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PROPERTY

Opportunity Knocks

Where is the real opportunity for investors in European logistics real estate? *Paul Hamblin* hears a persuasive argument for a surprising choice.

With demand for logistics space surging across the continent, attention has focused in recent times on the CE opportunity – that is, the Central European belt principally comprising Poland and the Czech Republic, with Slovakia and Hungary picking up some associated stardust. Plenty of low-cost land, goes the argument, allied to low-cost labour, presents a lucrative and cost-effective way to reach the high-value German market, with the pleasant added benefit of its corridors to Rotterdam and other key Western European hubs. In consequence, logistics development in the CE region has seen growth in recent years.

Rui Nobre *(pictured)*, an engaging South African who bought his first supermarket at 24 (which he still owns), sees a juicy opportunity elsewhere in Europe. As CEO of Griffen Capital, his investment vehicle, he and his small team spent several years in detailed analysis of the continent's industrial/logistics real estate potential, looking to focus on one territory to offer investors the best returns. And the country he looked at last of all turned out to be the one he is now backing with his investors' money – Britain.

That's right, Britain, with its as-yet unknowable Brexit and its impossible-to-quantify economic uncertainties.

Sitting in his sleek Mayfair offices, Rui Nobre outlines his, at first glance, surprising conclusions. "Around 2005-7, we went into 25 different jurisdictions and our thinking was, 'if we're going to invest £25 million, where will we be in five years?' And it's about much more than getting the best yield. We wanted to look at the social conditions, the taxation structure, the rule of law, any language issues, the corporate structure in each country in relation to the rest of the world. With the various limits and add-ons, it could be that, say, a return of 9% in Germany would in reality be no better than a 7% return in the UK. It was all about not being distracted by yield."

That was the first part of the equation. The second huge factor was the growth of e-commerce and the UK's leadership role within this huge change in consumer dynamics. "In the UK, you look at such factors as the weather, the transport congestion, the customer service standards in delivery and return are better than in Europe, it's no surprise that consumers see e-commerce as the future. At the moment 11% of logistics space is devoted to e-commerce – by 2025 it will be 25%. There will be 160 million m^2 of distribution space required to fulfil the growth projection to 25% if the Prologis derived ratio of every £1 billion in e-commerce turnover equates to an extra 750,000 ft^2 of logistics space. The *Wall Street Journal* had a phrase for it – 'sheds are the new shops'. That's why we're now seeing the surge in demand, because what was once in a store is now in a shed."

He sees this core underlying strength in the e-commerce sector as the key reason it will be shielded by any Brexit headwinds. Opportunities for Griffen will keep coming because last-mile provision in the wider London area has been made harder by the erosion of industrial land and the pressure of residential priorities in building.

What about the current CE wisdom, though? "Those countries have small populations and are not as developed. Yes, you've got the yields, but yield is only window dressing, only 2% of the whole equation. You have to unpack all of its parts," he summarises.

Griffen's first big acquisition was in 2008, south-east of London at Sidcup in Kent and it has recently announced a 210,000 ft^2 pre-let deal with 3PL Amethyst in the London/Midlands M40 corridor, at Wellesbourne, Warwickshire *(pictured)*. Nobre says that Griffen will invest to hold, will not be making quick exits. He continues to seek acquisitions.

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