Why Industrial is Hot Property

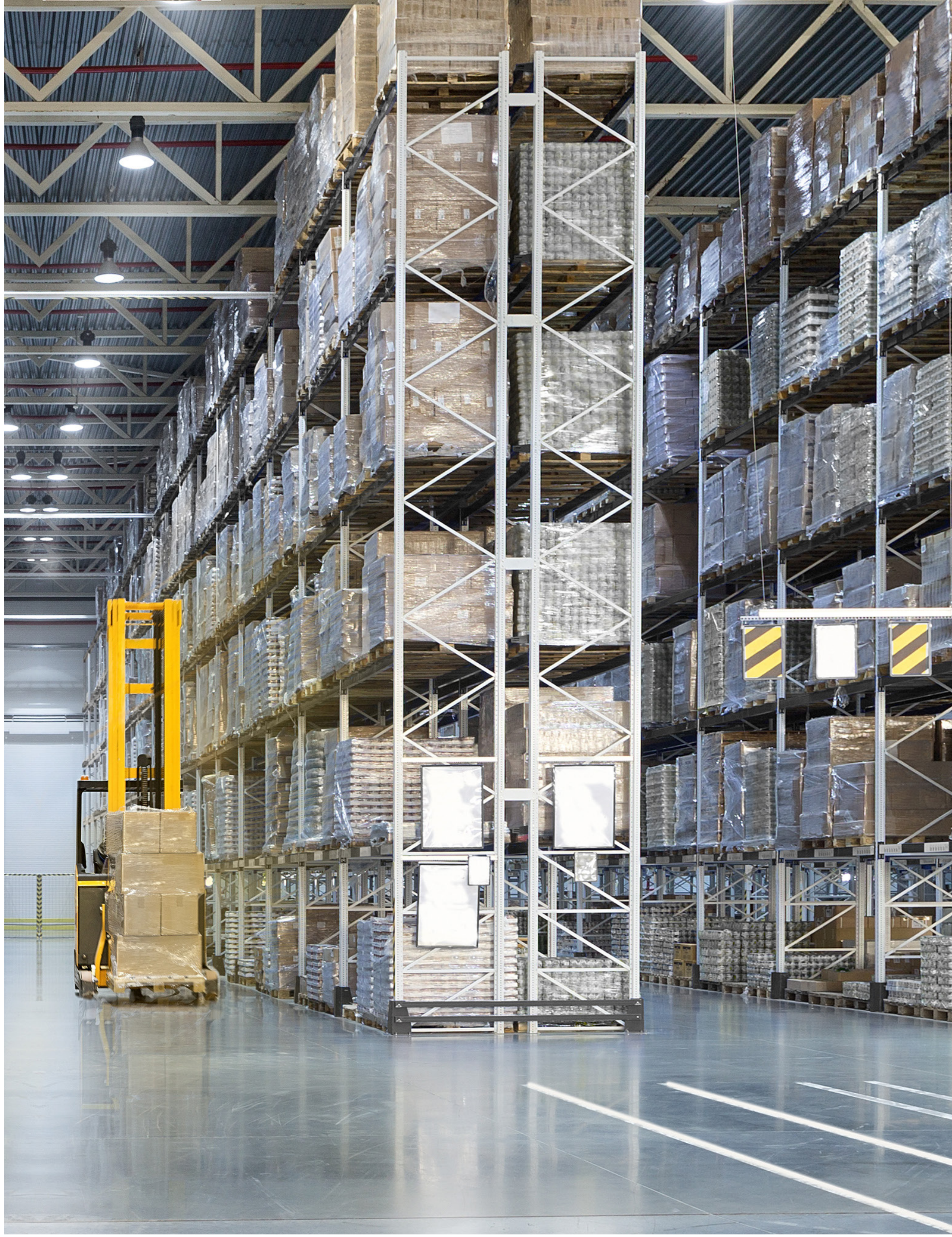
(AND HOW DATA CAN MAKE IT SIZZLE)

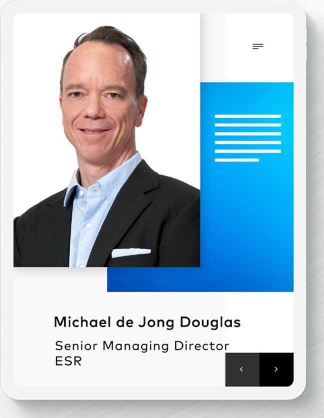
The past few years may have transformed the logistics real estate landscape, but the sector was being radically reshaped before 2020.

