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TRENDS

LEGAL MAGAZINE

COMMENTS ON THE REAL ESTATE LOGISTICS SECTOR

INSIGHTS FROM:

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— INTRODUCTION —

by LFN Executive Director
Rafael Truan Blanco

The logistics sector has managed to thrive during the COVID-19 crisis. This crisis has accelerated trends in e-commerce and the importance of flexibility to adapt to demand conditions. However, what it has shown most, is that real estate logistics is a safe haven for investment in times of uncertainty. This is what the logistics website “elinmobiliariomesames.com” concluded last year and thankfully the situation remains unchanged aside from a few developments in the sector. There has also been some changes in the distribution sector and that is having an impact on logistics.

Lockdown has accelerated the development of e-commerce in practically all sectors, a change that has had an effect on the type of real estate needs in this market. Logistics is a sector that is consolidated, secure and has tremendous potential due to the growth of e-commerce.

What were traditionally the two “black beasts” of this sector? In my view and from a legal standpoint, the first was the difficulty in finding adequate land with legal planning and zoning in place. There is a great difficulty in converting land for industrial use as logistics had a strong impact on available land supply. Secondly, there was a lack of quality developments in the market. Thankfully, with more and more areas not only adequately planned from a legal point of view and the professionalisation of the sector leading to well thought out and constructed projects, we are no longer held back by these issues.

There is a strong demand from investment funds on first-mile space and for large spaces in strategic and well-developed areas.

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Additionally, the number of companies offering turnkey projects is increasing, they may be on hold currently but there will be a flow of good projects coming along this year.

I agree with the statement that the coronavirus shock has tested this sector, which has been impacted asymmetrically. The positive side corresponds to companies involved in third party logistics, e-commerce (fashion, accessories and luxury goods), technology and IT, pharmaceuticals and transport and distribution but there are also hard-hit areas such as automotive and industrial production.

CBRE reports that they are confident that clients, mainly e-tailers, pharmaceutical operators, and supermarket chains, will come out of this situation stronger, while other sectors such as automotive or textiles will have to wait until 2021 to return to pre-pandemic values.

A CBRE survey asked professionals for their opinions on how the pandemic will impact the needs of operators and the characteristics of logistics assets. A third of those consulted foresaw greater automation of warehouses, to offer a faster and more efficient

response to the customer, in the face of the massive increase in e-commerce and food demand. In turn, 27% believe that there will be an increase in logistics areas for reverse logistics, due to the need for areas capable of handling a large number of returns.

LFN members from Ireland, Italy, the UK and Poland have provided their insights to this focused logistics issue. This is the fifth such issue of the LFN Real Estate Practice Group Magazine. More Trends issues can be downloaded at <http://lfnglobal.com/index.php/trends-magazine>.

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THE IRISH LOGISTICS MARKET

by Rob Gibbons

Background

The logistics market in Ireland has begun 2021 as the golden child of the property sector. The economic and political climate in the past number of years has helped to shape and grow its development, but cultural trends, and the adaptation of society to a changing world has also been pivotal in moulding the sector.

In its most basic sense, logistics is the blanket term used when referring to the process of managing how resources are acquired, stored and distributed to their final destination or end user. As such, it focuses on storage and transportation services. For the Irish property market, this has manifested in increased take-up of warehousing space, data centres and transport hubs.

COVID-19

It would not be possible to discuss any sector in the current climate without acknowledging the impact of the COVID-19 pandemic. Surprisingly for the logistics sector, the pandemic has likely been a friend to its recent rise in popularity. While not the most

welcome of allies, COVID-19 has seen a change in the way we live our lives. People are restricted in how they interact. Businesses have had to adapt. Consumers have had to develop new habits.

One such habit has been a growth in online shopping as a result of non-essential physical retail outlets remaining closed during extended periods of restrictions. This emergence in e-commerce has resulted in increased warehousing demand, and also an increased demand for data centre space.

