

# Adapting to a new growth reality in European logistics



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As the surge in e-commerce amid Covid-19 reshapes the logistics real estate market, an increasing volume of capital from around the world is finding a welcome home.

This is to be expected. According to a recent report, 'COVID-19 and E-Commerce: A Global Review', by the UN Conference on Trade and Development (UNCTAD) and eTrade, e-commerce's share of global retail trade rose from 14% in 2019 to about 17% in 2020.

The subsequent difficulty for traditional retail businesses has also been compounded by uncertainty over the future of office occupation. As a result, a greater number of investors are eyeing opportunities in logistics real estate.

"Logistics operators are finding that they need more and more space to meet the demand arising from this shift to online buying," says Daan van den Hoven, head of fund management & capital deployment for GLP in Europe.

Yet despite significantly greater competition, the growth of this market has a long way to go before it reaches its peak.

## Preparing for a new future

The pick-up in activity in this sector certainly doesn't look like slowing any time soon.

Covid-19 was the catalyst, simply accelerating existing trends in consumer buying behaviour. Even people who had not previously ordered online are now e-commerce converts.

In addition, several other complementary trends have fuelled demand. Mitigating potential risks relating to supply chain disruption is among them, notably the uncertainties from Brexit and the Suez Canal blockage.

"We are seeing a shift away from 'just-in-time' supply to companies being willing to hold more stock," explains van den Hoven. "This might be to account for late deliveries due to trade routes being diverted, or new legislation being introduced, as with the UK borders."

At the same time, logistics real estate is also benefitting from the rise in online food and grocery delivery. This more nascent aspect of e-commerce inevitably presents new supply chain challenges that require a greater provision of cold storage facilities. These types of facilities have also been in particular demand over the past year as the vaccines require much lower temperatures in storage.

## An evolving customer base

The upshot of these emerging dynamics is a flurry of new market entrants. In particular, says van den Hoven, there is a clear influx of Chinese and other Asian customers that need to meet the demand now emerging.

"It is interesting to observe that although these organisations might be new customers from the perspective of the logistics sector in Europe, they are already significant players in their own local markets," he explains.

More broadly, fuelled by this and other similar trends, occupancy rates on a pan-European basis within the logistics space are in the high 90s.

Further, GLP is seeing diversity in the type of customers active in these portfolios, across both retailers and other commercial customers, including pharmaceuticals and third-party logistics providers.

## Capturing new potential

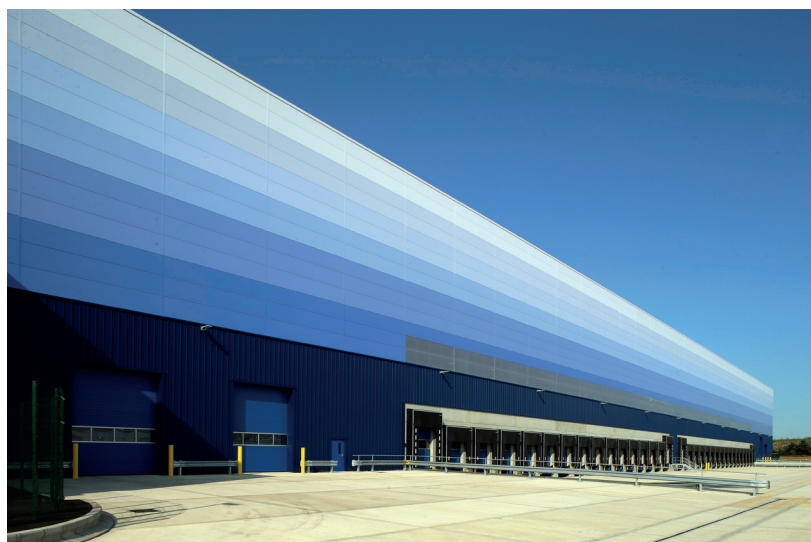
For GLP, the key in identifying and capitalising on the emerging opportunities is a mix of depth of relationships and market insights.

This goes hand-in-hand. For example, varying rates of e-commerce penetration in individual countries create opportunities for investors with local expertise that stem from on-the-ground access and understanding, notes van den Hoven.

This is the case across Europe – the UK, with the highest penetration of e-commerce in the region, is well advanced, followed by The Netherlands and then France and Spain. Central Europe, meanwhile, has lagged, but has begun to accelerate.

The right relationships are also crucial in meeting an increasing challenge in sourcing appealing product.

This is where GLP's cross-border



Magnitude 314 is 314,123 sq ft of highly specified distribution and logistics space, located on the east side of Milton Keynes, United Kingdom.

platform and global customer relationships are areas of differentiation, he explains. "Customers seek our help, which gives us more visibility over market trends and opportunities."

Another benefit of having a global presence becomes evident in executing transactions. "This reinforces our philosophy of ensuring we have a local presence, especially with logistics," he adds. "This ensures we are involved in the market on a daily basis but also have a big-picture overview."

Speed is also a critical success factor. For example, when tailoring deal structures to the needs of customers, doing this within a matter of days due to being able to price the transaction quickly ultimately ensures an effective solution from an investment standpoint.

At the same time, the importance of scale cannot be under-estimated. A recent example of GLP's focus on meeting this need is when its pan-European logistics fund acquired seven assets in Italy. Not only did this give the firm immediate scale in the local logistics market; it highlighted GLP's commitment to expand its footprint and deepen its presence in all of the 12 markets in which it operates through strategic acquisitions and developments. Today, GLP has 4.5 million sqm of space and a development landbank of 3.4 million sqm.

Among recent deals in line with this ambition, GLP has executed a number of smaller projects in the Netherlands and Belgium, with entry into the latter by off-market transactions that were possible due to the firm's experience, relationships and access.

"These capabilities enable us to close

large, complex logistics real estate deals as well as syndicated solutions among other assets," adds van den Hoven.

## Making deals count

The result of being well-positioned in these ways is easier access to funding. Yet neither local sources nor global institutions are enough on their own to source the volume of transactions required for continued growth in logistics real estate. "It is essential that we can combine the two to be successful in this competitive marketplace," he says.

"It is important to remember that real estate is still a local business, requiring local knowledge," he adds. "However, with growing interest from global institutions, it is equally crucial to have a demonstrable track record on executing transactions swiftly to take advantage of larger deals as they arise."

As the firm looks to build on this, it is also looking to invest in companies that have an overlap with the logistics real estate sector, as well as emerging opportunities such as data centres in markets like China and Japan.

Sustainability is also on the firm's radar. This is based on a focus on looking to actively improve buildings it invests in, such as by installing solar panels on roofs, for instance.

"Since entering the European market in 2017, GLP has more than tripled its assets under management, and we intend to double this again over the next two years," says van den Hoven.

