

Structural themes creating opportunities in core real estate

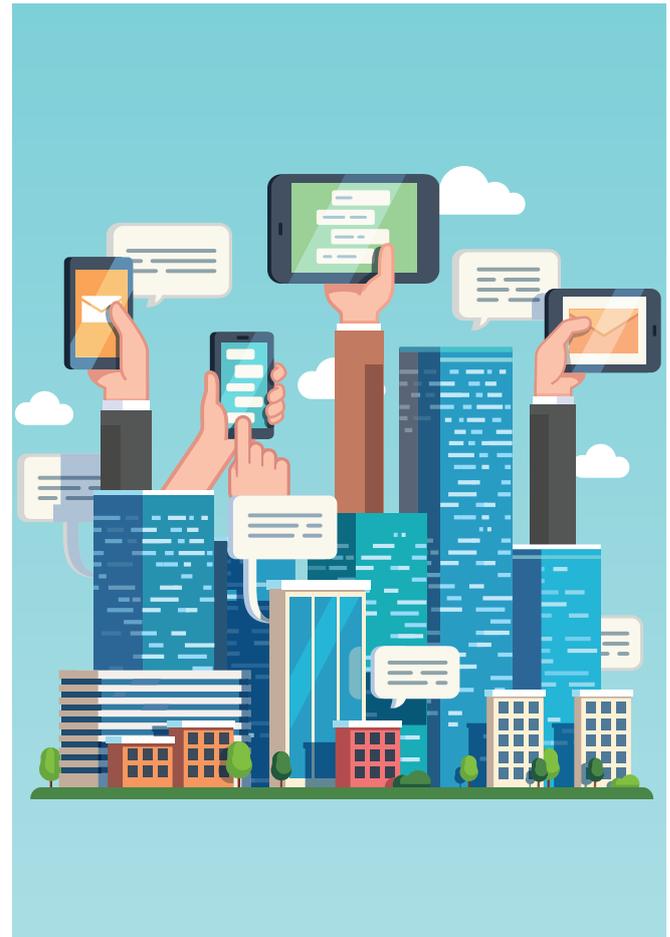
By Guillaume Masset

Many of the long-term structural changes that had been shaping real estate markets for several years became sudden and dominant drivers of demand as the pandemic took hold. The result is an entirely new status quo for real estate investors. One in which uncertainty is a seemingly permanent fixture of the investment landscape.

Many pre-pandemic norms relating to how we live and work are likely gone forever, while some may return as COVID-19 becomes less of an economic and public health concern.

Core real estate investing has evolved alongside these shifts. Prior to the pandemic, we identified a number of structural themes that will drive future investment performance. These 'digital' themes (demographics, infrastructure, globalization and innovation & technology) remain highly relevant and instructive, especially considering the fact that many were greatly accelerated by the COVID-19 pandemic.

We believe these themes are creating new opportunities for real estate investors.



Today's digital drivers of demand

Secular shifts are creating both headwinds and tailwinds for different industries. Real estate has seen a significant rise in niche, or non-traditional, sectors as a result of tailwinds from e-commerce and changes in demographic and migration patterns. While industrial and residential are poised for growth given strong digital demand drivers, retail and office properties are likely to face a more uneven environment going forward given the structural shifts underway.

This shift is creating new opportunities in sectors that are experiencing an increase in market share as they grow in parallel with trends. Examples include data centres, life science,

and single-family rentals – all non-traditional property types that benefit from lifestyle and demographic shifts, that exhibited a high degree of growth and resilience during the pandemic, and that are well-positioned over the longer term.

But opportunities should not be viewed solely as traditional versus non-traditional. More broadly, the thematic drivers shaping the core real estate landscape include the following:

- **Technological developments.** The pandemic immediately shifted our existing patterns of work and home life. For those employed in the professional and business service industries, video conferencing and other technologies led to the

majority of office workers being able to do their jobs from home. What was surprising was how effective and seamless this transition was for most businesses, a realisation that spurred many businesses to make remote working a more permanent fixture.

- **Changing consumer trends.** The retail investment landscape echoes many of the structural themes we are seeing, including convenience, necessity and value. This has led to a preference for online shopping and value-oriented brick-and-mortar retailers. Demographics are also altering the retail environment as baby boomers are becoming net spenders rather than net savers and many millennials are buying their first homes, which will lead to increased aggregate spending.
- **Supply chain issues.** Global supply chain disruptions have touched many sectors of the economy, but demand for industrial goods spiked during the pandemic as shopping moved online and more space was needed to facilitate the

moving of these goods. The expansion of the industrial sector will likely continue as companies look to mitigate the risk of disruption through establishing domestic supply chains and distribution nodes closer to major population hubs, a process referred to as onshoring.

- **Strong logistics performance.** We anticipate the continued robust performance of the logistics sector and are favouring key global gateway markets as well as select port cities such as Rotterdam and Hamburg. There is strong demand for warehouse logistics, particularly from e-commerce and third-party logistics companies. Amazon has dominated leasing in this space since 2019 and could be a marginal risk for demand and valuations as its expansion plateaus. In addition to XXL logistics, we also see a fast-growing last mile sector, especially around major population hubs.

Going forward: New challenges and opportunities

Structural shifts, such as the preference for e-commerce, have been dramati-

cally catalyzed by the pandemic. At the same time, other shifts, such as the movement from gateway markets to the suburbs, may fade or reverse over time. However, the pre-pandemic 'normal' is not returning and investors will continue to face unprecedented challenges in trying to determine the direction of specific real estate markets. The continued evolution of the growth of Europe's main distribution corridors is also a result of the enlargement of the EU and infrastructure projects like new highways and train connections. This dynamic will continue to impact the locations of logistics over the next decade and create new opportunities for investors that are able to adjust to these changes.

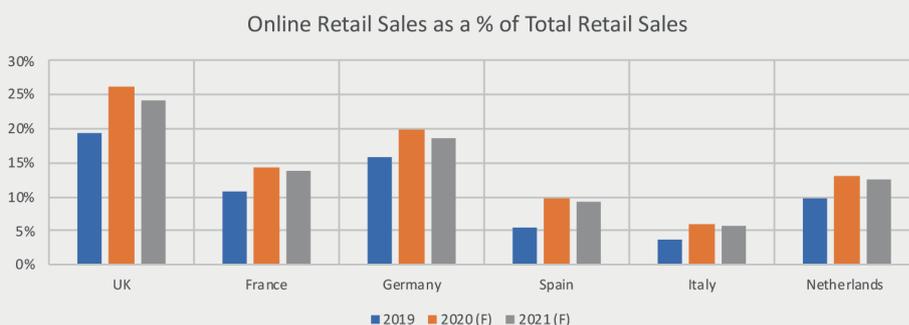
This dynamic is creating new opportunities that can be uncovered through a selective core approach strengthened by regional expertise and resources. Regardless of the performance of individual regions or sectors, having resources on the ground to understand and access these markets opportunistically will remain key for any core investment approach. ■



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FIGURE 1: ONLINE RETAIL SALES AS A % OF TOTAL RETAIL SALES ACROSS EUROPE



Source: Centre of Retail Research, Forecast Results, July 2020.

SUMMARY

There has been widespread adoption of new technologies in our home and work lives.

Changes in consumer trends, such as the saturation of online retail, will continue.

Chain disruptions have touched many sectors, leading to a move toward localization.

The logistics sector will continue its strong performance.