KEYNOTE INTERVIEW

European logistics: Scaling for sustainable growth

The market dynamics and property fundamentals of the European logistics sector can be capitalized on with a tenant-focused approach and global capital, explains Redevco's Hugh Macdonald-Brown

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Europe's logistics market is entering a new phase of maturation and consolidation, driven by resilient returns and long-term demand. After several years of rapid expansion and record cashflow, attention is turning to operational efficiency, tenant relationships and the creation of scalable platforms.

Against this backdrop, investors and managers are repositioning their portfolios to gain exposure to a sector that continues to outperform much of the broader real estate landscape, notes Hugh Macdonald-Brown, the new head of logistics at Redevco following the firm's acquisition of logistics investment and asset manager Roebuck, which he co-founded. These market dynamics are shaping strategy, scale and co-investment across the continent.

Q Why is the logistics sector attractive to investors?

One of the defining characteristics of logistics real estate is its typically lower capital expenditure, compared to more traditional areas such as offices and retail. Logistics properties do not require extensive refurbishments or complex mechanical and electrical upgrades, which allows for more accurate financial forecasting and reduces risk.

I am also struck by how much technological advancement and changing consumer habits are boosting demand in the sector. Younger generations rely heavily on digital devices and online shopping. This shift fuels the need for more warehouse space, whether for last-mile delivery or larger logistics facilities, and that supports healthy rental growth prospects.

The sector has also evolved and broadened. Over the last couple of decades, I have watched the occupier base diversify far beyond traditional third-party logistics providers. Now, logistics serves sectors from healthcare and defense to pharmaceuticals, *"While sustainability is a guiding principle, cost remains a key consideration for occupiers in today's challenging economy"*

"Technological advancement and changing consumer habits are boosting demand in the sector"

e-commerce and even urban farming. This diversity helps future-proof the sector, ensuring ongoing activity and resilience, even during shocks such as the covid-19 pandemic. In our view, logistics is uniquely positioned for growth and adaptability in a dynamic real estate landscape.

Q What are the current challenges for investors in this space?

Two major challenges facing logistics investors are macroeconomic uncertainty and the intricacies of investment underwriting.

From my experience, even the best locations, buildings and tenants cannot guarantee success if the underwriting or key assumptions are flawed. Thinking back to the bustling market from 2019 to 2021, I saw adverse scenarios were overlooked, resulting in investors overpaying for assets and later needing to rethink strategies or refinance. I believe accurate underwriting relies on a solid grasp of broader economic forces, since these directly influence occupier demand and, ultimately, rental growth. Both are essential for investment success.

Right now, I notice that negative market sentiment and geopolitical uncertainty make it difficult to predict cycles or determine the optimal entry point.

In past downturns, high yields were reliable signals for opportunity, but today's environment feels much less predictable, making considerations about exit strategies and portfolio decisions more difficult. This situation demands greater adaptability from investors. For me, disciplined underwriting and the ability to adjust quickly are critical to navigating the evolving logistics sector in these challenging times.

Q Which regions, countries or cities are investors and managers most excited by?

Our seven offices are conveniently located in the bigger cities of six countries in Europe. We have teams in Amsterdam, Hamburg and Düsseldorf, Paris, Madrid and London.

Feeling confident investing in each of these markets, particularly in the right subsector, we remain cautious about speculative, big-box development as we believe sufficient supply must be absorbed first in certain markets. But industrial logistics is a borderless sector, with occupier demand closely linked to consumers' spending power.

Each country presents unique investment reasons. I would not divide a portfolio evenly across all six, but rather tailor strategies to suit local dynamics. Asset and strategy selection would vary. Redevco prefers big-box distribution and urban logistics in the UK and Germany, whereas Spain's focus would lean toward urban logistics. Spain stands out for its stronger economy and control of inflation, and especially Madrid, Barcelona and the tightly held Valencia markets are favorable. Both France and the Netherlands, being transport corridors, provide significant cross-sector opportunities.

The German logistics market is an important one, but it has seen some interesting dynamics. The disruption of the automotive sector and the knock-on effect that has is impactful. The closure and relocation of longstanding automotive plants, for example Mercedes near Berlin, can trigger ripple effects throughout the supply chain. However, I find it reassuring that other industries, such as manufacturing or pharmaceuticals, may step in to repurpose these sites. This demonstrates the resilience and adaptability of logistics, where losses in one industry can be offset by gains in another.

Transparency differs by country, with the UK's data often painting a starker picture than elsewhere. But overall, we see resilience and interconnection across these markets. There are varied economic climates and risks, be it France's political uncertainty, the UK's challenging budget or Germany's stagnation. Still, the investment climate is favorable.

Q Which strategies are seeing the greatest success in logistics property investment?

An occupier-led one. You must understand your tenants' needs and, as a landlord and investor, do everything you can to accommodate them.

There is no magic sauce to this strategy. It is all about being proactive and building strong relationships with occupiers.

Early exposure to a major UK third-party logistics business taught me the importance of understanding what truly matters to tenants. We went beyond the standard practice of offering rent-free periods, instead focusing on creative deal structures, lease flexibility and even profit participation, which added real value for both parties.

By working closely with occupiers across a variety of sectors, from car manufacturers to plant equipment groups, I learned to approach every opportunity with both investor and landlord perspectives.

I always prioritize direct conversations with occupiers before any acquisition, ensuring we know the critical factors for their operations. For me, it is about fostering win-win outcomes with our clients. This occupier-led approach has enabled us to create significant value.

Q In what ways can the adoption of ESG principles contribute to long-term growth and sustainability in the the logistics sector?

Integrating ESG principles into the logistics sector is a complex challenge, but at Redevco, our core ethos is to be a force for good, and ensuring we do what we can to decrease any negative impact on the environment and society is central to our operations. We always ask how we can improve an asset's energy efficiency, even if achieving carbon neutrality is near impossible.

Past projects, such as installing a 2.5MW wind turbine and multiple solar installations, demonstrate the importance of collaboration between landlord and tenant; these initiatives only succeed when tenants are on board and if there are tangible benefits for them from any sustainability measures installed.

Introducing EV chargers and upgrading to LED lighting are standard operating procedure in this sector, but still always require occupier co-operation.

Ultimately, while sustainability is a guiding principle, cost remains a key consideration for occupiers in today's challenging economy. Most are open to sustainable changes if they reduce operating or occupational costs, but financial realities can often slow decision-making.

SOURCE: REDEVCO

A high-capacity logistics hub tailored for large-scale distribution in Prague, Czech Republic

Q Looking ahead, how do you see the sector evolving and what opportunities will define its long-term trajectory?

Building a future-resilient portfolio means prioritizing tenant and geographic diversification, sensible capital values, strong locations and flexible, non-bespoke assets that are easy to re-let if tenants move on.

We prioritise resilient, cash-flowing assets acquired at sensible pricing and managed with a long-term, operational mindset. This approach underpins our partnership model and long-standing relationships in the sector.

Our objective is to continue developing our pan-European real estate platform in a measured and responsible way. We welcome working with like-minded partners to pursue opportunities across sectors such as retail parks, logistics and mixed-use assets.

Redevco's business has evolved from focusing on a single client to developing strategic partnerships.

Our flexible approach allows us to work with partners where our interests are aligned. We now have the right expertise, team structure and infrastructure across Europe to pursue sector-specific strategies and attract suitable partners.

Ultimately, responsible growth enables us to create positive impact, which has been a key driver throughout the heritage of this company. ■