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Outside the box

Rebounding demand prompts a shift in thinking

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Editor's letter

Sector boxes up new challenges, opportunities

Justin Sumner
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Industrial and logistics performance is coming off its post-pandemic peak but is poised to return in the years ahead. However, there are some supply and demand impediments to growth to work through first.

Corporates are creating warehouse efficiencies, including the possible return of just-in-time inventory strategies, which is leading to consolidation or vacating excess space leased during the pandemic. This, in turn, is creating an increase in vacancies, especially in older buildings, and the sector may soon see its first negative absorption quarter in nearly two decades. Industry participants will be watching for rent depreciation as tenants start seeing more options.

Other issues to contend with include onshoring or nearshoring in the US and Europe, availability of labor, rising costs of everything from debt to building materials, and geopolitical uncertainty that makes international trade more difficult.

The bright spot is growing demand, just as construction starts to ramp up, and experts agree leasing will remain above pre-covid levels. But in the end, the consumer determines logistics demand more than any other factor, so economic uncertainty brought on by inflation or tariffs could lead to lower retail sales, which would put occupiers back on the sidelines at a time when supply is finally increasing.

> **"Investors and managers are adapting to evolving opportunities and challenges within the industrial and logistics sectors"**

Real estate investors and managers are adapting to evolving opportunities and challenges within the industrial and logistics sectors globally, underlining the importance of strategic portfolio allocation, proactive asset management and leveraging emerging technologies to meet demand and optimize returns.

Justin Sumner

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Insight

Big picture **Key I&L themes highlight strong returns on the horizon**

As the industrial and logistics sector faces shifting market dynamics, investors and managers must navigate themes like e-commerce expansion, ESG imperatives and evolving occupier demands that are shaping the landscape for private equity and commercial real estate stakeholders, ***writes Justin Sumner***.

The industrial and logistics real estate sector has emerged as a resilient and dynamic field, drawing attention from investors and managers navigating market volatility and economic shifts. Underpinned by long-term structural drivers, this asset class is shaped by complex and evolving trends. Seven pivotal themes have emerged that are defining the industrial and logistics landscape for 2025 and beyond.

1 E-commerce growth and urban logistics

The relentless growth of e-commerce continues to be a dominant force in industrial real estate. Urban logistics, driven by last-mile delivery needs, has reshaped the criteria for site selection and design. Proximity to consumers is now paramount, as transportation accounts for a significant share of supply chain costs – up to 75 percent in some cases.

Urban infill locations have become highly sought after, with vacancy rates in major cities like London and Paris remaining at historic lows. One study revealed rental growth in urban areas outpacing regional big-box warehouses by 30 percent over the past decade, with the gap reaching 50 percent in some major cities. This trend is also visible in the US, where industrial sites near urban cores often outcompete traditional uses like office or retail, delivering higher returns and greater tenant demand.

Urban fulfillment centers – smaller, strategically located facilities – are now essential components of logistics networks as consumers demand faster delivery times. Companies increasingly prioritize features such as clear heights, efficient layouts and automation readiness. In response, developers and managers are retrofitting older properties or constructing new state-of-the-art facilities to meet these changing requirements.

2 ESG and sustainability integration

Environmental, social and governance considerations have become central to investment and operational strategies. Tenants and investors alike demand energy-efficient buildings that reduce costs and support sustainability goals. Leading firms have adopted proactive approaches, integrating ESG principles into design, acquisition and management processes.

For example, survey data indicates that reducing energy costs and adopting renewable energy are top priorities for logistics occupiers. Many corporate tenants now require facilities with high environmental performance standards, including renewable energy integration and advanced waste management systems. Additionally, properties with strong ESG credentials often command premium rents and enjoy better tenant retention.

Investors are recalibrating underwriting practices to account for decarbonization costs, increasingly recognizing that these efforts deliver long-term value. The trend toward ESG-aligned assets is particularly pronounced in Europe, where


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Largest sector-specific industrial funds closed in 2024

Fund	Manager	Close month	Current size ($bn)	Region focus	Strategy
Cabot Industrial Value Fund VII	Cabot Properties	Jan	1.57	Multi-region	Value-add
China Income Fund XII	GLP Capital Partners	Jan	1.39	Asia-Pacific	Core-plus
MDH Fund III	MDH Partners	Undisclosed	1.20	North America	Value-add
Dermody Properties Industrial Fund IV	Dermody Properties	Aug	1.04	North America	Opportunistic
Inaugural Industrial Development Fund	Sime Darby Property	May	1.00	Asia-Pacific	Co-investment

Source for all data: PERE

regulatory pressures and occupier preferences converge to drive demand for sustainable industrial spaces.

3 Supply chain resilience and onshoring

The pandemic and geopolitical tensions have exposed vulnerabilities in global supply chains, prompting a shift toward redundancy and reshoring. Companies are increasingly relocating manufacturing and logistics operations closer to their primary markets to mitigate risks and reduce lead times.

In Central and Eastern Europe, countries like the Czech Republic have seen a rise in reshoring activities, while the US is witnessing a resurgence in domestic manufacturing and nearshoring to Mexico. These trends are supported by government incentives, such as the CHIPS Act and infrastructure spending programs, which aim to boost local production capacity.

However, reshoring is a gradual, multi-year process. It involves reconfiguring supply chains and investing in new facilities, often tailored to advanced manufacturing needs. This evolution presents opportunities for investors to capitalize on emerging markets and innovative asset types, including multi-tenant light industrial parks that cater to smaller manufacturers.

4 Evolving occupier requirements

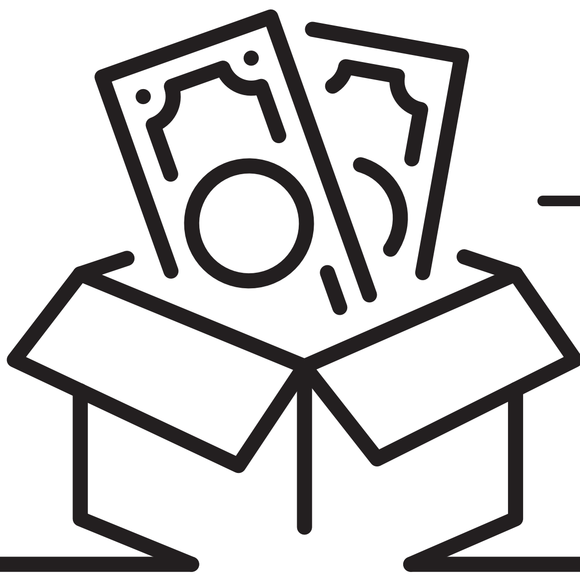
Beyond ESG, occupier demands are becoming more sophisticated, driving changes in logistics and industrial real estate design and functionality. Automation and technology integration, energy requirements and workforce considerations are now critical factors influencing decisions by corporates and investors.

For instance, power availability has emerged as a key concern, with occupiers increasingly reliant on energy-intensive operations such as automation and electric vehicle charging. High-quality facilities in markets with robust power infrastructure and sustainable energy options are in high demand.

Additionally, labor market dynamics influence site selection, as companies seek locations with access to skilled workers. Properties offering modern amenities and appealing work environments often attract long-term tenants, reinforcing the importance of design elements that enhance employee satisfaction.

5 Capital allocation and market liquidity

The logistics and industrial sector's resilience has made it a favored destination for capital, with investors



Largest sector-specific industrial funds in market as of January 2025

Fund	Manager	Open year	Target size ($bn)	Region focus	Strategy
GLP Capital Partners V	GLP Capital Partners	2022	2.75	North America	Value-add
EQT Exeter Europe Industrial Core Plus II	EQT Exeter	2022	2.57	Europe	Core-plus
BentallGreenOak US Cold Storage Fund II	BGO	2024	2.00	North America	Core
WCP NewCold III	Westport Capital Partners	2024	2.00	Multi-region	Opportunistic
GLP China Value- Add Partners IV	GLP Capital Partners	2022	1.60	Asia-Pacific	Value-add

increasingly drawn to its stability and growth potential. Following recent market repricing, industrial assets now offer attractive returns relative to other property types.

Core and core-plus strategies remain a favorite as investors prioritize stable, income-generating assets, but more and more managers are targeting value-add strategies amid a drop in new construction.

At the same time, sale-leaseback transactions are becoming a popular entry point for acquiring mission-critical logistics properties. This approach enables investors to secure long-term income streams while providing corporate occupiers with capital to fund growth initiatives.

Light industrial, urban logistics and small- to medium-sized warehouses are particularly attractive to many of the largest private equity funds. These assets offer diversification benefits, strong tenant retention, growing demand drivers and opportunities for value-add initiatives such as sustainability upgrades. The segment's relative pricing stability and easier relets compared to big-box logistics further enhances its appeal.

6 Local market challenges

Despite its strengths, the industrial sector faces challenges that require strategic navigation by knowledgeable and local teams. Rising construction costs, regulatory hurdles and local opposition to warehouses and logistics facilities are complicating new developments. In some regions, entitlement processes now take years, delaying project timelines and increasing costs.

The obsolescence of older properties also presents a challenge. Many facilities built decades ago no longer meet modern standards or tenant demands. In response, investors are redeveloping outdated properties or replacing them with new Class A facilities tailored to current occupier needs.

Moreover, macroeconomic uncertainties, including interest rate fluctuations, rising inflation, changing consumer behaviors and geopolitical risks, add complexity to investment decisions. These factors underscore the importance of specialized knowledge and local expertise in identifying opportunities and mitigating risks.

7 Technological advancements in automation and AI

Technology is reshaping the industrial and logistics landscape, with automation and artificial intelligence playing pivotal roles. Automation has become a necessity for many occupiers seeking to optimize efficiency, particularly in large distribution centers where advanced systems streamline inventory management and order fulfillment.

AI-powered tools are transforming operations by enhancing predictive analytics, enabling better demand forecasting and optimizing supply chain logistics. These technologies allow companies to reduce costs and improve accuracy, ensuring timely deliveries and minimizing disruptions.

For investors, facilities equipped with automation capabilities and robust digital infrastructure command higher rents and experience greater demand. Properties with features like advanced racking systems and charging stations for automated vehicles are increasingly viewed as future-proof investments.

The integration of automation and AI is not only about operational efficiency but also about meeting tenant expectations for cutting-edge facilities. By prioritizing technological advancements, investors and managers can ensure their properties remain competitive in a rapidly evolving market.

The industrial and logistics real estate sector offers a compelling investment landscape, shaped by enduring trends and evolving dynamics. From the transformative impact of e-commerce to the growing emphasis on sustainability, the sector presents diverse opportunities for investors and managers looking to position themselves for success in an increasingly competitive and complex market. ■

EXPERT COMMENTARY

Facilities located near the US-Mexico border are positioned for increased interest from occupiers and investors, according to Nathan Kane, head of research at Realterm

The impact of deglobalization and tariffs on logistics

The recent US presidential election returns Donald Trump to office, an outcome that is likely to have a major impact on global supply chains. This event is the latest example of a global political movement challenging the international free trade regime that had prevailed for more than 30 years, and it comes as supply chains face other challenges from geopolitical conflict and natural/public health disasters.

In response, manufacturers and retailers have begun to shorten, reinforce and diversify their supply chains. This process should generate attractive investment opportunities for investors able to identify properties that are becoming critically valuable components of these evolving logistics networks.

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These shifts also carry heightened risks pertaining to the durability of the deglobalization trend and over which trade lanes will be most affected.

One region that is likely to be among the most acutely affected in this regard is the US-Mexico border. In 2023, Mexico emerged as the top trading partner of the US, with an estimated $799 billion in trade between the two countries. Over the past decade, the average annual pace of growth in US trade with Mexico averaged 6.5 percent, outpacing the 5.6 percent annual growth in trade between the US and China observed over the same period.

While this position likely slipped in 2024 due to some normalization of trade with China, Mexico should continue to compete for this top position for the foreseeable future. The results of the 2024 US election present some challenges to this outlook, but on the whole, it should result in strengthened trade ties between the two countries.

Rise and resurgence of manufacturing in Mexico

Mexico experienced a brief period as the US's top trade partner in the 1990s, following the ratification of the North American Free Trade Agreement, which eliminated most of the import

SOURCE: REALTERM

Realterm truck terminal property in Laredo, Texas

duties between the US, Mexico and Canada and reduced subsidies provided to favored industries.

Mexico's maquiladora program (now known as Immex) gave special tax status to manufacturers locating not only near the US border, but near Monterrey and Mexico City as well.

Between the mid-1980s and the late-1990s, maquiladora employment quintupled, generating more than a million jobs. Nevertheless, labor costs by the mid-1990s were still less than one-tenth of those found in the US. This differential helped Mexico's share of US trade volume roughly double between 1993 and 2003, rising from 7.8 percent to 15.7 percent.

Mexico began to lose its leading position once China joined the World Trade Organization in 2002. At that time, China's labor costs were even lower than Mexico's, and Chinese advantages were further boosted by government incentives creating special manufacturing districts with reduced environmental and labor regulations. As a result, Mexico's status as a low-cost producer diminished with the emergence of China as an alternative.

Because of these advantages, China's share of global manufacturing output grew from 6 percent in 2000 to 35 percent by 2022. US imports from China primarily entered the country through West Coast ports, especially the twin ports of Los Angeles and Long Beach in California.

The industrial real estate market in Southern California served by these ports emerged as the largest and most expensive in the country, generating intense investor interest in distribution centers and other logistics facilities throughout the region. While Southern California should remain one of the top industrial markets in the country, it may see its dominant position eroded in coming years.

$799bn

Annual trade totals between the US and Mexico in 2023

6.5%

Average annual pace of growth in trade between US and Mexico, compared to 5.6% growth for US-China trade

15.7%

Mexico's share of US trade totals in 2023, double the 7.8% figure from 1993

China's successful economic record since it joined the WTO generated significant domestic wage growth while creating political hostility in countries that had ceded significant components of their manufacturing sectors to China. As of 2022, labor costs in China were more than four times those in Mexico.

In addition, modest tariffs against Chinese-produced goods were imposed in 2018 during the first Trump administration, and they continued through the Biden administration. China's share of US total imports peaked in 2019.

Retailers and manufacturers have considered diversifying production away from China for more than a decade. A commonly used phrase that emerged was a "China-plus-one strategy." Until the covid pandemic, most of this discussion was theoretical, a rhetorical response to analysts highlighting risks inherent in single-source manufacturing and extended geographic supply chains.

Post covid, partly to mitigate the impact of tariffs and partly to address the sourcing and transit risks inherent in supply chains, the shift in production to other US trading partners accelerated. Of the top five trading partners, Mexico was the greatest beneficiary.

Moving production to Mexico's maquiladora facilities addresses many of the challenges that became evident in China. Transit times from factories in Mexico to consumers in the US are close to one week, compared to 40 days for goods shipped from China. Labor costs in Mexico also remain significantly less than those in China.

In addition, goods moving across the US-Mexico border are less exposed to potential problems from weather delays. The greatest barrier to the free flow of goods is the wait time as trucks prepare to be inspected before entering the country.

Tariff proposals from the Trump administration

During the 2024 presidential campaign, Trump suggested several different iterations of tariffs against US trading partners, both to protect domestic manufacturing industries and as leverage to shape policies in those countries to become more favorable toward the US.

These tariffs and how they're established could have a significant impact on the flow of goods into the country, both in terms of level and location.

A flat tariff across all imported goods, proposed in August to be in the 10-20 percent range, would likely equally reduce freight flowing into the country, having little impact on each industrial market's relative importance in terms of freight but reducing their overall growth in volume just the same.

Additional tariffs targeted specifically toward China could reduce the flow of goods through West Coast ports, though some of this would be offset by increased production in other Asian countries like Vietnam and South Korea.

Likewise, tariffs targeted toward Mexico could slow the flow of goods across the border, impacting industrial markets across the Southwest.

An oft-discussed 20 percent tariff against all imports designed to foster US manufacturing has gained traction in early 2025. However, some administration officials believe this tariff may be slightly modified from the original proposal, targeting production that is critical to national security: energy, steel, pharmaceuticals and defense.

"Properties that are well-located near border crossings and well-configured to rapidly handle the transfer of goods from one truck to another will be in exceptionally high demand"

"Manufacturers and retailers have begun to shorten, reinforce and diversify their supply chains"

Such a proposal would have only minor impact on the flow of containerized goods that generate demand for industrial real estate, and even then, would likely affect the flow of goods from Europe and Canada more than from Asia or Mexico.

Even before the first Trump administration, emerging recognition of the potential costs and risks of supply chain disruption were leading to changes in supply chain design. The uncertainty over the direction tariff policy will take in the coming year is just the latest contingency for which logistics operators must plan.

The next four years are likely to underscore the importance of geographically distributing production capacity, as well as identifying multiple pathways by which those goods can reach consumers.

An increasingly hostile geopolitical relationship with China suggests a continued shift to friendlier countries of the production of goods destined for US consumers. Still, potential changes in that trade relationship are likely to be incremental and heavily negotiated. Southern California will remain the most active freight market in the country, albeit potentially at a slower rate of growth. This could take the form of onshoring, or moving production back to the US, but high labor costs in the country mean that nearshoring or "friendshoring" are much more likely.

These shifts imply the acceleration of freight crossing the US-Mexico border, albeit with the potential for some interruption if trade rules become a negotiating point of a larger strategic goal on immigration reform.

Realterm believes that properties that are well-located near border crossings and well-configured to rapidly handle the transfer of goods from one truck to another will be in exceptionally high demand in the coming years. ■

A year in review

The past 12 months have seen increasing appetite from investors in logistics and industrial sectors

Cabot closes largest fund yet on $1.6bn

Cabot Properties benefited from investor appetite for logistics assets, closing its Value Fund VII above target on $1.57 billion. The fund, which is focused on infill industrial assets in the US, Europe and Asia-Pacific, was initially targeting $1.2 billion, according to Cabot CEO Franz Colloredo-Mansfeld.

EQT Exeter launches debut Asia logistics fund

EQT Exeter, the real estate business of Swedish private equity firm EQT, dialed up its fundraising efforts for Asia real estate despite expecting limited fundraising activities for the asset class outside of the region. The private equity giant began fundraising for its first Asia-Pacific logistics fund.

JAN 2024 FEB MAR APR MAY JUN

ESR targets $5bn for Korea's first open-end core logistics fund

ESR Group continued to see investor appetite for income-producing logistics assets in South Korea, despite oversupply issues. In February, ESR's South Korea platform ESR Kendall Square launched the first-ever open-end core logistics fund focused on the country. The fund was seeded with seven assets developed and managed by ESRKS.

MSREI sells four warehouses as nearshoring trend picks up

Morgan Stanley Real Estate Investing sold four industrial properties on the Texas-Mexico border in a deal reflecting growing tenant demand from the nearshoring of manufacturing and other business operations. The properties, which span 1.2 million square feet in total, fetched $178 million and sold to two institutional investors.

EQT Exeter's Minneapolis industrial portfolio purchase cost about $475m

EQT Exeter, the real estate business of Swedish private equity firm EQT, agreed to the acquisition of a five million-square-foot industrial portfolio in Minneapolis in a deal thought to be valued at about $475 million. The Philadelphia-based manager made the investment via its EQT Exeter Industrial Value Fund VI.

LOGOS co-founder to start new logistics firm
Trent Iliffe, co-CEO and co-founder of Asia industrial specialist LOGOS Property Group, departed the firm to start his own industrial business with an initial focus on India and Vietnam. LOGOS currently has five assets under management in India and three in Vietnam, according to the firm's website.

Blackstone buys pan-European logistics portfolio for €1bn
Blackstone acquired an 80 percent stake in a European logistics portfolio sold by Johannesburg-listed REIT, Burstone, in a €1 billion transaction. The New York-based manager made the acquisition on behalf of its opportunistic funds Blackstone Real Estate Partners Europe VII and Blackstone Real Estate Partners X. The firm is aiming to raise €10 billion for the former vehicle.

Starwood-led group makes $7bn ESR takeover bid
A consortium led by Starwood Capital Group made a $7 billion takeover bid for Hong Kong-based industrial giant ESR Group, the latest escalation in its months-long quest to take Asia's largest real estate manager private. The offer, submitted by Starwood, New York-based investment firms Sixth Street, SSW Partners and Warburg Pincus, as well as the Qatar Investment Authority, values ESR's shares at HK$13 ($1.67; €1.59).

JUL AUG SEP OCT NOV DEC

ADIC expands Korean logistics exposure with LaSalle
Abu Dhabi Investment Council expanded its presence in South Korea's logistics sector through participating in a $450 million investment with LaSalle Investment Management. Although LaSalle disclosed that the transaction was made through LaSalle Asia Opportunity Fund VI and a co-investment with a Middle Eastern sovereign wealth fund, the identity of the investor was not revealed.

German private wealth investor Pamera launches US division
A German private wealth investor expanded into the North American property market with a pair of local experts and a $30 million deal in Manhattan. Munich-based Pamera Real Estate, a multifamily office with a $1.65 billion portfolio in its native country, said that it founded a North American division and focused on value-add residential and logistics investments on behalf of its German private backers.

MARK holds final close for Crossbay II
MARK Capital Management wrapped up fundraising for its second pan-European urban logistics fund and is gearing up for a third fund in the value-add series this year. Crossbay II – which launched in October 2022 with a target between €800 million and €1 billion – attracted a total of €660 million in commitments.

Unlocking business value through health and wellness

Guest comment by **Sara Karerat**

Industrial workplaces can benefit from evidence-based enhancements and actionable strategies, says Center for Active Design's managing director

Industrial and logistics workers face unique challenges in demanding environments, whether clocking in while others sit down to dinner, mastering complex machinery in bustling facilities or racing against the clock to meet ambitious quotas.

Amid mounting pressure to achieve unprecedented levels of efficiency, the sector faces significant challenges in adapting to escalating workforce and operational demands. With turnover rates in the US reaching 49 percent, health concerns are a leading driver of absenteeism, affecting one in three workers. This underscores the urgent need to integrate health and wellness strategies into industrial facilities to better support employees.

Enhancements such as improved air quality, ergonomic design and access to natural light not only foster employee well-being but also drive tangible business outcomes, including higher retention rates, reduced absenteeism and increased job satisfaction. Moreover, these improvements can position facilities to achieve stronger property valuations and a distinct competitive edge in the marketplace by better supporting employer and employee needs.

Understanding and addressing the unique needs of industrial workers is essential to fostering healthier environments. This means addressing a range of critical challenges.

- Mental health: More than 47 percent of warehouse employees report stress in their current roles, and 25 percent note negative mental health impacts from work.
- Physical safety: Warehouse injury rates of 5.5 percent are more than double the average across other industries, according to the US Department of Labor.
- Climate risks: Industrial sites face growing threats from natural disasters related to climate change. Proactively addressing these challenges will safeguard physical infrastructure.

Organizations like the Center for Active Design provide actionable insights to drive change. As outlined in their publication *A Better Box: Optimizing Industrial Spaces for Employee Health and Wellness*, success in this space does not require sweeping changes. Small, focused adjustments can deliver measurable results in critical areas.

Maximizing site connectivity through accessible locations that prioritize active commuting options like biking and walking, proximity to transit hubs, well-lit pedestrian pathways and shared green spaces foster healthier, more satisfied workforces while enhancing the site's market appeal.

Designing interiors for health and productivity can be accomplished with functional interior design features like high-efficiency air filtration, ample daylight and temperature regulation, reducing fatigue and musculoskeletal injury risk while improving tenant comfort and employee performance.

Building resilience for long-term success is important as global supply chains face increasing unpredictability, and industrial facilities must be prepared. Emergency response plans and adaptable workspaces contribute to safer environments and business continuity during crises.

Looking ahead

The industrial sector is evolving, and leaders have a chance to redefine what these spaces can achieve. By embracing strategies that align health with productivity, stakeholders can unlock new levels of value for employees, tenants and investors. The result is not just a better box but a smarter, more sustainable future for the sector. ■

KEYNOTE INTERVIEW

The corporate credit route to urban logistics

Sale-leaseback transactions provide investors with access to high-quality logistics assets at beneficial pricing, say ICG's Greg Minson, Chris Nichols and Adam Golebiowski

Urban logistics assets have become a "must-have" for European real estate investors due to the sector's resilient performance. However, investors are faced with a scarcity of available product and high competition levels that are driving pricing and impacting returns.

ICG Real Estate's Greg Minson, global head of asset management; Chris Nichols, managing director and head of strategic real estate; and Adam Golebiowski, managing director and co-portfolio manager, Metropolitan, explain how understanding the needs of European corporates (owner-occupiers) is key to accessing the best assets in this sector.

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Q Why is the European urban logistics sector so popular with real estate investors?

Adam Golebiowski: We see significant potential for cashflow resilience and future growth in this sector. Urban logistics assets in major population centers like London, Paris and large German cities have very low vacancy rates, with tenant demand driven by the long-term mega-trends of digitalization of the economy and reshoring.

These markets often have limited supply because there's not much available land. Planning regimes also make development complicated and there is strong competition from developers looking at residential or other uses. As a result, building logistics facilities is often not the highest value use for urban land. Therefore, the sites that do get developed are often let before construction even starts.

Greg Minson: We commissioned one of the leading agents to carry out a study for us in the UK and they found that over the past 10 years rental growth in urban locations has outperformed regional big-box warehouses by about 30 percent. This is even more accentuated in major cities like London, where the outperformance is around 50 percent.

Q How can investors invest in this in-demand sector?

Chris Nichols: An emerging approach for sourcing logistics assets in urban areas is to focus on corporates that want to free up capital for expansion or other business needs through sale and leaseback transactions. Through its €8 billion AUM real estate business, ICG Real Estate has been using this approach as one way to build its portfolio of income producing, mission-critical logistics assets across Europe.

The sale and leaseback market in the US has been around for 30 years and is very mature, with many multibillion-dollar companies investing heavily in it. In Europe, the market is in an earlier stage, but growing. We believe this, combined with current market trends, offers a very attractive investment opportunity.

"An emerging approach for sourcing logistics assets in urban areas is to focus on corporates"

CHRIS NICHOLS

GM: In short, it is very difficult, especially if your goal is to build a significant portfolio. The market is highly fragmented, and the majority of assets are outside of the institutional real estate ownership. We estimate that more than two-thirds of the total asset volume is held by European corporates, frequently as owner occupiers.

To access these assets, you need a strong corporate network, the ability to negotiate as a partner with the corporate, and the expertise to find creative financing solutions. You also need the infrastructure and capability to manage a granular portfolio. For example, our nearly $1 billion Metropolitan portfolio includes about 60 assets, mostly sourced directly through ICG's corporate network and outside of the traditional real estate channels. It is very difficult, if not impossible, for a private investor to access this niche market.

Q What types of tenants typically occupy urban logistics space?

CN: We have found that the fabric of urban logistics assets is not just parcel depots, cross-dock facilities used by DHL or other third-party logistics companies. There is a whole ecosystem of industries with different tenants using warehouse facilities in the most urban locations.

We have a real mix of retailers, healthcare, light-industrial and high-tech manufacturing companies. Fundamentally, a diverse portfolio of assets and tenants translates to a resilient portfolio.

Q What are the advantages of sale-leaseback deals?

AG: Based on our analysis of approximately $10 billion of recent logistics transactions, there is a pricing gap between buying logistics assets in the open market through a broker versus acquiring them directly from a corporate. According to our figures, there is a cap rate arbitrage of about 100-200 basis points.

Higher pricing puts you under pressure to underwrite aggressive real estate business plans, which may involve restructuring, refurbishing or redevelopment, whereas our typical asset tends to have a long-term lease in place with indexation or rent reviews that provide resilient, long-term income streams.

Corporates take a long-term view on these assets and are happy to accept our pricing in return for below-market rents. It is a win-win.

GM: Our approach, which is an asset-by-asset, credit-by-credit analysis, has resulted in a portfolio with a highly diversified, inflation-protected and predictable cashflow stream, which investors value tremendously in this environment.

Our aim is to create the majority of the value via these contractual cashflows, and you can only really accomplish this if you are meticulous in how you source, underwrite, structure and ultimately manage the assets. Syncing these four stages together is extremely difficult but we have managed to do so.

Q What are the typical lease structures and lengths?

CN: The typical duration of a sale and leaseback lease will be between 10 and 20 years, depending on the geography. In the UK it is probably 15 to 20 years, while on the continent it is probably 10 to 15 years as a standard.

Typically, when you acquire an asset that is fully leased, the leases in France or Germany are double-net leases. So, as a landlord you are still responsible for the fabric of the building, for major repairs, for major capex. We try to negotiate triple-net leases – where the tenant is responsible for taxes, insurance and maintenance – so we have a lease template that we simply roll out to our new transactions, and that gives us a very clean cashflow through the duration of our hold.

Triple-net leases are still uncommon in Europe, so we spend a lot of time negotiating and explaining them, but we are finding tenants to be very receptive to the concept.

Q Which markets look most attractive today?

AG: We primarily target large urban markets close to densely populated areas. Our assets have, on average, 1.5 million inhabitants within a 30-minute drive. We focus on the major European economies such as the UK, Germany and France, as well as some of the Western European countries.

Q What are the opportunities for active asset management in this sector?

GM: A large, pan-European portfolio does create management challenges, but it also creates opportunity. Earlier this year, we launched Axel Logistics, a dedicated management platform to lead the day-to-day operations of the assets and the strategic initiatives to unlock value. The information and data that Axel collects on the current portfolio is leveraged to source and underwrite new transactions.

This feedback loop is invaluable, and it just does not work as efficiently if those operations are outsourced. For these reasons, we believe Axel provides us with a significant competitive advantage, enhancing our ability to grow and scale the portfolio while keeping to our core principle of doing so in a very careful, organized way. In time, we believe Axel has the potential to become one of the market leaders in this sector.