Brexit

It's no secret that the uncertainty surrounding Brexit has impacted on certain sectors of the economy in recent times. On the flip-side however, this uncertainty has had knock-on effects for companies who have had to change the way they do business to prepare for the possible eventuality of a no-deal Brexit. Ultimately, a deal was agreed but by then many businesses had already put plans in place. For the Irish logistics market, this in turn meant a higher demand for space.

The COVID-19 Brexit Balance

CBRE reported in its recent Market Outlook for 2021 that a solid uptake was recorded in the industrial and logistics sector across 2020. This was in line with high volumes achieved in

previous years. Indeed, in the last quarter of 2020 the Dublin industrial and logistics sector saw the highest quarterly take-up in 5 years.

The logistics sector is both capital and employment sensitive, and, coupled with the global freight transport industry, is driven by trends in global trade. The Department of Business, Enterprise and Innovation in its Focus on Transport and Logistics in August 2020 noted that while transport in



general (including passenger traffic) fell post-COVID-19, air cargo supply lines have remained robust throughout the crisis. It also noted that the e-commerce driven logistics industry has grown in 2020. As a result, those companies have increased employment.

In the latter part of 2020, Brexit stockpiling by companies in the run-up to Christmas was reported as assisting



Dublin Port Company in its overall performance for 2020. While the second quarter of 2020 saw a large reduction in volumes through the Port, this recovered in the third quarter and further again in the fourth quarter.

Changing Trends

With the uncertainty generated by both COVID-19 and Brexit, trends in the Irish (and international) logistics sector have emerged. These include:

- a. The popularity of online shopping is likely to remain constant as consumers have now become more accustomed to this method of purchasing. This should see increased demand for data centre space, and also for storage and warehousing for online shopping.
- b. With more people working from home, and home-schooling becoming commonplace during periods of restriction, cloud-based businesses have performed strongly. Microsoft recently reported that its Azure cloud computing services grew 50% in the final quarter of 2020. This was the second quarter that growth was experienced.
- c. As COVID-19 vaccines come on stream, storage requirements may change and develop. For example, the Pfizer BioNtech vaccine has demonstrated the need for cold storage facilities, and indeed the

Health Services Executive (HSE) took delivery of a consignment of ultra-low temperature storage freezers to the National Cold Chain Centre in December 2020.

d. Amazon has recently been reported as being close to agreeing terms on additional warehouse space in Dublin for its fulfilment centre. This is in addition to its existing warehousing facility for its Amazon Prime business. The new fulfilment centre would be a welcome development for Irish consumers as it would allow for the UK to be bypassed by Amazon, avoiding potential delays or further charges due to Brexit trading arrangements. It is reported as being the largest deal of its type in the Irish property market.

Other Developments and Trends

Outside of global pandemics and international political changes, sustainability remains high on the agenda globally. In Ireland, the environment is seen as a valuable asset to be protected, and businesses need to operate in a way that is sustainable and poses as little threat to the environment as possible. An Post (the Irish postal service) recently became the first Irish logistics company to join EV100. This is a particularly timely development for a thriving logistics market in a world that is increasingly

investing in sustainable ways of doing business. EV100 is a global initiative which describes itself as bringing together forward-looking companies, committed to accelerating the transition to electric vehicles. 30% of An Post's fleet is already made up of electric vehicles, and the company is now focusing on alternatives for its HGV fleet with a view to carbon reduction.

Conclusions

In recent years, international investors have been competing for available industrial and logistics space in the Dublin market and this trend is set to continue. Prime industrial rents rose in 2020 and are expected to increase further in 2021. Prime industrial yields are expected to be stronger in 2021 than previously. Data centre and technology space also remains popular, with the Irish-based Hewlett Packard campus being sold in November 2020 to an international investor.

COVID-19 and Brexit have been influential in the Irish logistics market, and while they may in themselves be transient, the changes they have brought about in how people live their lives, and in how businesses operate will continue into the future. Coupled with the desire to find sustainable ways of living and working, this can only be positive for the future of the logistics market in Ireland, and beyond.

