The New Normal. Stability over Complacency.

Logistics and Real Estate 2023

Key Topic
The New Normal. Stability over Complacency.

logistik-und-immobilien.de

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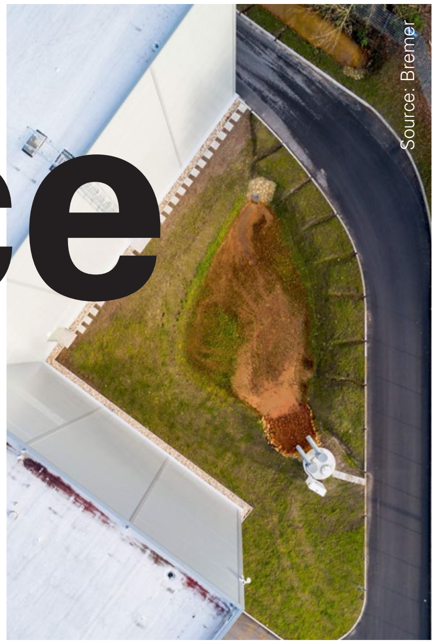
Source: Bremer


Source: GARBE Industrial Real Estate GmbH


Source: Bremer

Preface

Dear Reader,

This ninth edition of the "Logistics and Real Estate" survey was compiled at a time that finds the market environment fundamentally changed from what it was in previous years. Gone is the upbeat spirit so often reported by the media, and the book has closed on the super cycle. But how does this affect the logistics real estate market?

In the wake of the pandemic, of the war of aggression against Ukraine and of the subsequent supply bottlenecks and shortages, the logistics sector as a whole has tremendously gained in significance. During the past years, it was not least because of this that logistics real estate was considered a stabilising anchor in times of crisis. Lately, however, the changed interest environment and the generally bleaker economic prospects have caught up with this industry, too. Demand within the e-commerce sector has slowed together with the economic cycle, while property developments are being postponed or shelved altogether. So, how is real estate's promise as a defensive investment, which has long buoyed and continues to buoy the sector, holding up?

Quite evidently, rental growth will not continue at the brisk pace seen in recent years, not even if conditions were to improve. Equally evident is that the term "good location" will be defined by other factors than used to be the case.

In the course of this survey, we will take a hard look at the defensive nature of the industry while also examining its opportunities and risks.

Also included, of course, will be the always popular rankings. Who is moving ahead with developments, and who is investing in the market? These questions are no doubt made even more interesting by the shifted market conditions.

Just like in prior years, it would be impossible to present a picture of the current situation in the logistics real estate market that is both comprehensive and accurate in its details without including the differentiated market perspectives of our various survey partners. To keep from presenting a biased view, we integrate our network in the work we do. After all, the reality on the ground tends to be more complex than individual charts or headlines suggest.

That said, dear readers, let me wish you a fascinating and insightful read of our latest survey.

Yours,

F. Werner

Felix Werner
on behalf of all survey partners

Survey Partners

The partners of this survey series are prominent players in real estate financing, the developer business, in property development, in investment consultancy and in strategic analysis and advisory regarding the logistics and real estate field. Within the framework of what is now the ninth edition of the "Logistics and Real Estate" survey, these partners bring you an in-depth overview of the latest trends and contexts in this segment. As a joint competence centre, they are in a position to provide a collective angle on the topic that will lend itself to forward-looking and strategically balanced decision-making.

Berlin Hyp AG

Berlin Hyp, a fully-owned subsidiary of LBBW, is a mortgage lender specialising in large-scale real estate financing for professional investors, developers and housing companies. The bank also makes a comprehensive spectrum of products and services available to Germany's savings banks. The subject of sustainability has for years been a core component of its corporate strategy. On the capital market, it plays a pioneering role in the development of sustainable refinancing products. At the same time, it endorses the financing of sustainable properties in an effort to help advance the transformation of the real estate market, and to contribute to carbon neutrality. Its clear-cut focus, more than 155 years of experience and its ability to play an active role in the digital transformation of the real estate industry define Berlin Hyp as a leading German real estate and mortgage credit bank.