> *"We see significant potential for cashflow resilience and future growth in this sector"*
>
> **ADAM GOLEBIOWSKI**

> *"Rental growth in urban locations has outperformed regional big-box warehouses"*
>
> **GREG MINSON**

AG: The assets need to be of institutional grade or able to be upgraded to that standard to be acceptable to core buyers, the major institutions in Europe. This means evidencing an efficient EPC rating of A or B in the UK, or certifications such as BREEAM.

The work required to upgrade the portfolio to a high institutional standard is often quite focused. Many of the assets in our portfolio were already of a high standard when we invested because the corporate occupiers often overcapitalize and, in many cases, have already upgraded the facilities.

In these instances, our role is to assist with additional improvements, such as connectivity or power capabilities. This could include increasing power for vehicle chargers, assisting with the installation of PV panels on the roof or upgrading the heating systems.

Q Overall, what is the scale of this sale-leaseback opportunity in urban logistics?

AG: The sale and leaseback opportunity is, and will be, one of the biggest cyclical and structural opportunities in Europe over the next 10 to 20 years. This structural change is being catalyzed by cyclical events happening right now. European corporates are deleveraging, so from a cyclical perspective, we are going to see a period of heightened availability of these buildings, probably over the next three to four years.

CN: The pressures of reshoring and sustainability regulations are driving a capex supercycle, and that means corporates will be looking to raise alternative finance, which makes sale and leasebacks a win-win as investors can acquire fully leased, mission-critical assets at a lower price point, and occupiers can capitalize on their real estate assets while maintaining control of their current business operations. ■

New stars appear in logistics firmament

Industrial and logistics subsectors including last-mile, outdoor and cold storage are gaining favor with investors thanks to strong rental growth prospects, reports Judi Seebus

The rise of industrial and logistics real estate has propelled it ever higher in global investment rankings and there are no signs of it losing its luster. Developments in the US market, where cold storage specialist Lineage Logistics raised $4.4 billion in the largest REIT IPO ever in July 2024, point to a potential route of travel for the European and Asian markets. As logistics strategies become more urban, a growing number of investors are also looking beyond big boxes to existing and emerging niches globally.

One major subsector that continues to shine bright worldwide, thanks to the growing popularity of online purchases, is last-mile logistics. In the US, the share of e-commerce is set to rise from 20 percent to about 35 percent of retail sales by 2035, a recent report by US manager Clarion Partners predicts. Given that e-commerce utilizes three times more warehouse space than traditional retail, another 340 million square feet of industrial and logistics space will be required in the US to meet online sales fulfillment alone.

Moreover, smaller light-industrial properties closer to the end-consumer often command a rent premium. Urban logistics has increasingly become a mainstay asset class among institutional investors in recent years, but its outperformance relative to big boxes during the covid-19 pandemic is now narrowing in both the US and Europe. Following double-digit rental growth for last-mile assets between 2020 and 2022 in both regions, the rental growth dynamics between the two subsectors have started to align more closely, research from advisory firm Green Street shows.

In Europe, rents for both last-mile and big-box logistics properties are now rising by a similar figure of around 3-4 percent, Green Street's European research director Peter Papadakos points out. "We are going back to pre-covid norms where there was not such a big gap between the two. Rental growth forecasts for both last mile and big boxes are no longer all that different from any other property sector either."

That said, vacancy rates for big boxes, particularly in the UK, have been rising and currently stand at around 6 percent, double the average rate for smaller last-mile properties. Indeed, big boxes could be vulnerable to rent stagnation if that excess supply is not absorbed in time, Papadakos notes.

Supply constraints

Meanwhile Valor Real Estate Partners, one of the fastest-growing urban logistics suppliers in Europe, has a 3 percent vacancy rate for its stabilized assets, says managing partner Christian Jamison. The company's strategy is underpinned by supply-demand imbalances in large conurbations across the UK and the European continent, he adds.

Robust fundamentals have also drawn manager Blackstone to invest in the last-mile sector, which it does via its Mileway platform, the largest urban logistics real estate operator in Europe. Blackstone is, however, one of the few large private equity companies active in this space.

It is challenging to get significant exposure, even for the bigger players. Jamison says: "Last mile is very granular, so you have to aggregate lots of smaller assets. Our portfolio is coming up to €4 billion of assets, but that is spread over 200-odd buildings, which equates to roughly €20 million per asset."

Greenfield development or conversion of existing properties to last-mile assets are not obvious routes due to planning restrictions and/or economic reasons, Jamison adds. "What we normally do is brownfield development, taking disused, very old warehousing or factory-type uses and redevelop those to make modern logistics."

Despite these challenges, last mile offers a strong outlook in terms of investment performance, Jamison says. "Being close to your consumer is a critical advantage for occupiers in terms of delivery times. By focusing on those very best urban markets, there is still substantial scope for rental growth because of the sizable potential savings for occupiers in being in those locations closest to their consumers."

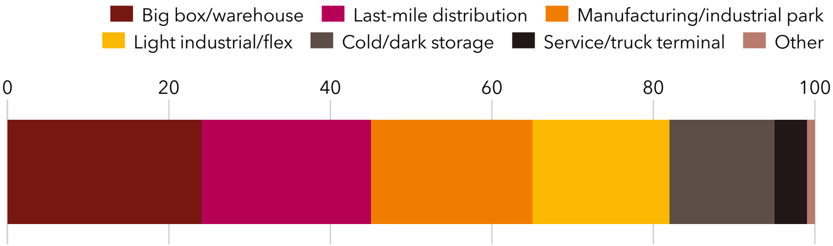
For Oxford Properties, the real estate investment arm of the Ontario Municipal Employees Retirement System, logistics remains the largest single capital allocation in its European portfolio, and the company aims to selectively deploy more capital into the sector as it continues to seek focused scale in the markets in which it is active, says senior vice-president James Boadle. "We continue to have conviction on the mid-box and urban logistics subsector, with a focus on key markets within the UK, France, Germany, Spain, the Netherlands and Denmark."

Given the recent pricing correction, Boadle says he sees opportunities to upscale the quality of assets as the sector moves into the next phase of the real estate cycle. "A rising tide will not lift all boats, and although the sector more broadly continues to benefit from occupational tailwinds, there is disparity on what will and will not perform."

High entry yields

Two other logistics subsectors that Green Street currently favors are cold storage and industrial outside storage (IOS), which encompasses truck yards and intermodals. Both have higher entry yields of up to 7 percent, reflecting in part their greater susceptibility to

Warehouse makes up less than a quarter of industrial and logistics assets under consideration by investors in 2025 (%)



Source: Colliers' 2025 Global Investor Outlook

"There is still substantial scope for rental growth because of the sizable potential savings for occupiers in being in those locations closest to their consumers"

CHRISTIAN JAMISON
Valor RE Partners

operational risks. Clarion Partners is likewise upbeat on IOS. In the US, the sector has emerged as a high-performing industrial subtype versus industrial generally, according to the NCREIF Property Index.

Cold storage facilities are in fact becoming one of the most sought-after subsectors due to several converging trends that underscore the importance and necessity of refrigerated warehousing. As supply chains grow more intricate and far-reaching, the need for reliable cold storage has become increasingly apparent in various sectors including food and grocery e-commerce, pharmaceuticals and biotech.

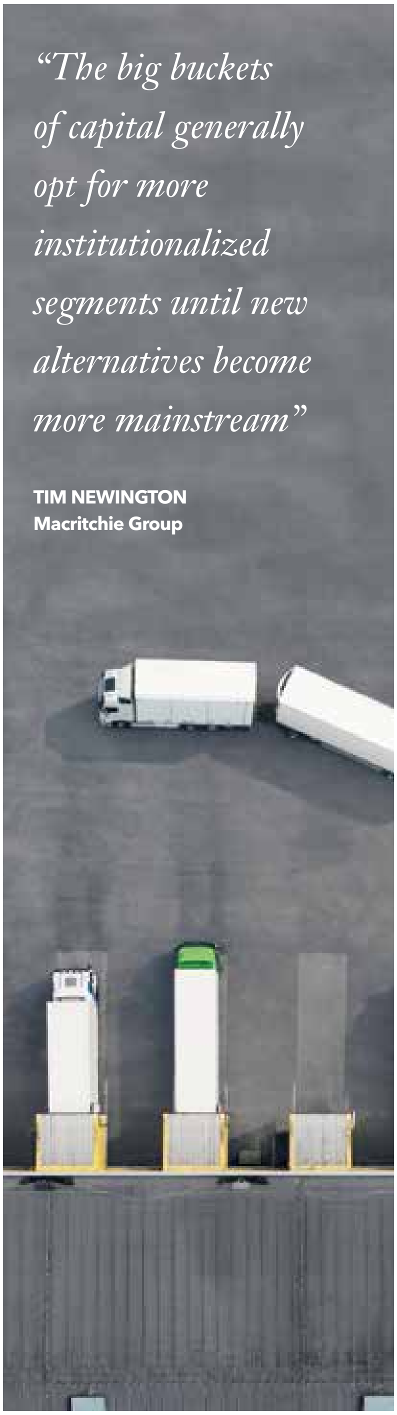
Compared with the US, IOS is more fragmented and less institutionalized in Europe and is bound to outperform in the next three years, Green Street's Papadakos predicts. Capital is keen, but finding properties is challenging due to a highly fragmented market. Typically, such assets are worth less than £10 million ($12.4 million; €12.1 million) each, he points out.

"It is not like there are institutional portfolios out there trading all the time. It is more of an aggregation strategy by a few private equity groups that are buying 30-40 lots every year and trying to get to a portfolio size of maybe £300 million-£500 million."

Alongside Blackstone, several smaller UK private equity groups have also been active in this subsegment in Europe, but the group is no more than a handful, Papadakos says. "It is super difficult to get a foot in the door, super expensive and very management intensive." Meanwhile, the percentage of properties that are being converted to IOS is tiny, he says. "It is probably less than 1 percent."

The next big thing

Two other subsectors that are gaining traction in the US are self-storage and recreational vehicle storage, and Chicago-based Macritchie Group is active in both. While the big, publicly traded self-storage REITs such as CubeSmart, Extra Space and Public Storage manage facilities for other owners, there are no third-party operators in RV storage, managing director Tim Newington says, so you need your own operational platform.



> *"The big buckets of capital generally opt for more institutionalized segments until new alternatives become more mainstream"*
>
> **TIM NEWINGTON**
> **Macritchie Group**

The company's business model revolves around finding sites, obtaining a permit, developing the facility and operating it, he explains. "It is difficult to build up a high-quality, Class A RV storage portfolio through acquisitions, as very few facilities come up for sale. And if they do come to the market, they are usually not that cheap."

Macritchie has deployed just under $300 million to date in its RV storage portfolio, but Newington believes it can grow to between $1.5 billion and $3 billion. RV storage has a lot of similar characteristics to self-storage, with gross returns of 15 percent-plus. While conceding that RV storage is very niche, Newington points out that there are roughly seven million to 11 million RVs in the US and between 350,000 and 400,000 new vehicles are purchased every year.

The company is now rolling out a new vertical focusing on multi-tenant industrial outdoor storage. While most IOS operators have one or two customers, Macritchie's model caters to a larger number of small businesses including general contractors, fleet managers and others who need to store equipment or vehicles but who do not necessarily need covered space, Newington explains.

Newington says: "What we try to do is position ourselves in verticals that are a true alternative, where we think institutional capital is going to be coming. Institutional capital is now invested in IOS, but that is quite a different model from our multi-tenant IOS, where there is no institutional capital at this point in time.

"The big buckets of capital generally opt for more institutionalized segments until new alternatives become more mainstream. For example, 10 years ago, self-storage was very much an alternative with an opportunistic or value-add return profile, but now it is more mainstream and definitely core-plus. It took a while to get there, but we think RV storage, multi-tenant IOS and some of the other verticals that we are involved in are going to get there, too." ■

KEYNOTE INTERVIEW

Local knowledge cultivates global success

Macquarie Asset Management's James Kemp and Brendan Jones explore the opportunities for enhanced returns in the logistics sector

During a period of heightened market volatility, local knowledge becomes even more critical, contend James Kemp, head of Asia-Pacific real estate, and Brendan Jones, head of EMEA real estate, with Macquarie Asset Management (MAM). Together with its specialist platforms – currently Logistics Property Co in the US, Unified Industrial in Asia and PLP in the UK and, previously, Goodman Group (then called Macquarie Goodman) and LOGOS – MAM has invested more than €13 billion in the logistics real estate sector worldwide over the past 28 years. Kemp and Jones share some tips for identifying local pockets of value.

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Q How has heightened macroeconomic volatility and geopolitical risk impacted logistics?

James Kemp: On the demand side, we have seen both nearshoring and reshoring, with an increased focus on building resilience and capacity in supply chains. That has created opportunities in some submarkets. For example, the reshoring of semiconductor production to Fukuoka in Japan has boosted demand in a market that has historically lagged Tokyo and Osaka. In addition, while customers are cost-conscious, some are looking to consolidate into fewer, larger facilities to drive efficiency.

However, on the supply side, rising construction costs have led to a slowdown in delivery, which has intensified the structural undersupply of modern space in some submarkets, driving rental growth. Increasingly, we believe real estate investors need to break down countries or regions into submarkets to understand the very local factors around supply and demand that enable them to add value.

Brendan Jones: Wars in Ukraine and the Middle East have created a sense of heightened geopolitical risk in Europe. That has led some real estate investors to focus more on Western Europe and the UK because those markets are perceived as more stable. Construction price inflation, driven by dramatic increases in the cost of labor and materials, combined with capital market dislocation has also led to more emphasis on acquiring and improving existing assets so that they meet modern tenant requirements than on new development.

Q What changes have been observed in the sector's demand drivers and tenant base?

JK: Demand drivers vary widely according to the market. In Japan, recent legislation limiting how long truck drivers can drive in one stint means they can no longer travel from Tokyo to Osaka without a stopover. That has led to the emergence of new hubs between the two cities. In those locations, occupiers have been increasingly willing to make pre-commitments in what has historically been a market driven by speculative development.

In Australia, the pre-commitment market for big boxes around the peripheries of Sydney and Melbourne has slowed. In these markets, tenant demand remains strong for urban infill sites. Brisbane will host the Olympic Games in 2032, which is generating a lot of construction activity. That has led to higher building costs and limited the scope for logistics development. This is generating strong demand for the value-add repositioning of existing facilities.

BJ: The UK has a high e-commerce penetration rate, which only increased through covid. Since then, we have seen some pullback, which has brought demand back into line with long-term trends. The market for large distribution centers has slowed, and the most active market is now mid-sized warehouses and small urban logistics hubs.

Q How has the tighter financing environment affected logistics markets?

BJ: The UK and US markets were quickest to react to the tighter financing environment, as is typically the case in a downturn. We saw an initial 150-200 basis point impact on cap rates followed by a period of stabilization over the past 12-18 months. With central banks starting to ease monetary policy, we have even seen US and UK yields starting to come in over the last six months. Continental Europe has been slower to react, but over the last 12 months we have seen evidence of a similar cap-rate expansion, which is helping to close the bid-ask spread and generate more investment activity.

We have not yet seen a lot of traditional core buyers in the market. Most standing assets are being acquired by private equity capital targeting value-add returns, which is taking a robust view on long-term cap rates and rental growth trends.

JK: In general, cap rates in APAC markets were slower to react to increasing interest rates. Pricing has now adjusted. We have not seen the repricing of land to offset higher construction costs, so development activity has slowed.

Now that cap rates have stabilized, the typical buyer is a private equity firm with a long-term conviction about the sector and a belief that the cap-rate adjustment has overshot. Japan has been the outlier through the cycle due to its differentiated monetary policy. Even with the rise in interest rates from the BOJ earlier this year, we have not seen a slowdown from domestic capital continuing to buy core product, and no price adjustment. Coming through periods of repricing, we typically see liquidity first return to developed markets. Managers are generally finding it more difficult to raise capital to deploy in emerging APAC markets.

As seen in other markets globally, reshoring and nearshoring of manufacturing is driving a lot of demand in both the UK and continental Europe, as businesses seek to diversify their supply chain to deal with geopolitical factors. The other theme we have seen across Europe is that a lack of consumer and business confidence has led occupiers to leave it until later to make decisions on their space requirements.

Q Is growing obsolescence in older stock creating opportunities?

BJ: The drivers for refurbishing older buildings are twofold. First, we think a lot of real estate investors are focused on a core-plus or value-add risk profile, which favors retrofits and refurbishment. Construction prices for new development remain high, and if you can buy standing assets at cap rates which are 200 basis points higher than they were two years ago, and you are comfortable that the demand-supply dynamic will drive long-term rental growth, then that is where we believe you see the best risk-adjusted returns.

The second factor, particularly in Europe, is the focus on sustainability. Tenants want space that meets their long-term sustainability targets, and many real estate investors are concerned to both limit their embodied carbon emissions and future-proof their assets. There is also a heightened focus from local planning authorities on limiting knock-down strategies in favor of a retrofit approach.

JK: While modern stock commands a higher rent, we think real estate investors need to offset that advantage against high construction prices and the time it takes to bring a development to market. In Australia, we are starting to see real estate investors underwriting brownfield redevelopment opportunities as value-add opportunities on the basis that the development equation does not quite work yet, while tenants that need a facility today are willing to compromise at lower rent. In Japan, a lot of the existing stock is very old and obsolescent, and there is a bigger structural undersupply of modern space, so the rent differential is more pronounced and is more likely to justify redevelopment.

Q How does investing through operating companies help generate value in the current environment?

JK: We believe it is vital to have local teams that understand tenant requirements, that know how to source land off market, and can navigate the planning framework. We think that is a huge differentiator of value because all of the factors we have spoken about come down to making the right decisions at a submarket level to drive real estate returns.

MAM primarily focuses on an opco-propco strategy. This involves the acquisition or establishment of an opco with a sole focus on the sector specific real estate capabilities of the founders and management team. These are typically in start-up phase or have been operating as private developers prior to acquisition. Initially, the capabilities of the opco can be used to deploy into their real estate pipeline. At the same time, we seek to provide institutional input and guide the opco in its build out of all the systems, processes and personnel needed to enable that business to attract institutional capital.

Our experience in identifying and creating successful opcos can mean a shorter time to institutionalize these businesses. We have found that MAM's involvement with these opcos gives institutional investors confidence regarding their real estate value-add capabilities as well as their ability to manage institutional capital.

> *"Investors need to break down countries or regions into submarkets to understand the very local factors... that enable them to add value"*
>
> **JAMES KEMP**

BJ: These teams are experts in their field. They have local relationships and a track record of developing and delivering real estate in their market. A big part of what we bring to the table is the ability to identify those groups at an earlier stage, when others might overlook them.

Q What will be the key opportunities for investors in logistics real estate in the coming years?

JK: In Japan, we believe real estate investors need to secure access to land at the right price to create value through development at today's construction prices. That means most land purchases must be off market through a local network. In Australia, we believe the two most successful strategies will be infill development in Sydney and value-add repositioning in Brisbane. But again, we think it is crucial to unlock those opportunities off market to differentiate returns.

BJ: From a macroeconomic perspective, we think the UK offers better prospects for growth than many continental European countries. With construction prices stabilizing and continued rent growth, we expect to see some good opportunities starting to emerge.

In continental Europe, developers with attractive land banks are struggling to execute developments due to a lack of programmatic capital. We believe there is a potential opportunity to identify those businesses and provide them with the capital and strategic support to develop out their land bank and deliver risk-adjusted opportunistic returns.

There is also a growing opportunity to acquire and improve aging and obsolete stock across continental Europe. Rebased entry pricing and strong rent growth for high-quality product allows real estate investors to generate opportunistic returns on a core-plus risk profile. ■

Drive for resilience recalibrates global logistics

Global supply chains have been reorganizing since the pandemic, but that does not necessarily mean deglobalization, reports Mark Cooper

Global supply chains have been shifting in response to the global pandemic and also to changing political circumstances. To some, this is deglobalization, where interdependence and integration lessens between nations and regions. To others, the globalized world is simply shifting to reflect new circumstances. Regardless of who is correct, there are profound impacts on the logistics and industrial real estate sectors.

Data from the World Trade Organization is not conclusive. Global trade dropped sharply from 2019 to 2020, but then rose again before faltering again last year.

Indraneel Karlekar, global head of research and strategy at US manager Clarion Partners, says: "The patterns of globalization are shifting; it's not globalization itself that is in danger. Established trading patterns and trading partners are shifting but global trade numbers have exceeded pre-pandemic levels, even after adjusting for inflation.

"We are moving from China as the sole manufacturer to the world to a diversified group of economies participating in the way globalization is occurring, particularly in manufacturing and assembly."

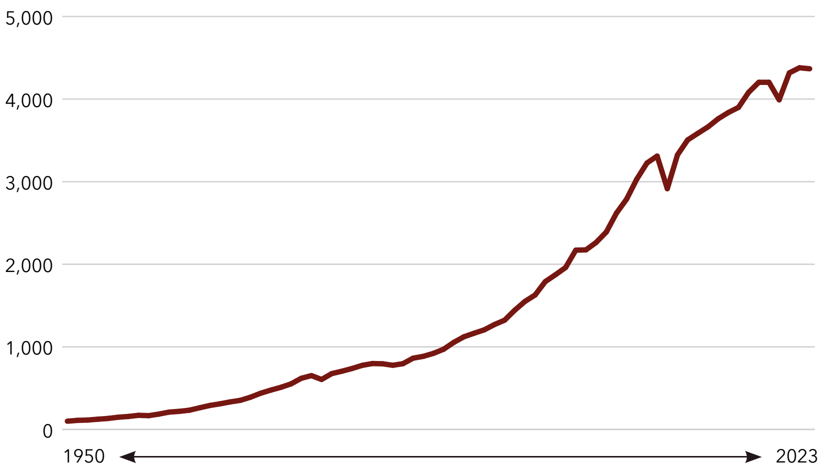
Indicators of change

Global trade levels are greater today than they were before the pandemic, but within these overall numbers are indicators of change. China's market share of US imports has dropped, but other nations have made up the slack, and the volume of US imports is up substantially over the past decade.

Furthermore, according to the Peterson Institute for International Economics, US trade openness – measured by trade in goods and services as a percentage of GDP – has been falling since 2012, and there is a widening gap in trade openness between the US and the world as a whole. This could be taken to mean that the US is deglobalizing, in the sense that trade is a shrinking part of its economy. However, continued economic and population growth means the amount of US trade keeps rising.

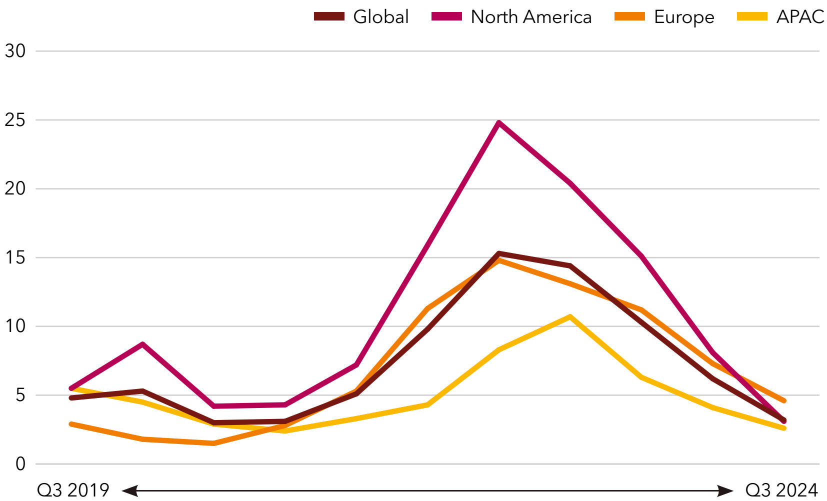
"Some countries have deglobalized and others have integrated further," says Michael Balcom, managing director at Crow Holdings Capital, the investment management business of developer Crow Holdings. "In the US, globalization seems to have peaked around 2012. Reshoring, nearshoring and friendshoring have all increased, but not necessarily in a zero-sum way opposite globalization, but because total consumption domestically has increased, and increased consumption requires more imports."

World trade volume today is 44 times higher than the level recorded in 1950, per the WTO's index*



*For the volume index, 1950 is set to 100. Trade is calculated as average of exports and imports, and excludes significant re-exports or imports for re-exports
Source: World Trade Organization

Around the world, logistics annual rental growth is slowing to more sustainable levels (%)



Source: JLL Research

Forces at play

Supply chains have shifted since the pandemic in order to diversify and to build in more redundancy. "Businesses are recalibrating supply chains to enhance resilience," says Melinda McLaughlin, global head of research at logistics real estate specialist Prologis. "This includes reshoring, nearshoring and friendshoring strategies to address risks highlighted by the covid-19 pandemic and geopolitical tensions, as well as reduce transportation time and costs."

This might mean manufacturers are moving to a "China plus one" system and locating some facilities in a market such as Vietnam. Alternatively, they might move some manufacturing closer to the markets where the products are sold, such as moving production destined for the US to Mexico, due to rising costs involved in the transportation and shipping of goods over long distances.

"It became clear that supply chains had become a little too global and did not have enough redundancy built in," says Justin Curlow, global head of research and strategy at AXA IM Alts, the insurer's investment management business.

However, there is also a politically inspired move in several nations to bring certain industries closer to home or back home. Curlow adds that supply chain shifting "has been exacerbated by geopolitical and security concerns around sensitive industries, whether that is semiconductors, defense or pharmaceuticals."

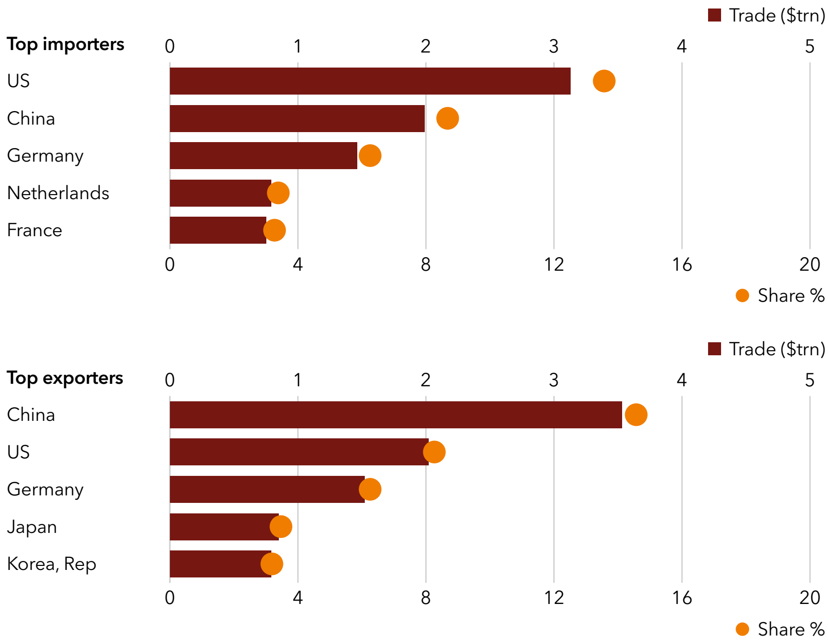
The US, in particular, has begun to move such sensitive industries onshore. For example, Taiwan Semiconductor Manufacturing Company's US subsidiary received government funding to locate semiconductor production in Phoenix. Annualized manufacturing construction spending in the

US reached $237 billion in July 2024, up from $128 billion two years previously, according to US Census Bureau data.

"We're seeing a significant ramp-up of supply chains around the onshoring phenomena in the US," says Karlekar. "It is estimated that there is about $750 billion-$1 trillion in manufacturing projects that are happening or will happen over the next five years across the US."

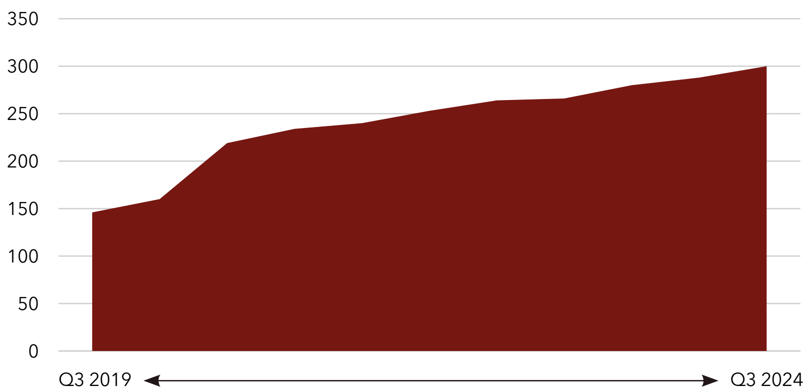
Governments worldwide are also trying to encourage the onshore manufacturing of products required for the ongoing transmission to cleaner energy. The US Inflation Reduction Act was focused on growing domestic green industries, while the UK government has been subsidizing domestic battery production and carbon capture projects.

The US and China top the largest importers and exporters lists by share of global trade



Source: Worldbank's World Integrated Trade Solution

US e-commerce volume passed $300bn in Q3 2024 ($bn)



Source: US Census Bureau, CommercialEdge

Change takes time

"This is a slow, steady burn phenomenon which will develop over the next decade and beyond," explains Curlow. "Building new semiconductor and pharmaceutical manufacturing facilities takes time."

While the gradual move of certain sectors of manufacturing back to the US will take time, there have already been significant shifts as manufacturing has been brought closer to target markets. Perhaps the biggest winner has been Mexico, "which is uniquely positioned as a nearshoring hub due to its proximity to the US, trade agreements and availability of labor," notes McLaughlin.