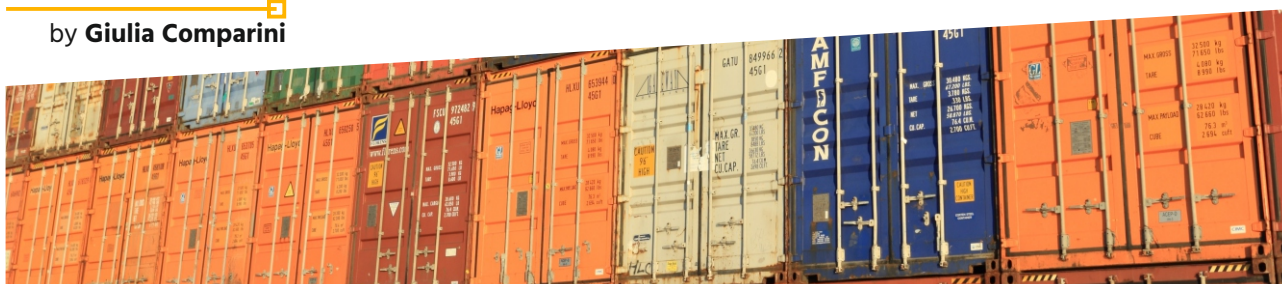
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THE EFFECTS OF COVID-19 ON THE ITALIAN LOGISTICS MARKET

by **Giulia Comparini**



The two most active economic sectors in the demand for logistics spaces are large-scale retail and pharmaceuticals, both are looking for a growing number of properties characterised by high technology and automation.

The pandemic has brought about a huge increase in online spending in Italy. According to "The World after Lockdown" a report published by Nomisma and Crif, which analyses the impact of the COVID-19 pandemic on the lives of Italian residents (aged between 18 and 65 years), there was an increase of 37% in online food shopping and a 24% increase in the online purchase of non-food items.

This new shift has influenced the purchasing habits of consumers, giving a strong acceleration to the e-commerce trend: overall, considering all consumer goods, clothing, electronics and all other semi-durable goods (large and small appliances, consumer electronics, toys, housewares, furniture and furnishings, brico, etc), 70% of Italians between 18 and 65 have made at least one online purchase in the last year.

What impact has this transformation in consumption had on logistics?

The most direct and evident link between retail and logistics is represented by e-commerce but it is also true that there is an ever-greater propensity towards digitisation in many different sectors.

The COVID-19 pandemic has accelerated the trends already underway, connections have increased, and we have all become e-commerce customers more than ever. The logistics sector has consequently seen an exponential increase in the demand for spaces. Spain and Italy are expected to have the most significant impact as they had a relatively low percentage of online sales prior to COVID-19.

The most advanced logistics operators are facing this great growth in demand for logistics spaces in Italy by following three main drivers:

- 1) innovation, seen as sustainability and high automation of assets
- 2) proximity to the infrastructural network and to consumption to avoid useless traffic
- 3) new markets, the most requested

locations are along the main Italian highways and in the Milan and Rome markets. There has also been an increase in logistics interest and activities along the Adriatic coast and in the south of Italy.

The growth in online food shopping is bringing out the demand for innovative projects from a real estate point of view, such as, energy-efficient multifunctional logistics assets equipped with latest generation photovoltaic systems, warehouses with different temperature-controlled areas and parking with electric charging stations. It is fast becoming a very different situation compared to traditional logistics warehouses.

The diversification of the demand for logistics spaces

The two most active economic sectors in the demand for logistics spaces are large-scale retail and pharmaceuticals, both are looking for a growing number of properties characterised by high technology and automation.

A strong demand is also confirmed for traditional logistics, aimed at reclaiming buildings with great heights and many flaps to facilitate the loading

¹ <https://www.nomisma.it/servizi/osservatori/osservatori-di-mercato/osservatorio-immobiliare/>

and unloading of goods.

The growing sensitivity of investors towards ESG criteria is a further driver that pushes the development of the demand for logistics properties. This is characterised by reduced energy consumption and low CO2 emissions, capability of generating clean energy and, where possible, promoting a redevelopment of neighbouring areas.