GARBE Industrial Real Estate GmbH

Based in Hamburg, GARBE Industrial Real Estate GmbH ("GARBE") is one of Germany's leading companies selling and managing logistics, light industrial and technology real estate. For over 30 years, the company has counted among the most important collaboration partners for transport and logistics service providers, the trade sector and the manufacturing industry. GARBE develops, buys or sells, lets, manages and finances high-end commercial properties in attractive transport nodes and industrial locations inside and outside Germany. At present, GARBE has around 6.1 million square metres of lettable area and a property development pipeline of around 2.1 million square metres in Germany and elsewhere in Europe under management that represent property and fund assets in a combined value of c. 10.2 billion euros (as of 30 June 2023).

Source: Bremer

Savills Immobilien Beratungs-GmbH

Savills, domiciled and listed in London, is one of the leading real estate service providers with activities worldwide. Founded in 1855, the company looks back on a long history of tremendous growth. Rather than following fads, Savills sets its own trends, and today has more than 700 offices and partnering offices in the Americas, Europe, Africa, Asia Pacific and the Middle East, and employs over 40,000 professionals.

In Germany, Savills maintains a presence of more than 400 employees in seven offices, located in the country's leading real estate markets.

BREMER AG

BREMER counts among Germany's leading companies in the turnkey construction of industrial and commercial buildings. Founded in 1947 and active across Europe today, the family-owned business maintains branches in Stuttgart, Leipzig, Ingolstadt, Hamburg, Bochum, Berlin-Brandenburg, Bremen, Karlsruhe, Hanover in Germany, as well as in Krakow and Poznań in Poland. Its products are planned and manufactured in proprietary plants in Paderborn, the company's principal place of business, and in Leipzig.

As a holistic provider for the property and construction industry, BREMER assists its clients with everything from property development to the production in proprietary plants, and all the way to the turn-key construction and service options for the building in operation. Its spectrum of deliverables includes office schemes, home furnishing stores, refrigerated warehouses, logistics buildings, light industrial buildings and hypermarkets. BREMER takes a resource-conserving approach in its business and development activities by merging site, building, technology and use early on. The company continuously optimises value chains and supply chains together with its clients.

bulwiengesa AG

bulwiengesa is one of the major independent analytics firms for the real estate industry in Continental Europe. For almost 40 years, bulwiengesa has supported its partners and clients in real estate industry issues with 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) and the Bank for International Settlements (BIS), among other clients.

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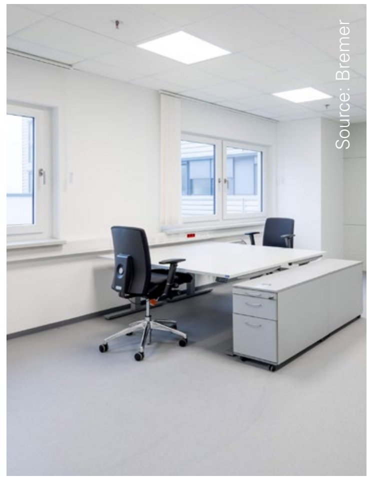
Status Quo of the Logistics Real Estate Market



We are currently moving through a phase that many call the onset of a new era. In the course of 2022, a year of multiple crises, and during the first half of 2023, it became clear that the long years of fast linear growth have came to an end. Or have they?

Due to the increase in financing, construction and energy costs as well as due to the possibility of a contraction in demand (e. g. from the manufacturing industry) in the wake of an economic downturn, a slump in construction output seemed to be looming in 2023, yet the latest figures suggest that the decline is less drastic than feared by many market operators.

Also striking to note is that some logistics regions in eastern Germany, such as Halle/Leipzig, A4 motorway Thuringia and Magdeburg, are among the regions with the highest new-build completions volumes and thus follow an upward trend. More and more often, speculative developments are pursued as well.