Data from CBRE and PGIM Real Estate shows that Mexican logistics rents have risen by 39 percent since 2022. In a November report entitled *Industrial Real Estate: The Case for Mexico*, PGIM wrote: "Rents in many major markets are growing at double-digit rates over the year to third quarter 2024."

PGIM says it expects the electronic, machinery, medical device and automotive industries will continue to expand in Mexico's leading manufacturing hubs, generating high single-digit rent growth in US dollar-denominated leases, "with quality tenant credit comparable to, and tenant retention superior to, typical tenants in US industrial properties."

This boom in Mexican manufacturing is also benefiting logistics markets in the US itself, especially in the Southwest.

James Breeze, global head of industrial and logistics research at CBRE, says: "Cities that are along Interstate 35 in the US are already benefiting from increased transportation and storage of goods from Mexico. These markets include San Antonio, Dallas-Fort Worth and Kansas City."

However, overall growth in imports means traditional US logistics hotspots have not suffered, says Balcom. "Logistics real estate has benefited from increased consumption and import growth. Overall, the key gateway markets like Southern California, New

Trump and his tariffs

New trade restrictions may not have a huge impact on real estate

President Donald Trump has reiterated that one of his favorite words is tariff. On the campaign trail, he had suggested his administration would impose substantial tariffs; not only tariffs of up to 60 percent on Chinese goods, but also tariffs on Mexico and Canada, which have benefited from the diversification of supply chains through nearshoring.

Tariffs on China are not new and had been maintained by the Biden administration, so logistics real estate experts expect more of the same. However, tariffs on Mexico and Canada would be a new development as trade has thrived under the United States-Mexico-Canada Agreement, which expires in 2026.

In a recent report, PGIM suggested three possible scenarios.

First, a renewed agreement with minor changes would mean little change and a positive outlook for Mexico. Second, major changes to trade, which make manufacturing in the US more attractive – this would reduce potential logistics rental growth in Mexico, but it would remain positive. Third, USMCA is allowed to expire and tariffs are imposed, which would significantly downgrade rent growth and pricing expectations.

PGIM believes the first two scenarios are more likely but that there are "high tail risks" of the third coming to fruition.

The US is not the only nation introducing tariffs or other constraints on trade. The EU is considering removing a customs exemption for small value goods, for example. This could force Asian e-commerce companies to store goods nearer the target market.

Overall, however, logistics owners are sanguine about tariffs.

Indraneel Karlekar, global head of research and strategy, Clarion Partners, says: "We have been living with tariffs for the past decade, not in some sort of laissez-faire environment. And that really hasn't dented either the import of goods or the demand for logistics."

"Occupiers that want to implement nearshoring strategies in Europe might need to explore alternative markets"

JACK COX
CBRE

York/New Jersey and Laredo have continued to grow in the period where the US has moderately decoupled from China.

"This is because even though supply chains have diversified away from China, imports have grown in total, and the fastest growth from imports to the US has been from Asia ex-China; those countries still rely on the same key gateway and port markets in the US to import their goods, specifically the major coastal port markets."

That said, Southern California, while remaining a critical hub for logistics, is "experiencing a volatile cycle as businesses recalibrate after the pandemic-driven leasing and pricing surges from 2020 to 2022," reports McLaughlin.

International impacts

In Asia-Pacific, a number of nations have benefited from China's decreasing market share of US imports and the emergence of so-called China plus one strategies.

Vietnam has been a major beneficiary and not just for supply chain reasons – manufacturing wages are less than a third of those in China. Savills research says exports rose 15.5 percent year-on-year in the first eight months of 2024, with the US the biggest export market. Vietnam is also seeing growing foreign direct investment in manufacturing, particularly in electronics and electrical equipment, indicating a move up the value chain.

Other beneficiaries have been Thailand, Taiwan, Malaysia and India. The latter is already a center for pharmaceutical production, but it is beginning to diversify and it has huge potential due to its large, educated and young population.

Exports from China have continued to rise in 2024, up 5.2 percent to $5.05 trillion, according to government data. New logistics stock continues to be added, but the country's overall vacancy rate hit a record 17.2 percent in June, according to services provider Cushman & Wakefield. Government stimulus and a focus on boosting consumption may aid the sector next year.

In Europe, Poland and other Eastern European markets have been the major beneficiaries of nearshoring, says Clarion's Karlekar.

"As a result, the Polish industrial market has been deeply integrated into the broader European logistics market. This suits companies that don't want to take the risk of outsourcing their sensitive logistics footprint outside of Europe."

However, the effect of nearshoring in Europe has not been as significant thus, not least because the war in Ukraine has dissuaded manufacturers from locating in countries near that region, says Jack Cox, head of industrial and logistics, Europe at CBRE.

"If the war persists, occupiers that want to implement nearshoring strategies in Europe might need to explore alternative markets in the region such as Southern Europe, where labor is also generally affordable and widely available."

Less nearshoring means that Europe's incumbent logistics centers and related real estate remains steady, says Karlekar. "We still see the big ports of Rotterdam, Antwerp and Hamburg as pre-eminent in terms of trade in and out of Europe; we haven't really seen a major shift there."

Building resilience

While moves to increase supply chain resilience are affecting the logistics real estate market, the effect of the US and other nations bringing sensitive industries onshore is not yet having a significant effect, due to the timescales involved.

Balcom also points out: "The impact of reshoring has been net positive to domestic manufacturing and aggregate industrial demand, but since manufacturing only accounts for 5-10 percent of industrial leasing in any given year and much of the manufacturing growth has been in categories like semiconductors or green industry market segments which rely less heavily on warehouse space than other segments of production, such as consumer goods, the net positive effect has been relatively small."

In this shifting market, logistics occupiers and asset owners are responding. "Occupiers are making strategic shifts to enhance resilience and efficiency. Many are investing in technology, optimizing space utilization and adopting multi-location strategies to reduce risk," says McLaughlin.

$237bn

Annualized manufacturing construction spending in the US in July 2024, up from $128bn two years previously

39%

Rise in logistics rents across Mexico since 2022

$1trn

Estimated US manufacturing project pipeline over the next five years

CBRE's Cox notes that third-party logistics occupier activity has surged as more and more companies look to outsource their logistics because 3PLs can offer economies of scale, and outsourcing means manufacturers and retailers can concentrate on their own business.

Meanwhile, asset owners are "leveraging their platforms to provide real estate solutions for their global customer base. Some have increased their focus on manufacturers, which aligns well to acquiring larger development sites in markets which offer a combination of flexible labor and government support via grants."

Investors take notice

A shifting logistics market means some investors are looking for generic, adaptable assets. "As an investor in logistics, we look for a generic box in an established distribution location with a number of potential occupiers," says Curlow. "Apart from anything else, this strategy insulates an asset owner from a particular tenant or industry deserting a particular location."

Meanwhile, McLaughlin adds that investors are also aligning development starts with market conditions to avoid risk of speculative oversupply. She says that Prologis intends to increase its presence in Mexico and other nearshoring hubs.

Market participants suggest the effects of reshoring sensitive industries will take the better part of a decade to play out. However, over the next four to five years "regionalization" will gain momentum, suggests McLaughlin.

"Nearshoring hubs like Mexico and parts of Southeast Asia will see further growth," she says. "Logistics real estate will evolve to emphasize automation, digital infrastructure and ESG priorities. To remain competitive, owners should focus on geographic diversification, partnerships for technological innovation and advancing sustainability." ■

KEYNOTE INTERVIEW

The rise of small-bay industrial


A value-add approach to small-bay industrial properties can harness secular changes in the US economy, say BKM Capital Partners' Brian Malliet and Brett Turner

For much of the past decade, the industrial sector has been the darling of commercial real estate, with high-tech logistics warehouses serving as the poster child for the asset class. During that same period, California-based BKM Capital Partners focused in on the once niche but now nationally important small-bay industrial sector.

Brian Malliet, the firm's founder, chief executive officer and chief investment officer, and Brett Turner, senior managing director of acquisitions and dispositions, say their practice of repositioning infill light industrial parks in the Western US has evolved to capitalize on secular changes in the economy.

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Q What distinguishes small-bay industrial from the broader industrial real estate sector?

Brian Malliet: The broader industrial sector can be divided into three segments: small-bay, mid-bay, and large-bay.

Everybody knows about the big-box warehouses, which are 500,000 square feet and up and are occupied by one or two larger tenants.

Mid-bay is somewhere between 200,000 and 500,000 square feet with between five and 20 tenants.

Small-bay is generally 200,000 square feet and less, with usually 20 to 100 tenants occupying units within the property.

We operate about 75-85 percent in the small-bay space and the remainder of our business is in the mid-bay space, in what we call light industrial or multi-tenant industrial.

Brett Turner: This product type lends itself to the 47 percent of America that is employed by small businesses. As a result, you have a more diversified tenant base than big-box industrial, which is primarily occupied by larger third-party logistics firms.

Q What industries do these tenants represent?

BM: There are three secular changes driving significant tenant demand for small-bay industrial. One is e-commerce, which is driving demand for shipping and processing efficiencies through distribution space like sorting facilities for same-day deliveries.

The second is technology and innovation; the growth of memory storage on the chip has brought a slew of new companies that use advanced manufacturing machinery and need space to house it. The third is manufacturing.

We are seeing more manufacturing jobs opening up in the US today than any time since the 1930s. This includes 3D printing, production on-demand and similar uses. With these advancements, manufacturing can now be done in 5,000-15,000-square-foot facilities, rather than the typical 300,000-square-foot facilities.

Q What is needed to bring small-bay properties up to current market rents?

BM: There is a complete value-add process that takes place, where about 10 percent of the purchase price is invested to reposition the asset over roughly a 12-month period. Our tenants are heavily employee-based, so they want a nice facility to attract and retain talent. They also want a facility they are proud of to attract customers. We drastically change the paint scheme, install drought-tolerant landscaping, upgrade the parking lots and replace all the signage, just to name a few things. The difference is night and day, and helps not only to attract new tenants but retain existing tenants with the park's new image.

BT: This is a hard product to manage. If you are a private individual or if you are a major institution, paying attention to the constant churn of tenants is very difficult, and it is very easy to fall behind. Historically, operators have focused solely on maintaining or lowering rental rates, rather than investing in capital improvements that then drive rents. That is why so many owners have missed the opportunity to mark their rents to market.

SOURCE: BKM

The Pecos Commerce Center is a multi-tenant, light industrial campus in the Phoenix suburb of Mesa, Arizona

Q What does the opportunity set look like in this small-bay sector?

BT: The locations are mainly infill, so obviously that puts pressure on the land price. These buildings also represent a very inefficient use of the land compared with other industrial types. Light industrial typically has around 30 percent coverage, whereas big box is closer to 50 percent. Then you add the actual construction materials to make all the storefronts, bathrooms and demising walls in a multi-tenant industrial park; it all drives up the cost tremendously and creates a higher development barrier.

BM: In a big-box space, you have one set of bathrooms, one set of offices, one set of electrical panels. At a light industrial property, you could have 20 sets of entrances, 20 sets of bathrooms, 20 sets of electrical panels, etc. This inevitably drives the cost higher on a per-square-foot basis as opposed to the big-box spaces.

Light industrial is the largest industrial sector by square footage, representing 40 percent of the overall supply in any given city. There is huge demand coming into our space, but zero development because it costs too much. We can still buy small-bay product for about 35-40 percent less than what it costs to build today.

Q So, how can investors and managers drive returns in this space?

BM: What we have found is that there is a huge inefficiency in the light industrial market. The surge in demand for this kind of space combined with the difficulty to develop new product has led to significant rent growth in recent years, including back-to-back years of 30 percent year-over-year growth in 2021 and 2022, followed by 12-plus percent rent growth in 2023 and again in 2024.

Because of this growth, there are properties that are 50, 60 or 70 percent

"On top of all the historical rent growth, the case for future growth is strong as well"

BRETT TURNER

"We are seeing more manufacturing jobs opening up in the US today than any time since the 1930s"

BRIAN MALLIET

under market. BKM seeks to identify those buildings and bring them up to market rents, rather than try to project rent growth into the future. It is a very different way of buying real estate. With this approach, we have bought $1.4 billion worth of property across 26 deals in 2024.

BT: There is also the backdrop of a significant amount of federal stimulus money about to hit businesses. Three years ago, Congress approved $2 trillion in the Infrastructure Investment and Jobs Act, though nothing has been built yet. Two years ago, they approved the $52 billion CHIPS Act, and again, not a single semiconductor plant has been opened yet. They approved the $500 billion Inflation Reduction Act to build electric vehicle plants, but not a single EV plant has actually been completed.

All of this money is still making its way through the pipeline, and our tenants have a bullseye on their forehead for that stimulus money. So, on top of all the historical rent growth, the case for future growth is strong as well.

Q How have institutional investor sentiments toward small-bay industrial changed over time?

BM: We started in 2013, and nobody wanted to listen to us. It was far easier to make money in the big-box space at the time, and nobody found the fast-paced nature of the light industrial space attractive.

Fast forward five years and big-box base returns have started to come down as the space has become more competitive.

When cap rates fell below 5 percent in the big-box space, money shifted to seek out returns, namely toward the mid-bay and the small-bay space. Blackstone came in three years ago and bought PS Business Parks, Public Storage's business parks and light industrial division, for $7.6 billion. That portfolio sale covered 30 million square feet across 110 assets. So, in late 2021, everybody finally started to notice light industrial's potential.

Since then, we've been in the process of raising our third fund, which is a $400 million raise. We raised about $400 million of private equity on the joint venture side last year and we have done about $300 million on the private equity side this year, as well. All the big players that were in the big-box space are now trying to figure out how to get into the light industrial space. People are certainly no longer hesitant to invest in what we do.

Q With all the planned acquisitions in the sector, do you also see opportunities for exits?

BT: Yes, there really is opportunity for both sales and acquisitions. We are buying heavily for our Fund III and we are in the midst of monetizing our Fund II. Over the course of 2024, more and more institutions entered the space.

As the year went on, capital increasingly flowed into industrial. At the beginning of the year, we saw $20 million to $30 million transactions. By the middle of the year it was $75 million to $125 million transactions, and in the closing weeks of 2024 we worked on a deal that was more than half a billion dollars.

Q How might widespread tariffs in the US impact small-bay industrial tenants?

BM: Whether there are tariffs or no tariffs, manufacturing is going to take place. International tariffs will probably boost manufacturing even further in the US. If we were in the third-party logistics space or the big-box space, I think there would be more of a concern there. But because our tenant base is concentrated in innovation, technology and manufacturing, we do not see any headwinds coming our way. ■

On the minds of the experts

Investor appetite is strong for industrial and logistics, driven by market fundamentals and growing demand. Despite challenges, experts see solid returns and emerging opportunities in key global markets

Q What is the current appetite for investment in the industrial and logistics sector?

EC: Investor appetite is rising for the I&L sector. Repricing is largely completed, and inflation and interest rates are heading in the right direction. Strong market fundamentals are driving attractive returns and there is more traffic in bidding processes. The sector also offers opportunities for enhanced return strategies in urban centers.

PR: Investor sentiment is strong relative to the other asset classes, albeit capital is much more selective than it was two years ago. Although the bid/ask spread needs to align further, we are already seeing a material amount of stock prepared to come to market in early 2025.

MM: The appetite for investment remains solid, with capital gradually returning to the market. Long-term fundamentals remain favorable, supported by rising replacement-cost rents, which are 10-15 percent above current market levels. Investors are drawn to the sector's structural resilience and growth potential.

CJ: Investor appetite remains robust: investment volumes rose through 2024 and this trend is likely to continue in 2025 as more buyers return to the market. The sustained tail winds of e-commerce and supply chain reconfiguration continue to attract investors.

Q How has this past year changed your outlook for investing in industrial and logistics?

HG: Rising interest rates tempered activity, but the focus on urban logistics continued to strengthen. This past year highlighted the sector's resilience despite macroeconomic challenges. Inflationary pressures and higher borrowing costs emphasized the need for discipline, while strong demand for urban logistics remained and new technology increased the need for adaptable warehouses.

TP: The sector continues to benefit from strong absorption, e-commerce growth and onshoring, while supply chain disruptions increased the need for space. An excess of new construction during the pandemic has been leased at the expense of older properties. So, we find that the outlook is less of growth and more of stability.

PR: The sector's resilience during economic uncertainties and its ability to perform in changing markets have solidified its attractiveness to us. Occupier demand has softened to a more long-term average, so location and relatability of investments will remain key.

EC: Our outlook has not materially changed. I&L is one of our key strategic pillars, focusing on resilient sectors less affected by cyclical market volatilities. With regards to capital market trends, key indicators continue to head in the right direction.

Our panel

TRICIA PETERSON
Managing partner and COO, Accord Group

CHRISTIAN JAMISON
Managing partner, Valor Real Estate Partners

EVERT CASTELEIN
Head of logistics, Savills IM

MELINDA MCLAUGHLIN
Global head of research, Prologis

HENRY GILES
Managing director, fund management, ESR Europe

PAUL RODGER
Managing director, Burstone Europe

Q To what extent will deglobalization and onshoring impact the storage and delivery of goods?

MM: Deglobalization and onshoring are driving new long-term opportunities, particularly in Mexico. For every $1 billion invested in Mexican auto factories, 5-10 million square feet of local logistics demand is generated. Mexico's strategic proximity to the US and cost advantages position it as a key beneficiary of these trends.

CJ: These trends should have a positive effect on demand for warehousing. With less reliance on just-in-time delivery, more goods will be produced locally, and higher levels of inventory will be maintained close to consumers, generating demand for space.

HG: Deglobalization and onshoring will increase demand, particularly for regional distribution hubs and flexible manufacturing facilities in Europe. Prioritizing resilience and proximity requires expanded warehousing to ensure supply chain continuity. Urban logistics and smaller decentralized warehouses will grow in importance as companies focus on faster delivery times. Onshoring also supports investment in automation to mitigate labor challenges.

TP: Resiliency will be a key theme for 2025. Manufacturers may look to remove single points of failure with more warehouses at strategic locations near industrial hubs and the Mexican border, where nearshoring is likely to be the driver.

Q What trend or development is affecting lending, leasing or construction the most?

PR: The most significant trend affecting lending, leasing and construction is the ongoing impact of materials and wage inflation, and interest rate fluctuations. While the recent ECB rate cut is a positive step towards growth, its immediate impact on the sector will be muted.

EC: The ESG requirements from occupiers, investors and regulators will further affect the I&L sector. ESG targets are increasing, so state-of-the art properties are demanded of investors and developers, which also impacts lending and valuation. There is no green premium; there will only be a brown discount applied to buildings that do not meet higher standards.

MM: Monetary policy has affected all three, most notably resulting in a sharp slowdown in construction starts. Leasing remains active, especially post-election, with customers focused on productivity and cost optimization. Additionally, demand in energy infrastructure and data centers are shaping opportunities.

HG: The rise in interest rates profoundly impacted lending and construction. Stricter underwriting and reduced liquidity have limited capital availability, especially for speculative developments. At the same time, higher construction costs affect project feasibility. Technology integration and ESG are also reshaping tenant requirements and design.

Q Which geographies or subsectors are you most excited about?

TP: Industrial outdoor storage in the US is ripe for consolidation. The rise of electric long- and short-haul delivery trucks means storage facilities will have to accommodate charging services. In Europe, besides IOS, we are bullish on brownfield development near urban areas for modern logistics.

CJ: Urban logistics in major gateway cities across the UK and Western Europe have an acute supply/demand imbalance and good prospects for rental growth. E-commerce penetration continues to be relatively low on the continent, and demand will grow as it catches up to UK/US levels.

MM: In addition to data centers, we are excited about Latin America, India and continental Europe, which demonstrate strong fundamentals and growth potential.

HG: Urban logistics in Western Europe, particularly in supply-constrained markets like Germany, France and the Netherlands, will be highly attractive, with strong demand for last-mile delivery amid e-commerce growth.

PR: Germany, Benelux and France continue to see strong, risk-adjusted opportunities. We are targeting mid-box logistics and warehousing space that can be sub-divided and multi-let, in addition to last-mile and light industrial space. ■

KEYNOTE INTERVIEW

Industrial remains hot amid macro shifts



Supply crunch, e-commerce growth keep real estate in high demand, say Crow Holdings Capital's Matthew Colter, Michael Balcom and Kelsea Alexander

While other commercial real estate property types drag, macro shifts in consumer habits and logistics practices have the industrial sector charging ahead. Investors want to know if the rapid growth of the industrial sector could cool or if it is still running hot.

Supply and demand of new construction may be rebalancing, but Crow Holdings Capital's Matthew Colter, senior managing director, industrial; Michael Balcom, managing director, industrial; and Kelsea Alexander, director, industrial, believe it is a fortuitous time for development amid continued growth as major players invest heavily in modern logistics.

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Q What is behind the growing flight to quality trend in the industrial real estate sector?

Matthew Colter: The stock of industrial space in the US is pushing upwards of 40 years old, on average. Those older buildings are becoming obsolete, with shallow building depths, auto and truck traffic that blend together, and lower clear heights. In the past, 18-foot clear heights were the norm, but newer buildings today offer standard clear heights of 36-foot plus. If you have a newer Class A building, you are going to be able to attract more tenants to occupy that space.

Michael Balcom: Some industry observers may wonder why Class A and B are priced so differently. Rent is a relatively small share of logistics spend, around 5 percent. If you contrast that with multifamily, renters on average are spending 30 percent of their income on rent, which makes them more sensitive to price fluctuations. A 10 percent increase will not blow the budget of an industrial user. More dock doors, more parking, more utility, it just makes

> *"We see infill markets continuing to outperform [with] higher barriers to entry, more constraints on new supply and generally tighter vacancy"*
>
> **MICHAEL BALCOM**

sense for tenants to pay a small increase to get that extra functionality, and it's relatively affordable.

Q How does the demand for modern, functional industrial spaces impact the renovation and retrofitting of older properties?

Kelsea Alexander: We are seeing tenants with more sophisticated buildouts, more automation and AI, and needing more power for various reasons. Some tenants place importance on sustainable building features, and those are significantly more difficult to implement in older buildings. Some aspects of this have resulted in negative absorption in building vintages constructed before 2020.

MB: It's also true that Class B and C cannot easily be renovated into Class A in the industrial sector. If you consider what makes a building Class A, it is a handful of things like clear height, the number of dock doors, column spacing, and trailer and auto parking. It is very expensive, if not economically unfeasible, to change those characteristics on a Class B or C building. For example, it is difficult to add land for parking or raise the clear heights on a building or add dock doors to a load-bearing wall, so we see some of this older product becoming functionally obsolete.

MC: On spaces above 100,000 square feet, 65 percent of all leasing year-to-date is occurring in 13 percent of the inventory, in buildings that were completed after 2020.

In Chicago, around O'Hare, we have had instances where we bought Class B, and then the rents are such a premium for a new building that we are knocking down the existing structure to build efficient new buildings. The math is there to make it pencil out, and we have done it a few times now.

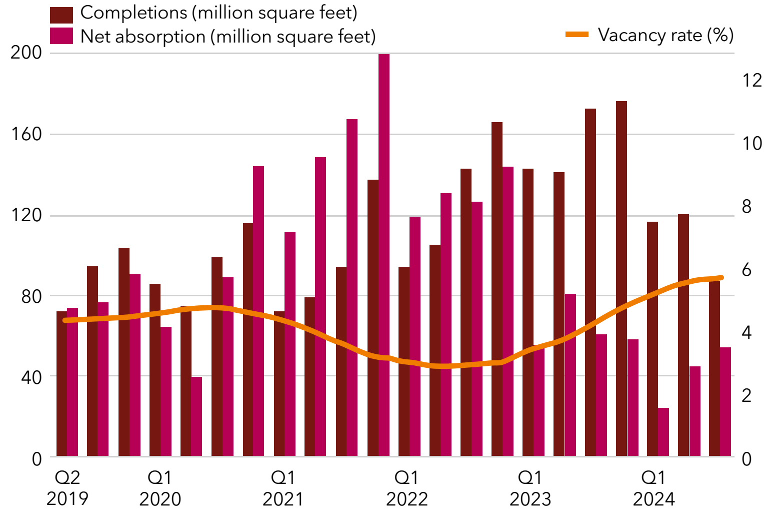
Q What are some of the key factors contributing to the current supply/demand imbalance in the industrial sector?

MC: We are seeing a dramatic fall-off in construction starts. We had upwards of 700 million square feet of construction going on across the US; that is a tremendously high amount. Now we are below 300 million square feet under construction nationally. Vacancy is still sitting close to 6 percent, which is still right in line with the 15-year average. We see rent growth numbers ticking up as the amount of product being delivered ebbs backwards.

KA: The chart shows this playing out. Pre-leasing is up 3 percent year-over-year as tenants navigate a leasing environment with fewer options due to the supply drop-off, combined with steady demand.

MB: On the demand side, CBRE noted we are on pace for the third-best leasing year on record. We feel like the leasing demand side of the equation is resilient. Contrast that with the significant dip in the amount of construction, and forecasts show that it is going to be a favorable fundamentals environment for owners over the next couple of years.

Industrial completions have fallen as net absorption rebounded in Q3 2024



Source: CBRE Research

Q Despite a decrease in supply, why is there still a steady demand for industrial real estate?

KA: Overall, we have seen the broader macro secular trends that have been driving industrial for the better part of the last five to 10 years continue to persist. E-commerce, nearshoring and onshoring and a flight to quality continue to drive the need for additional industrial space.

MC: People need to appreciate that e-commerce has been, and will continue to be, a tailwind driver in the industrial space. Compared to other countries, we have a lot of room to grow. Right now, we are seeing 23.1 percent of all retail sales online, and forecasts show that climbing to 30.3 percent by 2030.

We are seeing nearshoring or onshoring play out with moves like an Asia-plus-one strategy or a full relocation from Asia. We are seeing that heavily on the US/Mexico border as well. On top of that, there is electric vehicle manufacturing and chip manufacturing in the US Sun Belt and across the country. Demand is not going anywhere.

Q Can you expand on how macro trends like e-commerce growth and onshoring are influencing the real estate development pipeline?

MB: Since Mexico replaced China as the US's largest trade partner last year, we have seen outsized demand in those Texas and California border markets and regional distribution markets like Dallas-Fort Worth. We think a lot about the production happening in Mexico being shipped north on Interstate-35.

KA: If you look at e-commerce, traditionally those players need about three times more industrial space than brick and mortar retail. There is a real need for more space as e-commerce becomes a bigger piece of the overall pie. For tenants, industrial used to be an afterthought in their overall operations. That thought process has changed. Now it is a central part of how tenants run their businesses and it is an opportunity for them to become more efficient and to grow their business. They are getting more sophisticated in the build-out of industrial space, and with that, they are willing to commit more capital and more resources to industrial.

Q What are the top US markets and why are they attractive for investors right now?

KA: Some of the top-performing markets in the US for absorption have been DFW, Houston, Chicago and Atlanta.

MC: We like the depth of liquidity in these top markets. You are always going to have someone who wants to purchase. Own your asset where the demand is most active and where you are seeing the highest tenant velocity. Infill product typically has high barriers to entry, but the challenge to find sites like that can sometimes bear fruit.

> *"E-commerce, nearshoring and onshoring and a flight to quality continue to drive the need for additional industrial space"*
>
> **KELSEA ALEXANDER**

> *"There is a lot of local pushback to industrial use, but at the same time, everyone wants their packages quicker"*
>
> **MATTHEW COLTER**

Q What role do infill submarkets play in the performance of the overall industrial real estate market?

MB: Look at DFW: as a whole, it is about 9 percent vacant, but if you go through the exercise of separating the infill submarkets from the peripheral submarkets, you see a big discrepancy in the vacancy rates. You see vacancy rates as high as 16 percent and as low as 6. We see infill markets continuing to outperform. They have higher barriers to entry, more constraints on new supply, and generally tighter vacancy – and, therefore, have more potential for both rent and value appreciation.

Q Amid all this optimism, what are some speed bumps investors should be looking for over the next two years?

MB: Entitlements are challenging. As the industry has delivered a lot of warehouse stock over the past several years in response to the demand, we have seen that in most counties and states it has become more challenging to get permits to build. In some markets, litigation is a growing concern, because municipalities are denying site plan applications for zoned sites and forcing developers to go to court to get permits and entitlements. That is a risk developers will have to understand and be wary of.

MC: NIMBYism is making entitlements tougher. There is a lot of local pushback to industrial use, but at the same time, everyone wants their packages quicker. Leasing is the machine that keeps it all going.

KA: Despite entitlements posing a potential speed bump and an aspect developers and investors pay thorough attention to, these challenges can also represent an opportunity when successfully navigating those barriers to entry. ■

Attracting the industrial tenants of tomorrow

High-tech spaces drive competitive leasing across the growing logistics sector, reports Kyle Hagerty

A tidal wave of cardboard from e-commerce facilities is transforming the industrial and logistics sector, but technology is the chief enabler of the rapid transformation from smokestacks to fulfillment centers. Private real estate investors looking to seize the sector's momentum and position their portfolios for the future are adopting new technologies like blockchain, cloud logistics, digital twins and traffic management systems to attract tech-enabled tenants in a competitive leasing market.

The growth of e-commerce has been one of the most significant drivers of change in the industrial and logistics real estate sector since the advent of the combustion engine. Two decades ago, industrial use meant far-flung factories and manufacturing. Today, logistics tenants have increased demand for warehouses, distribution centers and fulfillment hubs located closer to urban areas to facilitate faster delivery times.