Given the lack of available land in the vicinity of strategic areas, in particular for last-mile logistics, it is an almost obligatory prospect to envisage the regeneration of disused buildings. There are many industrial warehouses that have been left abandoned for years in the suburbs of Italian cities that could be reconverted and usefully redeveloped for the benefit of the surrounding area.

The increasing interest in last-mile logistics

Various factors have led to an increase of operators in last-mile logistics. Two of the key drivers being; the current lockdown with the inability to leave the house and shop in traditional stores, and (ii) the increasing need of consumers to receive goods as soon as

possible, sometimes within hours of ordering.

Investors are keenly looking to increase exposure in last-mile logistics as they are interested in buildings that are nearby urban centres and are characterised by a high rate of connectivity through infrastructure and public transport. The developments of these last-mile logistics sites may certainly be an opportunity to redevelop urban areas with sustainable buildings. Unfortunately the identification of logistics as intended use does not fall under the remit of State Law, but is decided by Regional Legislation and Municipal Urban Planning. It remains to be seen how the Italian Municipalities will approach these increasing demands.

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DEVELOPMENT OF THE WAREHOUSE & INDUSTRIAL REAL ESTATE SECTOR IN POLAND

by Magdalena Stępień

We have seen an accelerated development of the logistics real estate market in Poland in recent times. Year on year, this industry breaks new records: for space commissioned for use and the demand for this type of space. Analysis indicates that 2019 was marked by record supply in the warehouse and industrial real estate market, with continued high demand, despite previous concerns about a slowdown in economic growth. Last year brought further development of this investment sector and further results, exceeding those of 2019, despite the prevailing pandemic. Surprisingly, the instability in the market brought on by the COVID-19 pandemic has created new prospects for this industry.

2019 and 2020 records on the warehouse and industrial real estate market

The total stock of modern warehouse and industrial space in Poland at the end of 2019 amounted to 18.6 million square metres. In 2019, over 2.7 million square metres of new space was delivered to use, which is the highest value recorded in the history of the market. 2019 was a record year in this respect. In 2020, the volume of new supply was still high and amounted to



2.1 million square metres.

Total resources of modern warehouse and industrial space in Poland

YEAR	Total resources of modern warehouse and industrial space (in million square metres)	Increase compared to the previous year (in million square metres)
end of 2019	18.6	+2.7
end of 2020	20.7	+2.1

The year 2020 brought a record demand for warehouse space. Over the period of 2017-2019, the demand was around 4 million square metres per year. In 2019, more than 4.1 million square metres was leased, approximately 2% more than in 2018. In 2020, the total demand for modern warehouse space for the first time in history reached almost 5 million square metres and grew significantly by approximately 25%.

Demand for new warehouse and industrial properties

YEAR	Demand (in million square metres)	Year on Year Growth
2018	4.0	0%
2019	4.1	+2.5%
2020	5.2	+25%

The reasons for the rapid development of the logistics industry in Poland?

According to industry analysis, one of the main drivers of the logistics real estate market is the e-commerce industry. However, its real share in the demand for warehouse space is difficult to estimate, due to the fact that the same facilities often combine



the functions of stocking traditional stores and handling online orders. These zones are still intertwining. However, the continued impact of the pandemic in recent months is favourable to the e-commerce industry. Numerous restrictions and several-week bans on conducting traditional (stationary) trade in large facilities with a sales area of over 2,000 square metres contributed to the increased development of online shopping. Thanks to the disruption in traditional trade caused by the pandemic, this industry is growing rapidly, and the market still has great potential in Poland. This will certainly translate into positive prospects for entities invested in logistics and warehouse facilities. However, the role of traditional trade and the manufacturing sector in the development of the warehouse real estate market cannot be overlooked. The experience of recent months has shown how important it is to secure efficiently operating supply chains and ensure their continuity, and

appropriate warehouse facilities allow us to meet these requirements.

