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Industrial and logistics: 2020 global investment

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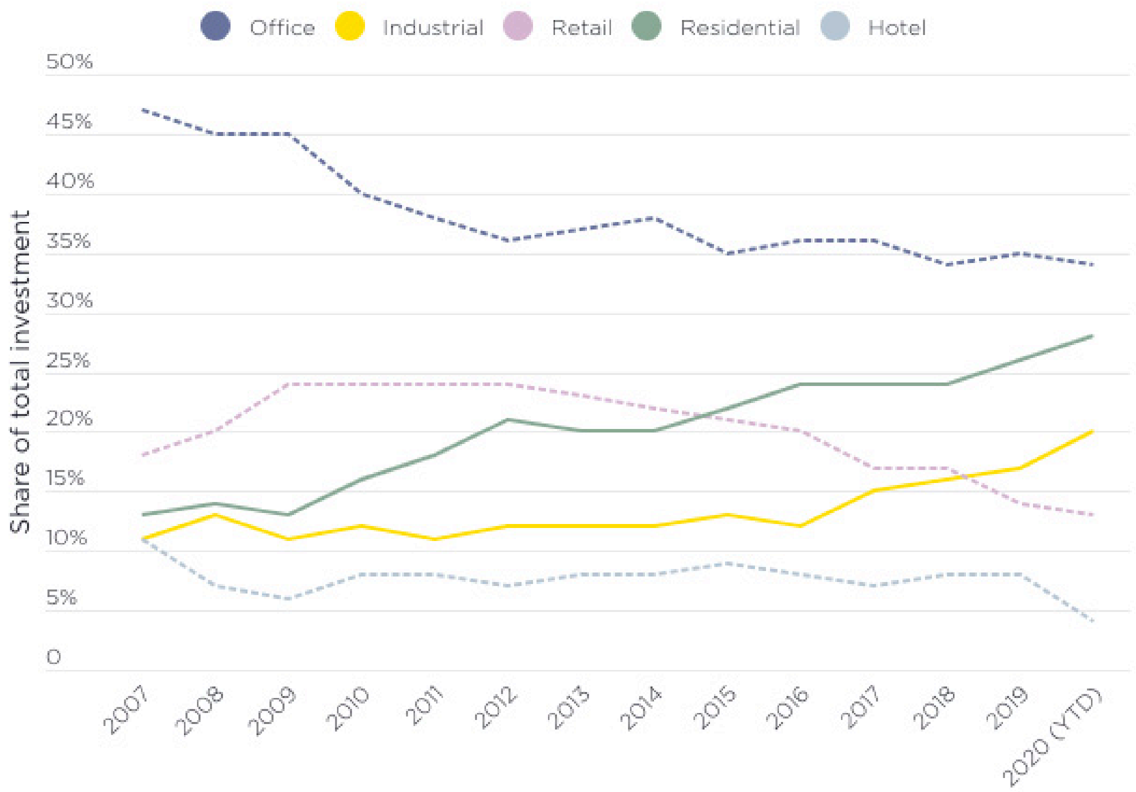
Industrial investment is at record highs. We examine the trends and opportunities

A star performer of the cycle, industrial investment volumes have risen more than sixfold from a 2009 low. Fuelled, in part, by the global ecommerce boom, demand has accelerated as consumers shifted online during the pandemic. With all eyes on the sector, are there sufficient opportunities to meet investor demand?

Decade of growth

Industrial investment accounted for a record 20% of all global investment volumes in the first half of 2020, as investors continued to pursue 'beds and sheds' strategies (see chart). Some $196 billion was invested in the sector in 2019, almost double the share of 10 years ago. Industrial investment volumes overtook retail for the first time last year, making it the third most-invested asset class after office and residential.

