

Press Information, 5.10.2016

Logistics real estate in change: Emergence of new types

bulwiengesa publishes second edition of the “Logistics and real estate” study

- **Almost 33.2 million sqm logistics space realised between 2011 and the 2nd quarter of 2016, 2015 particularly dynamic with 7.1 million sqm**
- **The sectors of transport and logistics, automotive, food and e-commerce have a share of 30 percent of total space turnover**
- **Hamburg remains the most attractive location, ahead of Munich and Berlin**
- **Alternative use potential and multiple tenant capability crucial for credit approval**
- **E-commerce and new technologies are changing the design of logistics properties**
- **From white-label hubs through hybrid properties to specialised e-fulfilment centres: Alternative property concepts are emerging**

Berlin, 5th October 2016: With the new study, “Logistics and real estate 2016”, analyst company bulwiengesa continues the series of studies begun in 2015 into the asset class of logistics properties in Germany from a variety of perspectives. As well as updating the findings of last year, the new edition primarily looks at the issue of trends and demand drivers affecting the demand for logistics properties in the future. Partners in the joint study are Berlin Hyp, BREMER, Goodman and Savills.

Growing demand for logistics properties

In total, almost 33.2 million sqm of logistics space were realised in Germany between 2011 and the 2nd quarter of 2016. With 7.1 million m², 2015 was particularly dynamic. The experts are also expecting the demand for logistics properties to remain high in the medium and long term. As reasons, the authors mention the megatrends identified in the study of the previous year in the areas of consumption and production, for example such as e-commerce and Industry 4.0, as well as their effects on distribution.

Strongest demand in the market for logistics properties

To determine which sectors are behind the high demand for logistics properties, bulwiengesa looked at its own database of over 15,000 space turnover entries in the period under investigation. At 10.6 million sqm, the strongest demand came from the transport and logistics sector. The automotive industry as the second – already significantly smaller – turnover group represented area turnover of 4.2 million sqm. In third place, with area turnover of 3 million sqm, the area of food also accounts for a high volume. The e-commerce sector appears in fourth place with 2.9 million sqm. This analysis by logistics sectors very clearly reflects the strengths of the German economy. Together with a high export rate, the

high proportion represented by the manufacturing industry therefore results in greater demand for logistics space. The strong purchasing power and central location of Germany in Europe are further drivers of demand.

Property developer and dominant developer type

To meet their demand, companies frequently rely on specialist property developers. As the study shows, these have constructed 43 percent of all logistics space in the last five years and are therefore the largest developer group, as they were last year. The group is led by the Goodman group, which is listed on the Australian stock exchange. Goodman holds the top position among specialist property developers and among all developer types in the ranking. Alpha Industrial and SEGRO follow in second and third place of the most successful property developers. In the overall ranking of all developer types, retail logistics providers Schwarz group (Kaufland, LIDL) and EDEKA group took second and third place.

Record levels in the area of investment

In total, around 11.2 bn. euros were invested in pure logistics properties from 2011 to 2015. With almost 3.3 bn. euros, 2015 reached a new record level and exceeded the result of the previous year by 16.5 percent. The study mentions the relatively high yields of up to 5.4 percent for newly built logistics properties in Hamburg and Munich as reasons for the investor interest. These are also less subject to cyclical fluctuations than in the office and retail sector. This primarily attracts foreign investors, who have been increasingly investing in the German logistics property market for a number of years. Whereas the proportion of foreign investors was still 47 percent in 2011, a rise to 69 percent was recorded by 2015.

Principal logistics regions in Germany

In this year's scoring of the attractiveness of 28 logistics regions in Germany to the property economy, growth in the top third has been relatively stable. Once again, the logistics location of Hamburg is positioned at the top of the table. Munich moves up four places to second place. Berlin, however, has lost a little of its dynamism this year and drops by one position to third place. The increasing lack of available space and appropriate personnel in the metropolitan regions is causing companies to look for alternative options. Thus, for example, hidden champion Augsburg serves as an alternative region for needs that can no longer be met in Munich. The study also names Nuremberg and locations in Thuringia around the A4 motorway as hidden champions.

Finance

The margins and repayment rates for logistics properties are still higher than in the office and retail sector – this was shown by the survey of over 200 lending experts. Because of the generally short residual life and the tendency towards lower alternative use potential of logistics properties compared with offices and retail properties, lenders classify the risk profile of logistics properties as higher. Overall, large banks in particular are prepared to provide finance for logistics properties more frequently. By contrast, small banks such as regional savings banks tend to provide finance in a group under the consortium leadership of a large institution

operating across regions. The most important criteria for lending are the location of the property and good transport connections. In the light of tenancy terms becoming shorter on rental agreements for logistics properties, third party usability and multiple tenant capability are likewise crucial for lenders.