The Polish e-commerce market grew by approximately 30% in 2020. Both the number of online stores and the value of online sales are growing at a similar pace. Due to the pandemic, internet sales began to grow rapidly, so have segments which have been shown to be the least popular among consumers, e.g. groceries. The forecast for the Polish e-commerce market is very optimistic and double-digit year-on-year increases are foreseen throughout 2021-2025.

But this is not the only reason for the development of this market sector in Poland. The stability of rental rates certainly also boosts the confidence of investors willing to commit funds in this region of Europe. The access to qualified staff, the experience of construction contractors who are well acquainted with this type of investment and the availability of human resources necessary for the further operation of such facilities are also key factors.

This type of investment is also favoured by the availability of capital linked to the growing demand. In recent years, investors were so optimistic about the development of the logistics real estate market that they made decisions to start speculative investments, i.e. investments realised even without securing returns on investment in the form of previously concluded lease agreements for warehouse space.

The development of investment projects in the field of logistics facilities has so far focused on the outskirts of large cities and at key communication points. However, a different trend has also been observed for some time. It is true that the immediate vicinity of road

infrastructure is still of key importance, but the proximity of the largest urban centres in Poland, although still desirable, is no longer an absolute requirement determining the location of the investment. This is due to two key factors.

Firstly, a significant reduction in the supply of land in the vicinity of large cities and their high prices. This phenomenon was intensified by a legal change from a few years ago, which resulted in limiting the turnover of agricultural real estate located outside the administrative borders of cities. Some urban centres have made attempts to activate such land for investment purposes, extending the administrative borders of cities with adjacent areas. However, such a solution did not significantly improve the supply of real estate suitable for investment.

Secondly, the change in direction of the location of logistics investments was caused by the limited possibility of acquiring human capital capable of securing the facility's operation after its construction. In large cities and their surrounding areas, unemployment is much lower than in less urbanised regions, which translates into the economic aspects of the operation of such facilities.

On the other hand, the significant development of the road infrastructure, allowed for the expansion of investors in areas which had not previously been considered. Infrastructure with sufficient parameters is also available in the vicinity of smaller urban centres. Therefore, there is also a growing interest of investors in locations in eastern Poland, which have so far been less common.

In 2019, the General Directorate for

National Roads and Motorways (GDDKiA) made 460 km of new roads available for traffic. At that time, drivers had 4,146.5 km of expressways at their disposal, including 1,693.8 km of motorways and 2,452.7 km of expressways (source: GDDKiA). In 2020, 137.8 km of roads were handed over to drivers, and many additional road investments are to be completed soon. The plans for 2021 are ambitious and assume that by the end of 2021 drivers will have at their disposal at least 385.5 km of new roads, including over 308 km of new expressways (source: GDDKiA).

Newly Built Roads

YEAR	New Highways
2019	460 km
2020	137.8 km
2021	385.5 km (planned)

Despite developing new areas, the status quo has not changed drastically – Warsaw remains the largest warehouse market in Poland. Central Poland, Upper Silesia and Wrocław are also characterized by high dynamics of supply growth.

It is also worth adding that the development of e-commerce also forces a change in the logistics structure. Warehouse facilities are being fragmented and they will appear not only on the outskirts of large cities but also in their centres. The key being a reduction of delivery times, which is

made possible by a network of efficiently operating dispersed logistics points.

An important factor of development is also cooperation between investors and local authorities. Tax rebates and exemptions have led to an improvement in investment opportunities in this area. Local authorities see the correlation between the location of such investments and the possibility of reducing unemployment. These social factors translate into attracting investors and facilitate the implementation of investments. Investor service offices have been established at the lowest levels of public administration which proves the growing awareness of local authorities and the importance of this type of investment for the development of the local community and local infrastructure.