Even peripheral locations outside the established logistics regions are gaining in significance as a result of this trend. A recent interview with a market player included this line: “We get between 6.00 and 7.00 euros per square metre for a modern warehouse with roof-mounted photovoltaics that is ESG compliant, no matter where the warehouse is located.” Although the statement is may be an oversimplification, it does point to a trend that the actual figures reflect.

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Source: Bremer

Share of the peripheral locations in the total development volume of logistics facilities

Peripheral locations

Median (2012–2022)

Source: bulwiengesa

*Forecast

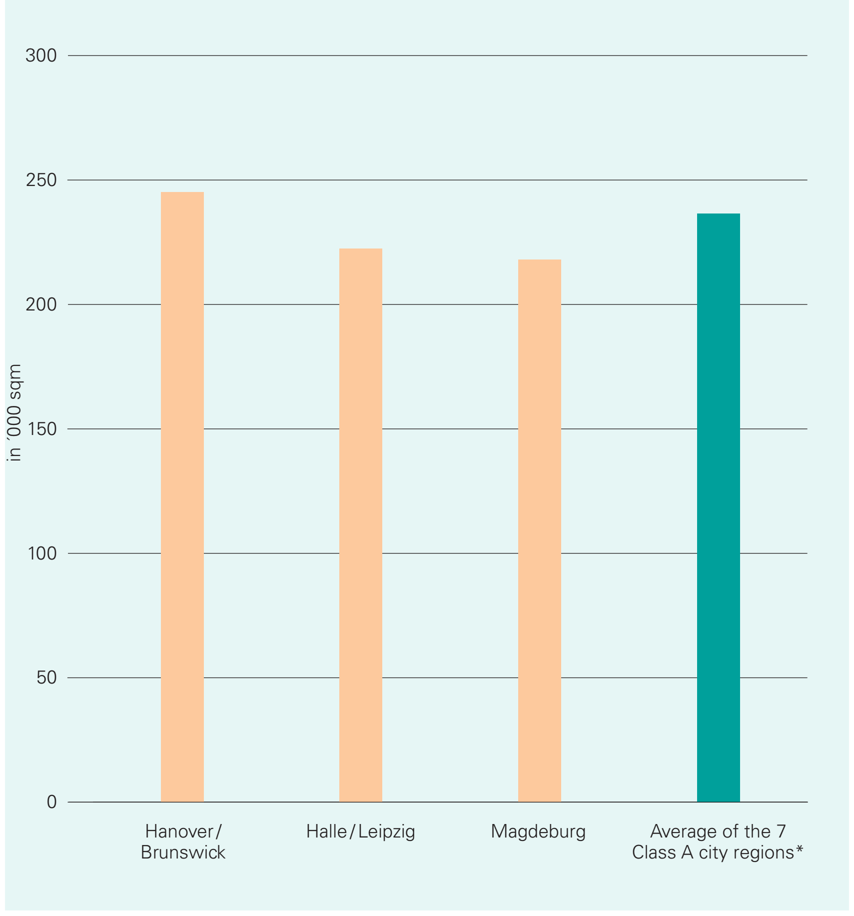
Take-up in selected logistics regions in 2022

7 Class A city regions

Average of the 7 Class A city regions

Source: bulwiengesa

*The 7 Class A city regions are: Berlin, Hamburg, Munich, Cologne, Frankfurt, Düsseldorf, Stuttgart



The regions formerly considered "second-tier locations" now boast a collective take-up that rivals the medium take-up of the Class A cities.

Land availability and energy efficiency/ ESG compliance can sometimes be more important than the proximity of a metropolis or the inclusion in an established logistics region. Compared to the long-term average share of 23% of the total development volume that peripheral locations claimed during the years 2012-2022, the development pipeline in particular now clearly follows an upward trend.