Logistics leases

Location has become as critical a component of industrial development as entitlements and power sources, but operators know a great location can only go so far. Getting the most out of more expensive in-fill locations requires the integration of cutting-edge technologies that tenants demand. Innovations in technology present an opportunity to enhance efficiency for logistics operations and create new avenues of growth for private industrial investors.

"Companies are increasingly focusing on strengthening their supply chains by diversifying import locations, onshoring manufacturing and ensuring adequate staffing in distribution centers. The steady rise of e-commerce continues to drive demand for purpose-built warehouses and distribution space, particularly in regions with growing populations," said Doug Ressler, manager of business intelligence at Canadian real estate firm CommercialEdge.

Data from global brokerage JLL

shows the dominance of third-party logistics, which account for the largest portion of tenant requirements for new-to-market leasing in 2024. JLL research also shows that deals are taking longer to finalize. Occupiers are evaluating inventory carrying costs, as well as interest rates, with decisions being made based on supply chains, not just market fundamentals. Average corporate decision-making on leasing is taking upwards of eight months as we move into 2025, compared with just four months back in 2020 or closer to five months in 2022.

The slow but steady demand in leasing, coupled with lower absorption volumes in the industrial sector, paints a picture of occupiers being more particular. With the construction pipeline thinning out and leasing demand still above pre-pandemic levels, there is plenty of optimism in the industrial sector thanks to tailwinds from e-commerce, but how to make your property stand out in a competitive field is the challenge.

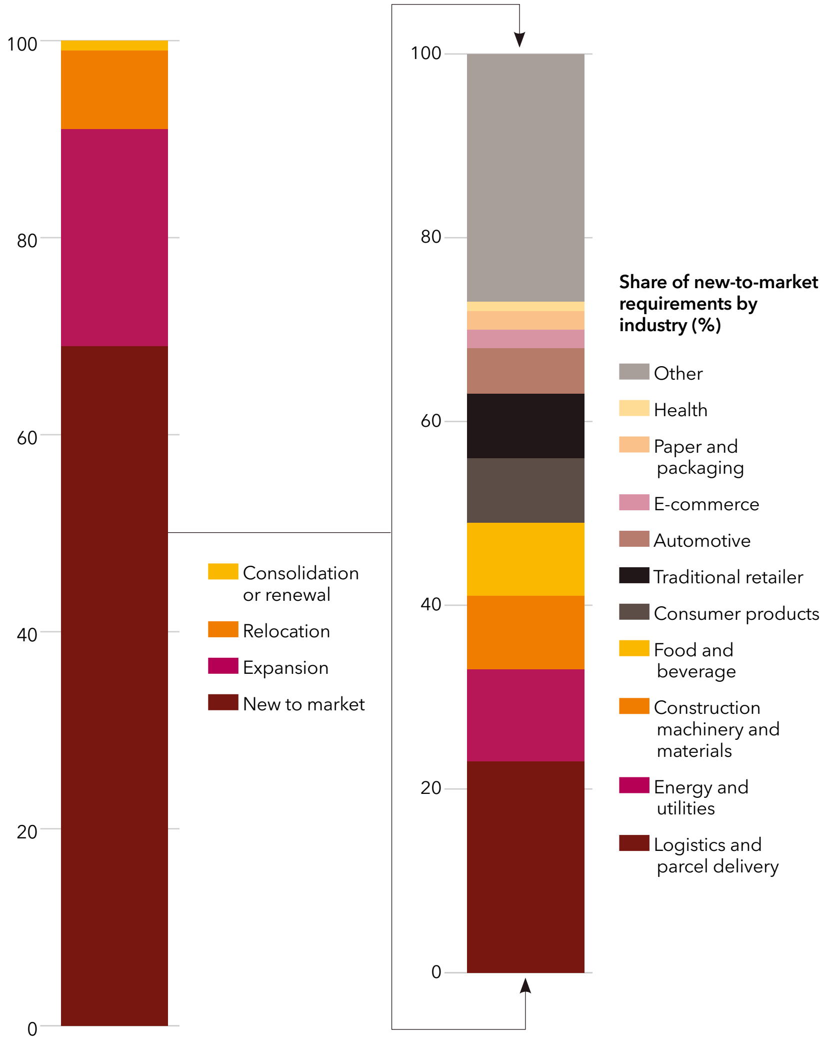
Transformative tech

Blockchain's potential in the industrial and logistics sector is far-reaching thanks to the nature of the transparency it can provide. Supply chains and logistics businesses can be slowed waiting for payments and products. Verification, authentication and reporting with blockchain technologies reduce administrative costs by automating practices through a transparent chain of settlements to simplify tracking and processes.

"Blockchain provides an always-on system that can move money 24 hours a day in near real time, including across borders and in high amounts," said Zack Chestnut, head of business development for JPMorgan affiliate Kinexys Digital Payments. "It's simply a faster settlement experience than what's available with other payment rails and account structures today."

Blockchain's ability to provide immutable and transparent records can

Logistics and delivery accounted for more than 23% of new-to-market industrial leasing in 2024 (%)



Source: JLL Research

8 months

Average corporate decision-making timeframe on industrial leasing decisions, according to JLL Research

30%

Reduction in energy consumption at Nanyang Technological University in Singapore after implementing digital twin technology

help track goods as they move through various stages of the supply chain, which is especially important in the context of international logistics, where the movement of goods across borders involves numerous commercial parties and regulators. Providing investors with efficient, up-to-date income flows accompanied by real-time, asset-level transparency lays the foundation for more efficient administration of the entire real estate investment portfolio.

As the adoption of blockchain grows, properties 'on the chain' may see higher demand, particularly among logistics providers with supply chains spanning across borders.

Like blockchain technology, AI and cloud computing technologies aim to improve the management and co-ordination of logistics by enabling real-time data exchange. Seasonal spikes in e-commerce activity can be mitigated by scaling up or down cloud operations as needed. Real-time visibility into the status of goods in transit helps operators optimize routes, reduce delays and enhance the overall quality of supply chains.

Distribution centers with infrastructure and power to support advanced cloud-based systems will likewise be more attractive to potential tenants, translating into higher rental yields for owners.

A virtual replica of physical assets enables operators to monitor and simulate real-time operations. A digital twin's integration level, defined by the degree of information flow, determines how it can be used. For example, a digital twin of a warehouse can provide data on energy consumption, inventory movement and building maintenance needs. Property owners can use data from the digital twin to reduce operational costs and enhance the tenant experience by using predictive maintenance to reduce downtime and extend the lifespan of assets.

Digital twins are also proving to be an effective tool for reducing carbon emissions, a key concern in the industrial sector. Nanyang Technological University in Singapore implemented digital twin technology from Integrated Environmental Solutions, reportedly reducing energy consumption by 30 percent and carbon emissions by nearly 18 kilotons.

"Companies are increasingly focusing on strengthening their supply chains by diversifying import locations, onshoring manufacturing and ensuring adequate staffing in distribution centers"

DOUG RESSLER
CommercialEdge

Mitigating delays

The ability to efficiently manage logistics can make or break a high-end distribution warehouse. Trucks, employees and products arriving and departing during all hours are more than an efficiency issue; in-unit traffic management is essential to safety. Radio frequency identification traffic control system devices fitted to trucks and forklifts at the warehouse can be picked up by sensors, acting as safety mechanisms when triggered. When an approaching vehicle is detected, pedestrian traffic lights switch to red, and safety gates are closed automatically.

When logistics operations extend beyond the walls of a single warehouse, traffic management becomes even more important. Controlling the speed and flow of traffic within and outside the facility enables more precise scheduling by controlling travel times. This is even more important at larger developments with more logistics-heavy tenants. One occupier's traffic can easily snarl another if traffic is not properly managed across the entire development.

Truck and auto parking has become a major issue across the sector, even attracting the attention of lawmakers. If a facility lacks bullpen parking, trucks line up on roadways, creating a hazard for other traffic. The Owner-Operator Independent Drivers Association, representing more than 150,000 truckers, is working to expand safe truck parking options. George O'Connor, communications director at OOIDA, said: "It's time to actually produce the space and pavement for additional spots."

New Jersey is working on legislation that would require truck parking to be included in any plans for certain warehouse types. New York could soon authorize hefty fines for parked or unattended semi-trailers on city streets. Using a portion of an industrial logistics site for outdoor storage and truck parking eases the burden on delivery docks and creates safer traffic conditions. Another solution is making use of truck parking services and flex-space lots, opening additional lines of revenue for leasing space to truckers and logistics companies in need.

Beyond the box

Developing a warehouse used to be relatively easy – build as big of a tilt-wall box as you can. The complexity demanded by e-commerce and logistics tenants, which represent the largest portion of new leases, now requires more than just a basic box for storing goods. Blockchain, cloud logistics, digital twins and traffic management systems are all poised to revolutionize the way logistics operations are conducted for occupiers and developers alike.

For private investors, staying ahead of these technological trends is essential for making sound investment decisions. A highly competitive industrial leasing market necessitates a highly competitive product.

As industrial logistics grow in scale and complexity, demand for modern, tech-enabled industrial spaces will continue to rise, creating new opportunities for those who are prepared to capitalize on them. ■

KEYNOTE INTERVIEW

Inside urban industrial, a study in resilience

Further rent growth is likely across this highly in-demand sector, suggests Dream Industrial's Alex Sannikov

For most of its history, Dream – a C$27 billion ($18.81 billion; €18.27 billion) Canadian manager, had a strong focus on office investments and public vehicles. But from 2016-19, it sold over C$10 billion of office properties across North America and Europe and has formed new private ventures. One of its focus areas now is on its C$15 billion industrial platform which includes the publicly listed Dream Industrial REIT and four private industrial vehicles.

Alex Sannikov, the president and chief executive officer of Dream Industrial, highlights the attractiveness of the urban industrial sector – led by steady demand growth and increasing institutionalization – while recognizing the inherent challenges.

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Q What was behind the decision to massively reduce your office exposure in the years before the pandemic? Was it a nervousness about the office market or an overall attraction to industrial?

A bit of both. In North America and Europe, we were seeing a significant and growing requirement to invest capex into offices, just to maintain the status quo, and we were not getting any return on these investments. This trend was being driven by growing ESG regulation and the bifurcation of the market as tenants increasingly sought best in class, and there was a significant push to amenitize offices. That is what pushed us to exit offices beginning in 2016. It was happening before the pandemic but the rise of remote work certainly accelerated it.

What is great about industrial generally, and urban industrial in particular, is that it is a very different cash profile. It produces very strong, long-term cashflow. And then on the capex side of it, going back to the office equation, the demand for investment is negligible. Even in Europe, where ESG requirements are more of a focus, especially for older industrial assets, the capex demands are not material in most cases.

Indeed, with urban industrial you can generate returns on investments made to achieve better ESG standards. We have a big pipeline for solar installations, which gives us the opportunity to sell energy back to the grid, or in some cases, we sell it to our customers who occupy the buildings. Customers really like that idea. It powers their operations, it gets them more invested in the assets and creates an opportunity to partner with the landlord while also helping to meet sustainability goals.

Q Are there special challenges or benefits to investing in urban logistics?

The main challenge that investors point to is the granularity of the asset class and a changing policy landscape.

The assets tend to be smaller. If an investor wants to put a billion dollars of equity into this asset class, it will take some time and some hard work to assemble the portfolio. It takes a lot of hands-on management. You need to have a fully vertically integrated platform to continue sourcing this product in off-market transactions. You need expertise across disciplines ranging from property management to development.

But it is worth it. The supply-demand dynamics in the urban industrial market are very attractive.

First of all, most new supply in the industrial sector since the beginning of the pandemic has been concentrated on big-box logistics. By contrast, supply of urban industrial is fundamentally constrained by land availability and planning.

Supply is also increasingly limited by economic considerations, such as the availability of construction debt, the cost of construction debt and the price of land itself. And so, rents effectively need to be much, much higher to justify new bulk supply of urban industrial.

At the same time, on the other side of the equation, you see consistent and rising demand. Urban industrial benefits from the same structural trends that logistics does, whether it is e-commerce or supply-chain resiliency or demand from onshoring and nearshoring trends.

"Urban industrial is one of the asset classes that is set to outperform over the next cycle"

Q What are the trends driving the urban industrial market at present?

We have seen bid-ask spreads narrow across the board, and we are seeing more transaction volume now. The new year has already started on a turbulent note, so we will see how that plays out.

"With urban industrial you can generate returns on investments made to achieve better ESG standards"

SOURCE: DREAM INDUSTRIAL

The recently completed net-zero-ready development at Courtneypark in Mississauga, Ontario

But H2 2024 had pretty robust signs of the investment market coming back and bid-ask spreads narrowing.

The ability to push rent varies by market. In the North American market, there has already been very strong rental growth for the past five years. And so, you can push rents, but only on the margins. On the other hand, in Europe there has been some rental growth in recent years, but not as significant as in North America. The outlook then is for more significant rental growth in this asset class across Europe.

> *"The outlook then is for more significant rental growth in this asset class across Europe"*

To put some numbers on that, we can expect rental growth of 3-4 percent over the next five years in Canada. In Europe, we would probably peg that 100-150 basis points higher, maybe as high as 6 percent depending on individual markets.

Q How will ongoing policy changes and macroeconomic challenges affect the sector?

Obviously, movements in the bond market will affect the broader real estate outlook. But what we believe with this asset class is that it will prove more resilient than many others because of durable and broad demand and ticket sizes for individual assets tend to be smaller. Even with the increases in bond yields, you still have positive leverage. That helps us to still pencil in attractive total returns.

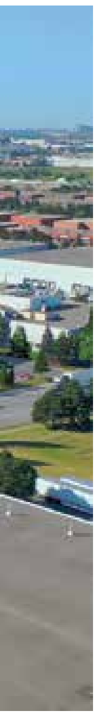
More broadly, what we see is that there is a greater degree of uncertainty when it comes to macro and policy-led changes. The asset classes that will win in this environment are those where you need to believe fewer things happening when you underwrite your investment returns. For urban industrial, you do not need to make a whole lot of different assumptions to make the returns work.

Tariffs are not going to be helpful. With the new administration, we will see how they get implemented and what exactly that looks like going forward. We have the benefit of a fairly sizable footprint and lots of internally generated data points at any given point, given how multi-tenanted our portfolio is. We are in dozens of leasing discussions and negotiations any given week. So far, we have not had any of our occupiers who were looking at leasing space or renewing their leases request to put negotiations on pause to see how tariffs play out, which we believe is a helpful data point highlighting depth in demand from occupiers.

There is also a positive flip side for this sector to all these policy uncertainties. We continue to see supply-chain resiliency and redundancy being at the top of the priority list for our occupiers. We do not see that trend changing, especially as the world becomes more and more uncertain.

Meanwhile, other underlying secular trends such as digitalization, reshoring and increasing demand for last-mile logistics continue to support our constructive view on the sector. This is what informs our medium-term outlook on rental growth: we expect these secular trends to continue. We think that, as this asset class becomes more institutionalized – and there is real evidence for that – we will see more cap rate compression across the sector.

All this means urban industrial is one of the asset classes that is set to outperform over the next cycle. ■



Q What about the potential occupiers in urban industrial compared to big-box logistics?

That is specifically where urban industrial contrasts with bulk logistics, though logistics has been the more well understood and popular asset class, particularly in Europe, and especially on the back of the pandemic.

When you look at big-box logistics from a land-use perspective, in 80 or 90 percent of the cases that is the highest and best use you can find for that land for the next few decades, given its location is typically further out from urban centers and public transportation. Whereas with urban industrial, that may or may not be the case. There are plenty of alternative uses in urban locations and plenty of alternative occupiers. Because the assets are closer in, and with smaller footprints, you address a much broader audience of occupiers. You have the large and small e-commerce players looking for last-mile distribution, or you could be addressing light industrial and manufacturing users with the same asset.

And so, the audience of occupiers that you are addressing with your offering is much wider for this close-in urban product. This means you have competing alternate uses for the land. Highest and best use can be something completely different. Across our urban industrial footprint, we are currently pursuing data center conversions and self-storage projects. In North America, we are rezoning multiple sites for multifamily or mixed-use redevelopment. This alternate use profile provides upside potential and adds further resilience for the asset class, which is among the key reasons we like urban industrial.

Logistics occupiers prioritize resilience

Businesses are looking to de-risk supply chains against the uncertainties of a volatile geopolitical and economic climate, reports Stuart Watson

Strong occupier demand has been a cornerstone of the logistics sector's appeal to real estate investors in recent years. The pandemic, which wrought havoc in the office and retail sectors, only bolstered logistics demand as e-commerce boomed and businesses stockpiled goods to shore up disrupted supply chains.

However, the sector has since suffered a post-pandemic hangover. The rapid expansion during the pandemic has left a legacy of gray space. Global logistics platform Prologis reports that, despite rising this year, the Industrial Business Indicator Utilization Rate in the US averaged 84.4 percent in the third quarter of 2024, remaining just below normal levels and signaling that occupiers still need to absorb surplus space.

Meanwhile, a combination of weakened consumer confidence and rising costs has further dampened enthusiasm for expansion among logistics tenants. Of the respondents to global brokerage CBRE's *European Logistics Occupier Survey 2024*, more than half said they were planning to keep their real estate requirements stable over the next 12 months.

Global and local

Melinda McLaughlin, global head of research for Prologis, observes that while demand remains positive, it has fallen back to slightly below pre-pandemic levels in the US and Europe as the pace at which distribution networks are being built out has slowed. "In 2024, supply chains took a bit of a breather. Customers have taken a defensive stance in the face of pressure to control costs," she says.

European logistics vacancy has increased, but from exceptionally low levels, according to Mark Cartlich, head of European industrial and logistics strategy at CBRE. "Movements between buildings have increased as net absorption has fallen, suggesting occupiers have been looking for better deals, either in terms of rental level or quality of building, but not expanding," he adds.

Jason Tolliver, logistics and industrial co-lead for the Americas at brokerage Cushman & Wakefield, notes that while occupiers' desire to shore up their balance sheets has dampened leasing activity, momentum is gradually beginning to return in the US as tenants transition to a period of steady, risk-off growth.

While the effects of the low point in the business cycle have hampered near-term growth, there are structural factors at play that will have a more far-reaching impact on the nature and volume of demand for logistics real estate.

Chief among these is the imperative for occupiers to build resilience in their supply chains, which together with the dynamics of deglobalization, encourage onshoring and nearshoring. Geopolitical instability and a series of wars and crises have led many businesses to rethink cross-border, just-in-time supply

chains and replace them with a strategy of "just in case." Moreover, the Trump administration's pledge to introduce protectionist measures has further increased apprehension of potential disruption to international trade.

Dave Fazekas, head of industrial management at Los Angeles-based Ares Management, says: "When you combine the likely introduction of tariffs with the impacts people have felt from covid, natural disasters, ship attacks in the Red Sea, droughts at the Panama Canal, all of this is driving businesses to focus on building more resilient, more durable supply chain networks."

At the time of the pandemic, occupiers' attempts to be more resilient were largely focused on storing more inventory, says McLaughlin. But since then, many businesses have sought to diversify the ports of entry for their goods as well as adopting a "China plus one" approach.

That has principally benefited Asian countries outside China, which are the fastest growing source of US imports, up 45 percent since 2019 while total US imports grew 28 percent, McLaughlin says. Latin America has also benefited from US businesses seeking to locate parts of their supply chain nearer to their home markets. "That's why demand in Mexico is still well above pre-pandemic levels, in contrast to the US and Europe," she adds.

Fazekas agrees that Mexico is becoming a real focus for logistics investors. "It has a highly educated workforce, it's also cost effective," he explains. "And by trucking product into the US, you get it here faster and in a more resilient way than by shipping it from overseas."

"Entering an environment where tariffs seem increasingly likely, occupiers want to lock in transportation costs and supply chain strategies that are resilient"

JASON TOLLIVER
Cushman & Wakefield

Manufacturing and retail

Meanwhile, some companies are de-risking supply chains by relocating manufacturing activity back onshore. Government incentives to bring manufacturing back to the US are beginning to take effect in sectors like microchips, automobiles and EVs, batteries, solar panels, medical devices and pharmaceuticals, says Fazekas. "We believe that is going to drive future demand in a meaningful way in the industrial space."

Cushman & Wakefield research shows that in 2024, manufacturing accounted for 21 percent of US leasing activity. "Manufacturing has been about a quarter of the new leases that we have seen this year. That's twice the long-term historical average," notes Tolliver.

A similar pattern is emerging in Europe, with the onshoring of manufacturing industry supply chains providing a source of demand in a period when e-commerce retailers' appetite for space has declined.

CBRE's Cartlich notes that during the pandemic, the proportion of space leased by pure play e-commerce operators increased to around 17 percent on average across Europe, but has since fallen to 6 percent in 2024. At the same time, demand from manufacturers has risen from around 12 percent in 2021 to 22 percent in 2024. "That tells us that the spread of occupiers taking space is broadening," he says.

Logan Smith, head of European logistics at international real estate firm Hines, explains that Central and Eastern Europe, which offers manufacturers reduced overheads, are expected to see increased activity. "Geopolitical instability, and associated reshoring and nearshoring might encourage more investors to focus on the CEE region. For example, right now Poland may offer lower cost and higher growth potential than some of the Western European markets."

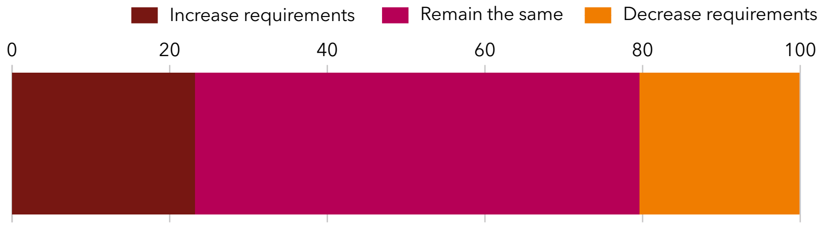
It was only to be expected that the surge in e-commerce-related demand prompted by the pandemic would fall away to some degree when consumers once again had other options to make their purchases, says McLaughlin. But following that reset in demand, online sales penetration has continued to grow so that the proportion of goods bought online today is once more at or near its pandemic-era high point.

Fazekas quotes figures from Adobe Analytics, which reported $10.8 billion in US online sales on Black Friday in 2024, up 10.2 percent from the previous year, as well as a report that generative AI-powered chatbots are impacting how consumers shop online, with traffic to retail sites on Cyber Monday up 1,950 percent.

"That is evidence of a resurgence in e-commerce which we have been feeling in our portfolio," Fazekas argues. "In the first half of 2024, Amazon took more space than they did in the whole of 2023. They are investing in same-day delivery, and others will have to follow to remain competitive."

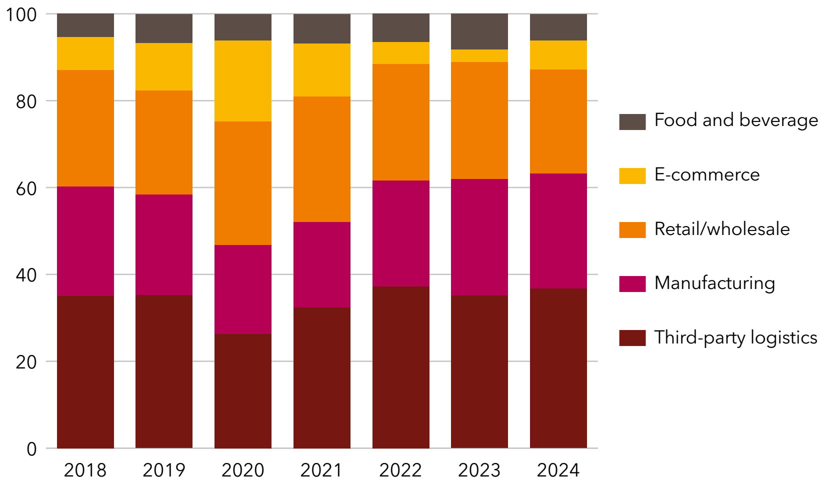
McLaughlin adds that delivery speeds are once again becoming a top priority for e-commerce retailers. "Going forward, I would expect to see more of a focus on service levels as online retailers compete for consumer dollars." That could lead to increased demand for last-mile delivery sites in urban locations, she suggests.

Over half of occupiers plan to keep their warehouse requirements the same over the short term, or next 12 months (%)



Source: CBRE, Analytiqa European Logistics Occupier Survey, 2024

Onshoring boosted US industrial leasing activity by logistics and manufacturing tenants in 2024 (%)



Source: Cushman & Wakefield, 2024

Newer and better

Laurie Lagarde, head of CBRE Investment Management's EMEA logistics operator division, says occupiers are sharply focused on controlling costs and maintaining competitiveness through making their processes and operations more efficient. "Despite a softening of demand generally, there is still demand for prime locations, and for modern, sustainable buildings," she explains.

As major European occupiers are seeking to achieve ambitious sustainability goals against a backdrop of tightening environmental regulation, Lagarde says: "We don't yet see a green premium in the investment market for carbon neutral buildings. But it is increasingly common to see a 'brown discount' for any building rated less than BREEAM Very Good."

There is little evidence of occupiers switching to older buildings to save costs, says Cartlich. "In the UK, for example, second-hand vacancy has increased quite sharply, while second-hand demand has remained largely unchanged."

> *"In 2024, supply chains took a bit of a breather. Customers have taken a defensive stance in the face of pressure to control costs"*
>
> **MELINDA MCLAUGHLIN**
> **Prologis**

Tolliver agrees the flight to quality has been replicated across global regions. In the US, when a tenant reaches the end of their lease, they usually want to move to modern space to reduce risk and increase efficiency. "Entering an environment where tariffs seem increasingly likely, occupiers want to lock in transportation costs and supply chain strategies that are resilient so that they don't find themselves getting pinched by higher shipping costs."

In the coming year, the key trend to watch will be whether the underlying structural drivers prompting occupiers to modernize their supply chains coincide with a period of increased certainty to act, suggests McLaughlin. "We have been in a holding pattern. But in 2025, that will begin to change in most places, and occupiers' plans to improve their operations will begin to come to fruition." ■

KEYNOTE INTERVIEW

Opportunity, complexity characterize Europe

Fundamentals remain strong and investment activity is picking up, but specialist knowledge is crucial to unlocking performance, say abrdn's Robert Cass and Tritax's Henry Stratton

Robert Cass, head of real estate investments at UK-based global investment company abrdn, and Henry Stratton, head of research at specialist logistics manager Tritax, survey the market landscape at the outset of a new investment cycle.

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Q Has the recent repricing of European logistics markets impacted investor sentiment about the sector?

Robert Cass: The combination of higher interest rates and inflation, together with the geopolitical events over the past few years, has led to a sharp repricing of real estate. Logistics values were hit quite badly in the initial downturn, and more quickly than some other sectors. But the themes supporting the sector did not suddenly become irrelevant, and investors continued to have conviction in the fundamentals.

It became difficult to sell assets in other sectors, but the logistics market remained liquid, so there were still deals. Those were marked to market, so the correction for logistics was quick and aggressive. But the market has also bounced back quicker. There has been a material increase in demand over the past six to nine months. Yields are hardening again, and performance is starting to come through. In recent years, investors have been increasing their weighting to industrial, and we believe that this structural shift will continue.

Henry Stratton: The logistics sector accounts for around 20 percent of transaction volumes. Ten years ago, that was more like 12 percent. We have seen strong and healthy buyer interest in logistics assets right through the repricing period. Some investors have had to sell because they could find liquidity in industrial if they had to meet redemptions, but they likely would have preferred to hold onto those assets.

Q What are the structural drivers underpinning demand for logistics real estate?

HS: There are four themes: the first is the e-commerce growth story. Market penetration is around 27 percent in the UK, but there is further scope for growth, particularly in Continental Europe.

Penetration in Germany and the Netherlands is around 20 percent, but Italy and Spain, for example, are still in the low teens, which is historically the threshold at which occupiers' need for logistics space begins to increase sharply.

Secondly, resilience was an issue that the pandemic really brought to light. The just-in-time logistics model has been challenged with different tiers of the supply chain being required to hold more stock.

That connects with the third factor: reshoring. We have seen some strong reshoring stories, particularly in CEE markets like the Czech Republic, and some tech-led manufacturing investment returning to the UK and Germany. But it is a slow-burning, multi-year process. It is not as simple as suddenly shifting operations onshore, it is about reconfiguring parts of the supply chain.

And the final theme is ESG. Those four factors sit in the background and drive the sector forward.

Q How is the ESG agenda affecting investment and occupier market dynamics?

RC: Historically, real estate investors have been more prone to think about ESG as a negative and a cost, without being very good at describing and monetizing its benefits. We are getting better at demonstrating to occupiers that a more efficient building will have lower running costs, and that will start to drive investment performance.

In situations where the acquisitions market is competitive, investors can have conviction that they can pay a bit more for better sustainability credentials because that will deliver outperformance in the long term. The ESG overlay has become vital. At abrdn, we have been re-examining how we underwrite the costs of decarbonization in

Q What other areas of concern have you observed for occupiers of industrial and logistics space?

HS: In our recent survey of UK occupiers, 36 percent told us that power is now one of their major concerns, up from about 10 percent a year ago. Automation and EVs mean logistics operations require more power, while geopolitical events have impacted energy security and costs, and many national power grids are suffering from underinvestment.

Power, labor and location are the three keys to making a modern warehouse work. Automation requires high-quality floors and often higher ceilings to facilitate automated racking and/or mezzanine floors, and that has helped to drive the take-up of new, high-quality buildings.