The future of the logistics property: Emergence of new types

Expert interviews and a panel survey with property developers, tenants/owner-occupiers, investors and lenders provide central results on the future of the logistics property. According to these, the trend towards the rental solution for example will continue. This applies particularly to the logistics and e-commerce sectors, for which flexibility and speed are decisive competitive criteria. The experts therefore see the concept of “logistics real estate as a service” as a possible development of the rental solution. This concerns spaces where users can check in and out as required – like a hotel.

“By standardising the logistics halls and changing the hall structure depending on the requirements, the logistics property has already undergone gradual development,” explains Ralf-Peter Koschny, chairman of bulwiengesa AG. “As a result, logistics halls of today already fulfil many demands made on them by the market of tomorrow. Consequently, we are not expecting short-term changes but rather a long-term structural shift.”

Megatrends such as digitisation, urbanisation and changes in consumer behaviour will result in a profound shift in the future with respect to how goods are produced, stored and transported. Logistics properties will adapt to this in their design. bulwiengesa has analysed which logistics property types will emerge in the future.

The hybrid property – Logistics and production under one roof

In future, logistics will have to provide raw materials to increasingly complex, interconnected production processes. Ways to increase efficiency will therefore be sought. For many of those asked, it is therefore plausible for the processes and tasks required in logistics and production to merge in one property. Here, the concept of the hybrid property goes significantly beyond value-added services already offered at present on mezzanine levels by logistics service providers. In the view of the experts, the technical building equipment, for example such as building automation, will be even more important in future.

Generic property: Modular design for maximum flexibility

The core of this concept is the structure of the building on the basis of modules. If the user needs more space, modules can be added as desired. Such a property would always precisely meet the demands of its user. A further plus point from the perspective of the experts: In the case of third party use, the property could be easily adapted to the needs of the new operator. However, according to the experts, it will be a few more years until such a concept is implemented.

Specialist e-commerce properties

The e-commerce sector is expected to gain further market share. For the experts surveyed, the development of special e-fulfilment centres is therefore obvious. With more space for computer centres, offices or even photo studios for direct recording of new goods, these centres are better at meeting the needs of their users. Internationally, consumers are increasingly buying food online. If this trend has become prevalent even in Germany after some delay, the path to the temperature-controlled e-commerce property is no longer far off.

Last mile properties for the last step to the recipient

New solutions in city logistics are driving the search for alternative concepts for logistics properties and the transport of goods to the so-called last mile. Large decentralised hubs are needed as well as a series of small last mile properties or micro-hubs in city centres. For example, CEP service providers install micro-hubs to supply the city centre such as in the form of a sea freight container from which they serve an 800 m radius. At present, logistics providers are looking for opportunities to implement this concept in a property.

White-label hub

A further building type already being discussed is the consolidation centre or white-label hub. These supplier-neutral logistics centres on city outskirts can be used by all CEP service providers to implement combined transport in one common vehicle.

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About the “Logistics and real estate” study:

“Logistics and real estate” is an independent series of studies in Germany, which comprehensively examines the asset class of logistics properties from a variety of perspectives. Analyst company bulwiengesa has investigated the market movements in the period from 2011 to 2016 and evaluated them in the four central subject areas of property development, construction trends, investment and finance.

The study therefore provides an overview of the principal stakeholders in the diverse German market and offers the specialist audience and interested members of the public a guide for orientation. Furthermore, it provides an evaluation of the various logistics regions in Germany from the perspective of the property economy.

Commercial property financier Berlin Hyp, general contractor BREMER, property group Goodman and property consultants Savills Immobilien Beratungs-GmbH supported bulwiengesa as partners in the design of the study and conveyed valuable market insights into their respective sectors.

About bulwiengesa:

bulwiengesa is one of the big analyst companies of the property industry in continental Europe. For over 30 years, bulwiengesa has supported its partners and customers on issues concerning the property sector as well as with location and market analysis, including through established data services, strategic advice and bespoke reports. Among others, data from bulwiengesa are used by the German federal bank (Deutsche Bundesbank) for the ECB, BIS and OECD.

Berlin Hyp specialises in large-volume real estate finance for professional investors and housing societies, for whom the Bank develops individual financing solutions. As an enterprise forming a Group together with the German savings banks, it also makes an extensive spectrum of products and services available to these institutions. Berlin Hyp's clear focus, almost 150 years of experience and its close proximity to the Savings Banks Finance Group characterise the Bank as a leading German real estate and Pfandbrief bank.