Analogously, the shift in demand also becomes visible when you look at the take-up in Germany's various logistics regions. The regions formerly considered "second-tier locations" now boast a collective take-up that rivals the medium take-up of the Class A cities.

Judging by the pipeline, 2023 might become yet another very productive year in terms of completions volume. However, the emphasis is very much on "might" here. For it should be added that, while the market in general proved comparatively resilient within its environment in 2022 (when property developments already under way or in the final planning stage continued to move forward), recent evidence shows that many developers of logistics properties are postponing or cancelling planned projects. The mark of 6 million sqm of new-build floor area, which bulwiengesa's proprietary database still quoted as scheduled for completion in 2023 just a few months ago, is highly unlikely to be achieved. We consider around 4.8 million sqm in completed logistics space a more realistic year-end total for 2023 at this time. For more details on this subject and on the question who is still engaged in construction and acquisitions at the moment, please see Chapter 2 of this survey.

That environmental aspects (the key word here being ESG) play an increasingly important role in the construction and operation of logistics real estate has for some time been a frequently debated topic. Equally plausible is that the tightened building requirements impact the costs of constructing such buildings. But with several years of skyrocketing construction costs now behind us, the price growth has visibly slowed or even levelled out lately. For more information on this, and on the assessments of market operators regarding the future trend in construction prices, please see Chapter 3. In addition, the chapter will answer the questions to what extent the tightened requirements are affecting construction periods and whether logistics properties will gain in significance as power stations" beyond their ESG compliance in a narrow sense. Here is a spoiler alert: Even the experts we interviewed were unable to agree on this subject.

The main reason for the shift and the "new normal" that the real estate industry in general and the logistics real estate sector in particular face is the fundamentally changed interest environment. In Chapter 4, we will take a closer look at the current market situation on the financing market for commercial real estate, focusing specifically on logistics real estate. The chapter also explains, among other things, that the current interest level remains quite low by historical standards, why alternative forms of financing, other than bank loans, are in demand today, what banks currently focus on in particular when approving real estate loans, and how long market operators will have to wait for a recovery of the investment market.

Where is the market heading?

In a market environment defined by major uncertainties, venturing a look into the future is more important for many market players than dwelling on past accomplishments. To provide the industry with the most qualified outlook possible, we asked market operators from different segments for their opinion on the topics relevant to this survey. A total of 59 experts responded and agreed to participate in the poll. The poll findings were grouped by themes, and are taken into account in the respective chapters of the survey.

During the poll, market players were asked for their assessment as to what they consider the greatest challenges to the logistics real estate market in the near- and medium-term future. They were permitted to pick three aspects, and one outcome stands out above all: Out of 59 respondents, 52 regard land availability or the possibility to acquire available land as one of the biggest challenges. The next most challenging aspects are the supply of human resources and the modernisation of existing buildings, each identified by 29 respondents (see chart on the next page).

