact
- **29%** No impact
- **8%** Don't know

Drone delivery

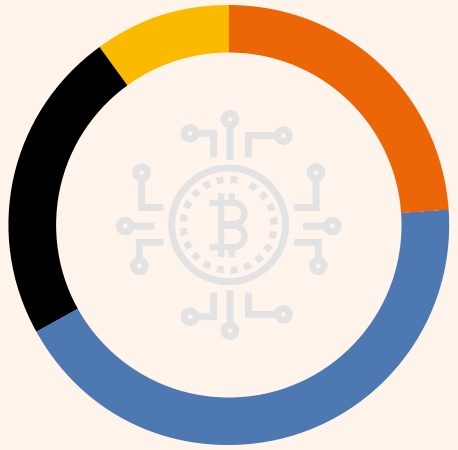
Retailers: Impact of drone delivery on the logistics sector over the next two years



- **25%** Significant impact
- **32%** Slight impact
- **36%** No impact
- **7%** Don't know

Blockchain

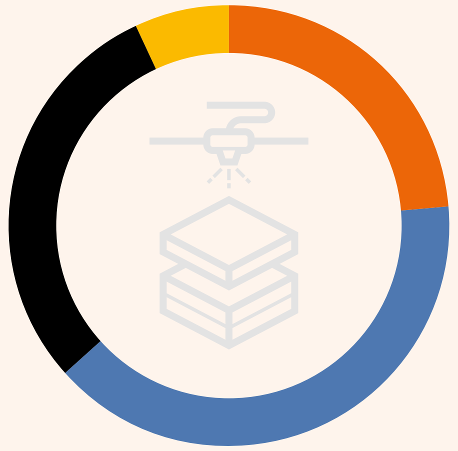
Retailers: Impact of blockchain in the supply chain over the next two years



- **24%** Significant impact
- **43%** Slight impact
- **23%** No impact
- **10%** Don't know

3D printing

Retailers: Impact of 3D printing on the logistics sector over the next two years



- **24%** Significantly impact
- **40%** Slightly impact
- **30%** No impact
- **6%** Don't know

The client perspective

David Sleath
Segro

"Creating buildings with as low a carbon footprint as possible and enabling them to operate on a low carbon basis are important to customers which is why we've already set science-based targets to address these challenges."

The past few years – and specifically the last nine months – we have seen a significant rise in demand for large scale out-of-town warehouse property. How do you see the attraction for this asset class evolving in the future?
I expect the logistics sector to continue performing well in 2021. Occupier demand likely to be driven by further market share gains from on-line retailers (and by traditional retailers looking to add an on-line capability) who will have been encouraged by the spike in e-commerce penetration experienced during the pandemic.

Customer relationship and ESG considerations – Implementing ESG, wellbeing & impact investment – have taken an increased importance in everyone's agenda in recent years. Would you say it is also true for logistics assets and if so how?
Yes, these are becoming increasingly important to our customers and other stakeholders. Creating buildings with as low a carbon footprint as possible and enabling them to operate on a low carbon basis are important to customers which is why we've already set science-based targets to address these challenges. We're also looking at the ability to generate renewable energy on site, principally though solar panels. Wellness facilities are also increasingly important to our customers which is why we are investing in facilities inside the building as well as creating green spaces, jogging/walking tracks and a range of biodiversity features on our parks.

The pandemic has shone a spotlight on demand for logistics space, particularly for "last mile" sites within urban areas. How are you adapting your approach to delivering logistics space and is scarcity of product becoming an issue?
Our portfolio is already weighted two thirds to urban or 'last mile' uses where we have been anticipating these trends for some years.

The scarcity of industrial land, much of which continues to be given over to alternative uses (particularly residential), combined with population growth and increasing ecommerce penetration should lead to strong rental growth. It also creates a strong case for more innovative ways of intensifying land use such as multi-level development and the development of other, high value uses such as data centres. Fundamentally, however, the further growth of ecommerce is dependent on meeting the ever rising consumer demands for speed of delivery and flexibility and predictability of delivery time slots – e-retailers can only achieve this if they have best in class 'last mile' delivery networks

What opportunities do you see in continental Europe?
E-commerce penetration is a long way behind the UK but is growing fast – this will feed demand for large, centralised fulfilment centres (for bulk storage, picking and packing) but also and, increasingly, for last mile facilities. The story is much the same as the UK, albeit some years behind. I believe the pandemic will act as a catalyst to accelerate and pull forward much of the growth that might have taken several years to develop.

The client perspective

Ekaterina Avdonina
Mirastar

"The resilience of the supply chain is being tested and is driving the need for more modern stock closer to consumers."

How do you see demand for warehouse space in the UK?
The pandemic accelerated the adoption of eCommerce: during the first UK national lockdown, eCommerce penetration rate increased to 25% above the peak rate predicted by most researchers (estimated at 22%) and remained at the same level since then. The long-term structural growth rate of logistics real estate is on the rise driven by the consumption and changing inventory models.

How does continental Europe compare?
Covid affected most European countries in the exact same way: by changing consumer habits once and for good. We have seen highest growth rates in the markets with the lowest ecommerce penetration rates. Covid did what we were expecting to see over a decade: a double-digit growth rate in one year. This long term trend is not expected to reverse.

How will warehouses evolve in the future?
Looking at the last few years, we saw significant investment by the occupiers in increasing efficiency and throughput of their DCs and e-fulfilment centres and a big push to upgrade the delivery network. As land is becoming scarce, a need for larger consolidation properties will trigger further intensification of land use and most likely 'vertical' technical solutions. Three years ago, multi-storey logistics has been a concept in Europe – we have now seen a delivery of at least 4-5 successful schemes in London, Paris, Hamburg, Amsterdam and no doubt more will come.

