



The Case for Prime UK Logistics in a World of Tariffs

By Charles Allen, Head of European Real Estate

Within real estate, 'wait and see mode' has been a preferred term of the last few years. The geopolitical landscape and a lack of market visibility have meant investors have exercised caution - and been even more selective - when it comes to the allocation or reallocation of capital. Risk management is key, balancing pressure to deploy with macro challenges.

When we think of the tariff context, wait and see can also be applied. It is too early in the day for clear patterns of occupier and investor behaviour to emerge, and for the data to reflect that, but investors still need to put their capital to work.

Predicting the impact of tariffs – especially in the mid to long-term, which is the default outlook for patient institutional capital – must be considered; predictions that combine experience in cyclical volatility with a long-term view of headwinds, tailwinds and real asset megatrends to take an informed view of how the market will respond, and where capital will land by geography, sector, and the products within those sectors.

The introduction of tariffs has only strengthened what was already defining in this market cycle – that resilience is paramount. With asset allocation and portfolio construction being guided by principles of defensive diversification, opportunities offering income stability, inflation-protection and a positive rental growth story will continue to underpin investments. Variation in the economic relationships between the US and different parts of the world is another factor investors will monitor continually in their pursuit of 'safe-havens'.

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With this in mind, UK Grade A logistics will remain in favour. Underestimating its own challenges - namely inflation and global trade activity - would be naïve, if not reckless, but other factors are converging to suggest that resilience can be found in the niche of a stable UK market and the prime segment.

Inflationary pressures are there to be grappled with, let's be clear. Market uncertainty and cost concerns are sharpening scrutiny of new development. But a relatively lower cost of capital in the UK, as well as reduced competition in the land market, means a premium is available for investors allocating with managers that have a proven track-record in logistics development, such as Fiera.

The UK's current standing in the investment community is also a far-cry from that of a few years ago. A stable government is showing intent to encourage institutional investment into an economy and built environment that is digitalised and decarbonised. This is a reassuring foundation to support the robust legal frameworks, market liquidity and depth of opportunity that have been long-standing features of the UK investment case.

In the logistics market, the new tariff environment has to some extent accelerated what was already a demand-driver; deglobalisation. The much talked-about onshoring, nearshoring and friendshoring have served as tailwinds in the UK, where the recalibration of supply chains - supported by e-commerce penetration - has translated into strong demand for modern, prime-located stock.

Cost management pressures in response to tariffs will weigh heavily on occupier decisions around production lines and supply sources, placing an even greater requirement for facilities within the closest proximity to end users. The renewed focus on supply-chain resilience will also play into inventory management strategies, with stockpiling and the 'just-in-case' phenomenon given a new lease of life.

Reshaping supply chains, stockpiling and space take-up are reserved primarily for businesses with a healthy bottom line. In other words, the strongest covenants that typically occupy prime facilities. These are the same occupiers whose experience in the logistics sector has taught them that competition for the best facilities is fierce, meaning a gut-response reduction of them could hurt later down the line.

The sustainability profile of Grade A logistics is also key. Both occupiers and investors are facing similar pressures to decarbonise, with institutional capital having the added pressure to future-proof, ensuring that portfolios are in keeping with the evolving regulatory environment to avoid the prospect of asset obsolescence. Tariffs or not, demand for assets with exemplary sustainability characteristics - including a sustainability-minded tenant base - will continue to drive the 'flight to quality' we are seeing in real estate, including in logistics.

The new tariff environment has reminded the investment community - if it ever needed it - that the opportunity set in real estate is an uneven one, and the macro environment surrounding it is ever-changing. But it is often within this context where the best opportunities can be found.



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