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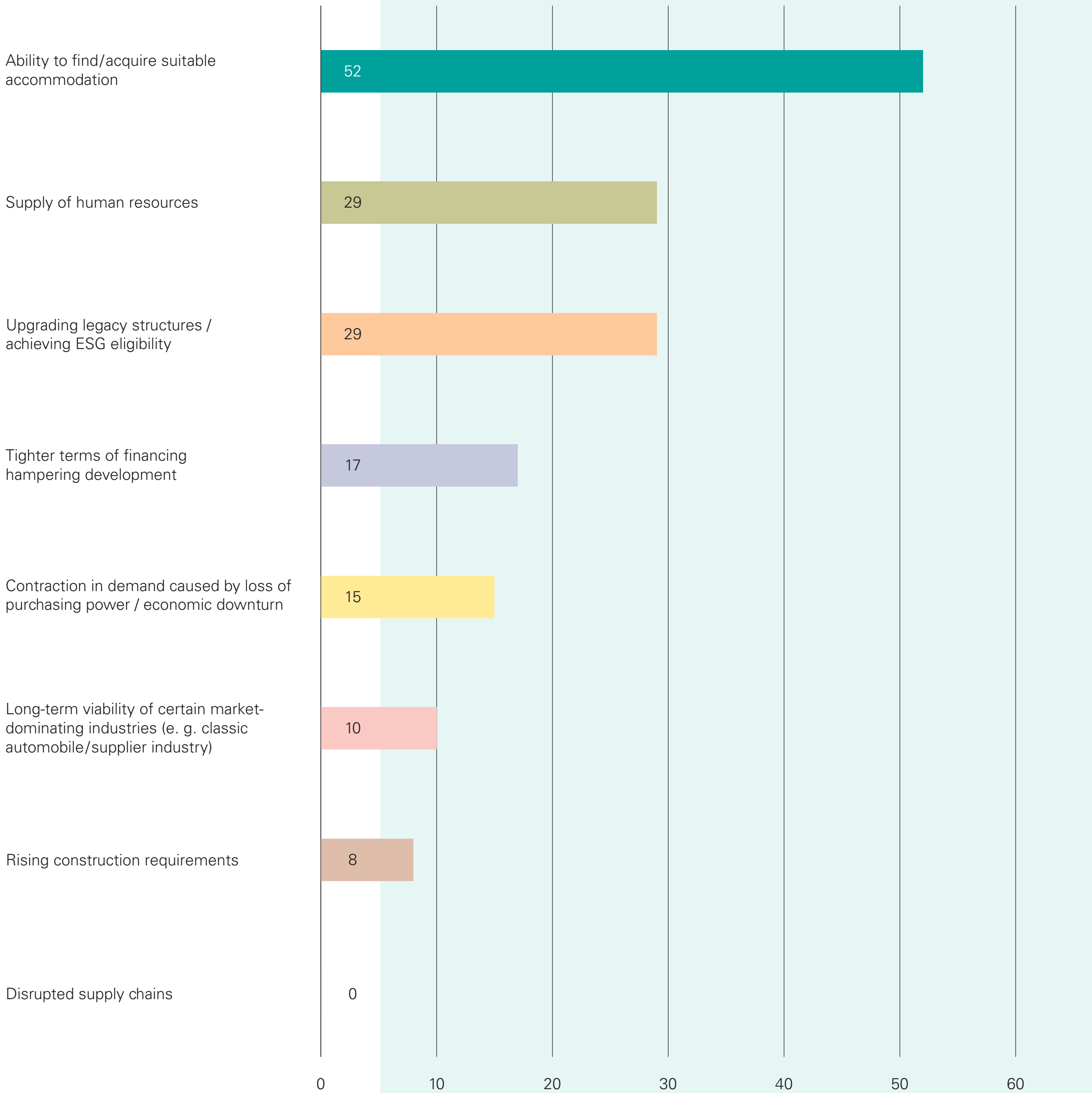
Survey findings – the biggest challenges for the logistics real estate market

Source: bulwiengesa

From your point of view, what are the biggest near-term challenges for the logistics real estate market?



That the topics of land availability and the supply of human resources are gaining in significance is demonstrated by the developments in locations beyond the Big 5 cities, as mentioned above. Just how these aspects are trending compared to the collective of 28 logistics regions delineated by bulwiengesa is illustrated by a fascinating model presented in Chapter 5 of this survey.

The pent-up demand that has dominated the scene for years, combined with the steady increase in building quality standards, fuelled the fast growth of rents for logistics facilities in recent years. The development of rents is also discussed in Chapter 5.

Although demand for space in the e-commerce segment has declined lately, the decline has coincided with a lower-than-expected volume of new-build accommodation coming on-stream, so that the demand pressure has generally remained high for modern logistics facilities. It could be further exacerbated by a mega trend that some call de-risking / de-coupling (when the focus is on warehousing) while others use the terms re- and near-shoring (their focus being on production). Either set of terms refers to the trend of bringing manufacturing and storage capacities previously moved offshore back closer to the European home markets.

