EXPERT COMMENTARY

Logistics markets around the world have different characteristics and development opportunities, finds Rosemary Feenan, executive vice-president, global research at QuadReal Property Group

Same drivers, different speeds

The reality of Sun Tzu's well-known maxim, "the line between disorder and order lies in logistics," has persisted as a truth over the centuries. While the original context was military, the principle applies as a potent reminder that in the current race for logistics space, discipline is essential.

When QuadReal was formed in 2016, the logistics sector in many countries was already entering what was to become a sharp growth curve. MSCI estimates that the value of the global industrial market has nearly doubled over the past five years, while the overall share of investment in the sector grew from approximately 10 percent of total volumes a decade ago to 23 percent today. CBRE further forecasts that global demand figures will require another 1.5 billion square feet of space by 2025.

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QuadReal's conviction to logistics real estate remains high, reflecting the sector's role as a crucial support to distribution as a core urban service. To date, we have constructed a $9.6 billion industrial portfolio that comprises over 100 million square feet, with 391 assets in 16 countries. As we continue to acquire and develop the portfolio, our focus is not only on understanding the dynamics of demand, but on the regulations, policies, design and operational specifics of each market as they respond to the need for logistics space.

A common thread across all markets is the creation of facilities that respond to the e-commerce creed of speed, convenience and choice. While new formats of distribution space are emerging, big box and last mile remain the axial asset styles of the mix. Mapping a market's position on an evolution curve, as defined by style of facility and the pace of change across key markets, gives a sound basis for creating a forward view of opportunity.

The accompanying table graphic summarizes QuadReal's on-the-ground

Characteristics of selected global logistics markets

Market	Character/ evolution level	Metro population/ density (sq km)	Country e-commerce % (2025F)	Vacancy % (metro)	Multi-level presence (low to high)	Typical site coverage (%)	Typical lease length (years)
London	Highly mature	11.1m/6,400	33	3.5	Medium	45-55	10-20
Paris	Enhancing	11.0m/3,900	19	5.0	Low	35-50	6-12
Berlin	Advancing	4.0m/2,944	21	3.7	Low	50-60	5-10
Los Angeles/Inland Empire	Highly mature	15.5m/2,400	26	0.8	Low	30-50	3-10
New York/New Jersey	Highly mature	20.9m/1,700	26	2.1	Medium	30-50	3-10
Toronto	Advancing	7.0m/3,000	13	0.9	Medium	37-50	10-plus
Shanghai	Accelerating	22.1m/5,400	50	4.4	High	55-65	3
Tokyo	Mature	39.1m/4,800	14	2.4	High	45-60	3-5
Sydney	Advancing	4.6m/2,100	20	0.4	Low	45-55	5

Sources: QuadReal, Oxford Economics, US BEA, Demographia, eMarketer, Euromonitor, Forrester, CBRE, CoStar, JLL

experience, and our perspective on the state of play in a selection of cities and their markets around the globe. What emerges are different levels of evolution regarding site-specific elements as well as the growth of e-commerce as the primary driver of demand.

Europe: Different pathways but the same destination

Jay Kwan, managing director, Europe describes QuadReal's mindset: "The successful provision of the 'box' has become an exercise in foresight, and in gauging the likely strength and impact of trends in different countries and cities. The variation across European countries in market preferences and processes can be surprisingly wide, but they are fundamentally rooted in the same primary demand drivers and challenges regarding e-commerce's need for space against land scarcity."

The evolution of big-box facilities in locations serving London, Paris and Berlin shows similarities in formats. For example, truck court depths average between 35 meters and 38 meters, and clear heights are relatively standard at around 10 meters in Paris and Berlin, and around 12 meters in London. However, lease lengths in London and Berlin vary between five and 20 years, and in Paris are typically six or 12 years. As is already well documented, rents and yields are now reaching unprecedented levels.

When looking at last-mile logistics, formats vary even more as occupiers contend for very scarce land. In London, for example, land values in some submarkets are approaching residential values and rapid land attrition has resulted in a two to three times increase in land prices. Truck courts can also fall well below 30 meters and less than optimal floor plans become necessary, with clear heights below six to eight meters not uncommon. Last-mile facilities in Berlin tend to be more standardized with lower coverage ratios, higher clear heights and better parking provision.

As last-mile rents continue to grow, the potential of capturing ongoing rental growth through shorter lease lengths will give investors pause for thought.

Asia-Pacific: Fast-tracking to greater efficiency

The maturities of logistics markets across Asia, while at different levels now, are likely to further converge over the next five years, reflecting the demand for modern, automated facilities.