RC: We will see some locations that previously would not have been on the radar of occupiers and investors come into focus because of the shifting dynamics around power and labor. Some occupiers will always need to be close to consumers, but for others, locating near to power infrastructure may be the paramount concern. A manufacturer might have a power-intensive supply chain where automation is doing more of the work that people would have undertaken in the past.

our cashflows and how that influences our investment decisions.

HS: Tritax's 2024 survey of European logistics occupiers shows that their No 1 ESG concern is reducing energy costs, followed by reducing/recycling waste and renewable energy. ESG has shifted much more towards adopting improvements that deliver actionable, measurable results.

Many big corporates have very clear timelines and established ambitions for decarbonizing their operations. Some of the biggest third-party logistics firms are only willing to occupy buildings that meet those criteria, but most occupiers are looking at environmental performance and offering a better, safer, more appealing working environment. For landlords, ESG is a great way to establish a closer, more co-operative relationship with occupiers.

Q What are the key indicators for European industrial markets?

HS: Occupier demand slowed through the second half of 2024 because of a relatively weak macroeconomic backdrop. Demand is still coming from a diverse range of sources – e-commerce, third-part logistics, manufacturing – but the volume is lower than we saw through the later stages of the pandemic. That period also saw a surge in development activity, but completions have returned closer to historical levels across much of Europe.

Vacancy is ticking up, but the rate of increase is slowing. Across the markets we track, vacancy in Poland, Germany, France, Benelux, Italy, Spain and Sweden is about 4.5 percent on average. But there are variations; for example, in the big five German cities it is as low as 2 percent, while in other markets it is above 8 percent. We have still seen some rental growth of about 3 percent on average in 2024. It is a more solid, steady level than we have seen over the past couple of years and, as always, is dependent on location and submarket.

The UK is slightly different. The market had a tougher second half of 2023, followed by an encouraging recovery in 2024, with rents increasing by 4 percent-5 percent. We expect another healthy uptick in demand in 2025, probably an increase of around 10 percent. About 12 million square feet of new, speculatively developed space is expected to come to market over the next 12 months, down from around 20 million in the latter stages of the pandemic, and vacancy in the UK is leveling out at around 5.3 percent. The UK is a little bit ahead of Europe in this cycle and we expect further rental growth this year.

> *"It will not be blanket rental growth everywhere; some locations and buildings will outperform"*
>
> HENRY STRATTON

Q What will be the most attractive near-term investment opportunities?

RC: In Continental Europe, leases have historically been quite favorable to occupiers, with inflation-linked increases and tenant renewal options, which make it harder to drive rental growth. By focusing on situations where a lease is due to expire or extension options have run out, or by developing new space, owners can mark rents to market. When interest rates were low, investors were happy with indexation. Now, because debt is more expensive, they have more motivation to capture reversions and unlock rental growth.

HS: Following repricing, we are emerging into an environment where returns will look healthy in comparison to other sectors. The coming period will be about harnessing capital appetite for logistics assets and combining it with insight into occupier needs and requirements to repurpose and update properties so they are fit for the future.

For example, there was a rapid expansion of parcel hubs during the pandemic, which has left some companies occupying quite substandard buildings close to big cities like London. In the near term, the challenge for investors is to unlock solutions by providing state-of-the-art buildings with the right yards, doors and layouts.

Market fundamentals look set to generate rental growth over and above inflation. However, it will not be blanket rental growth everywhere; some locations and buildings will outperform. The increased complexity that we are seeing in our sector is playing towards investors and platforms with the specialist knowledge to unlock that potential.

Q And what about in the years ahead?

RC: We have seen some yield compression already, but there is still some way to go in 2025 and 2026. The underlying structural themes supporting logistics will continue to provide a "pull" factor, while there will be a "push" from investors who want a higher allocation to the sector. We are starting to see the return of core investors who will accept high single-digit IRRs as a very good, steady return versus other asset classes, which will add depth to investor demand.

We think the UK and European logistics will continue to deliver good performance over the next five years. But there are also risks if investors buy assets that do not have adequate power or cannot deliver on ESG expectations. ■

Powering the logistics sector

Power-hungry technologies like cloud computing have made securing electricity a pressing concern for industrial investors and developers, writes Stuart Watson

Ensuring adequate electricity is becoming an increasingly front-of-mind issue for the logistics sector. Modern distribution buildings are more likely to accommodate power-hungry technologies like cloud computing, automation and electric vehicle charging. Meanwhile, power grids, many of which are suffering from decades of under investment, are suddenly faced with a huge increase in demand from the digital revolution.

Occupier surveys demonstrate growing concern about the issue. The Savills and Tritax Eurobox *2024 European Real Estate Logistics Census* singles it out as a potential "game changer," with 68 percent of industrial occupiers identifying power requirements as important or very important for their future operations.

Likewise, CBRE's *European Logistics Occupier Survey 2024* showed a significant year-on-year increase in the proportion of respondents choosing power supply as among the most important factors driving property selection – climbing from 26.5 percent of respondents identifying building power supply as critically important in 2023 to 34.9 percent in 2024.

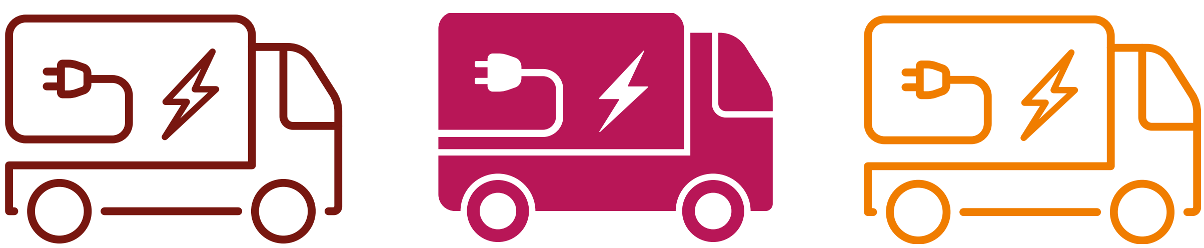
Logan Smith, head of European logistics at international investor-developer Hines, suggests the rapid growth of the data center sector has brought the issue to the forefront for investors: "The logistics development industry has always been talking about power, but never quite with the same imperative as it is now. A lot of data center demand is driven mainly by the availability of a large amount of power in a particular location, so there's a lot more nuance and thoughtfulness overall around land development and power supply."

Laurie Lagarde, head of CBRE Investment Management's EMEA logistics operator division, notes maximizing the power available from the grid and onsite renewables is critical in protecting the future liquidity of the asset and therefore investment value. "Power is already a real problem in the Netherlands, where the electricity grid is at full capacity, and it could soon block development in other countries too."

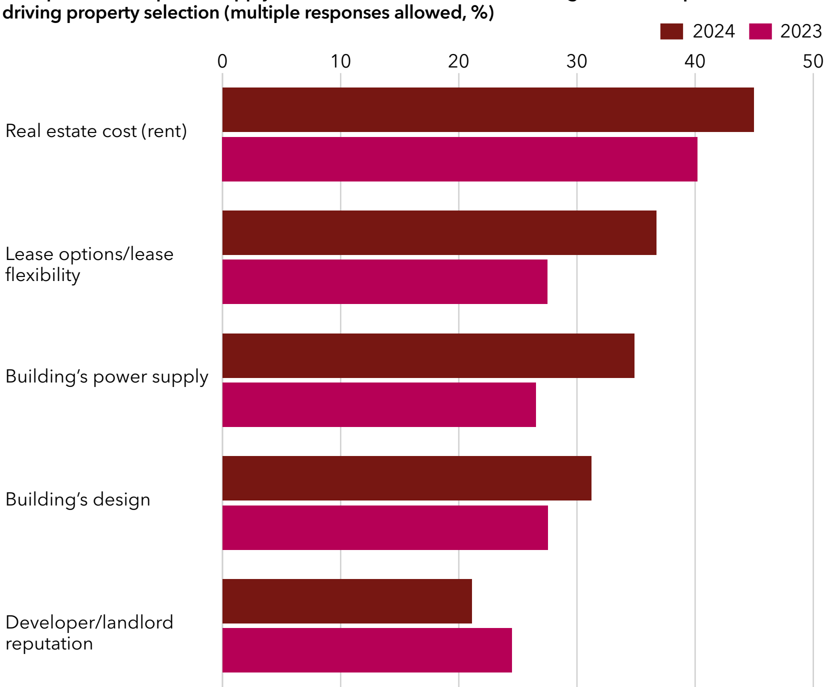
Jason Tolliver, logistics and industrial co-lead for the Americas at brokerage Cushman & Wakefield, explains that having assurance of a sufficient supply of power to meet occupier needs is vital to stave off functional obsolescence. "It's about ensuring that your building has the attributes that it is going to need to be fully operational in the future. With EVs and autonomous trucking, what might the power requirements of 10 or 15 years from now be for a particular building?"

Data center draw

Dave Fazekas, head of industrial management at Los Angeles-based Ares Management, observes that in the US, the enormous power consumption of data centers has stretched grid capacity. "It is already a real focus for occupiers, and it could start to become a much bigger constraint. Can they get power, and what does it cost? It may prevent some higher intensity users being able



Occupiers ranked power supply third – an increase on 2023 – among the most important factors driving property selection (multiple responses allowed, %)



Source: CBRE, Analytiqa European Logistics Occupier Survey, 2024

to implement their strategies as quickly as they would like."

Data centers can fetch a far higher value than is achievable for industrial use. In some cases, land is being taken out of the logistics development pipeline and allocated for data centers. "In Pennsylvania alone, [up to] 10 million feet of industrial, either existing product or zoned land, is going data center," says Fazekas.

There is also a "second order effect" that acts as a constraint on the supply of industrial land, says Tolliver. Landowners, hoping to maximize value, set asking prices based on data center use without fully understanding whether their land is suitable for that purpose.

Hines pursues a dual-track strategy on industrial sites that may be viable for data center development, says Smith, with parallel business plans for each use. "Of any 20 given warehouses, only a few might be suitable for redevelopment into a data center, and it might take years for the opportunity to present itself, but for those it's simple upside."

The amount of power available to a logistics site will have an impact on the value of the land, Smith adds. "However, if the amount of available power is sufficient for a data center, and it has permissions in place, that is when land pricing really starts to move."

Electric innovation

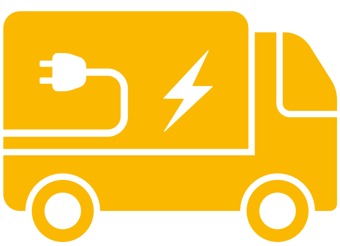
Logistics developers have begun to innovate to ensure power supply to their sites, for example by creating micro-grids for their distribution parks by networking solar panels across several adjacent properties and linking them with battery storage.

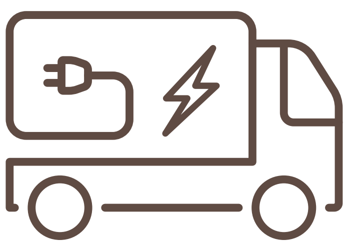
Damon Austin, managing director, global head of customer led development at industrial giant Prologis, says: "We are on track to meet our goal of 1GW of on-site solar supported by battery storage by year-end 2025. We've also deployed microgrid technology to get EV mobility hubs online and powered with or without the grid, avoiding multi-year delays. Additionally, securing power agreements early in development and working with local utilities to upgrade infrastructure can help mitigate these obstacles."

Jack Cox, head of European industrial and logistics capital markets at global brokerage CBRE, observes that occupiers and developers have begun to take a co-operative approach to on-site power generation. "Ownership is complex, but no power, no play – so it makes a lot of sense. It is a win, win, win, win situation – for the environment, for the investor who owns the product, for the developer in leasing it up and for the occupier in terms of aligning with their ESG goals, but also better operational efficiency and cheaper, greener energy." ■

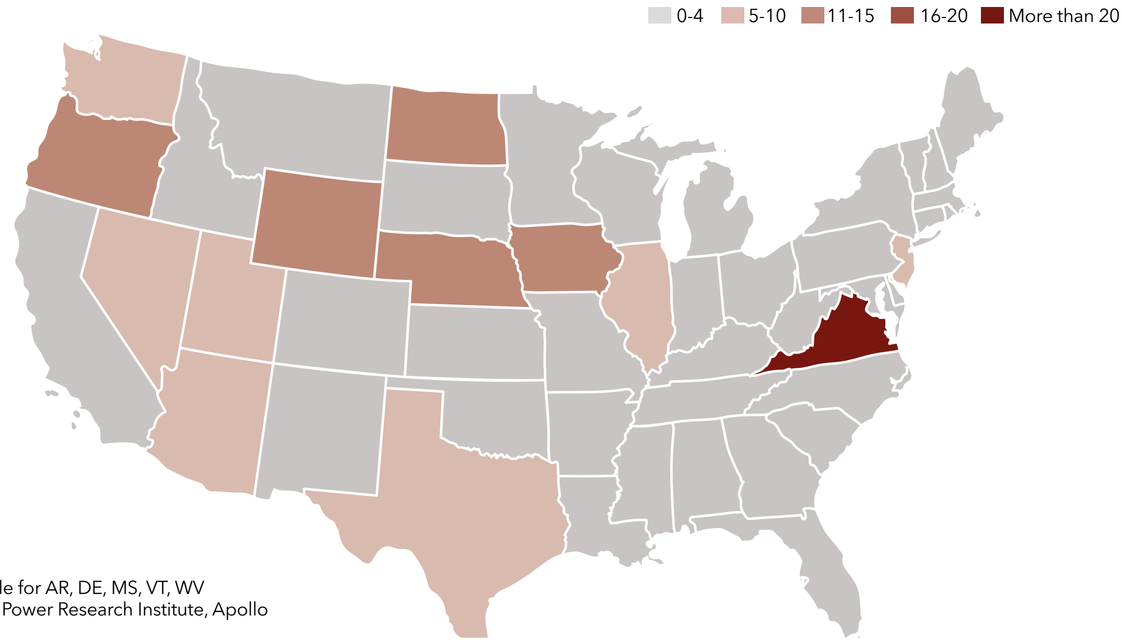
"The logistics development industry has always been talking about power, but never quite with the same imperative as it is now"

LOGAN SMITH
Hines





In the US, Virginia has the highest percentage of total power consumption by data centers with 26%

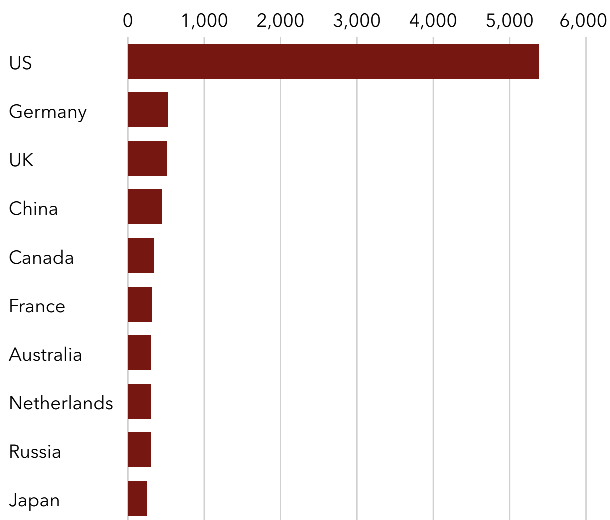


No data available for AR, DE, MS, VT, WV
Source: Electric Power Research Institute, Apollo

Energy demands increasing for US data centers

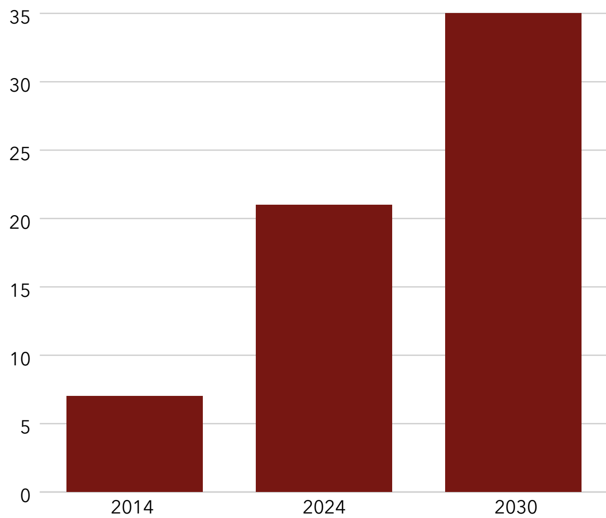
The US is home to more data centers than any other country, and as that number grows, so will demand for energy to operate them

The US has more data centers than all other major countries combined, as of March 2024 (Number of data centers)



Source: Statista, Cloudscene, Apollo

US data center power consumption is forecast to grow 10% per year through 2030 (GW)



Source: McKinsey & Co, Apollo

KEYNOTE INTERVIEW

Steady demand, onshoring boost US logistics

The logistics sector is seeing a shrinking supply pipeline and a window for new development opportunities, says Mapletree Investments' Richard Prokup

The US logistics sector has been a favorite of global real estate investors, and continues to attract attention due to its relative outperformance over office and retail, as well as a number of positive factors. These include resilient demand drivers, the positive impact of reshoring and a contraction in the pipeline of future new supply, says Richard Prokup, chief executive officer, United States, at Singapore-based Mapletree Investments.

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Q How has the US logistics sector maintained its popularity with real estate investors?

The factors that have drawn real estate investors to US logistics remain present and robust: growing e-commerce, the need for supply chain resiliency, and a strong national economy continue to provide supportive and enduring demand for warehouse and distribution space.

In addition, talk of potential tariffs associated with the shifting political environment is pushing the onshoring of more manufacturing and assembly within the US.

All of this will drive demand and rent growth for warehouse space in the US over the course of the next three to five years.

We have seen a moderation compared with the red-hot demand experienced during the pandemic years. Presently, while rental rates remain healthy, tenants have adopted a more cautious stance, realigning their warehousing space requirements amid ongoing market uncertainty. However, this normalization is a move towards more balanced, stabilized and sustainable growth over the longer term. Vacancy in the market still remains below long-term averages.

Mapletree, as one of the top 10 logistics owners in the US, remains committed to the sector with plans to deepen our logistics footprint through expanding current sites and extending into greenfield development with several ongoing projects in key American cities.

Q What do reshoring trends mean for US logistics real estate?

Supply chain reconfiguration will remain a crucial strategy for businesses in the world's leading economy as US trade policy continues to encourage the onshoring and nearshoring of manufacturing. This will provide further support for US logistics demand – particularly in emerging manufacturing hubs such as the Midwest and Sun Belt markets.

Upstream suppliers and downstream distribution networks will provide "trickle down" demand, while traditional industrial demand should grow to accommodate raw materials storage, specialized distribution, and materials and equipment used in construction and manufacturing locally.

In addition, greater e-commerce penetration across the country will result in more space demand from leading retailers and suppliers.

Onshoring investment is also likely to enhance employment, GDP and consumption, which in turn further drives logistics. This trend will be exacerbated in the near future with the potential of increased import tariffs by the Trump administration this year.

Import activity is expected to be robust in the near term, as overseas manufacturers attempt to get ahead of any changes.

Long term, the impact remains to be seen and will be largely dependent on the ultimate magnitude of the tariffs and how widely the net is cast. Markets will be impacted by the shifting flow of goods being imported, with demand likely to increase in markets such as Texas, Florida and the Northeast, in order to accommodate more goods from Mexico and other China alternatives.

Q How is logistics leasing performing in the US? How can asset owners maintain rental performance?

We anticipate that leasing activity in 2025 will be focused on higher quality assets in well-located markets. Smart investors will recognize this and be more selective in their acquisition efforts. According to CBRE, US industrial vacancy in 2024 rose slightly to 6 percent, but this remains below the long-term vacancy run rate for the sector. Leasing activity in 2024 rose 6.1 percent from the prior year, due to robust demand from third-party logistics firms.

Asset managers must proactively engage with tenants to understand their unique needs and plans, to ensure tenant retention. For vacant spaces, positioning them as move-in ready, ramping up marketing roadshows and, if needed, reconfiguring spaces are all important strategies to keep in one's back pocket.

SOURCE: MAPLETREE

The industrial building at 2935 Ramco Street in West Sacramento, California, is held under Mapletree's US logistics-focused private fund, Mapletree US Logistics Private Trust

Q What asset and location characteristics should investors target when building a US logistics portfolio?

Mapletree is always looking for assets that are strategically located, functionally built to meet the market's requirements, and have great connectivity to sizable populations and available skilled labor pools, as well as key transportation nodes and networks.

For example, we recently acquired a 22.5-acre site in New Jersey for development, which was selected due to its prime location. It offers convenient access to major transportation hubs and is well positioned as a distribution center and last-mile delivery hub for e-commerce operators.

Against an uncertain economic backdrop with expectations of a higher interest rate environment and political change, these attributes are even more salient.

Pricing power in the market has softened due to elevated interest and capitalization rates, and as a result, investors should be far more selective and focused on quality.

Real estate is a local business, and it is imperative to understand tenant requirements in each submarket so that we can invest in the right product type – from big box to shallow bay industrial – to weather the inevitable market cycles.

From a tenant's perspective,

"Looking into 2025, we expect to see a more active capital market for logistics"

occupiers are increasingly looking beyond traditional asset characteristics to modern building features that can support investments in digital supply chain technologies. Investors should also look out for assets that can meet occupier sustainability requirements.

Nevertheless, as investors, it is prudent to avoid buildings that are too specialized. It is important to make sure that the bones of the building remain flexible so that it can be reconfigured for the next tenant.

Q What are the emerging investment trends in US logistics real estate?

Over 2024, investments across all asset classes, including logistics, saw a decrease in activity. This was a result of elevated interest rates and a reduction in the availability of credit from lenders.

For the logistics sector, which has been – and continues to be – a favored asset class, cap rate spreads compressed dramatically, which has resulted in negative leverage for most investment opportunities. It put many investors on the sidelines, hesitating to purchase in a falling market. Consequently, premiums for large portfolios evaporated and deal sizes became smaller.

On the plus side, built-in rent growth in most logistics portfolios allowed investors who were willing to endure short-term negative leverage to purchase at good pricing.

In the second half of the year, that dynamic began to change with inflation rates tapering down and the US Federal Reserve commencing rate cuts.

Looking into 2025, we expect to see a more active capital market for logistics with portfolio sizes increasing. On the buyside, there is pent-up demand for investment that was unsatisfied in 2024. Investors have dry powder that needs to be placed to work. On the sellside, owners, especially closed-end funds, cannot sit on the sidelines indefinitely.

Q What are the opportunities for developing logistics assets in the US?

Bearing in mind increased construction and funding costs, we still believe this is a great time to be developing logistics properties in the US. New construction starts have been muted for over two years as a result of higher interest rates and lack of investment capital. Reduced supply likely means we will be looking at declining vacancy starting the second half of 2025. In 2026, we expect to see a shortage of Class A space in the market, which will spur rental growth.

Merchant developers have been sidelined due to the current dynamics of the capital markets. They are struggling to put together new deals and have been focused on leasing up newly constructed properties.

That means it may be well into 2025 before we see them back in the market. Development is a time-consuming effort, typically taking 15-24 months from planning to delivery. A window exists to take advantage of this lack of new supply, but developers cannot wait long if they want to capitalize on this opportunity.

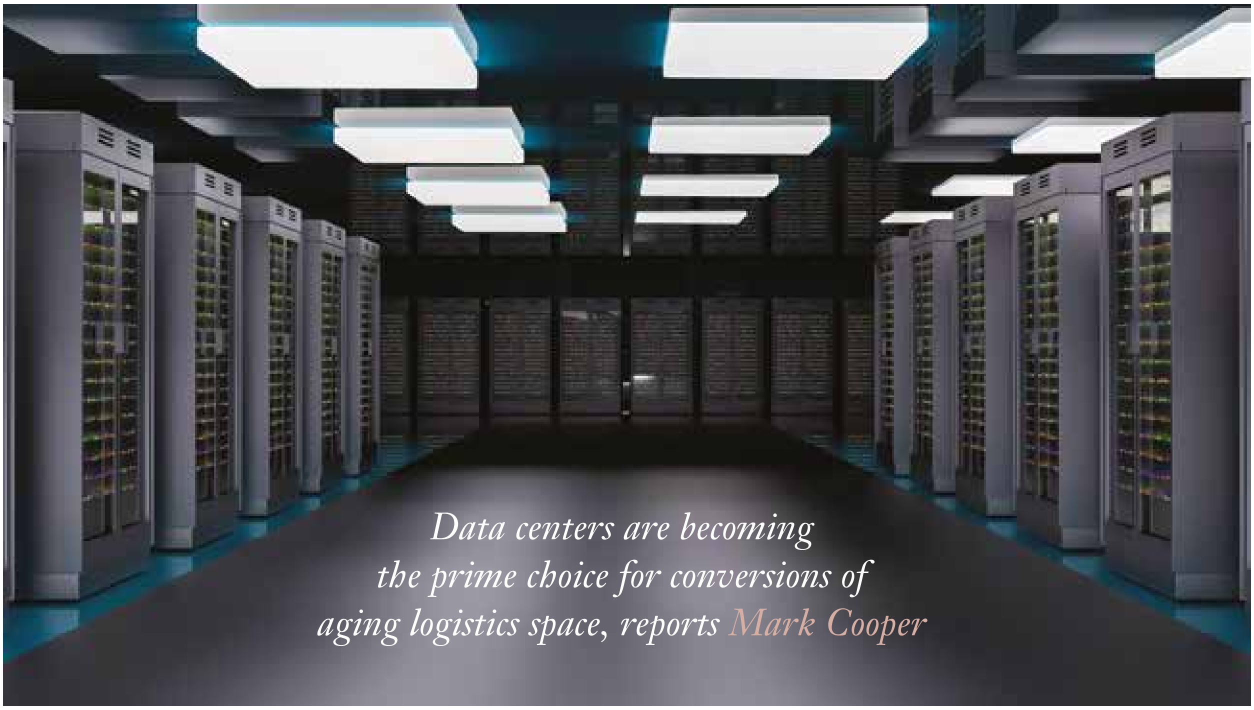
While construction costs have indeed increased, so have rents, resulting in good yields in most markets. We have seen land prices decline because of sliding development demand, which helps to justify new projects.

However, developers must be more thoughtful in where and what product they develop. Certain markets are now overbuilt, and it may take several years for them to recover. Since large tenant demand has decreased, new developments must be designed to be flexible and allow owners to demise the building to accommodate smaller requirements, as well as to be ready once larger tenants re-enter the market.

New buildings must also be capable of meeting the requirements of modern tenants, in light of the mounting need for digital supply chain technologies. ■

"Supply chain reconfiguration will remain a crucial strategy for businesses as US trade policy continues to encourage the onshoring and nearshoring of manufacturing"

Warehouse owners seek higher uses



Data centers are becoming the prime choice for conversions of aging logistics space, reports Mark Cooper

Higher and better use conversions are a cornerstone of the industrial and logistics real estate business, especially for investors who can hold assets for the long term. For many owners, conversion is a win-win.

Industrial land and buildings can be converted to a number of related uses. However, the rise in global demand for data centers has sparked a rush of warehouse owners seeking the opportunity to convert.

Data is king

The building shells of the two sectors are fairly similar, and logistics parks tend to be located on the fringes of large urban areas, just like data centers. However, data center rents are several times those of logistics rents, albeit that direct comparisons are difficult with one sector paid out per square foot and the other per MW.

Justin Curlow, global head of research and strategy at AXA IM Alts, the investment arm of the insurer, says: "Data centers are in demand and the rents and capital values are significant multiples of those that can be generated from warehousing. The returns can be phenomenal, if you can find sites within your portfolio where you can gain access to power relatively cheaply to support the change of use.

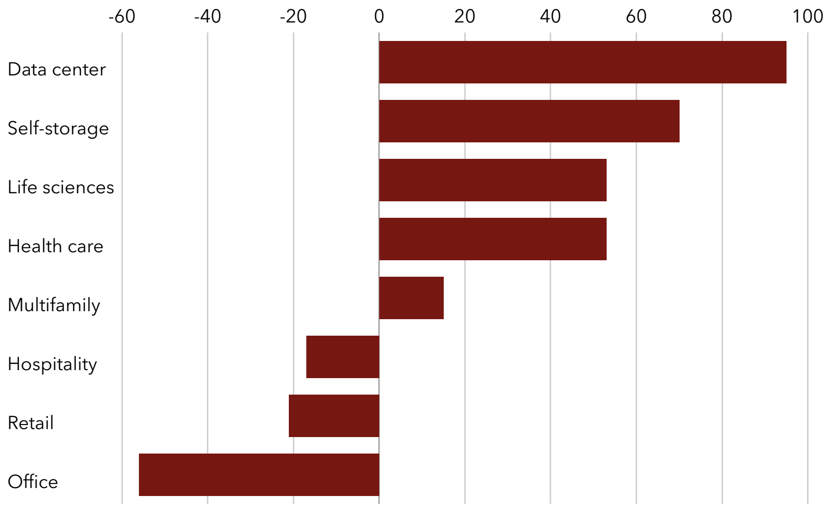
"So everyone's looking across their portfolio trying to find those sites and, in the short term, this is constraining new supply for logistics because it is taking some stock out of the market."

Large logistics real estate owners such as Prologis, Goodman Group and ESR Group are working on projects across the world that will help fill demand for data center space, which has been boosted by the needs of the AI sector. For example, Prologis is converting a warehouse in Chicago to a 32MW data center, which it forward sold to a US real estate investment trust in December.

"We see great potential for warehouse conversions in key markets and properties in our portfolio," Dan Letter, president of Prologis, said in a statement. The company noted that warehouse conversions were a cornerstone of its data center strategy, under which it plans to develop 20 data centers in the next four years.

