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TRANSCRIPT

Exploring Real Estate Growth Strategies with GLP

Featuring:

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RV:

Hello, my name is René Veerman, I'm a Head of Real Estate at MSCI. Today, I'm speaking with Ralph Wessel, MD of global fund management at GLP. Ralph, thank you for taking the time to speak with me today. Rob, GLP has a lot of experience investing in logistics, especially in Asia.

Can you tell us a little bit more about your experience in that area?

RW:

Of course, and thank you, René, for having the chance of doing this interview with MSCI. Very happy that we have the chance of doing that. To come to your question, I've personally been involved within logistic real estate since the late nineties, which all of a sudden makes me realize that I'm getting old as well.

But we've always seen as long term trends is a couple of things. And the beauty about these sectors is not necessarily rocket science because it's very much focused on urbanization. So what we saw already a few decades ago and whether it's in China and Japan or in Europe, for that matter, was urbanization.

In addition to that, we saw obviously since the earlier part of this century, the millennials coming up and the way that they tend to behave, getting more and more focused on internet, changing their shopping behavior. And that together, urbanization and the millennials is a very strong push for domestic consumption.

So what you see in this sector is that 90% plus of all the leases are very much focused on domestic consumption. And it's always been kind of like the long term vision and driver behind the need for good logistic real estate, good logistic warehouses being at the right place, built to the right specifics, being very functional as well as generic buildings. And those are suitable for pretty much 95% or so of the customers that are seeking space for logistic real estate. Now, obviously, what we have seen is a tremendous change in this pattern, and I would almost describe it as an acceleration by three to five years since the early start of COVID, whereby it was not only the millennials but pretty much complete new, different parts of the world, as well as generations shifting from physical shopping into e-commerce. And I would almost say that my parents are probably the best case example, used to be cash shoppers and always go to their local groceries and fruit shop and the wine shop, and all of a sudden they were forced to order online as well. And once you get into this habit, you kind of like it stays there. So what we have seen in the last two years is that there is a tremendous change in the way that people are behaving, how to get goods basically to their household.

Now what that does is a few things. It's accelerated as I said, the whole e-commerce phenomenon by three to five years is a rough guesstimate, but what it also did, it highlighted supply chain issues, and even almost overnight, all those operators needed to be much closer to the consumers and the customers, as well as they were looking at inventory in a different way. I mean, I think we've all experienced in the last two years when you want to buy something that all of a sudden wasn't there.

So that's clearly highlighting what's going on, and that phenomenon is still in place. And it's needless to say that that's a massive propeller behind our sector. So what we've seen is a lot of changes from traditionally always being focused on the urban areas where people live, daily consumption, daily goods, millennials fast-tracked almost to e-commerce and a different kind of solution for supply chain issues that have clearly come to the surface.

RV:

And you've described a few themes that I guess are global or universal. Now you've invested in some specific markets like Brazil, China, Japan, which no doubt have somewhat more unique drivers. Are any of the drivers or themes that are different in those markets that might surprise you?

RW:

Yes, and no is the cryptic answer, and we can probably spend the next 30 minutes to an hour if we go country by country. But like you mentioned yourself as well, a lot of the fundamental principles behind owning logistics real estate are global, and it's all driven by the shortage of supply, the lack of good infrastructure to get the goods from A to B, basically. And that's no different in all the markets that we operate. So if you really look where we are, are big markets for GLP today are Japan, China and Europe. And obviously we have investments in Brazil, Vietnam and India.

And all those countries, I would say, are highly dense populated. And within those countries, if you start looking where we exactly have all the locations, they're in the large cities. So our strategy is very much focused in Japan, on Tokyo and Osaka.

In Brazil, Sao Paulo and to lesser extent, Rio and then in China, there's probably 40 plus cities whereby the smallest still would have a population of 3 million people, which by default is a large city in the European context.

So what surprises me is not that much. What I found interesting is how fast China, as well as other Asian countries, are catching up with the rest of the world. So the velocity where things are going, in which direction is something that surprises me and again highlights some of that urgent need to get really good logistic warehouse supply being developed and managed accordingly in those markets. The other thing that I would say that surprises me is occupancy, albeit with everything that I just said where the fundamentals are strong. But even a country like Brazil, which historically always had its issue and a lot of volatility, our occupancy always remains in the high nineties.

I mean, if you look in Japan, our occupancy was always in 99% plus. And even after the GFC in 2008, we were like 98% leased and the rents came down by less than a percent. So that stability and how robust the sector actually reacts to quite global fundamental impacts events is something that from time to time has surprised me. But by doing this now for 20 years, it's kind of like that surprise has gone away.

RV:

And then you mentioned Europe already and GLP's investing, expanding in Europe. Now the global themes are clear, more sort of online shopping, etc. Why Europe now?

RW:

Well, first of all, Europe is a very big growth market for us. If you go back to the history of the company, GLP was founded essentially as a spinoff of one of our competitors, one of the largest logistic owners, as well, as a true Asian company back in early 2009.

But obviously, the team was already involved and had a lot of experience in managing this business on a global basis. So Europe was always one of those markets that we would like to go back. Why Europe now, because Europe is fundamentally under-supplied as well.

And Europe obviously has a lot of dense areas where the need for space, domestic consumption, millennials, urban areas, people shifting from physical shopping to online shopping, those parameters are all being fulfilled. If you go deeper then, we see that there's still very good, attractive development opportunities.

So when we started looking at Europe again, which was about 2015, we quite quickly came to the conclusion, if and when we would do Europe, you have to do it on a pan-European basis. You need to roll out a strategy which essentially starts with the four biggest markets being the UK, Germany, France and Poland.