How are consumers shaping the market?
Globally millennials now comprise circa 1/4th of the global population and are the key target for all retailers. Digitally savvy, they are setting the trends and are incredibly demanding when it comes to convenience, speed, price and reliability. On the other hand, a growth of online payment systems and adoption of internet globally is causing an acceleration of adoption of e-commerce. COVID-19 accelerated this trend.

How will we see leases change?
My 2018 statement in the Box Clever report, that we live in a sharing economy and every aspect of real estate will be affected is still valid. I thought back then, that blockchain would affect the biggest changes in warehouses and logistics in the next 10 years and that it was set to overhaul the supply chain, helping with the tracking of parcels and returns efficiency, creating huge savings. Good to see that these earlier predictions are coming live.

It's still more exciting than ever to be in the logistics sector which as we all experienced last year is not only innovative but 'vital' to the economy.

The client perspective

Andrew Jones
LondonMetric

"Due to the lack of development land in urban areas (particularly Central London), the height of buildings will be important and we will see more multi-storey space."

From your own experience, to what extent and how deeply has the pandemic changed the logistics sector?
The pandemic is an accelerator of the change to the logistics sector that was already in the system. Trends that we were expecting to take years to come to fruition have done so in a matter of months and, in some cases, weeks. Retailers such as Arcadia and Debenhams haven't collapsed because of the pandemic, it has just precipitated their end. The pandemic has forced people to do their shopping online and there has been significant online penetration in terms of general merchandise and food (both in terms of groceries and takeaways). Online share of grocery shopping in the UK was trending at around 7% pre-pandemic and is now trending at around 14% today. Online food shopping has become the default position and we will continue to see an increase in local convenience stores to service top up purchases.

Have you seen a change in warehouse needs from your customers in terms of technology, i.e. robotics, automation, electric vehicles, artificial intelligence, and other innovations in the sector?
The technology in our buildings is ultimately led by our customers but we recognise that the buildings have to accommodate that technology, so the height of buildings is important to facilitate the installation of mezzanines, automation and refrigeration. The supply of power to buildings containing automation, vehicle charging points and other technologies reliant on electricity is a key requirement for some of our customers and securing that supply will continue to be a major challenge for the sector.

What does the future of urban warehousing look like?
Urban logistics space will continue to be hugely important, given consumer expectations for speed of delivery and convenience. We have been anticipating these trends for some years now and over a third of our portfolio is weighted to urban logistics. We anticipate significant growth both in terms of urban footprint and rental growth as that type of asset is needed to service last mile food and shopping deliveries. The scarcity of product, rising rents (to challenge traditional uses such as residential and retail), power requirements and availability of labour will be key issues for the sector.

Have environmental, social and governance (ESG) considerations had an impact on your business and that of your customers? What direction of travel do you see in this area?
We have been looking at these issues for a number of years now. Our investors are putting ESG considerations at the forefront of their thinking and making them a condition to invest. Creating buildings with as a low a carbon footprint as possible, both in terms of the construction of new buildings and upgrading existing buildings within our existing portfolio, is becoming increasingly important to our customers to enable them to operate on a low carbon basis. We are investing capital to upgrade buildings with lower energy ratings to improve environmental efficacy and will continue to use our resources and experience to put buildings to better and longer economic use.

The adviser perspective

Eric Jansen
Eastdil Secured

"In the few places where the market is less development constrained there is less investor appetite but generally there is more demand than product across the board."

How has the Logistics Sector changed over the last three years?
From a capital markets perspective the Logistics sector has continued to evolve in a positive way and is seen as part of any institutional portfolio. The universe of investible property has also changed with increased allocations to formerly alternative sectors such as Logistics. COVID-19 has accelerated this and added to the uptick in demand for logistics product. Life Sciences and the private rented sector are other sectors which have seen growing interest but with strong fundamentals and resilience of logistics during the pandemic, including rent collection near 100%, the sector is hard to beat.

Is there a particular type of Logistics asset in demand?
There is an increasing focus on urban and consumer related aspects of Logistics. Close proximity to population centres is important and these Logistics properties are the most irreplaceable in terms of location, especially in large cities such as London and Paris, but increasingly in mid sized cities as well. They are also more difficult to replicate in relation to an ever stricter planning process and the local preference for housing.

Is the Sector changing?
The large public companies offer great product but there is also a need for more operators and developers given the scale of demand. Many institutional investors also seek more direct management and want to be in joint ventures and are drawn to opportunities such as recapitalisations vs being passive shareholders. The green agenda in governments across Europe adds further development constraints, especially for greenfield development. This will amplify limits on supply, the expense of available land and as a result the trajectory of rent growth as demand from occupiers continues to increase.

Are there other trends and influences?
Outsized rental growth is increasingly a strong possibility in Germany, France and Italy where it has been marginal over the last decade when compared to the UK and the US. These were already tight occupational markets pre-COVID-19 but with the increased demand from e-commerce there is a massive undersupply of product. Across Europe, post lockdown e-commerce penetration rates have consistently settled at levels 50-100% greater than pre-COVID-19. We believe this heightened e-commerce demand will prove extremely sticky as it has effectively accelerated penetration rates by five years but once consumers adoption these services they seldom revert to traditional consumption patters, particularly given the increasingly limited offering of the high street. This is especially critical in markets on the continent where e-commerce penetration rates have jumped enough to justify further investments by operators, thus increasing their offering to consumers and beginning a virtuous cycle of investment and enhanced offering. To add to the strong demand dynamic, greater stock is being held following Brexit in order to meet supply chain needs rather than just-in-time deliveries giving increasing boarder controls. This is true not just in the UK but in continental Europe and perhaps most impactfully felt in Ireland, where supply chains were extremely intertwined with the UK.

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