Melinda McLaughlin, global head

Data center and self-storage sectors have seen substantial market cap growth from 2018-24 (%)



Source: JLL Research, Green Street, 2024

> *"Data centers are in demand and the rents and capital values are significant multiples of those that can be generated from warehousing"*
>
> **JUSTIN CURLOW**
> **AXA IM Alts**

of research at Prologis, explained that demand in data centers is shaping opportunities as Prologis expands its pipeline to meet growing digital and clean energy needs. "Data centers represent a significant opportunity, with Prologis securing 1.6 GW of power to deliver on \$7 billion-\$8 billion in projected investments, aligning with evolving customer needs."

Meanwhile, Australia-listed logistics specialist Goodman Group has made a "step change" as it pivots towards data center projects, which now account for 40 percent of its development program.

However, data center conversions are not always straightforward. The major challenge in any market is providing access to the power required by data center occupiers. Ideally, that electricity will also be clean or renewable, adding to the challenge.

Peter Guevarra, director, research consultancy, Asia-Pacific, at brokerage JLL, says: "The main challenges we see in advising clients is the high initial capital costs for upgrading power infrastructure, cooling systems and network connectivity.

"Existing buildings may require extensive renovations to meet stringent data center specifications, including reinforced floors, enhanced security measures and improved fire suppression systems."

Sheds and beds

While data center conversions may be the opportunity attracting the most attention, rezoning for residential use remains a major play in growing cities. Substantial quantities of industrial land in South Sydney were converted to residential use in recent years to help accommodate the city's growing population. Now that momentum is moving to industrial areas in West Sydney, where Goodman Group is currently developing six build-to-rent residential blocks at its former Waterloo Business Park.

"As urban sprawl pushes city boundaries outwards, a combination of rising land values, increasing density and an undercurrent of gentrification forces may support conversion of historically industrial areas in urban locations to become more residential in nature," explains Guevarra.

The data center industry is notably complex and more akin to infrastructure than real estate for many investors, while ground-up residential development on a former industrial site is a long-term project with many potential pitfalls. However, there are opportunities to convert aging warehouses to more lucrative uses, such as self-storage or cold storage.

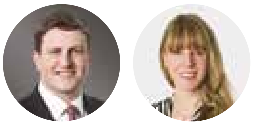
Self-storage is a growing sector, accelerated by the pandemic as people required more space at home as they shifted to flexible working. In addition, smaller e-commerce businesses and independent retailers use self-storage for warehousing inventory. A significant proportion of self-storage facilities are converted from industrial use.

Cold storage is another in-demand sector that offers higher rental yields than warehousing, an additional 25-150 basis points, says Guevarra. However, the conversions can be complicated.

"Modern facilities require multiple temperature zones, more doors and bays for efficient fulfillment, and dedicated areas for services like packing," he says.

The sector also offers a cautionary tale for owners exploring conversions. Guevarra says: "In the immediate period after covid, owners in Seoul shifted to cold storage, either developing new cold storage facilities or converting existing dry warehousing assets to cold storage. However, this was likely overdone, and there is now an oversupply of cold storage space. Consequently, many are now pivoting back to dry storage." ■

Emerging trends highlight an investable sector



Guest comment by **Steven Cowins** and **Rachel Whittaker**

Logistics and industrial real estate fundamentals remain strong heading into 2025, explains Greenberg Traurig's real estate funds practice group

Beds and sheds have long been a mainstay of both the UK and European real estate investment markets. Traditionally, at least in the UK, the volume of transactions in the industrial and logistics space has significantly outpaced that of the living sector.

However, 2024 marked a shift, with the sheds market experiencing a quieter year compared to previous periods. The year was characterized by a continued disconnect of the bid-offer spread. While there were several single-asset and small portfolio transactions, particularly in Q4, what was notably absent were the large portfolio disposals – common in recent years as investors have pursued aggregation strategies.

The key market drivers for logistics and industrial real estate remained robust throughout 2024, setting the stage for a much stronger 2025. These drivers include e-commerce, supply chain resilience and rental growth expected within the sector.

This dynamic has been further amplified by the challenges faced by traditional investment sectors, such as office and retail, which are still adjusting to fluctuating transaction volumes. In contrast, logistics and industrial assets remain highly investable, and we have observed several transactions where balanced, open-end funds have sought to address redemption pressures by divesting logistics and industrial assets, as they are viewed as more liquid investments.

Storage and ESG

In many respects, the self-storage market has become so active that "beds and sheds" could be replaced with "beds and storage," as numerous investors are pursuing this strategy. Additionally, data storage and open industrial storage are increasingly being integrated into the broader sector.

Self-storage presents unique challenges as it is an operationally intensive asset class compared to other industrial real estate. Nevertheless, investors and managers have been actively developing platforms and brands to capitalize on its growth potential.

In the realm of data storage, competition with logistics assets is expected for development sites that offer adequate power connections and achievable latency.

For industrial open storage, market fundamentals remain strong, but the challenge lies in the limited availability of large portfolios. As a result, this sector is increasingly seen as an aggregation opportunity.

ESG considerations are a key focus across the entire real estate market, with owners and occupiers placing increased emphasis on energy-efficient and green-certified buildings that meet evolving regulatory standards.

Looking ahead, we anticipate a strong and growing market in 2025, with industrial and logistics assets continuing to be one of the most attractive and robust investment classes. As funds approach maturity, debt positions unwind and interest rates potentially decrease further, we may see more investors becoming motivated sellers. We already have clients warming up to test the market with larger portfolio sales or recaps. ■

Steven Cowins is partner and global co-chair of Greenberg Traurig's real estate funds practice. Rachel Whittaker serves as practice group counsel, real estate funds practice

KEYNOTE INTERVIEW

Navigating the European logistics recovery

Stabilizing logistics markets and a recent lack of supply are providing new opportunities, say Verdion's Simon Walter and Jonathan Harris

The European logistics investment market has been showing signs of stabilization after 18 months of rising cap rates. Greater liquidity has emerged in asset markets, reflected in improved transaction volumes and focused on income-producing assets. While economic recovery has been inconsistent and occupiers are cautious, the fundamental drivers of demand remain intact and a period of lower supply has created an opportunity for repurposing and developing new space in the larger cities of Northern and Western Europe, explain Simon Walter, executive director, investment management, and Jonathan Harris, executive director, capital markets, at Verdion.

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Q What is the state of play in the European logistics investment market?

Jonathan Harris: There is a nascent and growing recovery in investor confidence, as we can see prime yields are stabilized in most of the core Western and Northern European markets after the best part of two years of expansion. We have a clear sense of the bottom being found and markets moving forward again. Inflation is in a range that is more consistent with central bank objectives; we have had four rate cuts in the Eurozone and the consensus is that we will see further cuts this year. However, as yet it is a somewhat narrow recovery, focused mainly on the highest quality assets.

On the upside, we anticipate greater availability of debt than in recent years, given rebased valuations, which will initially be focused on income-producing, value-add and pre-let development. This is something to watch as 2025 unfolds: the re-emergence of a positive yield spread over the cost of debt could really drive the market.

Simon Walter: Income-oriented investors have returned to the market. We have begun marketing assets from

Verdion PremierPark Ludwigsfelde is a modern urban logistics hub near Berlin's A10 ring road in Germany

Q Where are the best asset acquisition opportunities?

SW: We remain predominantly focused on single assets, where we see some of the best opportunities. We expect to continue to source attractively priced acquisitions in undersupplied markets with reliable underlying occupational demand. We can leverage our teams on the ground to find these deals via a healthy mix of off-market deals as well as brokered processes.

JH: A majority of assets in our first fund were acquired off-market, and we anticipate that continuing because there is limited competition for the kinds of deals we are looking to do. We have the advantage of applying our in-house design and development capability to a particular situation, rather than solely bringing capital.

SW: For example, the first two acquisitions for our second fund, VELF 2, have both been off-market, sourced through existing relationships. This approach allows us to acquire in the right locations, to negotiate one-on-one and hence capture value on the buy and ultimately drive performance for our investors. We are not necessarily seeking distressed deals, and we see limited evidence of that across our markets; however, there are always reasons for owners to sell, whether to rebalance a portfolio or for occupier operational reasons. So we are confident about being able to deploy the fund's capital on attractive terms and at a growing pace over the year ahead.

our first fund, as business plans are being completed, and seen considerable interest from both core and core-plus capital. Right now, investors are being extra diligent, looking very closely at assets and their rental growth prospects. There is a real focus on the fundamentals.

We have also seen strong investor interest in the sector when raising our second fund, which secured further commitments before Christmas to now exceed €300 million of equity, despite last year's challenging capital raising conditions.

Q How strong is the occupier market in Europe?

SW: Vacancy rates have increased over the last couple of years from historic lows, as take-up has moderated from the covid-era peak, but development delivery has slowed as well. That means our preferred locations have not seen a significant spike in vacancy. Leasing markets have lacked momentum overall, with decisions taking longer to gain approval from occupiers' boards. However, we have been seeing a growing number of enquiries in the final quarter of 2024 signaling a more positive outlook for the year ahead.

JH: Tenants are being quite careful and mindful of the economic environment – which is a slow recovery in Northern and Western Europe. Consequently, there is a greater tendency than normal to take short-term lease extensions and perhaps defer longer-term commitments to new space. Nevertheless, there is still a range of drivers for occupiers seeking new premises, whether that is obsolescence of existing facilities or consolidating supply chains, with a focus on high-quality, well-located and energy-efficient space.

From our perspective, accelerating obsolescence drives opportunity. To meet occupiers' preference for high quality space typically requires substantial capex and a vacant building to enable substantial refurbishment, which is where we can create special value leveraging the technical expertise of our in-house team.

Q Are there crosscurrents in Europe and how are they affecting the logistics market?

JH: Foremost is geopolitical risk, which is weighing on investor sentiment. There are obvious concerns over the implications of US trade policy going forward and we have seen political upheaval in France and Germany, the two major drivers of the continental European economy. The election in Germany this month, earlier than scheduled, is welcome as it will bring clarity sooner.

The second issue is inflation and the future path of interest rates. While inflation has been falling towards central bank policy targets, concern remains over the persistence of inflation with attendant risks to forecast rate cuts. It is far from certain that investors underwriting broad-based, cyclical yield compression will be rewarded in the short term. However, if you are focused, as Verdion is, on creating value at the asset level and risk-adjusted returns rather than absolute returns, you will be less sensitive to the rate cycle and to associated changes in the debt market.

SW: While there is a focus on US reshoring, we are starting to see some requirements related to reshoring and nearshoring from manufacturing occupiers in Europe, which is contributing to a broad base of demand across our core Northern and Western European markets and seems likely to continue.

Q What are the key opportunities in the sector in 2025?

SW: The key opportunity that we see in our target markets – Germany, Denmark, Sweden and the Netherlands on the continent, and the UK – relates to the opportunity to create new or refurbished product in brownfield settings within urban and near-urban markets with reliable underlying occupational demand. So urban logistics remains a key focus.

New product delivery has been declining for around 18 months as a result of build cost inflation, with developers burdened by high legacy land values and general economic uncertainty, so there is a real opportunity to deliver if you are able to acquire land or redevelopment projects at current pricing.

In this leasing market, the fundamentals matter more than ever, so we are looking hard at where occupiers really want to be, and seeking locations where vacancy is low, levels of obsolescence are high and new supply is limited. That means concentrating on the larger cities and conurbations in our target markets, and being discerning in what we decide to take forward. Our focus is on brownfield sites and refurbishing or redeveloping existing assets, where our technical teams can drive innovation from the additional complexity these opportunities entail.

Crucially, construction cost inflation has moderated and the backlog in construction companies' order books is easing; they are not as full as they were. So, as well as reduced pressure on materials pricing, we are also seeing greater competition between contractors when tendering new projects.

JH: It is definitely a market in which to be thoughtful about design and specification of new or refurbished assets that suit the specific location and its occupier base, rather than delivering "cookie cutter" facilities. It calls for real insights into the submarket you are operating in, which requires a local team with direct experience in these locations.

> *"There is still a range of drivers for occupiers seeking new premises, whether that is obsolescence of existing facilities or consolidating supply chains"*
>
> **JONATHAN HARRIS**

Q What is most important for managers, owners and developers of logistics assets?

JH: Relationships with investors and occupiers are crucial for all investment managers – our guiding principle is to continue creating and adding tangible value for them – but we also focus very much on relationships that help secure our future pipeline.

Not only is this for the sellside brokers, but it also includes local municipalities where we operate. Particularly when it comes to large-scale development, which is increasingly constrained by a lack of suitable land for strategic parks and major built to suit projects, these relationships are increasingly important as greater consideration is given to the impact of developments on communities, employment and the environment. We need to know what the particular sensitivity for a project is, whether it be truck movements, building massing, workforce availability or perhaps housing pressure.

For example, the vendor for the site of our 158-hectare Verdion Javelin Park Niederrhein, near the German/Dutch border, was the German federal government working with the local municipality. We have worked closely with them to deliver a development masterplan, which was approved for zoning late last year and now offers some unique opportunities for large-scale facilities benefiting from clean energy provision on-site. There is both a significant sensitivity and skill set required when you are working in partnership like that but is actually important for sites and opportunities of all sizes and locations. Those who do not listen, understand and respond, risk frustration or failure. ■

Lending remains promising amid rate cuts

As easing interest rates raise hopes of stabilization in the lending market, the industrial sector could benefit more than other asset classes, reports Aisha Kapoor

In recent years, the logistics and industrial sector has faced a raft of challenges that have impacted occupancy, fundraising, transaction volumes and valuations. The ongoing recalibration of monetary policy in many parts of the world could help alleviate some of the concerns.

Industry participants say the extent to which rate cuts could boost lending is somewhat nuanced. While short-term interest rates in the US have lowered, the future direction of long-term interest rates set in global bond markets continues to remain uncertain.

Dave Link, executive vice-president and regional managing director at commercial real estate lending firm Northmarq, says: “It is tough to predict that long-term interest rates are coming down, given they have trended mostly upward, post-election.

“The threat of tariffs and escalating consumer prices have kept long-term treasuries artificially high. We believe the 10-year treasury hovering around 4 percent or below will push owners to transact. The challenge we have had in 2024 is the 10-year treasury has gotten to that 4 percent level, but borrowers have been slow to react. By the time borrowers make decisions to move, the 10-year Treasury jumped, and deals fizzled away.

“We need both consistency in long-term rates and borrowers willing to move quickly. Until we see that, transactions will continue to be stuck in the muck.”

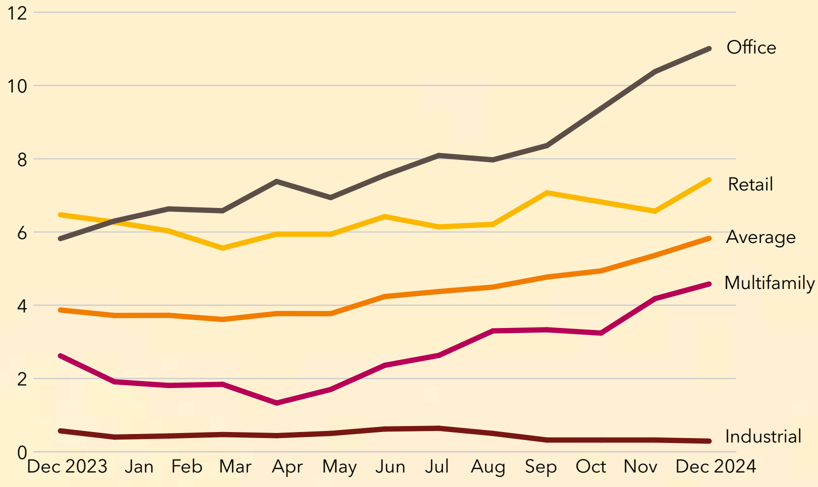
The case for logistics lending

Notwithstanding the ambiguity over long-term rates, lending is expected to remain buoyant. There are two key reasons why appetite for industrial and logistics property financing is likely to remain strong in 2025: underweight lending allocations of some of the most active lending groups, and relative outperformance of the sector compared to other sectors.

John Rose, senior managing director at JLL Capital Markets, says industrial and logistics properties continue to be an asset type that lenders prefer and investors desire to acquire.

“Lenders cannot find enough product to lend. There are several lenders, specifically life insurance companies, who did not meet their targeted lending allocations in 2024 that will be in pursuit of lending opportunities for

The CMBS delinquency rate climbed for all major property types in the second half of 2024, except industrial (%)



Source: Trepp, 2024

industrial and logistics properties in 2025.

"Overall, this is about as deep of a lending pool that we have seen for industrial and logistics properties – both fixed rate and floating rate. The drop in short-term interest rates has led borrowers to contemplate their borrowing strategy, whereas in early 2024, borrowers gravitated more to fixed-rate loans due to the lower cost of capital."

Link adds: "The life companies have had a tougher time being competitive with agency apartment lending in 2024. To compensate for missing on the apartment business, they have been highly competitive in pursuit of industrial lending."

Even though logistics has experienced value erosion in recent years due to higher interest rates and increasing cap rates, private real estate managers have continued to deploy capital.

Alistair Calvert, chief executive officer of Clarion Partners Europe, says the repricing of real estate in Europe has helped stabilize the investment markets. "With continued uncertainty around the office investment market and softness across large parts of the retail investment market, lenders are looking to increase exposure to the residential and logistics sectors. Key logistics markets have been stable from a yield perspective for the last few quarters, and with the re-emergence of core capital, we are now seeing marginal yield compression."

> *"Overall, this is about as deep of a lending pool that we have seen for industrial and logistics properties"*
>
> **JOHN ROSE**
> **JLL Capital Markets**

Active players in the market

In addition to life insurance companies, other types of lenders are also re-engaging with the sector, including regional banks, debt funds, commercial mortgage-backed securities and even national banks.

JLL's Rose says the money center banks, which were mostly on the sidelines the past 18-24 months, are increasing their lending activity. "Large loan executions through the SASB market have created efficient access to liquidity for borrowers. Given the demand from bond investors for industrial product, credit spreads have compressed significantly since the beginning of the year. An increase in acquisition activity over the last two quarters has also created more lending opportunities. These factors collectively indicate a positive trend in logistics and industrial real estate lending activity."

The uptick in lending activity is reflected in the number of notable transactions recently announced around the world. In October 2023, New York-based private equity firm Blackstone announced it had secured $930 million for a sustainability-linked loan representing the largest of its kind in Australia's industrial sector.

Last September, JLL Capital Markets arranged a $577.6 million CMBS single-asset, single-borrower financing for an industrial portfolio comprising 25 properties totaling seven million square feet across 10 US states. Soon after, Invesco Real Estate reportedly provided €272 million for a portfolio of prime logistics assets located across three countries.

As more players become active, lending terms are also evolving.

Clarion's Calvert says the big change in the all-in cost of debt is being driven by the reduction in expectation of long-term interest rates. "The increased lender appetite for logistics is also putting downward pressure on margins. We are seeing lenders increasingly willing to offer higher LTVs and more bespoke structures for development or refurbishment projects. The rise of green-loan lending, for example, is also providing cheaper debt to borrowers who are able to provide sustainable buildings as collateral or a business plan to achieve certain environmental milestones during the loan period."

Melissa Rose, senior managing director at JLL Capital Markets, says: "Regional and local banks have notably re-entered the construction lending space, with certain banks offering compelling leverage and pricing on speculative industrial non-recourse financing. The increased competition among a larger pool of capital sources has materially improved terms on development loans."

Constraints to growth

While the industry is hopeful of an imminent stabilization, commercial real estate continues to grapple with cyclical challenges.

The looming maturity wall remains a key issue. Rate hikes since March 2022 have led to burgeoning refinancing challenges for borrowers whose loans are due soon. S&P Global estimates that around $1 trillion in commercial real estate mortgages could mature in 2025, and peak at $1.26 trillion by 2027. That said, executives largely agree the logistics and industrial sector faces less of a refinancing risk compared to other sectors.

Trepp's December 2024 *Delinquency Report* shows average delinquency rates rose again at the end of the year, with the overall rate climbing 17 basis points to 6.57 percent. The office delinquency rate surpassed the 11 percent mark in December, representing more than $2 billion in office loans that became newly delinquent that month and beating the previous high of 10.34 percent set back in 2012. Meanwhile, delinquency in the industrial CMBS sector fell to just 0.29 percent in December, continuing its downward trend since July.

> *"Industrial and logistics properties have not experienced the level of distress compared to other asset types"*
>
> **MELISSA ROSE**
> **JLL Capital Markets**

Northmarq's Link explains: "The real problem we see is lenders who have had maturities in 2023 or 2024 and have kicked the can down the road with short-term loan extensions. At some point, this refinance wave will have caught up to the reality of the market and there will be some refinance challenges. That said, I don't see issues refinancing industrial as the appetite for that product type remains high with no reason to see change any time soon.

"Current rates are higher on refinances than rates you had locked in on when borrowers originated loans years back. The true challenge I see for industrial is the potential need to bring additional equity to the table on the refinance. This could happen if borrowers haven't amortized their loans during the loan term or if the owner has a challenging rent roll."

The refinancing pressure on logistics assets could also present acquisition opportunities, notes Melissa Rose. "Industrial and logistics properties have not experienced the level of distress compared to other asset types. Pending maturities will cause borrowers to make decisions, which we believe will result in opportunities. There is ample liquidity from different lender types resulting in a capital solution for any situation. The primary consideration in these cases is the cost of capital."

However, the sector is not immune from other challenges. Global brokerage JLL estimates that in Q3 2024, US industrial leasing volumes were 26 percent lower year-on-year, despite greater touring activity in many markets as transaction timelines remain lengthy. Similarly, leasing activity declined by 19 percent over the year across European markets, while in Asia-Pacific, net absorption was 22 percent below 2023 levels.

The sector is also burdened with aging supply around the world that is ill-suited for today's technology and sustainability requirements. CBRE Investment Management found that more than 72 percent of logistics assets in the US were built prior to 2000, with over a quarter being more than 50 years old. The mismatch in supply and demand for more modern logistics facilities is also leading to a financing gap in the sector.

While short-term rate cuts could encourage investors and lenders waiting on the sidelines to re-engage with the sector, addressing these broader economic challenges remains crucial for long-term performance. ■

KEYNOTE INTERVIEW

E-commerce is reshaping industrial real estate

Logistics has moved from low cost to high value, and is shaping the future of cities, says Sean Dalfen, chief executive of Dalfen Industrial

Since entering the industrial sector in the early 2000s, Dalfen Industrial CEO Sean Dalfen has witnessed the rise of e-commerce firsthand. He has also observed how industrial properties have evolved to accommodate complex logistics and distribution networks necessary to facilitate online shopping.

Two decades ago, industrial sites were largely selected by the lowest price. Today, proximity is king. Logistics tenants, driven by the need to minimize transit costs, are now willing to pay a premium for strategic locations. The shift is reshaping cities as the highest and best use of infill real estate changes.

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Q How has the rise of e-commerce shifted the industrial sector over time?

The fundamentals of e-commerce today dictate that proximity to the consumer is essential for profitability. Roughly 45-75 percent of supply chain costs come from the movement of goods, with 52 percent of these costs occurring in the last mile alone. This underscores a simple reality: to remain profitable, companies must position themselves closer to consumers.

We have witnessed a massive increase in demand for industrial space, not only in the last mile but across the whole sector. The industrial real estate asset class has the most demand drivers because everything we own passes through an industrial building at some point. This strong demand, already bolstered by manufacturing and distribution, has been further amplified by the rapid growth of e-commerce.

These combined drivers have made infill industrial property both more valuable and more scarce. For example, we negotiated a lease recently at a property we own in South Florida, and the rate was over $17 per square foot – a sharp rise from $4 a square foot it was in 2010.

Global e-commerce growth is projected to reach a 9 percent annual compound growth rate by 2027, more than double the expected growth rate of brick-and-mortar retail. These days we all expect to see packages at our door. Urban delivery is set to increase by 27 percent globally. As more companies and consumers depend on online sales, meeting the requirement for fast delivery will serve to further grow the demand for infill industrial space.

Q What role does last-mile delivery play in shaping the demand for industrial properties?

The margins on goods sold by most online sellers are relatively low, and commonly the movement of goods to the end user represents the largest cost associated with that purchase. If you want to profit in most e-commerce businesses, you need to be close to the consumer. The business model works best when the deliveries can be grouped together on a single trip. By consolidating shipments and reducing the drive times needed for each delivery, sellers can maximize efficiency and overall profitability. The only way to achieve this is by leasing more last-mile fulfillment center space.

Real estate typically accounts for only 3-6 percent of supply chain costs, so tenants are willing to pay a premium for well-located industrial real estate that reduces transit and employment costs. As a result, we have seen explosive growth from a rental rate standpoint.

Q Is on-site parking or parking for trucks important to tenants?

For many tenants, parking is perceived as the new clear height. Offering ample parking can be a significant advantage, though its importance varies by user. Smaller fulfillment tenants often have minimal parking requirements, whereas larger companies who have more sophisticated logistics operations place a high value on extra parking to facilitate more efficient delivery systems, such as having vehicles queued and ready.

We operate a line of business in industrial outdoor storage (IOS) that caters specifically to needs like parking and material or equipment storage. For example, a home builder who must travel long distances to retrieve materials will see those transportation costs reflected in the price of homes. This principle applies across many industries, making infill IOS space highly valuable. These properties are an essential component of the supply chain, helping keep prices down for goods and services.

Q How has e-commerce changed industrial site selection and design?

Companies can no longer rely on the distribution models of 10-15 years ago, where a single warehouse on each coast was sufficient. Today, demand for space has shifted; companies require a web of distribution facilities across the country, often in each major city. Additionally, they need fulfillment centers, which are typically smaller and strategically located to serve specific segments of a city's population.

Changes in the logistics model have also reshaped the design of both distribution and fulfillment centers. For large distribution facilities, features like clear heights, dock positions, speed bays, flat floors and truck parking have become increasingly important. Many tenants now equip their facilities with automated picking and packing machines, calculating space requirements by the cubic foot instead of the square foot. Ideally, a modern facility allows a company to maximize storage by racking as high as possible.

For smaller fulfillment centers, the timeless adage of "location, location, location" is more relevant than ever. As I mentioned, much of the profitability is tied to the proximity of the customer, therefore, the closer you are the more you profit.

Q How are owners adapting to the increasing demand for automation and technology?

Automation is driven by the needs of the tenant. Our goal when building or buying a facility is to provide all the amenities necessary for a tenant to maximize the efficiency of their space, particularly if they incorporate modern automation machinery. This includes

"As logistics and distribution networks evolve, industrial real estate is becoming an increasingly integral part of our cities"

features like sufficiently flat floor slabs for laser-guided machinery, ideal column widths, speed bays, excess loading, clear heights and charging stations. Additionally, we prioritize maximizing power capacity, making our property as attractive as possible to the widest range of potential tenants.

Q How are these infill sites competing against other asset classes?

Traditionally, there were higher and better uses for infill sites in a city, whether that be office, retail or multifamily. Until recently, these uses were more profitable. Today, however, warehouses often generate greater returns. Despite this shift, a challenge persists. While people want their packages as quickly as possible, they do not want to live near warehouses or see the trucks.

The gig is up for industrial real estate as it relates NIMBYism. It used to be an asset class you could build quickly, and with limited permitting hurdles. Now we face significant challenges. Many municipalities are resisting industrial facilities altogether, with some imposing moratoriums on new warehouse construction and even use. As a result, in many parts of the country, new developments can often take three or four years to complete due to increasingly complex entitlement and approvals processes, as well as other regulatory hurdles.

We expect quality infill industrial space to grow increasingly scarce as demand increases, obsolete properties are removed from existing inventories and the development pipeline for new facilities continues to dwindle.

Q Can the industry change that perception?

In some cities, job creation is a key priority, and industrial facilities are major drivers in job growth – an appealing factor for gaining municipal support. In other cases, they may place use restrictions on your facility.

For example, we recently closed a $300 million portfolio where we had to delay the closing of one of the properties due to a use restriction that we uncovered in due diligence. In that case, the developer navigated the city's concerns by agreeing to a use permit limiting the facility to standard distribution and explicitly prohibiting e-commerce fulfillment. We are working with the city to remove the restricted language and intend to close this property at a later date once this is accomplished.

Many people have preconceived notions about warehouses, often associating them with vans/trucks clogging their roads, pollution, safety hazards and more. We have heard pretty much every negative assumption and concern from residents, which is why we engage with the local community from the onset. Although it is increasingly challenging, we work diligently with cities and communities to address their issues and we incorporate their needs into our designs. Invariably, our properties become a critical resource to the communities we serve.

Ironically, the increasing challenges related to NIMBYism serve to reinforce our conviction that well-located infill properties are becoming an increasingly finite resource, which will lead to substantial increases in rental rates and property values.

Q What are the key challenges industrial real estate developers face due to the rise of e-commerce?

E-commerce highlighted industrial real estate as an attractive asset class, sparking widespread interest and investment in the sector. As industrial became the darling institutional asset class, the biggest challenge in recent years has been aggressive overbuilding. Much of the construction has not been tied to market fundamentals. Instead, the focus has been on simply getting product on the ground. However, when a company decides they want to go into industrial, there is a steep learning curve.

While anyone can build a warehouse, becoming an expert and thriving through market cycles requires deep market knowledge and experience. One positive outcome of the recent market volatility is that it has driven many "tourists" out of our sector.