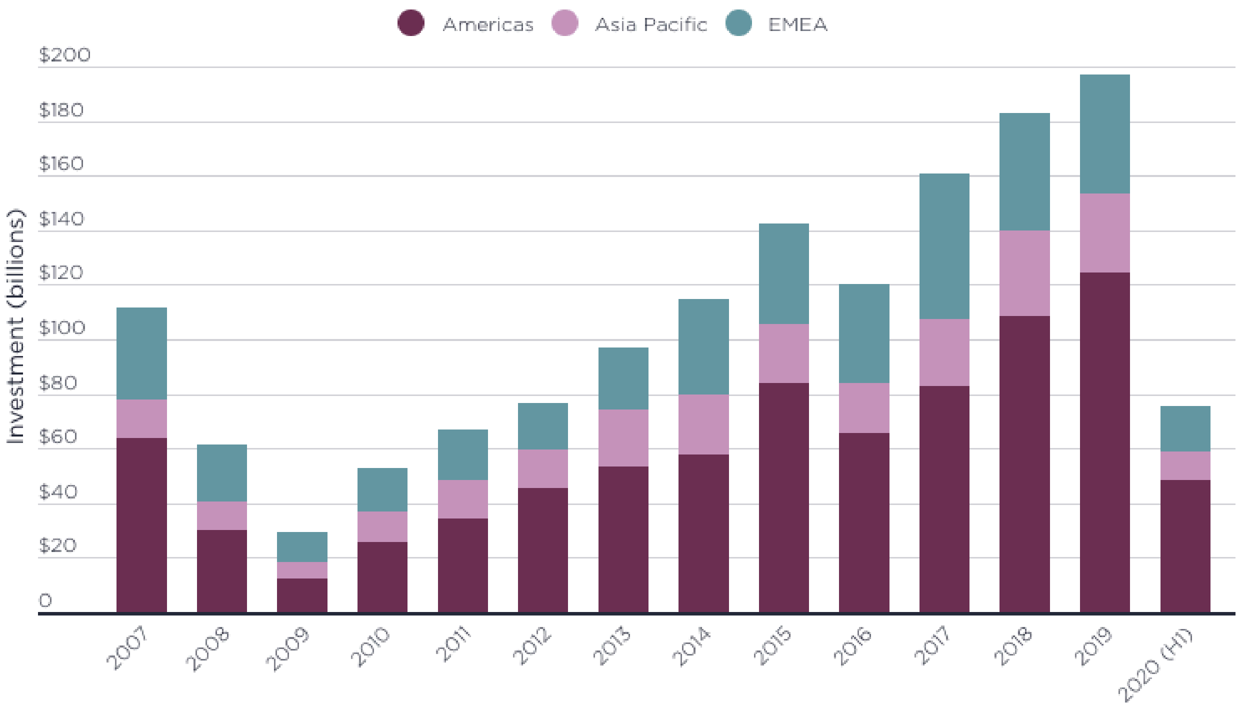
Industrial investment rises as investors pursue 'beds and sheds' strategies Industrial investment accounted for a record 20% of all volumes in the first half of 2020



Source: Savills Research using RCA

The sector hasn't been immune to wider market turbulence. After a resilient first quarter in which volumes grew by 57% compared with the same quarter in 2019, investment tumbled in the second quarter. Volumes stood 36% lower in Q2 2020 compared with Q2 2019 (but are still up 9% on a half-year basis).

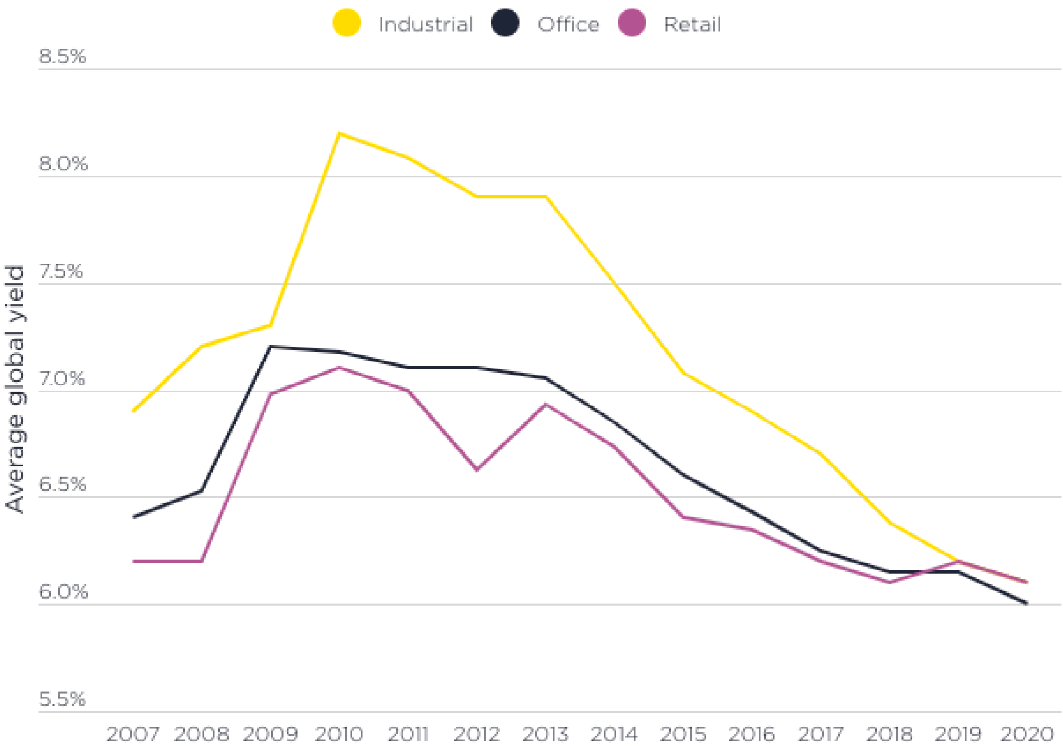
Global industrial investment volumes



Source: Savills Research using RCA

As competition between investors has intensified, prices have risen and yields compressed. Between 2007 and 2017, global industrial yields averaged 7.5%, 70 basis points above office yields, on average. By the second quarter of 2020, industrial yields had moved into 6.1%, just 10 basis points above office yields (see chart).