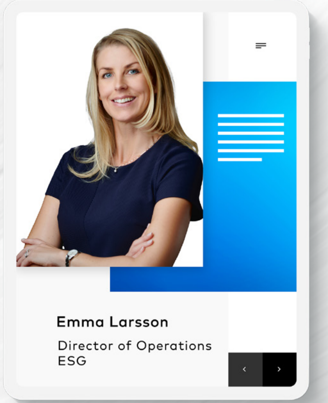
Amazon, Alibaba, automation and autonomous vehicles were already disrupting the industrial landscape. And a host of megatrends – urbanisation, digitalisation and demographics – were already reinventing the way people live, work and play.

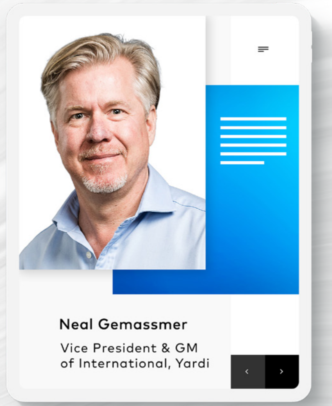
According to Savills, "*take-up of industrial and logistics space across Europe totalled 28.8 million sq m in 2023, signifying a decline of 24% when compared to 2022. However, take-up remained 9% above the five-year pre-pandemic average.*"

Once hidden from view, the industrial and logistics sector is now stepping into the spotlight. We've put together five reasons why industrial is hot property.









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Dr Michael de Jong-Douglas

"Building operations are responsible for 28% of emissions. It's critical that we engage tenants – and that requires access to the right data at the right time."

Emma Larsson

"Industrial landlords are installing IoT sensors to help their tenants understand material flows but are still filling out their own work orders with pens and paper."

Neal Gemassmer

Views from the Top

This paper draws on the expertise of...

Dr Michael de Jong-Douglas

ESR's senior managing director and head of the Future Solutions Group, Michael has a PhD in urban planning and applied geography from Utrecht University. He has held leadership roles in Asia and Europe, including as deputy chief executive officer for Mapletree Logistics REIT and regional head at Prologis. Headquartered in Hong Kong, ESR has US$29.9 billion of assets under management and 20.1 million sqm of gross floor area spanning the Asia Pacific region.

Emma Larsson, Director of Operations and ESG Officer, ESR

With two decades of experience across Europe and Asia Pacific in financial services and real estate, Emma has been an integral member of ESR's team since 2007. She led the delivery of its environmental, social and governance framework in 2019.

Neal Gemassmer, Vice President & GM of International, Yardi

Gemassmer is responsible for managing operations across Europe, Asia Pacific and the Middle East. Having lived and worked in multiple locations, Neal has a deep understanding of the industry, combined with an undying passion for innovation, technology, real estate and the human spirit.

THE POOL OF CUSTOMERS TURNS INTO A FLOOD

- 20% of the global population are digital natives
- More than two-thirds of the planet's population will live in cities by 2050.

1. Technology and demographic destiny have transformed the way we shop

A massive 1.8 billion Millennials now represent the largest generation in human history. Growing up with digital technology in the palms of their hands, Millennials now expect convenience, choice and instantaneous customer service.

Enter the pandemic and older, less tech-savvy generations were forced to overcome a lot of objections to technology and online shopping. So, it's no surprise that e-commerce was responsible for 19.5% of all retail sales in 2023 and is expected to surpass US$8 trillion dollars by 2027.

Online order fulfilment requires roughly three times the space of brick-and-mortar retail – but e-commerce isn't the only factor making industrial hot property. Remote working is accelerating demand for data centres. Modular off-site construction and 3D printing are driving demand for warehouse space. Cold chain storage is booming as customers look for fresh food and pharmaceuticals.

