

US Logistics: Supplying America and Mapping Real Estate Opportunities

Webinar Recap

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PETER WANG

Director, Portfolio Management

Elion's Director of Portfolio Management, Peter Wang, recently joined industrial real estate experts at Prologis and RealTerm for a webinar hosted by With Intelligence to discuss what is next for the logistics real estate sector and how current market dynamics are impacting logistics portfolios.

At Elion, Peter works closely with the acquisitions and investment teams to execute the portfolio investment strategy focusing on enhancing portfolio performance through acquisitions, disposition, and refinancing activity. In addition, Peter participates in Elion's Asset Management and Investment Committee and plays an active role in the quarterly forecast and valuation process.

What opportunities are you seeing in the logistics sector today, and what investments are you most excited about?

We are excited about the strategic, infill markets we invest in. Those are the core, coastal gateway markets in the U.S.—Northern New Jersey, New York City Boroughs, Washington, D.C., South Florida, Seattle, the Bay Area, and Southern California from Los Angeles to San Diego. We have found success in these markets by focusing on supply constraints, both from a physical and geographical standpoint and a regulatory perspective. These constraints lead to a simple supply and demand imbalance—when there is a limited supply, the supply curve is close to vertical. When there are shifts in demand, as we have seen in the last few years, prices accelerate. Investing in these supply-constrained markets is our focus and the core of our investment strategy.

Do you see this as a temporary phenomenon, or is this a more enduring trend?

Elion believes this is an enduring trend. When you analyze coastal markets, there is only a limited amount



of land from a geographical perspective. There are natural geographic boundaries that keep supply inelastic in these markets, and this is something we hone in on. We also witness regulatory constraints in terms of logistics construction in some of our markets, such as California, preventing additional supply from hitting the market.

One possible headwind to rental growth in the market is the poor Q1 results of Amazon. Do you feel this is an indication of things to come for e-commerce, or is it isolated to Amazon? More generally, what does this mean?

It is Elion's opinion that the pandemic accelerated the inevitable transition to e-commerce. While we may not see online sales grow at a mid-2020 pace, Elion does believe the shift in consumer preference toward online shopping is here to stay. For Elion, this is a large part of why we source and operate investments in the core, gateway coastal markets we are in. Elion believes that the natural dislocation of supply and demand in supply-constrained markets should continue to drive rents, and ultimately NOI, as tenants seek to be closer to the end consumer. For Amazon specifically, it is noteworthy that they did report a decline in top-line revenue in Q1. However, interestingly enough, their shipping volume was not impacted within the same quarter. This indicates to Elion that top-line revenue does not directly relate to the need for space and that e-

commerce adaptation is a long-term shift in consumer behavior, versus a short-term reaction to the market.

What are you as a firm doing in terms of Environmental, Social, and Governance (ESG)?

Industrial real estate, in the past, has admittedly not been the poster child for ESG efforts. We believe that if we enact changes in the way we think about and manage our assets, we are likely to have the most impact on reducing our environmental footprint. Specifically, Elion intends to use technology-driven data analytics toward analyzing the environmental footprint across its platform and utilizing its findings to implement meaningful, actionable changes in asset management practices.

Given the current interest rate environment, where do you see cap rates and prices going over the next five years?

It's nearly impossible to firmly forecast future cap rates and pricing activities. However, we, like other investors, currently see potential upward pressure on cap rates through rising interest rates, recent public markets sell-downs, and global inflationary pressures. The most significant force to counter these pressures is increasing rental rates, which fundamentally relates to the supply and demand imbalances and is a key component of why we invest in a limited number of markets where there are severe supply constraints.

About Elion

Elion is a vertically integrated real estate investment management firm that specializes in the acquisition and management of industrial and logistics investments. Elion is both an investment manager and operator with operational and financial experience across primary, core U.S. markets, managing more than \$2.7 billion in gross real estate assets (as of March 31, 2022). Elion is headquartered in Miami, FL, and has additional offices in New York, Seattle, Los Angeles, and Chicago. For more information, please visit www.elionpartners.com.