Average global industrial, retail and office yields Industrial yields are now on par with the retail and office sectors



Source: Savills Research using RCA

The search for income

Now firmly at the heart of core strategies, there has been a shift in investor composition towards institutional capital as the sector has matured. Many of these have looked across borders for opportunities; cross-border capital accounted for 29% of all investment in the first half of the year.

Blackstone has been the biggest single player in the sector during the past 24 months, acquiring some $40 billion of industrial and logistics assets globally, according to RCA. The equity fund has focused on combining smaller portfolios and individual assets to bring management economies of scale to what was traditionally a fragmented sector.

Developer owner/operator Prologis was the second-biggest investor of the past two years, rising in the rankings following its purchase of rival Liberty Property Trust for $13 billion at the end of 2019.

Singaporean sovereign wealth fund GIC follows, having made significant portfolio acquisitions in Europe. Other major investors in the past 24 months include North American pension funds CDPQ, TIAA and OMERS, a reflection of the secure and stable income streams the sector offers.

Kevin Mofid, Director of Savills Industrial and Logistic Research, says: “As the sector has matured, portfolio deals have accounted for a larger slice of the market, attracting price premiums. Former developer traders now see the income opportunity and have become developer holders. The major funds and real estate investment trusts are attracted to the sector’s long-term income streams and there’s a growing scarcity value as stock is held for longer.”

Turning to Asia, the Chinese market remains extremely resilient. Logistics volumes in the first half of 2020 stood at 80% of the total in 2019. India, meanwhile, is emerging as an alternative manufacturing destination to China, helped by low labour costs, trade openness and a business-friendly government. This is fuelling significant investment in the country’s industrial and logistics sector. Cross-border investors such as GLP, Ascendas, Blackstone, Allianz, ESR and Morgan Stanley Real Estate have all made investments in the Indian logistics sector in the past two years.

What has driven growth?

The rise in ecommerce has been the major catalyst for growth, a trend only accelerated by the Covid-19 pandemic. Online retailers reported record earnings as consumers shifted spending online during national lockdowns.

Amazon’s second quarter earnings topped $88.9 billion, up 40% on the same quarter the previous year. China’s JD.com reported revenue growth of 21% year-on-year in the first quarter.

Forecasts from the Centre for Retail Research predict that online sales will grow by 31% in Western Europe in 2020. This will push the average commerce penetration rate from 12% to 16%. In the US, the same figure is expected to reach 14.5%, according to eMarketer, an all-time high. Both markets have some way to go until they reach China’s ecommerce penetration level, which stands at 27% and illustrates the growth potential.

These factors have driven record industrial and logistics take-up in some countries. The UK saw its best ever H1, with take-up 38% above 2019 levels. Across Europe more broadly, the average vacancy rate now stands at just 4.8%.

In the US, in markets such as Southern California, the ecommerce bounce hasn't been enough to offset a fall in demand for small-to-medium warehouse distributors, many of which went out of business during the pandemic. The industrial vacancy rate here stands at 4.2%, up 45 bps year-on-year (but still at historic lows).

Ecommerce isn't the sole factor boosting demand. Recent supply chain disruption coupled with escalating trade wars is leading to supply chain diversification, boosting demand for industrial and logistics space in strategic locations closer to the major consumer markets.

Outlook: demand fundamentals solid, investible stock in short supply

"The growth of the logistics sector is a global story," says Marcus de Minckwitz, Director, Savills Regional Investment Advisory, EMEA. "To date, demand has been driven in the West by Amazon and major national players, but we could see a whole new wave of demand from the big Asian players heading West."

The challenge for investors, though, will be finding opportunities. With many rebalancing their asset allocation strategies toward industrial (and residential), competition for completed assets will remain fierce.

"New supply will come from development as demand for warehouse space continues to grow at a rapid rate to cope with changing consumer demands," says de Minckwitz. "With most of the major developers already well-capitalised, however, there is a constraint on the number of opportunities being made available to the market."

Note: data collected 10 August 2020

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