"Innovation and flexibility are a hallmark of many of these logistics markets. Multi-level has historically been a feature in Asia, but the markedly lower modern industrial stock per household compared to North America and Europe is a signal of the opportunity to come," says Peter Kim, managing director, Asia.

China is well known for its incredible pace of e-commerce adoption and is forecast to reach 50 percent of total retail sales by 2025. Big-box facilities for Tier 1 cities such as Greater Shanghai commonly see nine meter clear heights, 38 to 40 meter truck court depth, and shorter lease lengths around three years. Cap rates for stabilized industrial products continue to tighten in the market as land supply becomes limited in core locations.

Australia has been a late adopter of

e-commerce; however, online sales are expected to propel to 20 percent of total sales by 2025. Common product specifications in the market include 10 meter clear heights, 36 meter truck court depths and five-year lease lengths.

Further, the Tokyo market is no stranger to multi-story facilities, but with less than 10 percent of industrial stock considered modern, there remain opportunities for future upgrading. Industrial vacancy in Greater Tokyo stands at around 2 percent, also driven by the demands from e-commerce expansion. Grade A have typical clear heights of only five meters, truck court depths of 13 meters, and three- to five-year leases.

North America: Filling in and filling up?

Last year, the US saw some startling headlines with markets running out of space and record annual rent growth being common themes. US national vacancy hit a historic low of 4.1 percent in 2021, and consensus suggests further logistics demand requirements of approximately 330 million square feet through 2025, with national annual rent growth forecasts at circa 7 percent in 2022.

As many major US markets continue to struggle to meet record tenant demand, developers have shifted focus to second-tier markets, where there is significantly more availability of open land for development to capture the spillover.

Among the top markets in North America, we see some variances in the format of industrial spaces. For example, in the Inland Empire, Class A properties have on average 30 feet clear heights, 62 feet truck courts and five-year lease terms, whereas in the New York and Northern New Jersey markets, Class A properties have 35 feet clear heights, 48 feet truck courts and five-year average lease terms.

While the US has not traditionally embraced multi-level product, this wave of demand and lack of sites, and higher land prices for urban last mile in particular, are opening up possibilities in some of the densest cities.

> *"Mapping a market's position on an evolution curve, as defined by style of facility and the pace of change across key markets, gives a sound basis for creating a forward view of opportunity"*

Jamie Weber, managing director, Americas, puts it thus: "In such tight and infill markets, the demand for quick commerce, paired with scarce product and high potential for rent growth, will drive a natural progression toward multi-level product; although such development in the US will initially be in a limited set of cities for more targeted user requirement, particularly e-commerce automation."

Canadian markets such as Toronto have a challenging entitlement process and a marked land scarcity. "Toronto has more or less run out of land," according to Rob Lauer, senior vice-president, industrial, east, Canada. "The debate in the GTA [Greater Toronto Area] is how far is too far when it comes to secondary locations?" With more than three-quarters of Toronto's industrial inventory being constructed before 2000, modern urban logistics remains in huge demand. The lack of supply, combined with extremely strong demand, has pushed Toronto's industrial vacancy to one of the lowest globally, sitting at 0.9 percent. As one of North America's fastest-growing metropolitan areas, the GTA's industrial market will remain extremely tight.

A new wave of future readiness

Across geographies, changing consumer behaviors, smart new business models and improvements in delivery efficiencies are driving the next generation of logistics real estate. These trends are recasting value contours and use patterns in and around cities. As demand levels continue to grow, innovative land use, technology and a focus on energy efficiency are key pillars in the transition to a state of 'future readiness.'

Full automation for now may be mainly the preserve of build-to-suit and longer lease projects, but the fast-tracking of semi-mobile robotic solutions is offering a step change in efficiency. The challenge of obsolescence, where estimates suggest up to 70 percent of US buildings have a pre-2000 completion, highlights both the magnitude of the industry's task to fast-forward to future readiness, while also offering substantial modernization and redevelopment opportunities.

As urban planners everywhere grapple with complex land use trade-offs, the evolution of logistics real estate is teaching us much about the commercial and personal value of time. The city evolution curve is far from static; the next five years will see progress in select markets towards 'cities 4.0,' where integrated data platforms will help optimize the efficiency of each layer of infrastructure, opening up opportunities in location, formats and design.

At QuadReal, we act with discipline in this race for space. We leverage our research, our partners' intelligence and the experience of our teams on the ground to identify the markets, the cities, the locations and the assets which will deliver maximum efficiency and meet the challenges of an increasingly digital world. ■