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WHY CONSIDER LOGISTICS REAL ESTATE?

Driven by several underlying trends, the segment is establishing itself as a promising defensive asset class and there is a premium on small-scale logistics.

By Theo Soeters, Head of Fund Management, Edmond de Rothschild REIM

The emergence of mega-warehouses along busy motorways reflects one trend that the pandemic has not overturned: the growth of logistics real estate. This momentum is strong enough to demonstrate the segment's defensive qualities and see it added to portfolios invested in the real economy.

Although international commerce is slowing, logistics assets are benefiting from the structural intensification of trade in goods. This stems from both globalisation and reshoring (or deglobalisation), where supply chains are repatriated to European markets.

E-COMMERCE

The spectacular growth of e-commerce also amplifies the need for infrastructure and storage space. Obviously the health crisis has been a catalyst, discouraging consumers from visiting non-essential brick and mortar stores during lockdown.

According to the E-commerce Europe association, online shopping is likely to have been worth in excess of EUR 700 billion across Europe in 2020 - a rise of more than 12% on 2019 despite a full-blown recession. And the weight of digital in retail trade is likely to grow exponentially over the coming years.

URBANISATION AND SCARCITY OF GOODS

This asset class deserves all the more attention at a time when urbanisation is transforming society. Despite some early forecasts, the COVID crisis has done little to change this.

Between 1960 and 2018, the urban population grew by 130% in the Netherlands and 87% in France, compared with increases of 50% and 44% in the respective countries' total populations¹. With more than two thirds of the world's population already living in towns and cities, the current trend exacerbates the shortage of free space. The availability of industrial sites is likely to remain low in the medium and long term given the shortage of land and rise in construction costs. Alongside this supply deficit, demand will probably continue growing in densely populated urban areas given the space required for this type of logistics and the need for just-in-time management.

DISPERSION AND ACCELERATION OF FLOWS

Within the transport and industrial real estate segment, small-scale logistics stands out as e-commerce growth coincides with a shrinking average basket. Added to the concentration of communities, flow dispersion requires last-mile delivery solutions under better conditions.

Small-scale logistics meet customers' need for speed. It is better to have local facilities to limit transport times and be closer to the end customer.

Deliveries take barely 24 hours, or even much less in the case of food. Amazon Prime Now delivers goods in one hour, while China's Hema Fresh guarantees service within 30 minutes for its young, active, urban clientele.

ATTRACTIVE RETURNS AND DIVERSIFICATION

Together, these factors give small-scale logistics and light industry an excess return. We estimate the difference to be around 150-200 basis points relative to modern large-scale logistics². Industrial tenants offering strong guarantees and belonging to a variety of sectors account for the bulk of well-diversified portfolios. Most of the SMEs in question take pride in paying their rent, even during the difficult times in which we now find ourselves. Occupancy rates are still close to 100%.

The structural trend is for rents and property values to increase the closer a site is to a city.

To ensure that these logistics investments are successful, areas that are well served by different means of transport (rail, maritime, rivers, roads) should be preferred, along with areas with high populations and employment. The region that includes Benelux, stretching from the north of France to the west and centre of Germany, ticks all of these boxes.

A PEOPLE-CENTRIC BUSINESS

Investments should also be concentrated on a specific target area to reach a sufficient critical size, across a recognised, tried-and-tested catchment area. Last but not least, it is important to rely on top experts – those whose skills are not limited to real estate but also

¹ Source: World Bank

² Edmond de Rothschild REIM estimation – October 2020

cover the industrial and commercial fabric of the chosen region, offering genuine local knowledge. Real estate is a local and people-centric business, and that also goes for logistics real estate.

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