This trend in turn prompts a shift in logistics chains. Abandoning the just-in-time concept will increase the need for warehousing capacities and thus raise the demand for floor space, which exacerbates the already significant pent-up demand. Chapter 5 also discusses whether the trend is already being felt on the floor space supply side, and what market operators can expect in this regard in future.

So, is the Glass Half Full of Half Empty?

Looking at the whole picture, it is fair to say that the basic conditions on the logistics real estate market remain robust. The pent-up demand for modern facilities persists, and, due to various influencing factors, it is unlikely to be seriously diminished in the coming years despite the economic uncertainties. Against the background of the ever more restrictive zoning of land for development, brownfield developments are increasingly moving into focus for developers, although even these are not available everywhere in sufficient numbers and sizes.

Together, strong demand pressure and short supply are driving up rents at this time. The trend is also likely to continue in the longer term, albeit on a more moderate level.

It is safe to expect that the investment market and development market will remain calm until their pricing has found a stable basis. Market operators who participated in the poll principally expect the situation to improve slightly by 2024 and 2025 (meaning, a higher number of transactions and larger volumes) without waxing euphorically.

That the current market environment still presents plenty of opportunities for many market players, and that much depends on the strategy of a given player, was stressed by Tobias Kassner, Member of the Executive Board and Head of Research at GARBE Industrial Real Estate:

“Are devaluations automatically bad news? No one rejoices over devaluations, and if you are planning in investment cycles and seek to sell when prices are at a premium, today's changed market environment will remain unfavourable for years to come. With such an approach, selling in late 2021 or early 2022 would have been the right thing to do.

However: For institutional investors whose focus is on regular payouts rather than on sales profits, permanently high cashflow returns combined with a sustainably stable market development remain robust investment opportunities in the years ahead.”

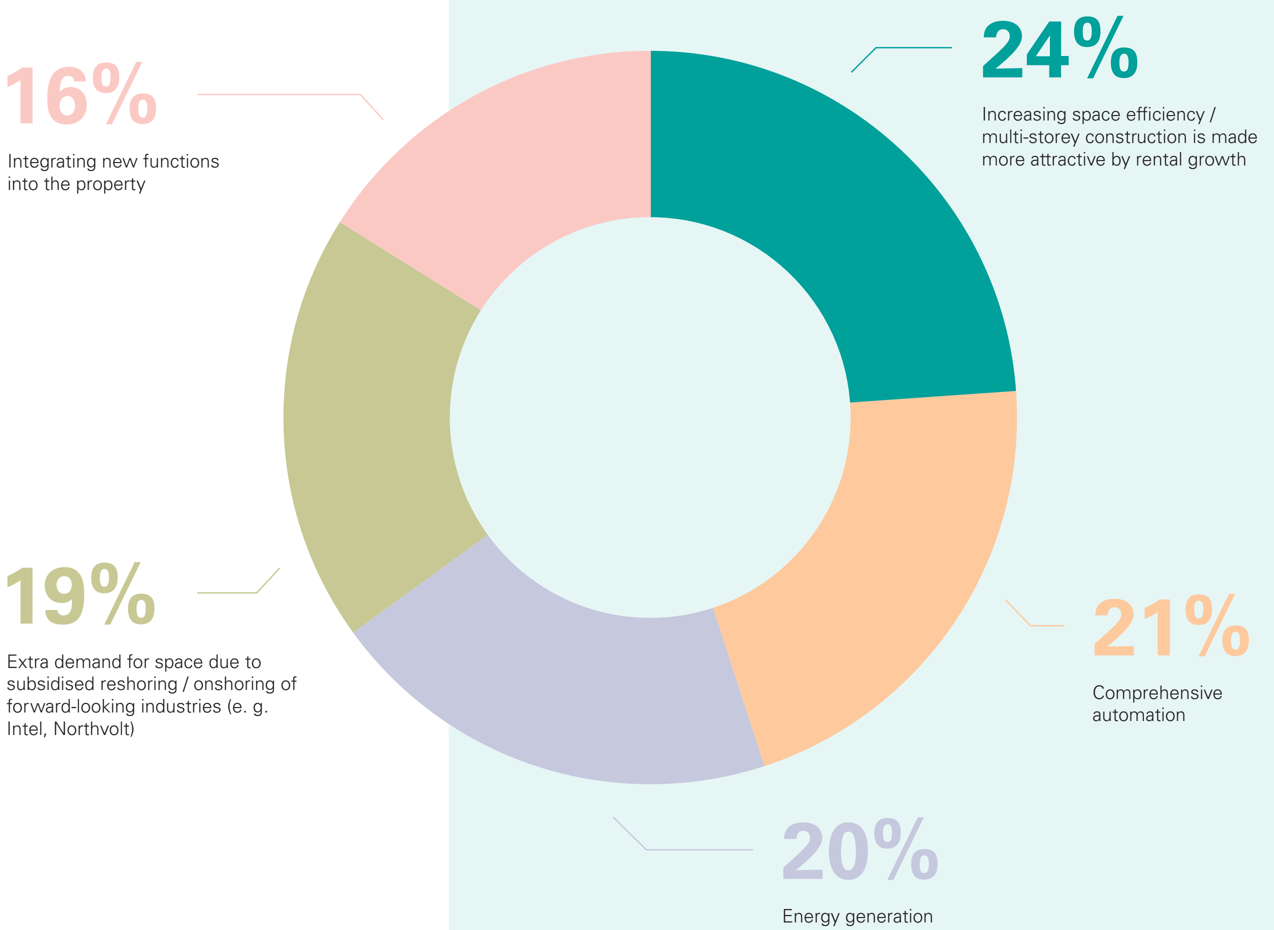
(Tobias Kassner, GARBE Industrial Real Estate)

