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Value Creation & Asset Management

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KEYNOTE INTERVIEW

Where logistics is creating value for investors today

As logistics real estate matures across Asia-Pacific, performance is increasingly driven by operational execution rather than market momentum, explains ESR's Phil Pearce

The era when logistics real estate performance was driven largely by market tailwinds is giving way to a more operational phase. Automation, evolving customer requirements and supply chain shifts are reshaping how warehouses are designed, powered and managed, explains Phil Pearce, president of ESR. While investors and managers are paying closer attention to asset-level performance across global portfolios, value creation increasingly depends on operational insight and active asset management.

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Q Where are logistics owners finding the biggest opportunities to create value today?

Technology is increasingly important. It is changing the way warehouses are used, the types of people working in them and the way that the buildings are designed. Much of that is still driven by e-commerce. Amazon, for example, is one of our largest customers across multiple jurisdictions. We are currently building a four-level warehouse for them in Australia that is very much a tailored solution conceived around automation and robotics.

In addition, there are adjacent areas of technological change that are beginning to influence warehouse operations and value creation. Electrification of customer fleets is one example. The pace and form of adoption varies by market, but across jurisdictions we are seeing the same underlying trajectory toward more technology-driven, higher-specification facilities.

We have created a dedicated team focused on renewable energy solutions, including rooftop solar and large-scale battery deployment. These allow our customers to access additional energy capacity directly from our sites, which can add real value for customers while improving the long-term performance of the assets.

Traditionally, warehouses were primarily workplaces for blue-collar labor. But the increasing level of technology within modern facilities means many workers now have technical or IT-focused roles.

That shift also changes expectations around the workplace. In Japan, for example, we now provide significant communal facilities, including day-care centers, lounges, laundries and driver rest areas. In Australia, we have introduced gyms, basketball courts and running tracks. These types of features increasingly form part of the design process as developers compete to attract and retain customers and their workforce.

Q How is artificial intelligence beginning to influence asset management?

Everyone is looking at AI as a potential driver of productivity, although in many cases it is still in the early stages.

On the operational side, we are exploring how AI can assist with security, predicting traffic movements across logistics parks and helping us determine staffing levels at different points during the day based on truck flows and goods movement. It is very much a work in progress, but there is already meaningful deployment of AI across warehouse operations, including enabling a more proactive, preventive approach to maintenance.

In the back office, the impact is becoming clearer. AI is helping automate administrative processes such as processing customer invoices, and we are currently benchmarking efficiency gains that can be achieved through greater automation. This is particularly relevant given the macroeconomic backdrop. The days of very low inflation appear to be behind us, and we are seeing cost-of-living pressures across most of the jurisdictions where we operate.

That means there is a constant focus on how we can operate assets more efficiently, and technology – including AI – is likely to play an important role in improving productivity and ultimately supporting returns.

Q How are evolving customer requirements influencing value creation and asset management decisions?

Customer requirements are evolving quickly, particularly as automation and technology become more central to logistics operations. Modern warehouses increasingly require higher power capacity to support robotics, automation systems and other technology-driven operations.

Building design is also evolving. Facilities need to accommodate new forms of automation and allow for operational flexibility as logistics networks change. In many cases, this is happening through very close collaboration between developers and customers during the design phase.

Our customers often have highly specific operational requirements, and those requirements can shape everything from building layout to energy infrastructure. As a result, the development process for logistics real estate is becoming more collaborative and more technically complex – but that collaboration and expertise can also lead to better-performing assets over the long term.

SOURCE: ESR

The ESR Higashi Ogishima Distribution Center, a nine-story, state-of-the-art logistics facility in Kawasaki, Greater Tokyo, is one of the largest modern seismic-isolated DCs in Japan

Q Does scale create an advantage in managing large logistics portfolios?

Operating at scale certainly helps. We can see trends emerge earlier and apply insights learned in one market to others.

