

Press Information, 5.October 2017

SURVEY “LOGISTICS AND REAL ESTATE 2017 – City Logistics. Rethinking the Urban Market”

City Logistics between Aspiration and Reality

- **Sustained boom: completions volume increased by 12 percent to 5.1 million square metres**
- **Rise in investment volume by 18 percent, nearly 80 percent thereof by international investors**
- **Market attractiveness of the logistics regions: Munich and Berlin take place of top-performer Hamburg**
- **City logistics real estate: last mile issues remain unresolved**

The German logistics industry is booming like never before. Demand for logistics real estate keeps rising, with building activity and investments predicted to reach peak levels in the ongoing year of 2017. At this point, the investment total already exceeds the year-end figure of banner year 2016. One of the key drivers of this development is the steadily growing ecommerce sector. However, the logistics requirements of the ever faster delivery times in online retailing still lack decisive solution approaches and, above all, the real estate truly needed in city logistics.

This is the gist of the new “Logistics and Real Estate 2017” survey that bulwiengesa just published for the third consecutive time in partnership with Berlin Hyp, BREMER, Goodman, and Savills Immobilien Beratungs-GmbH. Facts and figures from the areas of building activity, investment and funding were analysed for the survey, while a large number of experts and practitioners in companies, city governments and research institutes were interviewed about the latest developments in the field of city logistics.

“The analysis revealed one thing above all: City logistics real estate should meet two criteria – on the one hand, it needs to ensure adequate availability of goods while, on the other hand, it must permit a swift and efficient goods delivery to the customer. One solution approach that would meet these criteria is a cascading system: Urban fulfilment centres for the metropolitan distribution of food that is sold online would resupply micro-fulfilment centres that serve as inner-city supply spokes, which in turn would resupply micro-depots spread across the inner city areas,” elaborated Tobias Kassner, Principal Investigator for the survey at bulwiengesa.

Steady Increase in Speculative Construction

Since 2012, the logistics real estate sector has been growing at an annual rate of 5.2 percent. With well over 5.1 million square metres about to come on-stream this year, according to preliminary estimates, logistics completions would actually exceed the year-end record total of 2016 by 12 percent. This is due not least to an increase in speculative development, which reflects the growing optimism and confidence in this market segment. Among the industry’s three leading developers for the period between 2012 and 2017 (including pipeline projects slated for completion in 2017), the Goodman Group ranks first, with retail logistics operator Schwarz Group ranking second and Panattoni Europe third. For the time being, the logistics industry continues to focus on the development of largescale properties in the outskirts of metropolises or in peripheral locations.

Looking for Solution Approaches to the “Last Mile” Issue

As the requirements of the expanding e-commerce sector keep growing, logistics operators face increased expectations to shorten the geographic distance to the end-customer. Going forward, city logistics will therefore require new approaches to address the need for smaller innovative properties. Since the requirements profiles for bespoke new buildings are only beginning to emerge and involve very heterogeneous groups of occupiers, new forms of use in existing structures could be one solution approach. In this context, a multi-stage model of logistics real estate is evolving that extends from the suburbs to the urban periphery and all the way downtown. Structures that would potentially lend themselves to conversion include multi-storey and underground car parks, lock-up retail units or offices. There are also signs for an incipient comeback of inner-city business parks.

“The competition among the different types of use in the metropolises is intensifying, so that even the re-zoning of existing properties in downtown locations is subject to scrutiny by city governments. For the time being, the logistics segment often still takes the back-seat, and this despite growing demand,” elaborated Matthias Pink, Head of Research at Savills Deutschland. “Moreover, the market for city logistics real estate is still in its pioneering stage. Many of the market players experiment with possible solutions, and it remains to be seen which of concepts will carry the day. One thing is clear though: city logistics floor space will not rent out at the same rates as greenfield facilities.”

Michael Dufhues, Member of the Board at BREMER AG, added: “Last-mile solutions presuppose a functioning system of logistics properties that operate in sync so as to optimise the flow of goods. Only if the large central warehouses and mid-size supply warehouses on the urban periphery interact with the micro-depots in the inner city will it be possible to speed up delivery times as expected.”

Christof Prange, Head of Business Development at Goodman Germany GmbH, sees a joint need for action: “The debate surrounding city logistics and the so-called ‘last mile’ is rather complex. Our experience tells us that the development of inner-city logistics real estate requires the cooperation of all stakeholders. Accordingly, we work closely with the local administration, the retail trade and the CEP operators when handling such projects.”