Of course, investors also face challenges – ranging from obtaining rights to attractive land, securing a network of communication routes connecting with larger thoroughfares, obtaining the necessary permits and agreements, and dealing with the resistance of residents of nearby real estate. The accumulation of such facilities increases traffic, and this may have a negative impact on road capacity, and consequently may result in resistance from local communities against further saturation of the area with logistics facilities. Providing legal support for investors in the creation of local legal acts and establishing the principles of spatial order, may turn out to be valuable. These are local spatial development plans, established at the community level – allowing us to meet both the needs of investors and the expectations of the local community. Their creation, however, requires

considerable commitment and is time-consuming. Fortunately, the legal system also provides for simpler and faster procedures for determining the conditions necessary for the development of investments.

Another aspect that causes difficulties and requires legal consultation is obtaining a decision on the environmental conditions of the investment. In this respect, environmental movements that attempt to limit this type of investment may be of key importance. The differentiation of the legal status of land may also prove problematic. Logistics investments require the acquisition of land with a large area, often with a diversified ownership structure. However, the right actions and legal support often effectively eliminate the above-mentioned risks.

To conclude, it should be stated that despite the challenges that are sometimes faced by investors, the logistics real estate industry in Poland is currently flourishing. Growing demand is encouraging to investments, and there are many promising projects for these types of facilities in the pipeline. Judging from the results of the last few years, Poland has truly become a leader in the development of the logistics real estate market in Central and Eastern Europe.

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A large, stylized blue globe is centered in the image. It is overlaid with a network of white dots and lines, representing a global network. The globe is set against a background of classical columns, likely from a courthouse or government building, which are slightly blurred and in a darker tone. The text 'FAR-REACHING LEGAL SOLUTIONS' is written in large, bold, white capital letters across the center of the globe.

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A POSITIVE OUTLOOK OR A LOGISTICAL NIGHTMARE? HIGH DEAL VOLUME BUT LIMITED SUPPLY IN THE UK LOGISTICS MARKET

by Nick Vasquez & Chloë Kealey

It has been interesting to see the mixed fortunes in real estate subsectors over the period of the pandemic. Some, like hospitality, office and retail space, have been crushed but there have been some bright spots, and logistics is one area that has held up and even thrived in the circumstances.

Logistics take-up in the UK rocketed in 2020 in what is thought to have been a record year for real estate deals in the sector.

The increased levels of transaction activity in the logistics market have been driven by the ongoing growth of the ecommerce industry. With traditional retail sales and footfall on the high street already declining, the shift towards Internet shopping was accelerated by the COVID-19 pandemic as the national lockdowns encouraged many more people to shop online.

The pandemic's impact on the logistics sector has not been limited to the increase in online shopping. It has created a surge in demand for storage units for PPE and other medical supplies and the vaccine rollout has increased the need for cold storage, packaging and distribution centres. Brexit has also provided disruption to the supply chain with congested ports and other supply issues resulting in stockpiling of products.

As a result, retailers require more storage space and logistics companies need to transport greater numbers of goods. Demand for warehouses and distribution space has therefore increased significantly over the last twelve months. Hence Amazon was a key player in logistics take up in 2020 with deals including a 2.6 million sq ft space in Leeds, a 2.3 million sq ft unit in Kent and a 2.5 million sq ft space in Gateshead. The retail giant is also said to be looking to rent up to 40 new distribution hubs across the UK to keep up with its two-day delivery promise.



In the past, the so called 'golden triangle' in the UK's midlands was a hotspot for logistics units with an estimated 90% of the UK's population being within a four-hour drive. However, with courier companies and retailers now promising even speedier deliveries, proximity to consumers is becoming increasingly important. Consequently, the surge in demand has been seen in all regions of the UK, in both rural and urban areas.

The market also saw a real shift in the type of companies investing in logistics in 2020. Previously, REITs have been the biggest purchasers in the sector, but private equity funds have now overtaken these and, together with UK institutions, were responsible for the majority of investments made in the last year.

Transactions have also been seen in situations where companies are looking to boost their cash reserves. Given the current demand, logistics units are highly liquid assets and sales can be more easily executed than for assets in other real estate sectors.

The Growth of Urban Logistics

While typically more expensive to rent than rural units, companies are beginning to see the benefits of paying for urban logistics hubs, which, aside from being closer to a larger proportion of the population, include the potential to increase market share. Valor Real Estate Partners, a dedicated logistics and industrial investor, has completed five acquisitions across London recently which it intends to refurbish for ecommerce tenants.