In development, scale enables a predictable pipeline of work for contractors, which helps secure more competitive pricing. Similarly, when rolling out new IT systems across multiple jurisdictions, large platforms are often among the first to adopt emerging technologies.

Scale also brings consistency. We are actively focused on how our service providers and technology partners can help us implement systems that improve efficiency across the organization.

One area we are currently exploring is how our customers can access certain parts of our reporting systems through web-based dashboards. That would allow them to download relevant data or operational information directly.

The same principle applies to our capital partners. Many of our investors are very sophisticated global institutions with their own reporting requirements.

Providing them with direct access to relevant information allows them to analyze performance and make decisions more effectively.

Q What operational trends are shaping logistics development and redevelopment opportunities?

Logistics networks increasingly follow what you might describe as a hub-and-spoke model. There remains a clear need for large regional or national distribution centers. These are typically located close to major transportation nodes that allow goods to move efficiently into smaller distribution points.

At the same time, last-mile warehousing has become much more prominent over the past five or six years. Rising household incomes, a growing middle class and changing expectations around e-commerce speed are driving higher velocity of goods movement. In many cases, consumers now expect delivery within one or two hours, particularly for groceries.

That has created demand for smaller infill logistics facilities closer to population centers. We are seeing more of those developments being undertaken directly by retailers or large supermarket chains, as well as e-commerce operators. The precise operating model varies by country. Different jurisdictions have slightly different logistics networks and operating requirements, so we have to adapt to those local dynamics.

Q How are capital flows shifting across Asia-Pacific logistics markets, and how is that impacting value-add and asset management strategies?

Western capital remains very focused on Japan and Australia, which is currently our largest market, followed by Korea. China remains an important market for us, but we have seen a shift in the composition of capital there. Western capital has been recycling out of some investments and being replaced by domestic renminbi capital. We anticipated that shift quite early and have had good success working with local capital partners as that transition has taken place.

Elsewhere in the region, Southeast Asia continues to perform well for us. Thailand and Vietnam are both strong markets. India is also attracting significant attention. Given its population size and the growth of its middle class, many investors see it as a major long-term growth opportunity.

At the same time, global supply chains are diversifying. More manufacturing activity is moving into India, which is creating additional demand for logistics infrastructure. In many ways, it resembles the earlier phase of development we saw in China. As international companies enter the market, they bring global standards for design and operations, which accelerates the institutionalization of the sector.

At ESR, we have a clear business plan, and asset management has always been a piece of that. Sharpening our own strategic focus is a key priority, and an important part in terms of asset management is bringing us back to our core competencies: logistics and data centers.

Over the past eight months, we have made great progress in divesting non-core assets to simplify our business structure, and the next strategic pillar will be to grow the core of the business. Obviously, asset management and driving returns from individual assets remain key components of that.

> *"The development process for logistics real estate is becoming more collaborative and more technically complex – but that collaboration and expertise can also lead to better-performing assets"*

Q How does operational insight translate into long-term value creation?

Our approach has always been to operate as a fully integrated fund management and development platform rather than simply allocating capital. That means we are involved across the entire life cycle of an asset. We have teams responsible for design, engineering, architecture and master-planning, as well as asset management, facilities management and fund management. The only part of the process we typically outsource is the construction itself.

This boots-on-the-ground structure gives us a detailed understanding of how logistics facilities are used and how customer requirements evolve. Because our teams work closely with our customers from the earliest design stages, warehouses are often developed collaboratively.

Facilities management also plays an important role. Our teams are physically present at many of our sites and interact with our customers on a daily basis.

That creates multiple touchpoints – not only with senior management but also with operational teams working on the warehouse floor. Those conversations often provide early insights into customer growth plans or emerging operational challenges. Having visibility across the entire asset life cycle allows those insights to feed directly into future developments.

Ultimately, the ability to create value in logistics real estate increasingly comes from deep operational knowledge – understanding how buildings are used, how customer needs evolve and how those insights can be translated into better-performing assets delivering value for investors over time. ■