Investment Market: Deepened Trading Intensity and Keen Interest in Portfolios

The demand for investment opportunities in Germany’s logistics real estate market remains as high as ever. By the survey key date (31 July 2017), the investment volume was already up to 99 percent of the investment total of banner year 2016. Particularly attractive are portfolio transactions, which reached a new high-water mark as they accounted for 70 percent of all transactions. Decisive for the generally strong investment activities, in addition to the stepped-up pace of development, is the increased trading intensity. Some properties and portfolios actually changed hands more than once in 2017. Moreover, 2017 has seen the share of foreign investments soar. As of the key date, 79 percent of all investments in Germany’s logistics market had been transacted by foreign players. The three leading investors were CIC China Investment Corporation (ranking first), Blackstone (ranking second) and the Goodman Group (ranking third). The growing appeal of the segment has caused yield rates to harden slightly, so that investors have started to shop around for opportunities outside the “Big Seven” cities in the regions of Hanover/Braunschweig or Münster/Osnabrück, for instance.

Munich and Berlin the Most Attractive Markets in 2017

Hamburg lost its spot as top-performer in last year's ranking of regions to Munich (first place) and Berlin (second place) and dropped to third place. This is mainly explained by keen demand for floor area and for investments in Munich, and by the brisk rent growth in Berlin. The Halle/Leipzig region moved up two spots, ranking fourth now, ahead of Lower Bavaria in fifth place which jumped up seven ranks after a very auspicious development of its floor space supply and which counts among the ranking's hidden champions. Other overachievers among the top 15 regions include Rhine-Ruhr and Münster/Osnabrück. The attractiveness of a given market is calculated using a purely real estate economic scoring systems that takes ratios concerning take-up, building activity and investment activity into account.

The market is generally in motion and defined by a fast-paced dynamic. Metro regions with a strong attractive pull develop a high logistics centrality ratio. This means that the logistics functions of a given region are increasingly pooled in the centre of that region. Meanwhile, Germany's centrally located logistics regions, including Kassel/Göttingen or Bad Hersfeld, are losing in relevance because the hubs located there, which used to be essential for overnight transportation, are less and less important. "To be as close as possible to the customer, and to deliver, if necessary, the same day – this is going to be the standard both logistics operators and developers will aspire to," said Tobias Kassner of bulwiengesa.

City Logistics Opening up Opportunities for Financiers

The up-and-coming segment of city logistics also opens up lucrative opportunities for financiers even if its specifics remain relatively vague at this time. For instance, scalable concepts for inner-city logistics real estate are still lacking, and a uniform risk-return profile has yet to be defined. Logistics as asset class is subject to considerable differentiation, necessitating costly case-by-case reviews still. That being said, there is keen interest in the segment, and its players are open to new ideas and concepts.

"As e-commerce becomes increasingly institutionalised, logistics real estate has undergone a shift in status and evolved into a 'shaper of modern and intelligent systems'. Berlin Hyp therefore takes a very positive view of this segment. Other lenders will warm to city logistics before long in order to participate in the mega trend of e-commerce," said Gero Bergmann, Member of the Board of Berlin Hyp.

Study available at: www.logistik-und-immobilien.de/en/

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About the “Logistics and Real Estate” Survey:

“Logistics and Real Estate” is an independent survey that comprehensively captures the asset class of logistics real estate from various angles, and that has already become established as leading competency series for logistics real estate in Germany. The analytics firm bulwiengesa studied the relevant market movements during the years 2011 through 2017, and evaluated them in four main subject areas, these being “property development,” “construction trends,” “investment” and “financing.” The key topic in 2017 is city logistics.

The survey thus provides an overview of the most important players on the diversified German market, and an orientation guideline serving both peer-to-peer and outside audiences. On top of that, it ranks Germany’s various logistics regions from the perspective of real estate economics.

The commercial real estate lender Berlin Hyp, prime contractor BREMER, real estate group Goodman, and the real estate consultancy firm Savills Immobilien Beratungs-GmbH assisted bulwiengesa in designing the survey, and shared valuable insights into their respective market segments. For more details, visit us at: www.logistik-und-immobilien.de

About bulwiengesa

bulwiengesa is one of the major independent analytics firms for the real estate industry in Continental Europe. For more than 30 years, bulwiengesa has supported its partners and clients in real estate industry issues as well as location and market analyses, providing detailed data services, strategic consultancy and bespoke expert opinions, among other deliverables. The data of bulwiengesa are used by Deutsche Bundesbank for the European Central Bank (ECB), the Bank for International Settlements (BIS) and the OECD, among other clients.

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.