And from there onwards, add the countries where you can still make a difference and where there's still substantial growth potential and those countries would be Spain, Italy, obviously Belgium, Holland being a very central location within Europe, as well as some of the other CE markets like Slovakia and Czech Republic.

And through our journey in Europe, which started by closing our Gately acquisition in 2017, we have now established ourselves in twelve countries in a matter of four years and created a 12 billion AUM business. So I think it's fair to say that the vision about there's still a lot of potential and there's still space, meaningful space for an operator, an investor as ourselves, was the right one. And I can see that the business has still got a lot of room to continue to grow in the near-term future.

RV:

As you grow into different areas with their own idiosyncrasies, what is the role that data analytics play in your capital raising and your due diligence process? And how does it differ by region or country?

RW:

To answer your first question it's absolutely super important because the more data we can gather and the better the investment decision can be taken. Besides that, it's not only about the investment decision, it's also managing the asset and assets on a going forward basis.

You constantly want to cross compare performance against data and see where things are shaking out, so it's a no-brainer that data is increasingly important. And also part of the reason that we're a very keen supporter of MSCI, and we think that industry are crucially important for benchmarking funds and creating transparency.

Now, how do I see that on a global basis? There's a tremendous opportunity in particularly Asia. I mean, it's probably fair to say that the U.S. has got a very large pool of data, it's easier to benchmark, it's easier to get access to data.

It's easier to track your own performance today to data. In Asia, I think it's still early days, which is just a reflection of the sector. If you also look at the sector, the sector has only been very strong and upcoming, probably in the last 20 years or so.

Whereby logistic real estate and warehousing has been far more present in the US and Europe for a much longer time. So it's a matter about catching up. That's the first comment that I would make. The other thing that I would make is that I don't want to necessarily speak on an Asia level because you need to go country by country as well. And that's another point where you probably start, where the rubber hits the road. I mean, it's easier to get your arms around Japan and Australia and China's actually big market. Collecting all the data to the right sized pool is something which I see as challenge, and at the same time, the prospect but no matter what, it's crucially important for us, I think for any owner, for any investment manager, for any landlord to have a really good set of data and data points to constantly cross compare yourself, what you're doing and how you're doing it, and that helps, obviously to take the best informed decisions going forward.

RV:

We've spoken about data and benchmarks and analytics, in terms of technology. GLP also selectively invest in prop tech companies. What role did they play in your strategy?

RW:

It's a very good question, and that's another set I would almost say in a different part of data because when I answered the question 'how important is data for your business?', that was more focused on industry and benchmarking, rental growth numbers and rent levels, capturing those kind of things, but is obviously all kinds of different data. And one is, of course, ESG, which increasingly and in a very accelerated way becomes more and more important collecting data from your buildings for ESG purposes. And then it's obviously getting access to data to really understand what's happening in the logistic world and the operational system, how our customers behave and what's going on.

And Mingma, who's our CEO and co-founder of the company, already had a very outspoken view on this, that years ago, we should be able to if you are to the largest, one of the largest owners of logistic warehousing that you need to know exactly what's going on around you.

And that fits into the ecosystem. And the way that we've been positioning GLP in that is that we've created private equity funds in which we took investments in companies that in some shape or form, provide a connection to logistic, logistics real estate, data centers and put the two together, the logistic real estate portfolio, as well as actually data centers, and then the private equity business. And all of a sudden, you create an ecosystem and you have a lot of intelligence and information, which we believe is exceptionally helpful as a landlord and investment manager again. Case in point, through our private equity business, we have 2 billion portfolio or so which compromise, which comprises of it, 100 investments in different companies, which collects all kinds of data. So we have investments in companies that do the smart gates. When trucks come to the park instead of all the manual, it reads the license plates and the barriers go open.

Then they're already being informed which doctor to go to, where the warehouse is already ready to offload and upload the trucks. So the handling times through that process by having these investments is reduced significantly. Now on top of that, what it does for us, we can track and monitor how many truck movements there are to specific tenants, and that data on its own tells us a lot, how important a location to a certain tenant will be. So again, put everything together, you're getting a much more in-depth understanding about your real estate as an investment for really understanding what's going on under the surface, with all the operations. And investing in tech, technologies, PropTech just helps us tremendously and helps us to collect all that data, store that data and use that data to our benefit.

RV:

Our conversation about investing in real estate or investing in general wouldn't be complete without discussing the impact of climate on investing. How do you keep yourself to measure and manage the impact of potential climate change on your investments?

RW:

I would say, like pretty much any player, institutional player in real estate at the moment, we are fast tracking our ESG program. I think that the sense of urgency that the world needs to change in that aspect and climate is a serious and a threatening issue.

Like, like most of us in the industry, we have fast tracked our programs. So in terms of looking at new investments, looking at new buildings, we have committed to begin with in a very significant and intense screening process to make the right decisions.

And all the buildings that rebuilding are at least certified, obviously to different levels, depending on location, country and standards. But every building has kind of like the strict requirement that it needs to be built to the highest standards and it needs to be certified.

That's where we are today. What's happening behind the scenes is again, in an accelerated way, getting ourselves set up in such a way that we can measure all kinds of data and KPIs coming out of the buildings and through that, ultimately, it needs to roll into a CO2 neutral statement of the of the company and of the business. And I think we're getting close, definitely closer. And it's just a matter of a certain time months or whether it's a little bit more than a year that we can make those statements.

But I truly believe that every company, big company in the world has its moral duty to really rethink how you do it and come up with those statements because I guess a world without carbon neutrality, is that the right words probably need to edit this, sorry - it's tough to imagine. I mean, it's a duty for all of us.

RV:

Well, thank you very much for this conversation. It's very insightful and look forward to speaking soon.

RW:

Thank you very much, René.

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