As logistics networks evolve, industrial real estate is becoming an increasingly integral part of our cities. The cost of last-mile delivery is driving industrial sites closer to urban cores as operators look to meet the ever-growing demand for faster and more profitable deliveries. The reliance on proximity to population centers presents significant opportunities for investors with the right market knowledge to capitalize on strong tailwinds. ■

Where retail meets industrial

As omnichannel shopping grows, so does the need for logistics to move closer to brick-and-mortar stores, reports Jennifer Waters

There was a time, and not all that long ago, when the head of retail stores and the logistics department chief were very distinct parts of the business. Many rarely communicated, and often they competed for capital within their companies.

But like so many transformations that the covid-19 pandemic forced upon us, these two departments have learned to play well together. So well, in fact, that the lines between retail stores and industrial logistics are blurring, with operations moving closer to the consumers they serve.

"The point of value creation and the greatest point of risk for a retailer is at the nexus of the logistics portion of their business and their retail portion," says Jason Tolliver, president of brokerage Cushman & Wakefield's Americas logistics and industrial services group. Costs, of course, are the culprit, leaving many retailers to rethink storefront capital outlays against the challenges of product inventory and distribution.

"Balancing that cost drove a profound transformation inside the retailers themselves," Tolliver adds. "Across the board, you're starting to really see chief supply chain officers, the heads of stores and the CFOs all become better aligned."

Indeed, Kris Bjorson – executive managing director of brokerage JLL's retail industrial taskforce, which focuses on the retail supply chain – notes that the supply chain has taken a "lead role in deciding where inventory is placed, how inventory is placed [and] where it should be placed," whether that is at the store or at an urban fulfillment center.

Consumer realignment

Consumers have had their say in this situation as well. Some 73 percent of consumers are now omnichannel shoppers, according to business management firm Deloitte. They are researching and buying online, but also physically going into stores to shop the old-fashioned way by touching products and trying on apparel and shoes.

This return to shopping malls is not being driven by older shoppers who may have spent much of their youth wandering around them, but by their children and grandchildren, according to a Google/IPSO poll. Overall, about 80 percent of US shoppers who visited a brick-and-mortar site used online searches before visiting a store.

At the same time, consumers have made it increasingly clear they want faster and faster delivery of their purchases. Omnichannel shopping gives them options, including purchasing online and picking up in store, next-day or two-day delivery through ever growing last-mile logistics channels, or shopping in the store.

"The quickest segment has definitely been buy online and pick up in store," Tolliver says. "And it's the easiest for retailers to execute in terms of capital costs."

What it means

This profound shift to omnichannel shopping forces retailers to have quick access to inventory, whether in a large warehouse on the outskirts of a town, a smaller distribution in-fill center, or a large back room at their brick-and-mortar location – and that often takes the form of industrial and logistics real estate, driving demand higher.

Chris Caton, managing director of global strategy and analytics at Prologis – the world's largest logistics real estate investment trust, says: "Relative to five years ago, the preference to get to same-day, next-day or two-day style delivery has only gone up, and it's across more players in the retailer landscape. Service promise is a way to win business, and it's a vector that retailers are continuing to compete on."

Still, as consumers increasingly favor online options, some retailers are consolidating locations and shrinking their footprints by approximately 2 percent per year, according to the National Retail Federation. That is notwithstanding the need for logistics space closer to where consumers live and shop.

As of late last year, retailers have or are in the process of boarding up more than 7,000 stores, accounting for a 69 percent surge in closings, according to Coresight Research, the data research and advisory services firm.

That level of store closures surpasses the all-time high recorded during the pandemic. This is leading many retail owners and investors to explore converting or redeveloping space for logistics uses.

Closer and closer

Rapid delivery is pushing retailers to seek distribution locations within 10-20 miles of their target consumer bases, according to James Breeze, vice-president of global industrial and retail research at brokerage CBRE. "The industrial and logistics sector is increasingly intersecting with retail through the use of urban fulfillment centers and last-mile distribution hubs. Many big-box retailers are investing in facilities that allow them to store inventory closer to urban populations, enabling faster delivery options."

"Across the board, you're starting to really see chief supply chain officers, the heads of stores and the CFOs all become better aligned"

JASON TOLLIVER
Cushman & Wakefield

Big-box retailers are adopting what they call delivery stations in urban areas, "allowing them to process and dispatch packages much quicker than traditional distribution centers," he says.

Amazon amped up plans to create delivery stations focusing on last-mile deliveries in and near residential areas about four years ago. Today, there are nearly 730 in the US, according to supply chain consultant MWPVL International, and there are more in the pipeline. That number does not include the 35 fulfillment centers performing same-day deliveries or the 525 Whole Foods and 62 Amazon Fresh stores.

Online retailer Amazon's goal was to better compete against traditional retailers Walmart and Target, both of which were capable of meeting same-day and two-day deliveries because their big-box stores were already in and near residential areas. Amazon's new delivery stations are 75,000-200,000 square feet in size and range from new builds to redeveloped warehouse space or former car dealerships, and even shuttered Walmart stores.

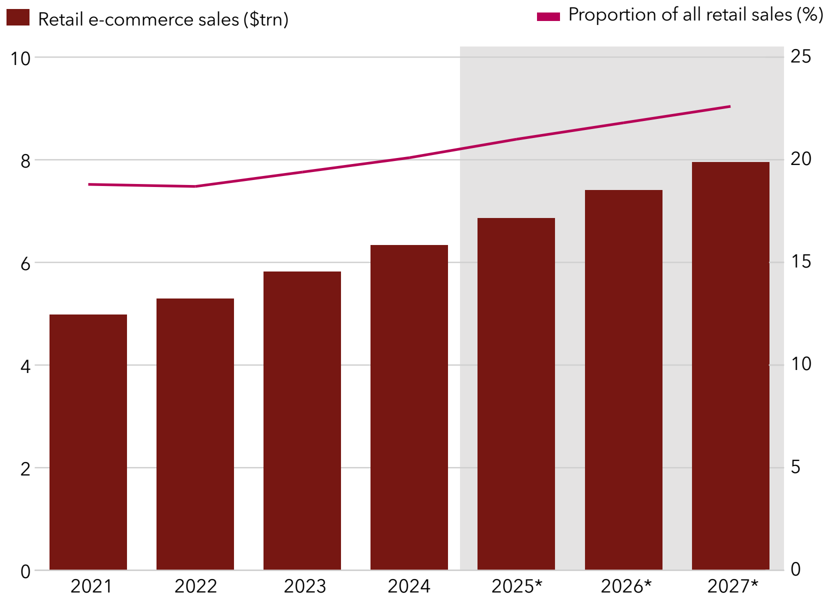
"There is a growing trend of repurposing unused retail spaces into warehouse or logistics facilities, particularly in suburban areas," according to Breeze. Entire shopping malls are being transformed into distribution centers as former department store locations are converted into logistics hubs.

Prologis's Caton says: "Whether it's major facilities on the periphery of major cities or it's truly some sort of urban redevelopment or infill redevelopment, we have a whole class of covered land plays. They might be a parking lot; they might be an aging retail concept that has a lease on it for a period that when we get that space back, we're able to modernize the site into one that serves the modern supply chain."

It goes both ways

Underutilized industrial and warehouse spaces are also transforming into retail and entertainment sites. "There is a trend of retailers establishing storefronts within warehouse spaces, particularly for larger home goods stores

Global e-commerce sales are projected to hit $6.86trn in 2025, an 8.3% increase from 2024



*2025, 2026 and 2027 data is forecast
Source: Insider Intelligence, US Census Bureau, 2024

that combine showrooms with distribution capabilities," say Breeze.

Other warehouse spaces have been converted into pickleball courts or children's play gyms. In Elk Grove Village, Illinois, Stern Pinball recently opened a 164,000-square-foot operations and production facility that includes a new showroom and retail space. However, adding retail space to warehouse buildings is a budding movement that could be years in the making, thanks to zoning regulations and what could be incredibly high insurance costs. JLL's Bjorson agrees: "The majority of industrially zoned parks prevent retail-type sales or outlets in the park. That's a risky insurance provision that not many retailers will want to take with truck traffic and potential consumers walking across a truck court."

Not surprisingly, larger retailers dominate the logistics integration, says Breeze. "Some mom-and-pop shops and specialty retailers are also adapting, albeit to a lesser degree. These smaller retailers might allocate a smaller portion of their total square footage for inventory storage, focusing more on local delivery or pickup options."

That underscores the call for logistics space closer to the physical brick-and-mortar storefront, still a very important component of the shopping experience – no matter how fast omnichannel shopping evolves.

The good news is that some communities are becoming more open-minded to zoning regulations that prohibit those types of facilities near residences and schools. That is particularly true if those cities are looking to build employment.

Not just retail

Logistics is also finding its way into other commercial real estate buildings. "This dynamic of the nexus between retail and logistics is rippling beyond just the world of retail and industrial real estate into the world of multifamily real estate or office real estate," Cushman's Tolliver says.

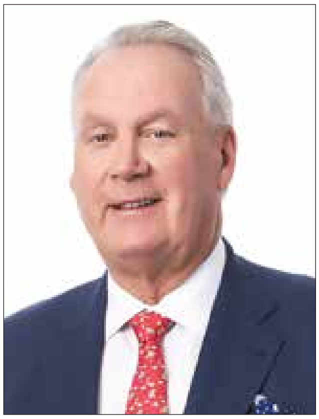
With the upward spiral of one- and two-day delivery shopping, multifamily residential and office sites are finding themselves in new space-constrained territories. "If you're a multifamily development or a mixed-use development and now you have all of these packages that are going to be delivered, where are they going to be stored?" inquires Tolliver. One thing is clear, he notes: "One size or one strategy does not fit all." ■

"The industrial and logistics sector is increasingly intersecting with retail through the use of urban fulfillment centers and last-mile distribution hubs"

JAMES BREEZE
CBRE

KEYNOTE INTERVIEW

Sovereign wealth funds lean into industrial



Demand for US logistics will remain strong long into the future, say Logistics Property Company's Jim Martell and Brent Steele

The US has long been a magnet for sovereign wealth funds, given the country's long-term stability and efficient financial market systems that allow outside governments to diversify risk while building and preserving capital.

Chicago-based Logistics Property Company was founded in 2018 with Macquarie Asset Management, the asset management division of Australia's Macquarie Group, a diversified financial services group.

Since then, it has raised close to $3 billion from six of the world's largest investors because of their appetite for US logistics, according to Jim Martell, CEO of Logistics Property Company, and Brent Steele, its chief investment officer.

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Q What factors influence international investors when selecting real estate investments, particularly in the US?

Brent Steele: When Jim and his leadership team partnered with Macquarie Group to establish Logistics Property Company, they identified the evolution in institutional real estate investing as global capital increasingly looked to find and partner with best-in class operators directly.

International capital has always been attracted to office properties and more of the main real estate asset classes. Industrial was one of them, but it previously fell down the line as a priority for global capital. All of that began to shift from 2015-20.

Jim and Macquarie Group have effectively combined operational experience with strategic insights into tenant needs and competitive advantages, creating a robust platform that manages global capital and engages investors.

Between existing and under-development investments, the company manages over 27 million square feet across 67 industrial properties.

Jim Martell: What is very important for these international investors is also the tax structure. So many of them are limited to being 49 percent holders of properties.

Take Australia, for instance: the combination of multiple funds in Australia cannot be more than 49 percent for tax purposes, based on US withholdings and other tax structuring.

They also want to do that through a real estate investment trust (REIT) set-up for tax purposes. Our model was created to accommodate those two challenges: the 49-percent limitation and a REIT-ownership format, all to be as tax efficient as possible.

We really focus on communication and transparency. Investors join us on a weekly call to go through what we are doing and why, which helps them understand our organization, our strategy and our perspective. But equally important for us is getting their perspective.

We get a take on what is happening globally and in their backyard that might be influencing their decisions and what they are looking for. That gives us a clear line of communication with them, and I think they have come to appreciate that level of communication and transparency.

Q What are the benefits to focusing on industrial, compared with other property types?

JM: When you look at all the different products, from office to retail to housing and so forth, industrial probably is the simplest product from the standpoint of buying the land, building it, getting it leased and selling it.

Industrial by itself is a very short cycle, which can be 12 to 18 months. Because of the short cycle, outside influences have less chance of impacting the outcome compared with an office or multifamily building that might take five to seven years to go through the gestation process of development and lease-up.

As for the product itself, demand for industrial and logistics property has been steadily rising. The acceleration of demand is driven by two things.

One is the growth of GDP, which is so highly correlated with the sector. As a country's GDP increases, so does the need for warehouses and manufacturing facilities, leading to increased investment in industrial real estate. A growing economy requires more space to produce, store and ship goods.

Second, as we moved from storefront brick-and-mortar retail and got into e-commerce, especially in the period immediately following the covid-19 shutdowns, that accelerated probably 10 years' worth of demand for industrial real estate in very short order. That took off in 2020, and 2022 was probably the year we saw the most development and rent growth in the US industrial and logistics sector.

Q Is that growth trend expected to continue in 2025?

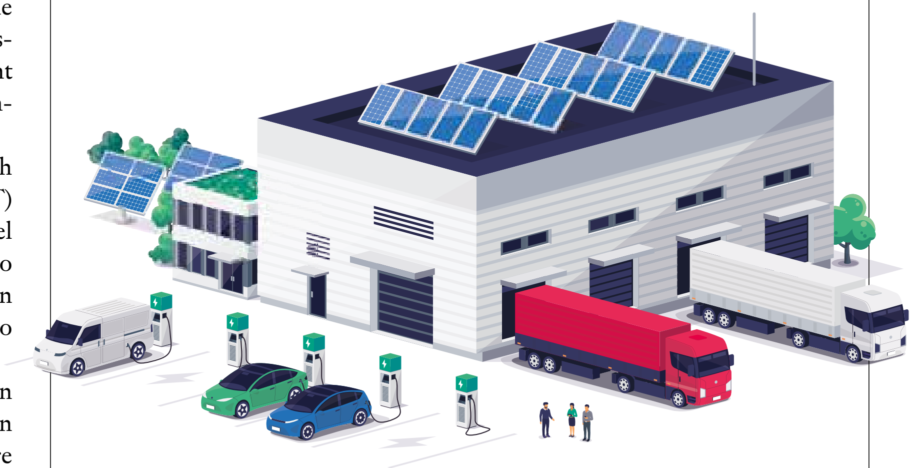
JM: We are seeing construction decline significantly. Rent growth has slowed a bit. When you go back to industrial asking rents in 2015 to what it is now, in many cases, it has doubled or tripled – even though the marginal growth over time has slowed down since then.

In many cases, the US industrial markets got down to vacancy rates that were 2 to 4 percent. Now, across the country, we are in the 7 to 7.5 percent

Q How can managers address the environmental and sustainability concerns that many institutional investors have across their portfolios?

JM: We have ramped up our focus on environmental and sustainability initiatives and hit a milestone recently with the number of our projects that are LEED Certified, both Silver and Gold. We are constructing our buildings with state-of-the-art engineering and design to limit the amount of steel and concrete we are using, especially in our floors.

In addition, we are working to design and construct our structures to add solar panels. We have worked very hard on all that, and it is meeting our investors' expectations.



range – still below historical averages and below vacancy rates for other property types today, but higher than it was a few years ago.

As interest rates increased, the yield on cost obviously had to increase, and companies were more cautious. Also, the cost for a company to move its warehouse and outfit it with new equipment and machinery has become extremely expensive.

Therefore, big corporations put a hold on a good number of the new facilities, given the financial impact of opening new warehouses amid climbing interest rates, geopolitical uncertainty and the looming cloud of a potential recessionary period in 2023 and much of 2024.

Industrial supply had been growing based on e-commerce demand and it has slowed down now because of higher interest rates and occupiers being more expeditious.

BS: If you look at the gross leasing numbers over that same time period, they are still strong. It is the net absorption we are talking about falling off, simply because we did have a lot of supply that came in. That demand was not necessarily keeping up with the robust amount of new supply that was coming online.

But at an absolute leasing level, industrial leases are still taking place, and there is still a lot of gross leasing. So, as that supply is delivered and is absorbed with not much in the pipeline behind it – as construction starts have slowed significantly in the past year – you see some attractive fundamentals ahead if you are an owner-operator of US logistics.

Q Are institutional investors reallocating capital toward industrial?

BS: Historically, in an institutional portfolio allocation between the main product types, logistics would be somewhere in the mid-teens and you would see a huge load up of office space. Those two have switched as office properties have become distressed in many cities. It is all about capital efficiency.

Suburban offices, in certain cases, and even low-rise buildings in urban core locations, are no longer the highest and best use for these commercial spaces.

If you look at the rent you can generate in those markets, and the demand drivers given their proximity to consumers, they are now being repositioned into logistics facilities, small-bay warehouses and last-mile shipping. An empty office building does not produce returns and does not create jobs, so investors are starting to look at the other property types.

And then there are the demands of capital just to keep running that type of building, office versus logistics facilities.

Logistics has very good retention, or even if you need to re-let, you are talking about a couple dollars in tenant improvements per square foot, compared to much higher costs to operate, lease-up and fit-out office space. Plus, the operating model for industrial logistics allows you to pass through many expenses to your tenancy.

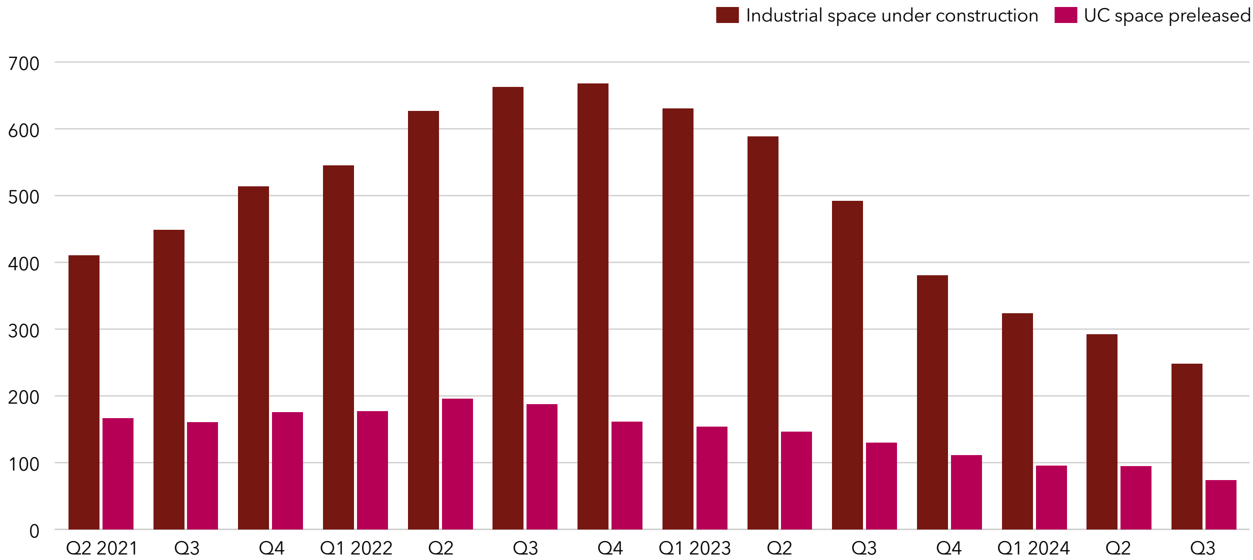
In addition to the continued interest from global equity capital, debt financing for US logistics remains readily available from banks, life insurance companies, private mortgage lenders and securitized structures. And this, despite the absence of government-sponsored programs that are available to the multifamily sector.

People are driven by data, and they understand there are opportunities based on the capital efficiency and the utilization of these big institutional portfolios. As a result, we have seen a much bigger increase in target allocations within global capital for logistics space and industrial properties. ■

> *“A growing economy requires more space to produce, store and ship goods”*
>
> **JIM MARTELL**

> *“In addition to the continued interest from global equity capital, debt financing for US logistics remains readily available”*
>
> **BRENT STEELE**

US industrial space under construction continues to fall while preleasing holds at roughly 30% (million square feet)



Source for all data: CBRE Research

Pre-pandemic demand

In its *US Real Estate Market Outlook 2025*, global commercial real estate services firm CBRE noted that the US industrial and logistics market will shift into a new cycle marked by a normalization and return to pre-pandemic demand drivers.

James Breeze, vice-president of global industrial and retail research with CBRE, says: "The initial post-pandemic cycle we were in, where tenants were rushing to lease as much space as they could to hold more inventory, is waning. It's being replaced more with a pre-pandemic strategy, which was looking longer out towards the future.

"One of the big things that we're seeing right now is essentially a flight to quality, when companies are looking at long-term decisions: they want more modern space; they want to have higher clear heights; they want to have more employee amenities; they want to, most importantly, have more power in the building because they want to utilize more automation, more artificial intelligence – because part of that long-term growth strategy is essentially servicing the growth in e-commerce that we're continuing to see."

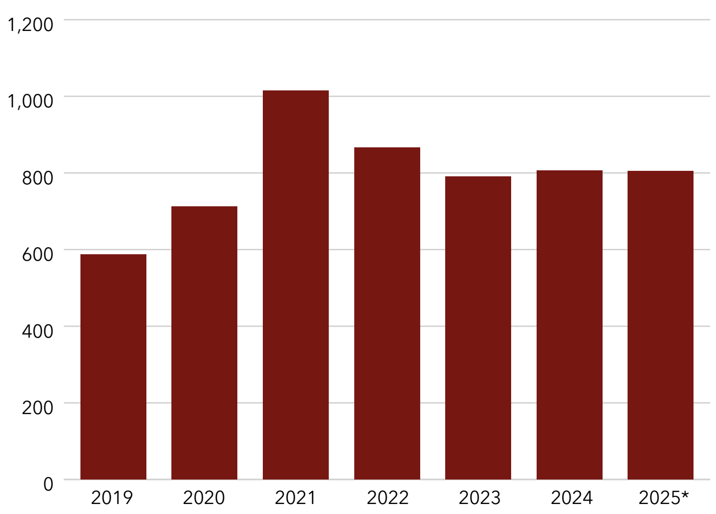
US industrial and logistics markets are expected to enter a new cycle in 2025, according to CBRE Research

Commercial real estate is poised for growth across key sectors. Scan the QR code above to explore CBRE's US Real Estate Market Outlook 2025

Occupiers will focus on long-term strategies to improve warehouse efficiency, ensure supply-chain resiliency and meet evolving customer needs. The ongoing demand for newly constructed industrial space will further elevate the vacancy rate of older buildings, signaling a clear trend toward modernization and efficiency, according to the report.

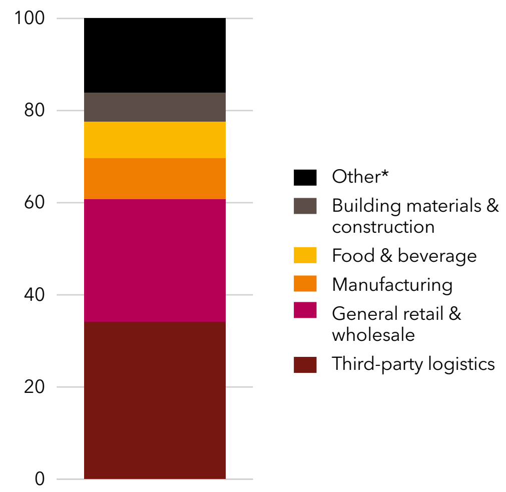
One of the most significant factors driving demand in 2025 will be the increased reliance on third-party logistics (3PL). Retailers and wholesalers will continue to outsource distribution operations. Labor disruptions, extreme weather events and geopolitical tensions have prompted companies to diversify their supply chains, and partnering with

Industrial leasing activity in the US has fallen from post-pandemic highs in 2021 (million square feet)



Includes new leases and renewals of 10,000 square feet or more *Projected

Third-party logistics, traditional retailers drove big-box industrial leasing in 2024 (%)



*Includes automobiles, tires & parts; e-commerce only; medical; and others

drivers returning to I&L

3PLs offers flexibility amid uncertainty. As a result, 3PLs are expected to account for approximately 35 percent of overall industrial leasing activity in 2025, according to the report.

US market performance

CBRE research shows that, while US leasing activity remains robust – stabilizing at just above 800 million square feet – net absorption will likely stay low. Much of the new leasing activity will come at the expense of older facilities. For example, buildings constructed before 2000 accounted for more than 100 million square feet of negative absorption in 2024, while new construction from 2022 onward accounted for over 200 million square feet of positive absorption.

Despite this trend, over 400 million square feet of newly constructed industrial space remained vacant as of Q3 2024, notes the report. Although the number of construction starts is projected to decrease in 2025, the relatively large stock of first-generation space will allow for further movement toward higher-quality facilities.

The growth of e-commerce will continue to propel demand for warehouse and distribution space, says CBRE. By year-end 2025, the share of total retail sales is expected to reach 25 percent. As consumer expectations and supply-chain resilience become increasingly crucial, primary US markets such as the Inland Empire, Dallas-Fort Worth, Atlanta, Chicago and the New Jersey/Pennsylvania region will remain dominant in leasing activity, CBRE predicts. Emerging markets like Houston, Kansas City, Louisville, Nashville and Raleigh-Durham will also become more critical as they serve manufacturing needs in both the US and Mexico.

A key consideration in site selection will be supply-chain resiliency, particularly in response to reshoring trends. While manufacturing in the US continues to grow, lower labor costs in Mexico make it a vital partner in product supply. However, Mexico's record-low industrial vacancy rate is pushing companies to establish distribution centers in the US, particularly near the Mexico border or along major north-south interstate highways. As potential tariffs on products from Asia and Europe loom, southwestern cities will see heightened demand for industrial spaces to facilitate cross-border operations.

Overall, CBRE's report finds that the industrial and logistics market in 2025 will be defined by a return to pre-pandemic demand drivers, focusing on efficiency, modern facilities and resilient supply chains, while new opportunities in reshoring and cross-border distribution will further shape the landscape. ■

LOOK AHEAD 2025

Immigration policy could pose a bigger threat than tariffs

ERI's Paul Coelho says a potential labor shortage under the Trump administration could hinder industrial assets, reports Harrison Connery

Industrial managers began wringing their hands about the potential impact of increased tariffs on US imports even before Donald Trump was elected to a second term as president.

While inflationary pressures could pose a headwind for all real estate sectors next year, the industrial class is seen to be among the most vulnerable. But Paul Coelho, managing partner at Boston-based manager Equity Resource Investments, believes the Trump administration's proposals surrounding immigration could prove to be a bigger obstacle.

"Just as important as the trade policy, and perhaps a bigger concern, is what happens with the US immigration policy moving forward and the impact that policy has on this country's employment base," he says.

Coelho estimates that the US manufacturing sector could grow by roughly three million jobs by the end of the decade, an increase of 23 percent. Those added jobs, he says, will have a multiplier effect up and down the supply chain, with an additional five to seven jobs for each manufacturing position created.

"As a country, our population is not growing fast enough to fill all these jobs," Coelho says.

A labor shortage caused by tighter immigration policy – or the deportation of a significant portion of what the Pew Research Center estimates to be

11 million undocumented immigrants living in the country – could constrain industrial tenants. Immigrants, both documented and undocumented, account for 25 percent of US construction workers, according to Pew, and 19 percent of manufacturing jobs. Insufficient labor could hinder demand for industrial space or inhibit its growth, which would in turn affect returns for managers targeting the sector.

Industrial remains resilient

While mass deportations could upend the industrial sector, Coelho acknowledges that details regarding the administration's policies remain unclear.

On a brighter note, Coelho says he feels encouraged by the industrial sector's resiliency over the past years, noting that its performance remained strong through similar policies implemented during Trump's first term, which were largely maintained during the subsequent Biden administration.

"Nearshoring and onshoring began in earnest during Trump's first administration's trade policy and the tariffs that were imposed at that time," says Coelho, adding that trends have continued since. "The higher tariffs on many inputs and outputs that were imposed during Trump's first administration were then maintained and/or increased by the Biden administration.

"The industrial sector didn't really slow down much as a function of those tariffs; it was other factors, including the Fed's fiscal policy and tightening of interest rates and investment in manufacturing under Biden's CHIPS Act, as well as the Inflation Reduction Act, that had more negative and positive impacts, respectively, on the growth of that sector."

Despite the risks, Coelho is generally optimistic for the industrial sector's continued prominence in investment portfolios next year, given the supply/demand imbalances that are expected to continue for the foreseeable future. He also believes the external forces that have hurt the real estate sector generally over the past five years are beginning to stabilize.

"If you have a longer view of the world and if you're willing to take on certain risks such as execution, vintage and market, then I believe there could be some good buying opportunities in the near term across affordable housing, workforce housing and value-add industrial strategies," he says. "The fundamentals of each of these asset types continue to be strong." ■

KEYNOTE INTERVIEW

Window of opportunity opens

Markets in northwestern Europe are starting to offer attractive yield profiles for industrial and logistics investors, says Pieter Akkerman

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Following an extensive period of repricing on the back of rising interest rates, industrial and logistics investors are looking afresh at northwestern Europe – the continent's economic backbone.

Pieter Akkerman, Schroders Capital's co-head, real estate Netherlands, explains how his team of real estate experts aims to tap into a €500 million pipeline of industrial and warehouse deals in the Netherlands, the Nordics and Germany.

Q Why is now a good entry point for industrial and logistics real estate?

Real estate valuations have declined significantly across the board, and we are now seeing an interesting pricing level in industrial and logistics real estate where it is possible to achieve strong returns from an income perspective with the right financing.

Compared to other sectors, there is very clear demand for logistics and industrial assets because many companies are still adapting to the post-pandemic economic environment, the growth of e-commerce and nearshoring. And that demand is boosting rents: CBRE expects rental growth of 2.4 percent through 2028.

This dynamic is particularly strong in the Nordics, the Netherlands and Germany, which are AAA economies with constrained supply fundamentals and tightening planning restrictions. Land values and prices of logistics assets are therefore expected to rise overall, so the fundamentals are very good.