"There are so many different types of customers wanting space," says ESR's Michael de Jong-Douglas. *"There's logistics, data centres, cold storage, light industrial manufacturing and assembly work in warehouses. When people ask me whether industrial spaces are getting bigger or smaller, I say 'both'. We are seeing growth in demand for bigger and smaller spaces at the same time."*

Some companies are consolidating into large fulfilment centres while others are decentralising to meet the last mile logistics challenge and service customers faster.

"These are no longer sheds and warehousing is no longer about passive storage," Michael says. "Now there's not only storage, but repackaging, assembly, manufacturing and repairs. Facilities are more complex – and they need more automation and technology to operate efficiently."

2. Location means more than ever before

The old adage "location is everything" has never been more apt.

While traditional warehouses were once pushed to the city fringes in the cheapest locations, today's consumers aren't prepared to wait weeks, or even days for their purchase to arrive. Consumers may be exchanging in-store experiences for online, but their expectation for instant gratification remains. Cheap and fast delivery requires warehouse and distribution space as close to the customer as possible.

Take just one recent e-commerce report in Europe, which found nearly 30% of European consumers shop online at least once a week. Even more telling, in Europe, 42% of e-commerce shoppers opt for online shopping primarily because it offers the convenience of direct delivery to their doorstep. Similarly, in the UK, almost 47% of consumers consider home delivery a significant factor motivating their decision to shop online.

The "linear rent curve" – where rent is cheaper the further out from the centre – is losing its relevance.

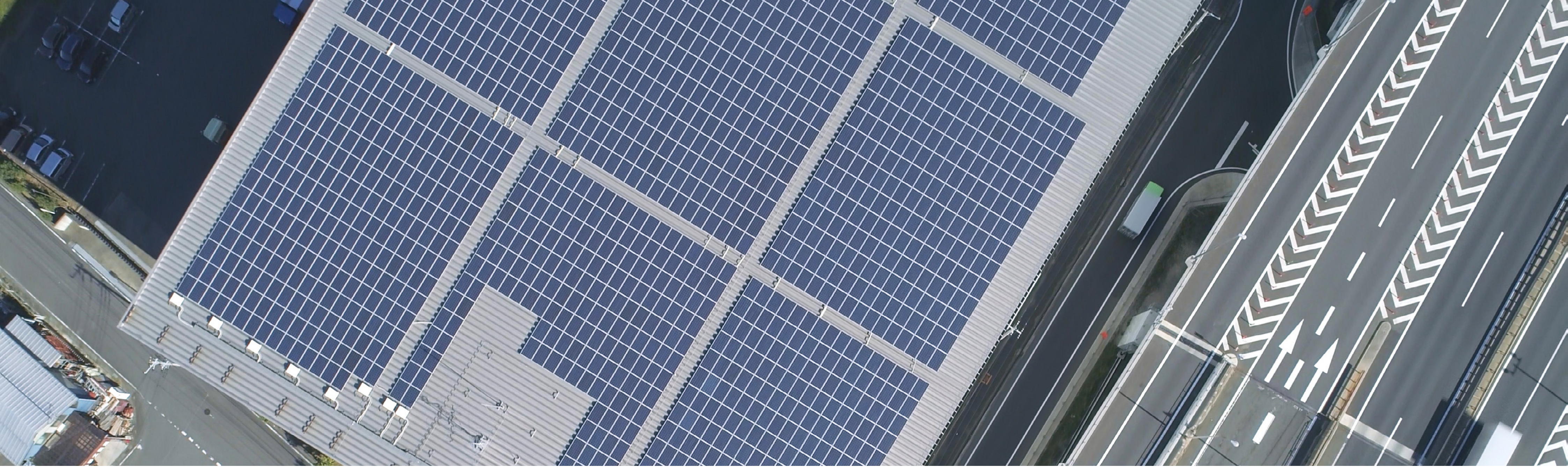
"Logistics is about location, location, location. Servicing the last mile requires well-located facilities, while advancing automation and IoT demands fast internet," says Yardi's Neal Gemassmer.

Being in the right location can significantly outweigh any real estate costs, especially when this represents a small part of a retailer's overall costs.

"More strategic locations come at a price, but there are huge efficiencies to be found through data analytics and digitalisation," Gemassmer adds.

