

KEY TRENDS UNDERPINNING OUR STRATEGY

To create long term value, we consider the implications of current key macro trends and review our business strategy and outlook regularly to stay relevant and ahead of our competitors. The current key trends and opportunities shaping our strategy and business outlook are set out below.



CHANGING CONSUMER BEHAVIOUR

The COVID-19 pandemic accelerated the exponential growth of e-commerce activities, as consumers adapted and gravitated to shopping online. The convenience of shopping anywhere and anytime triumphed over having to confine shopping to within store hours to make a purchase. This change in consumer behaviour has led many businesses to reassess their business model and physical footprint to sustain their operations for the long term.

The shift to online platforms underpinned space requirements for distribution centres and last mile delivery hubs to be located close to consumers. There has also been an increase in physical space requirements to operate digital services such as data processing and cloud storage, arising from demand from companies which are beneficiaries of the increased online purchases, such as retailers, supermarkets, transportation and logistics operators, amongst others.

Opportunities for Growth

E-commerce continues to be an important driver for majority of the space demand by tenants.

Increasing demand from e-commerce and third-party logistics sectors supported an increase in activity take-up within the warehouse spaces, with some demand spilling over into general industrial properties.

The momentum of demand for data centres is also likely to continue, which is expected to provide ample opportunities for ESR-LOGOS REIT. With the completion of asset enhancement at 7002 Ang Mo Kio Avenue 5, we will be able cater to high-tech space users including data centre users.



EVOLVING NEEDS OF INDUSTRIALISTS AND END-USERS

Supply chain disruptions during the peak of the COVID-19 pandemic severely crippled the operations of many industrialists as their inventory was previously based on the "Just in Time" model to reduce excess supply. Industrialists have now evolved to a "Just in Case" model to hold a higher level of inventory to buffer against supply chain disruptions and diversify supply chain sources to reduce dependency on a single inventory source.

There is also a renewed focus on national stockpiling programs by the authorities to ensure the resilience of Singapore's food supply chain, leading to an increased demand over and above the already tight supply of cold storage spaces in Singapore.

Opportunities for Growth

ESR-LOGOS REIT's focus on the new economy sectors, in particular the logistics sector, will benefit from the growing demand for logistics and cold storage space arising from the evolving needs of end-users.

We will continue to pursue value-accretive acquisitions and asset enhancement initiatives to align our portfolio to meet the evolving demands of industrialists.

The Manager is also currently evaluating a potential redevelopment of an existing logistics asset into a modern, ramp-up cold storage facility equipped with automated storage and green mark certification.



MANAGING ECONOMIC UNCERTAINTIES

The COVID-19 pandemic has taught businesses and organisations valuable lessons in ensuring the relevance of their business model in the long term.

In addition to the uneven recovery from the COVID-19 pandemic, companies are also coping with other current macroeconomic headwinds such as the war between Ukraine and Russia, rising energy price pressures and interest rate hikes.

It is therefore increasingly important for firms to plan ahead and to continually adapt to the rapidly changing market dynamics while exercising prudence in their expansion plans. In addition, there is an increasing need for firms to improve efficiency and invest in solutions that will tap on technology to enable streamline operations.

Opportunities for Growth

ESR-LOGOS REIT has consistently demonstrated active leasing strategies and tenant management to drive value with a strong focus to maintain stable levels of occupancy above the industrial average. We have forged strong and productive relationships with tenants, enabling us to consistently engage them well ahead of expiries to manage vacancy risks. We are also able to work with tenants to incorporate technology solutions into their business operations at their facilities to help improve efficiency and reduce reliance on manpower, in turn increasing customer “stickiness”.

Diversifying our sources of capital and strengthening our capital structure have also allowed us to better manage our risks. Active steps have been taken to safeguard against interest rate volatility, resulting in 72.0% of the REIT’s interest rate exposure being fixed with a weighted average fixed debt expiry of 2.0 years. This allows us to maintain financial flexibility to optimise investment opportunities as and when they arise and leverage opportunities to further create value for our investors.



MANUFACTURING 2030

First announced in January 2021, the Singapore Government has stated its plans to grow the manufacturing sector’s value add by 50% over the next 10 years. As the Singapore economy transitions to high-value manufacturing, the manufacturing sector also aspires to digitalise the industry landscape and increase industrialists’ adoption of technology.

As part of the enhancement of the sector, Singapore launched several programs, including the setup of a digital manufacturing laboratory facility to aid the development of next-generation manufacturing execution systems. It is expected that such programs and initiatives will help Singapore companies increase the use of advanced technologies including 3D printing, enhance productivity, improve efficiencies, optimize production and enable businesses to be greener and more sustainable.

Opportunities for Growth

With enterprise and consumer demand for smart factories and technology, ESR-LOGOS REIT’s portfolio comprises high-specification properties that will allow industrialists to digitalise their processes seamlessly. Other properties can also undergo addition and alteration works to enable them to be suitable for such adoption of technological solutions.

Ongoing asset enhancement works to high-specification properties, such as 7002 Ang Mo Kio Avenue 5 and 16 Tai Seng Street, will improve and update building specifications and prepare the property to be future-ready to meet the manufacturing sector’s growth and needs.



SUSTAINABILITY AND CLIMATE CHANGE

There has been a general shift towards greater emphasis on Environmental, Social and Governance (“ESG”) requirements. This focus is no longer optional but a critical requirement to be incorporated into business plans and operations.

Increasingly, investors and tenants have also increased their focus on environmental and sustainability matters and would prefer properties that are environmentally friendly and able to demonstrate the mitigation of their impact on climate. As such, property owners need to be cognisant of the ESG impact of the buildings in their portfolio and to continually make improvements in their ESG offerings.

Opportunities for Growth

ESR-LOGOS REIT has refreshed its sustainability targets post-merger with ALOG, and is approaching ESG initiatives with a refreshed focus.

The team is progressively adopting disclosures in alignment with TCFD framework, which are structured around the four core elements of governance, strategy, risk management, as well as metrics and targets.

The Manager is also currently working on a Decarbonisation Roadmap to be implemented in FY2023 to move towards its long-term sustainability goals set out for the REIT.