We are also seeing more favorable financing conditions than a year or two ago, in addition to less competition. This is because many institutional players are still recalibrating their own portfolios.

Q Despite the recent price correction, some market watchers believe logistics is still relatively

expensive compared with other property sectors. Do you agree?

It depends on the subsegment. For example, the big-box, 100,000-square-meter (one-million-square-foot) logistics developments were trading at 3 percent yields at the market peak and experienced a very steep value decline in recent years.

It is always difficult if a 200,000-square-meter building becomes vacant, but mid-market logistics assets of 30,000-40,000 square meters are relet more easily.

Single-tenant industrial buildings offering a combination of production, manufacturing and distribution have also proven to be very resilient and a much more liquid segment within the lostistics and industrial sector.

With our logistics and industrial platform, we target the mid-sized logistics and single-tenant industrial segments, as well as last-mile distribution. These have proven to be rather resilient sectors over time.

Q Which other segments and geographies are investors targeting?

Cold storage has scope for growth. At the end of 2024, we acquired a partial cold storage distribution center from Ahold, the Netherlands' leading supermarket chain; we have a 12-and-a-half-year lease contract with them at a strong location.

A lot of tailor-made buildings exist for big multinational companies in this segment with significant potential for sale-leaseback deals with long leases and good returns. And if the property function should change, you still have a strong land position or redevelopment potential.

Outdoor storage is another segment we are exploring – so, land plots where industrial companies can store all types of equipment or vehicles.

We are also interested in long-term leasehold land positions like the one we have in Eindhoven in the Netherlands, where we have a 75-year leasehold with Prologis at one of the best logistics locations in the Netherlands.

"We concentrate on the Netherlands, the Nordics and Germany because we believe those are the most mature and transparent markets in Europe with AAA ratings, good liquidity and reliable legal systems"

"Ticking the boxes on green labels and standards like GRESB is easy when focusing on new buildings, but it is also important to ensure that they are actually sustainable in practice"

Geographically speaking, we concentrate on the Netherlands, the Nordics and Germany, because we believe those are the most mature and transparent markets in Europe with AAA ratings, good liquidity and reliable legal systems.

In the Netherlands, we look at the entire logistics axis from Rotterdam towards Venlo and Germany. That is a very interesting region due the scarcity of land and government restrictions on the issuance of new sites for logistics development.

In the Nordics, we are mainly targeting the big cities around Sweden and Denmark, including the ports and airports.

Germany is a bit more difficult because the economy is not doing so well, and industry is suffering. We think Germany could become interesting, but further repricing may be ahead.

Q What strategies are proving most effective for industrial and logistics specialists in the region?

What appears to be most important is the combination of a very entrepreneurial team with a strong institutional framework.

Our team began this strategy over 15 years ago; we have acquired and developed all the assets ourselves, we have very strong relationships with our tenants and have alignment of interests through our co-investments. Our team on the ground is very strong with direct access to the markets and a recognized track record.

Thanks to our good contacts with tenants, brokers, developers and investors, and by being in the market on a day-to-day basis, we source about 70 percent of our deals off-market.

We have a very strong understanding of the local markets, especially in the Netherlands, and businesses know how to find us if they have sale-leaseback

Q You mentioned the Netherlands is one of the most attractive logistics markets in the region, but the competition has also traditionally been very strong. How would you describe it now?

The market was indeed extremely competitive three years ago, with all kinds of investors from institutional and private equity players to family offices. But since the rise in interest rates and the sharp decline in values, many institutional investors have not been able to execute deals and competition has decreased. We have a competitive logistics and industrial platform that, combined with our track record and teams' experience, have developed long-standing relationships with partners who know we will deliver.

That said, the repricing and stabilization of markets combined with falling interest rates is attracting more investors and a lot of capital is waiting on the sidelines. The momentum is clearly interesting, but the competition is gradually increasing again.

proposals or are seeking a long-term partner for a new development.

Through Schroders Capital, we have a fully-fledged research team, so we understand the trends and how markets are developing, not only in the regions where we are active but also from a global and pan-European perspective.

That gives us a lot of insight into the markets. The combination of the large global brand and a local team is a very powerful one for our investors.

Q ESG is a growing concern for occupiers and owners. How has Schroders Capital incorporated these features into its investment process?

Schroders Capital real estate is very committed to sustainability, which is driven by a third-party certified framework (ISO14001). In the Netherlands, we brought the entire portfolio up to an A label in the past three years through the installation of roof-top solar panels, LED lightning and various other measures including circular maintenance.

We have developed new buildings that are no longer gas-fueled but are fully dependent on electricity from the grid.

Administrating and measuring sustainability performance is necessary and important, but even more, we focus on the practical side. Ticking the boxes on green labels and standards like GRESB is easy when focusing on new buildings, for example, but it is also important to ensure that they are actually sustainable in practice.

We see value in actively managing older buildings, in partnership with our tenants, to ensure they perform better on sustainability – and that helps improve the value of the property as well as the relationship, providing potential opportunities to increase rents or extend lease contracts with tenants, as there is a win-win for both sides.

The Netherlands, Germany and Nordics are frontrunners in sustainability, which helps in realizing best-in-class properties.

Q What challenges or opportunities do you see ahead for the sector?

There are many uncertainties if you look at the political landscape, the war in Ukraine, climate change and so on, if inflation will continue to increase or if interest rates would rise, and what that could mean for real estate prices.

However, if you look at the real estate sector as a whole, especially in northwestern Europe, we believe that the logistics and industrial segment is one of the best positioned segments to benefit from the current market conditions in the years to come. ■

I&L sector witnesses dynamic shifts amid fundraising lull

The market demonstrated significant variability with record highs and sharp contractions, revealing the evolving preferences of investors as well as the sector's resilience

The industrial and logistics sector has experienced remarkable fluctuations in fundraising activity, highlighting its dynamic nature within the broader real estate investment landscape.

Analysis of sector-specific data reveals that 2022 marked a peak, with private real estate fundraising for the industrial sector topping $39.4 billion. However, subsequent years showed a contraction as fundraising levels dropped to $12.83 billion in 2024, according to the latest *PERE* data.

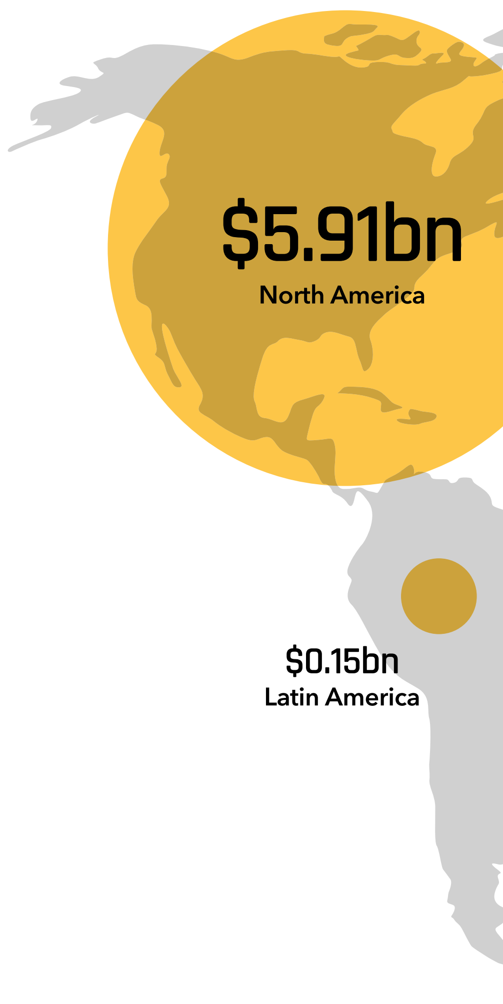
Despite these declines, the industrial sector accounted for a significant share of the market, consistently demonstrating its critical role in supporting supply chain infrastructure and e-commerce expansion. Fundraising focused on the industrial and data center sectors has accounted for more than one-third of sector-specific fundraising each year since the start of the pandemic, being outperformed only by multifamily/residential.

Looking at popular strategies across private equity, *PERE* data shows that among industrial-focused funds, core-plus strategies have fallen out of favor in recent years, to be replaced by more managers addressing value-add strategies – though those two remain the most popular in the sector. These figures underline a growing appetite for innovative and opportunistic investment approaches within the sector. Industrial-sector investors also seem to be targeting investment assets in North America more than any other region.

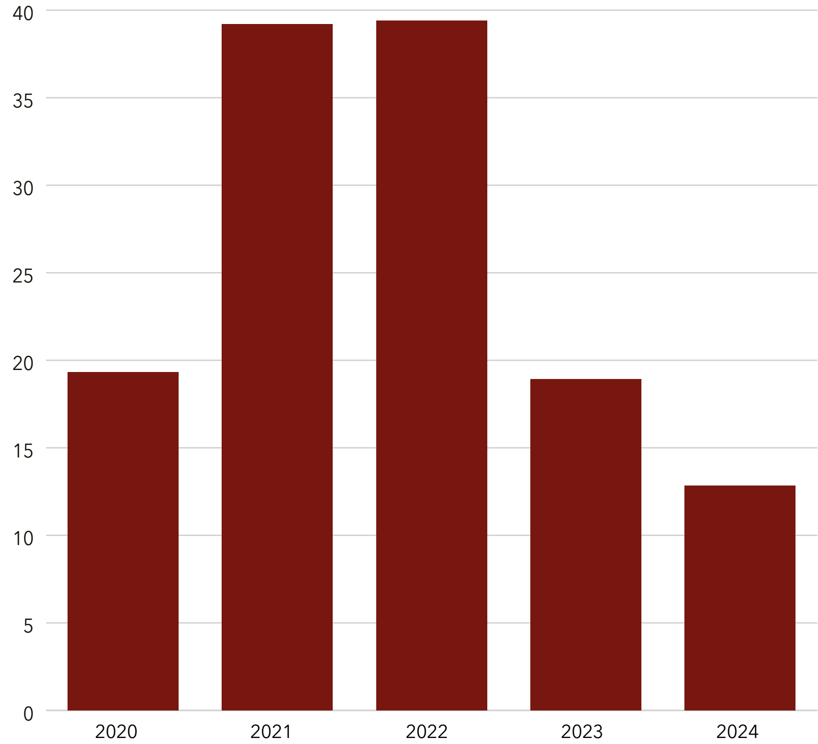
Interestingly, average time on the road for sector-specific industrial funds climbed dramatically over the past two years, suggesting a challenging fundraising environment where investors had been hesitant to commit capital.

Whether that trend will reverse in 2025 and see LPs coming off the sidelines is anyone's guess. As global economic conditions evolve, the industrial and logistics sector continues to adapt, attracting both opportunistic and conservative investors. This adaptability underscores its status as a pivotal segment in real estate investment portfolios, bridging traditional infrastructure and emerging technological trends. ■

Capital raised per region focus for sector-specific industrial funds, 2024



Private real estate industrial sector-specific fundraising ($bn)



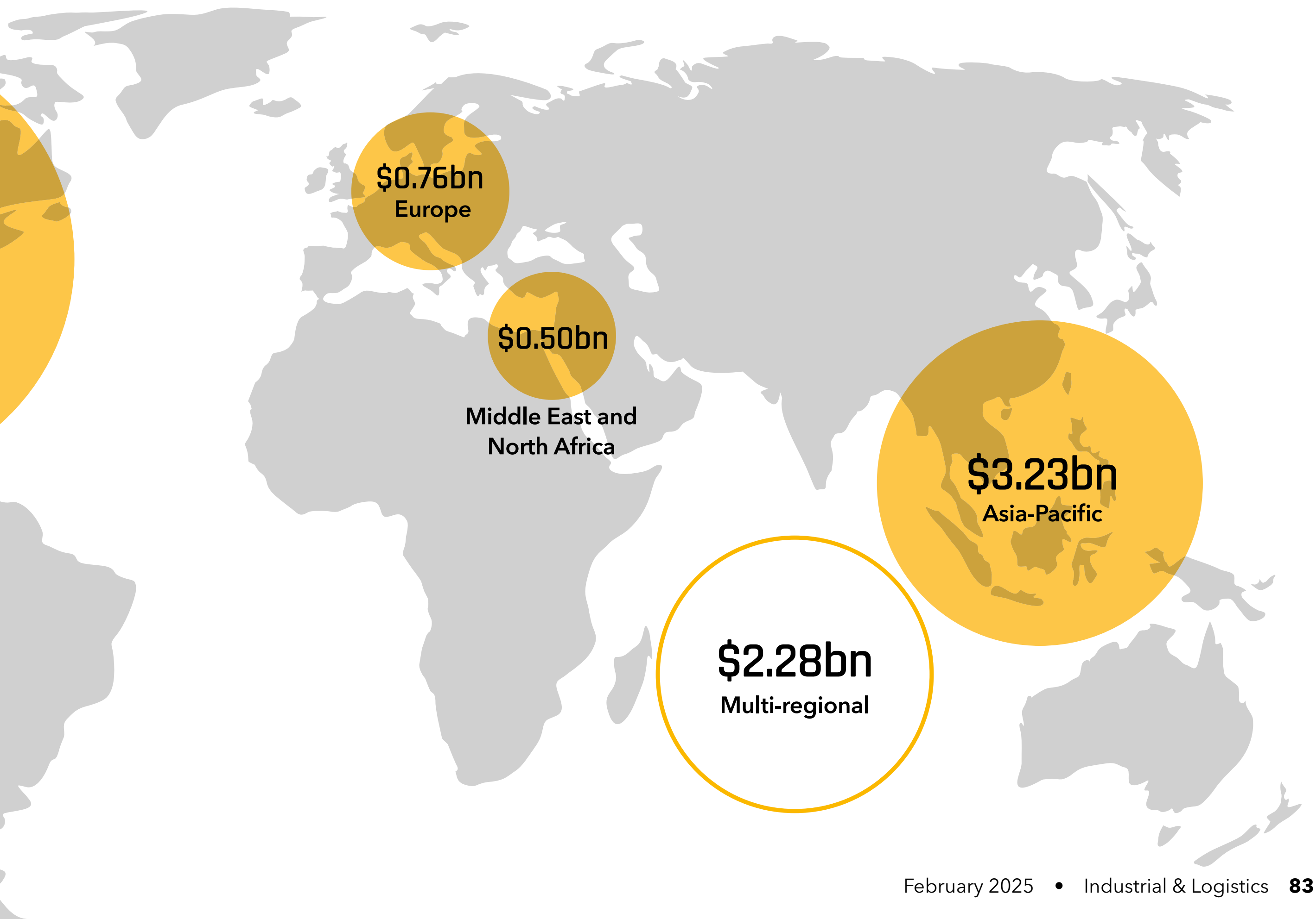
Source for all data: PERE

-67.5%
Change in private real estate fundraising totals focused on the industrial sector from 2022-24

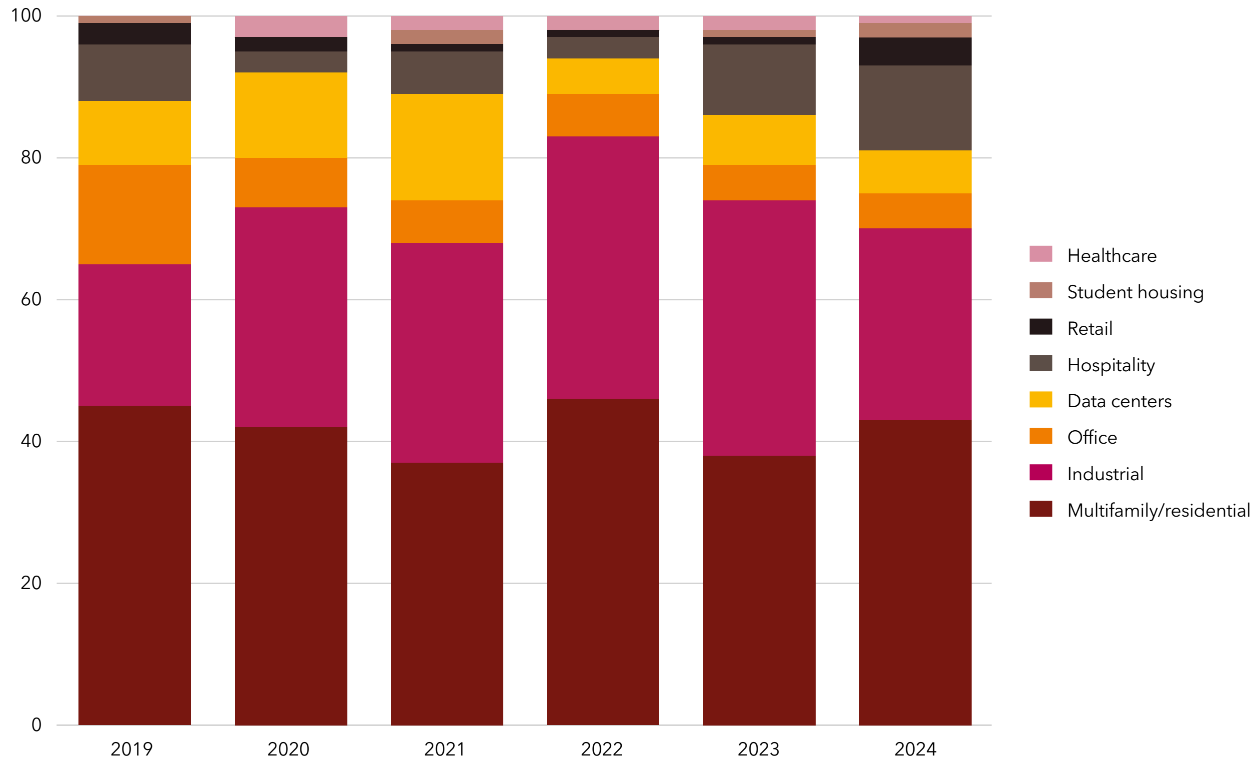
83%
Proportion of capital for industrial-focused funds exploring either value-add, core or core-plus strategies in 2024

71%
Proportion of sector-specific fundraising in 2024 targeting the residential and industrial sectors – or "beds and sheds"

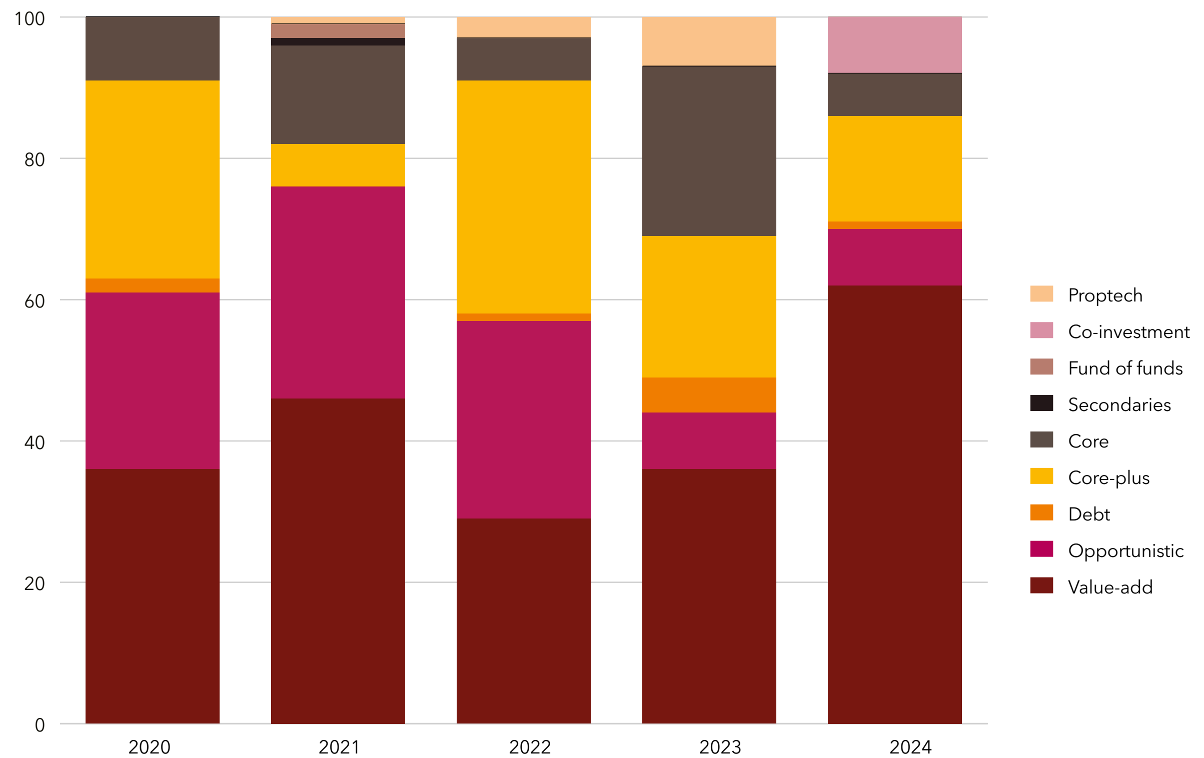
246.6%
Increase in average time on the road for sector-specific industrial funds from 2022-24



Proportion of sector-specific fundraising (%)



Proportion of capital by strategy focus for sector-specific industrial funds (%)



Source for all data: PERE

KEYNOTE INTERVIEW

European industrial offers buying opportunity

Relatively attractive pricing of assets returns as investors start to compete again for limited stock in 2025, says Edmond de Rothschild's Theo Soeters

The past 18 months have presented investors with a buying window to deploy capital in the European industrial and logistics space.

Theo Soeters, head of fund management at Edmond de Rothschild Real Estate Investment Management, explains that price levels have fallen and returns have become much more attractive compared with the peak of the market.

Since Q3 2023, the pan-European asset manager has deployed almost €250 million in industrial and logistics property, representing around a quarter of its total real estate exposure in the sector.

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Q How much longer will the buying opportunity in European industrial and logistics property persist?

The chance to buy at attractive prices is expected to be there for a while. Funds deploying at the yields of today will probably prove a very good vintage going forward. Since many investors have allocated capital to the sector, it can be expected that markets will become active and liquid again very quickly and yields are expected to fall again in the course of 2025.

We consider that valuations have stabilized since Q3 2023, so that was already 18 months ago. The bid-ask spread has also closed since, which is another sign that prices have stabilized. Supply will probably not increase proportionally with demand, and interest rates have been on a downward trajectory more recently, which might lead to yields compressing and prices increasing again soon.

All in all, the negative price adjustment seems complete, and we saw indications that prime yields were beginning to fall again in Q4 2024.

Investors are still relatively cautious

Q What capital market trends have you observed in the commercial real estate sector?

Alongside residential, industrial and logistics is probably the favorite sector for a lot of investors. Over the last 12-18 months, many of the investors looking to deploy money in the space were looking for value-add or opportunistic strategies, typically targeting returns of 15 percent or more.

Some market participants expected distress to create a buyer's market, which never really materialized because industrial markets have proven resilient. Some investors were willing to take on speculative development risk in the hope of achieving higher returns. Lately, as interest rates have reduced, we have seen core and core-plus capital with lower return requirements coming back into the market.

after the instability of the last two years, but capital has been allocated to the sector and is looking to be deployed. All the signs now point to a market that is recovering, and which will continue to do so unless unforeseen geopolitical events occur to spoil the picture.

Q How do occupier market conditions look going forward?

The underlying occupier fundamentals are strong. Supply and demand have become more balanced compared with recent years when supply chain disruptions caused by the pandemic and the war in Ukraine created soaring demand for logistics space. That boom period has ended because of weaker economic growth, but demand is still sufficient for a healthy market. In urban areas in particular, occupier demand will be supported by the trend of moving the distribution of goods closer to where consumers live.

Meanwhile, it has become more expensive to build. Construction and financing costs have gone up. Environmental and planning restrictions have made development more difficult, especially in urban areas where a lot of demand is concentrated. Therefore, new supply has been rather restricted, so vacancy rates remain at a level which is still low by historic standards; they are averaging just over 4 percent across Europe from what we can see. Meanwhile, we expect rental growth to be slightly above inflation at 2.5-3 percent over the next five years.

Q Which strategy offers investors the most attractive risk-adjusted return?

For those investors seeking higher returns, strategies involving taking on permitting, development and construction risk do not always pay off. Development risk is binary in nature; it either produces a return within your investment period or it doesn't, which can really hurt investment performance, particularly in a market where occupier demand is weaker than it was previously.

Like many of our investor clients, we prefer to target realistic returns and a more conservative risk profile. Selectively taking on leasing risk on newly constructed buildings in established markets like the Randstad in the Netherlands, greater Paris and the Lyon region, and combining that with buying standing investments offers, in our view, more solid returns and it is also easier to access financing. We only invest in countries where we have a local presence because we believe this is a sector where a manager needs to have an impact on the asset, and that requires proximity to the asset and to the tenant.

Value creation starts with acquisition. The first step is to buy under-managed buildings, in an off-market process if possible. There is more non-institutional private ownership in the industrial space than in many other sectors, which helps when looking for those opportunities. Then you engage with the tenant and add value by making investments that the former landlord has not made – for example, identifying sustainability improvements – which create the potential to increase rental income.

Building quality and ESG performance are increasingly important to occupiers. While small to medium-sized enterprises have less public exposure and are under less scrutiny than big corporates, they have begun to appreciate ESG credentials. They are becoming a more meaningful factor in the ability to attract employees, particularly younger people, as well as being more cost efficient. We will see rents for prime industrial buildings diverge from old, lower-quality stock, just as we have already seen in the office market.

Q What industrial asset types offer the greatest potential?

We are more inclined to look at light industrial and small to medium-sized warehouses, slightly smaller buildings of 5,000-20,000 square meters (50,000-200,000 square feet), located close to cities, where the tenant base is typically composed of small and medium-sized enterprises.

Tenants of those buildings tend to appreciate the advice of a professional landlord more than the large, third-party logistics operators or e-commerce firms, so there is more room to interact with them to drive income. They are less inclined to move than large occupiers because they are often more tightly bound to the location and to the building. That means better tenant retention and willingness to invest in their building.

Pricing in that segment of the market has been more stable than in the big-box logistics sector. Prices didn't increase that much and have not fallen as far, while rental growth has been more substantial. There is a clear historic price differential of around 100-150 basis points between those buildings and modern, big-box logistics. That is partly because of a perceived higher risk of default where tenants are not big multinational firms. But our rent collection rates in that segment of the market have been just as strong, which suggests that there may be a difference in credit rating without a differential in overall credibility.

There are higher management costs associated with that segment of the market because of its granularity. Nonetheless, more and more investors are discovering its advantages, and the price gap could close over time. This could bring the yield differential between light industrial and big boxes in Europe closer to the more narrow gap we observe in certain other geographies.

Another important advantage of investing in smaller buildings is that your investment is intrinsically more diversified, not only in terms of the number of assets, but also the number and type of tenants.

The European industrial strategy that we launched six years ago has around 150 different tenants across almost 60 different buildings. Rent collection rates are close to 100 percent and remained at that level even during the pandemic, so the credit risk that some might expect on such a portfolio has not materialized.

Q How do you expect market conditions to evolve in 2025?

The market is already slowly becoming more liquid. Capital will find its way. The number of properties for sale is not going to increase substantially, so more money will be chasing a relatively limited supply of assets, and that will trigger price increases.

How quickly that will happen depends on a number of factors. I do not believe that in three months we will be in a bull market again – things will evolve relatively slowly because there is still a feeling of insecurity, and investors will therefore remain disciplined for a while. However, over the course of 2025, we will probably see yields tightening again.

Then if rental growth continues to be positive, and we see income returns at 5-6 percent, that could well lead in the next 12-18 months to double-digit unlevered returns being achieved on industrial and logistics assets. Thereafter, we expect more normalized returns, but also for the sector to continue to do well given the structural tailwinds.

In our strategies, we are unlikely to start taking on speculative development risk. We will continue to focus on slightly smaller buildings in urban areas. We trust that this approach will still pay strong returns going forward, so we will stay disciplined and stick to our business plan. ■

"The chance to buy at attractive prices is expected to be there for a while"

"Some market participants expected distress to create a buyer's market, which never really materialized because industrial markets have proven resilient"

They said it

Experts share some final thoughts on ESG and sustainability concerns across the sector

"Investors have been more prone to think about ESG as a negative and a cost, without being very good at describing and monetizing its benefits"

ROBERT CASS
abrdn

"We don't yet see a green premium in the investment market for carbon neutral buildings, but it is increasingly common to see a brown discount"

LAURIE LAGARDE
CBRE IM

"While small to medium-sized enterprises have less public exposure and are under less scrutiny, they have begun to appreciate ESG credentials"

THEO SOETERS
Edmond de Rothschild

"Investors should look out for assets which can meet occupier sustainability requirements"

RICHARD PROKUP
Mapletree Investments

"Some tenants place importance on sustainable building features, and those are significantly more difficult to implement in older buildings"

KELSEA ALEXANDER
Crow Holdings Capital

"Tenants want space that meets their long-term sustainability targets, and many investors [want to] future-proof their assets"

BRENDAN JONES
Macquarie Asset Management

"The pressures of reshoring and sustainability regulations are driving a capex supercycle"

CHRIS NICHOLS
ICG Real Estate

The Leader in Last Mile Real Estate

Industrial real estate is more than an asset—it's the foundation for future success.

As e-commerce reshapes the modern supply chain, industrial real estate has become essential for businesses to thrive. Last-mile facilities are critical for meeting the growing demand for faster delivery and operational efficiency.

Dalfen Industrial, a leader in last-mile real estate and one of the nation's largest buyers and builders, develops properties in key U.S. markets.

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