SUPPLY CHAIN RISK AND RESILIENCE

Supply chain disruption has eased since 2020. According to Deloitte, improving supply chain performance is a top priority - 50% of surveyed executives said it was a clear priority and 48% said it was a top priority. Seven in 10 (72%) executives said they must increase their unit volume to meet their 2024 performance goals and six in 10 executives have recently made a significant expansion in their production capacity.



3. Sustainability is core business strategy

The construction and operation of buildings is responsible for around 42% of the world's carbon emissions. But hidden behind this statistic is a big opportunity for the industrial sector.

The International Finance Corporation found that "in 2023, green buildings emitted approximately 23% less carbon emissions from construction compared to traditional buildings."

ESR was recognised as a GRESB sector leader in 2020 and is progressively upgrading the energy efficiency of its portfolio. ESR released its first ESG framework in 2019, followed by its five-year ESG roadmap in 2020 which includes ambitious five-year targets including a 50% increase in solar power generation and a 20% reduction in energy consumption by 2025.

ESR's strategy also recognises the symbiotic relationship between industrial landlord and tenant in any sustainability success story. "Building operations are responsible for 28% of emissions," says Emma Larsson.

"It's critical that we engage tenants, because you can have LEED certified assets, but if the people inside aren't operating efficiently, you'll still have a huge carbon footprint."

Diving deep into data is an "immediate priority," Larsson says. ESR recently consolidated all utility data across the group. "Once you have the data you can undertake proper analysis, see the spikes in use and focus on the assets that are the biggest energy consumers."

MIT's Real Estate Innovation Lab has found that an urban fulfilment centre generates roughly half the transportation emissions of an out-of-town distribution hub. These centres have the potential to lower last-mile emissions between 17% and 26% by 2025.

4. Automation and AI accelerate

As robots, automation systems and artificial intelligence work together to enhance warehousing efficiency, demand for industrial space is expected to soar.

Gartner predicts that “by 2027, over 75% of companies will have adopted some form of cyber-physical automation within their warehouse operations.”

While the shift to automatic storage and retrieval may be well underway, not every customer has the size and scale to embrace high-cost systems. Expect wearables – like smart glasses and hand scanners – to gain traction, alongside low-price and flexible robotic options.

DRONES TAKE TO THE SKY

ESR’s Future Solutions Group is currently testing how tenants can use electric vertical take-off and landing (eVTOL) airframes to revolutionise the movement of commercial cargo.

ESR launched a pilot project in 2020 to deliver the world’s first cargo drone facility in Japan. The US$1 billion, nine-storey ESR Higashi Ogishima facility will be one of Japan’s largest distribution centres upon completion in March 2023.

“A lot of our customers are testing the feasibility for cargo drones,” says Michael de Jong-Douglas. “We continuously monitor developments that could be of interest to our customers and the movement of cargo in a sustainable, direct aerial mode presents big opportunities in the years ahead.”

5. Supply chain efficiency relies on real-time data

The leaders in logistics are leveraging technology to enhance efficiencies, improve customer service and create competitive advantage. But most share the same challenge: gaining access to real-time accurate data down to the operational level.

“Logistics space specialists are all neck-deep in their tenants’ technology,” says Yardi’s Neal Gemassmer. “They understand the value of automation from the materials handling point of view, because that’s what their customers want. But the basics of business process automation often allude them.

“Industrial landlords are installing IoT sensors to help their tenants understand material flows but are still filling out their own work orders with pens and paper,” Gemassmer adds.

“This works until senior management asks for a holistic view of the portfolio’s performance in real time. Data insights rely on robust business processes and good systems. Great tools and bad data will give you the wrong answer. It’s like a building; get the foundation right first, and then everything else will be solid.”

SPREADSHEETS ARE STILL DATA WORKHORSES

A massive 78% of real estate companies across Europe are dependent on Microsoft Excel to manage leasing, sales and property management information, according to KPMG.

Data is worth its weight in gold

As industrial real estate sky-rockets in value, the challenge is not to find the customer – it is to strike the right deal at the right time. Delivering better asset management data to senior management demands more automated processes – and that includes the deal flow. "Understanding the deals struck, those in the pipeline and those that have fallen through can help you make the best strategic decisions. That data is worth its weight in gold," Yardi's Gemassmer concludes.

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