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# Q+A: BentallGreenoak's Phelps on its new logistics fund, Brexit & rental growth

6 Apr 2021 | by David Hatcher

**Investor is on the hunt for acquisitions, with 50% of investment capacity remaining for new fund**



Last month [BentallGreenOak raised €695m in equity](#) commitments for its first pure-play European logistics fund.

Having targeted only an initial €500m, the core-plus vehicle still has almost 50% of its investment capacity remaining and is on the hunt for new acquisitions.

Over the past six years the fund manager has already invested €2.4bn in logistics through its value-add strategy and it currently owns around 32m sq ft of European logistics.

Most recently it has acquired a [£100m+ development project in Avonmouth](#) and [acquired a £300m UK portfolio from Morgan Stanley Real Estate Investing](#) for the new fund.

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*React News* caught up with Toby Phelps, head of European equity investment to talk the impact of Covid-19, potential pitfalls and getting the cash deployed.

### **How have you gone about trying to still hit value-add returns in such a competitive market?**



Matrix 49 in Felixstowe is BGO's most recent acquisition

Generally speaking, we've seen better value over the last few years in smaller transactions. With big portfolios there's so many people competing we have found better value that way.

There's always a seller somewhere who either makes it so complicated that it puts a lot of people off, or someone who wants something done quickly and with certainty where others struggle to get there in time.

Every time we make an investment, it just has to stand up on its own two feet. So, there's nothing that says, we can't just sort of add this in. We try and keep things flexible and not be fixated on one strategy.

We still see an opportunity to capture some margin between where, either by creating new product or identifying under managed assets through our expertise and knowledge, we can create that stabilised product for the core market. We still think there's some very attractive risk adjusted returns to generate.

## How has the market evolved since you started investing in the European logistics sector?



BGO sold a €1.2bn portfolio to Patrizia in 2019

[The portfolio that we sold to Patrizia](#) was the vast majority of the logistics in our second value-add fund and we are in the middle of investing our third one and the funds now are bigger, which means building bigger portfolios than we've done before.

There has been demonstrable growth both in terms of depth of liquidity and indeed pricing for large portfolios. The demand for core stabilised logistics assets was going through the roof prior to Covid, which has then brought about further acceleration.

### **Are you having to underwrite major rental growth in order to secure assets?**

Every real estate cycle, apart from the GFC, came to an end due to oversupply in one way, shape or form. The challenge with logistics is it takes you only nine months to build. So, you've got to keep your eye on supply at all the times.

As we've seen this massive growth in demand for the asset class, and we have a relatively limited supply of existing space in all markets in Europe, there's obviously a chance that the

supply tap gets turned on. So absolutely, we need to be cautious about it.

We've always taken the view that for us to undertake an investment, we need to be comfortable with one, assuming no rental growth, and two, assuming yields are wider tomorrow than they are today. Now, in a market like we've had for the last few years, you're going to miss out on things, which with the benefit of hindsight, would have still made great investments. But that's okay and you can't do everything.

### **Do you have any concerns about rental growth?**

We've obviously seen some very strong rental growth in the UK because essentially it is an overdeveloped little piece of land. So, we definitely can point to restrictions in land supply in the UK as a way of getting comfortable, that all other things being equal, rents still have some potential growth in them.

In parts of Europe, I don't think you can say that's the case. The other thing that I think is a factor in rents is, in a falling yield cap rate environment, developers have no incentive to push rent.

Because if they bought a site based on the rent of £5/sq ft and a yield of 5%, and all of a sudden it's worth 4.5%, well, jeez, I can do an easy deal. Don't make my life hard. Do an easy deal at £4.75/sq ft and still make more money because my yield's lower than trying to push the rent on.

We've seen further yield compression, even in the last three months across Europe. We have to be close, if not at the point of that trough in yields. So, I think rental performance and the potential for rental growth is going to become an increasingly important thought process as you're looking at making investments in this sector.

But we are not going to get uniform rental growth. It's going to start to differentiate those owners, managers, investors that

really know what they're doing versus those that are still learning the asset class.

## **How does the profile of what you are buying for the logistics fund differ from the value-add fund?**



BGO recently [entered the Swedish market](#)

We have a dedicated logistics fund, which is the fund that bought the portfolio in the UK a few weeks ago. It will take some short-term lease risk or take a bit of risk on reversion or a bit of vacancy and by doing that we think we can generate what we think are attractive risk adjusted returns. With the value-add fund we may take on more leasing risk and development risk.

## **Do you think the UK represents good relative value compared to other European markets at present?**

We went through a period where we were seeing a lot better value on the Continent than we were seeing in the UK. I'll definitely hold my hand up and say I was one of those that was a bit more cautious about the direction of the UK economy given the uncertainty around Brexit but in practice, the market has continued to go from strength to strength.

The critics would say we've come into the market late. But, I'm fine with that, on the basis that we have got plenty done in other markets where we're really excited about the returns. We're not coming into the UK because we need to be in the UK. We're coming in because we're finding some interesting opportunities.

**Do you still think there is a lot more value to create from [the portfolio you bought from Morgan Stanley](#)?**



Quantum Magna Park was part of the £300m portfolio acquired from Morgan Stanley

There's a lot of value to play for we think. We have some incredibly well located, high quality assets with rents generally below market and lease events over the next few years that allow us to capture the reversion and any further market rental growth. If we can make sure the assets are providing the space our tenants need then I think we'll do well.

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