As well as the increased rent, the cost and availability of labour in urban areas has previously been a barrier to the development of urban logistics spaces. This, combined with the additional labour required and the added complexity of ecommerce logistics operations compared to replenishing physical stores has resulted in ecommerce companies seeking to maximise their efficiency through warehouse automation. Such automation has further enabled the

development of urban logistics space by reducing labour costs. It has also led to the growth of click and collect services with retailers establishing micro-fulfilment centres within traditional stores.

Emerging Issues

While the news of an increased number of deals in the logistics sector may sound like positive news when compared to the outlook faced by other sectors such as hospitality and travel, the growing demand presents its own issues.

The first challenge is developing enough logistics spaces to keep pace with the surge in demand. While supply has been responding, there is still a significant decrease in available units and vacancy has fallen to an all-time low in some areas of the UK.

This is a particular issue in urban areas as the amount of available land that can be used for logistics units is limited. Further, the proximity of warehouses to residential buildings is typically resisted as people reject the idea of logistics centres in their backyard.

The second problem is the lack of good quality last mile units. The high costs associated with home delivery make it the most difficult part in the supply chain. Often, older units' structural

capabilities are limited and they do not have sufficient specifications to enable automation. With an undersupply of prime last mile units and relatively few top-quality developments in the pipeline, the gap in rents paid for new vs good quality second-hand space is closing as occupiers look for better quality facilities.

To help meet these challenges, repurposing real estate spaces will be a common feature of the post-pandemic world, as supply and demand drivers realign (one trend, for example, is for farmers to convert vacant farm buildings as rural logistics units). The hope and expectation is that planning and local authorities will become more amenable to any necessary change of use or planning applications where repurposing is required, and local objections will be overridden by the wider considerations.

Outlook for 2021

The ecommerce market is predicted to grow further in 2021 and with it so too the demand for logistics space. It is expected that retailers will continue to seek large, well-located units with high specifications enabling processes to be automated. Consequently, logistics deal volumes are expected to remain high this year.

If, as is anticipated, demand continues

to rise, the supply shortage is likely to lead to soaring rents in the sector as companies become increasingly willing to pay more for bigger units and prime facilities.

In terms of consumer habits, it is estimated that while some of those who were forced to shop online during the pandemic will continue to do so once lockdown restrictions are lifted, others will return to traditional shopping. Whether this will have any impact on demand in the logistics sector remains to be seen.

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LOGISTICS REAL ESTATE IN VIETNAM: COVID-19 AND UPCOMING TRENDS

by Le Nguyen Huy Thuy & Ton That Hoang

Background

International trade has been severely impacted by the COVID-19 pandemic. Not only have consumer habits changed – through an increased use of e-commerce to purchase goods once bought in brick and mortar stores – but new medicines and vaccines require new capabilities in the logistics sector to be properly delivered and stored. The challenges presented by these changes are forcing the logistics sector to adapt. As for Vietnam, a market with nearly 100 million potential customers – 60% of whom access the internet and all of whom will need the COVID-19 vaccine – the need for large scale logistics services continues to grow. Investment, specifically in logistics related real estate, will only serve as a profit centre for foreign investors who understand the legal requirements to enter into the sector.



Upcoming Trends

Vietnam is one of the fastest growing e-commerce markets in Southeast Asia, with revenue expected to reach US\$13 billion¹ by the end of 2021. In recent years, the supply chain has increasingly focused on consumers, with the speed of delivery a primary factor in making purchasing decisions. With the stay-at-home requirements due to the pandemic, more customers chose online shopping. This required competitive prices and strict delivery schedules. The variety of goods, not only dry goods delivery but also cold storage for food and temperature-sensitive items such as pharmaceuticals, vaccines, cosmetics, etc., entered into this ecosystem drove the demand for expanding services.

In 2019 the global cold chain market was valued at US\$4.7 billion and is expected to reach US\$8.2 billion by 2025 with an average annual growth rate of 12.5%². Both domestic and international investors have long been targeting cold chains, and there is need of more cold storage located closer to customers to serve the growing demand for regular temperature-sensitive products. Another driving force for cold storage is specialised health care products, the most prominent being the COVID-19 vaccine and other potential vaccines in the future.

COVID-19 vaccine's distribution process – an unprecedented service in the logistics market – requires a very low temperature that is not normally required in standard cold storage. The need for new facilities and capabilities to meet this demand promises to bring significant profit to investors and service providers who can seize the opportunity. But cold storage requires additional space for refrigeration, ventilation, and other elements especially in tropical countries like Vietnam. That need for more space will be met through investment in logistics real estate, and in Vietnam there are certain regulations which are

¹ Vietnam's logistics report 2020

² <https://www.prnewswire.com/news-releases/global-cold-chain-monitoring-market-2020-to-2025---availability-of-cold-chain-logistics-in-developing-countries-presents-opportunities-301081927.html>



necessary to be considered and comprehended before deciding to make such an investment.

Conditions for foreign investors to invest in logistics real estate in Vietnam

Real estate business is in the list of industries and trades in which business investment is conditional, any organisation or individual wishing to conduct real estate trading must set up an enterprise or cooperative (hereinafter referred to as enterprises)³.

Real estate business includes⁴:

- Leasing houses and buildings for sub-leasing;
- In the case of land leased from the State, the construction of residential houses for the purpose of lease out; and the construction of houses and buildings other than residential houses for the purpose of sale, lease out or grant of hire purchase;
- The construction of houses and buildings on the land leased from organisations, family households or individuals, for leasing out in strict accordance with the land use purposes;

➤ Receiving the transfer of a part or all of real estate projects from investors in order to construct houses and buildings for the purpose of sale, lease out or grant of hire purchase;

➤ The construction of residential houses on land allocated by the State for the purpose of sale, lease out or grant of hire purchase; and

➤ The construction of houses and buildings on the leased land in industrial zones, industrial complexes, export processing zones, high tech zones or economic zones for trading in strict accordance with the land use purposes.

It is important to note that the above opportunities do not involve the ownership of land. Foreign investors cannot own land in Vietnam but may lease land for the duration of their investment project. The same rule is applied for logistics related real estate. While a foreign investor can lease land pursuant to the above allowances from individuals, organisations, or the State, they may not own the land which will underlie their investment in logistics facilities.

To invest in real estate business in Vietnam, which is the basis of logistics real estate, a foreign investor must establish an enterprise with foreign owned capital (according to Section 2, Chapter IV of the Investment Law 2020); or contribute capital or purchase shares or capital contribution portions to a Vietnam-based enterprise. Foreign investors must satisfy the conditions and the forms of investment set forth in Article 24 and Article 25 of the Investment Law 2020, which are fairly basic qualifications. Once those conditions are met, foreign investors can enter the real estate business sector and develop the logistics facilities that will be necessary to meet the requirements imposed by increased e-commerce and supply of

the COVID-19 vaccine.

Vietnam has become an ideal place for foreign investors over the last two decades. Despite the COVID-19 pandemic, Vietnam still ranked second in the COVID Performance Index⁵ and has proven itself a safe place for foreign direct investment. In order to facilitate foreign investors to invest in supply chains to meet the growing demand for multi-method logistics and cold chains, the Government of Vietnam has loosened the legal framework on real estate investment in general and logistics real estate in particular. Given the above conditions, Vietnam's logistics real estate will become a promising segment that has many places and opportunities for development and very good growth momentum in the 2021 - 2022 period. Investing in logistics real estate in Vietnam will soon become a trend for foreign investors.

³ Article 10 of the Law on Real Estate Business 2014, amended by Point a Clause 2 Article 75 of the Investment Law 2020.

⁴ Article 11.3 of the Law on Real Estate Business 2014.

⁵ <https://interactives.lowyinstitute.org/features/covid-performance/#rankings>

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