Accordingly, the poll among experts regarding the greatest opportunities returned a very balanced picture. Only a few percentage points separate the most frequently chosen response (increasing the space efficiency) from the response the fewest respondents agreed with (integrating new functions into real properties). Ranking between these were other areas of opportunities credited with significant potential, including comprehensive automation, energy generation, and the additional demand for space to be expected from forward-looking industries (semiconductor/computer chip industry, batteries, etc.). This turnout underscores the fact that the parameters principally remain sound while also showing that a rich variety of opportunities exists which vindicate a cautiously optimistic outlook.

Survey findings – biggest opportunities/potentials for the logistics real estate market

Source: bulwiengesa

Where do you see the biggest opportunities / potential in the near term?



n=152 as multiple choices (up to 3) permitted

Together, strong demand pressure and short supply are driving up rents at present.

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Germany's Logistics Real Estate Market

Source: Bremer

2.1

The Market for Property Developments

No New Record but Persistently High Level of Completions

The analysis of 2,900 properties from the logistics segment for the period 2018 through 2024 shows that current completions levels will not top the high-water mark of 2021 nor can they be expected do so any time soon.

In the wake of the recent geopolitical and economic hiatus, even logistics real estate developments found themselves in an entirely new market environment. Nonetheless, the asset class continued to demonstrate resilience. The total floor area completed in 2022 exceeded 5 million sqm – just as it had done the year before. It is the second-highest result for the entire period studied.

Many of the projects completed in 2022 were already under construction before the increase in inflation and the interest rate changes that spring. Thus, their ramifications for the developer landscape will only become apparent as the year progresses and even more so next year. While both periods show a downward trend in completions, their figures are still within the mean level of the past years. Accordingly, it would be premature to speak of a slump in logistics real estate development at this time.

It should be noted that serious uncertainties regarding the time lines for the implementation of such projects remain, which may cause planned projects to be postponed or cancelled. Under current market conditions, the probability of such project delays has further increased compared to the situation in previous years. During the analysis of the development volumes, this aspect was taken into account by factoring in the probability for a given project's implementation.

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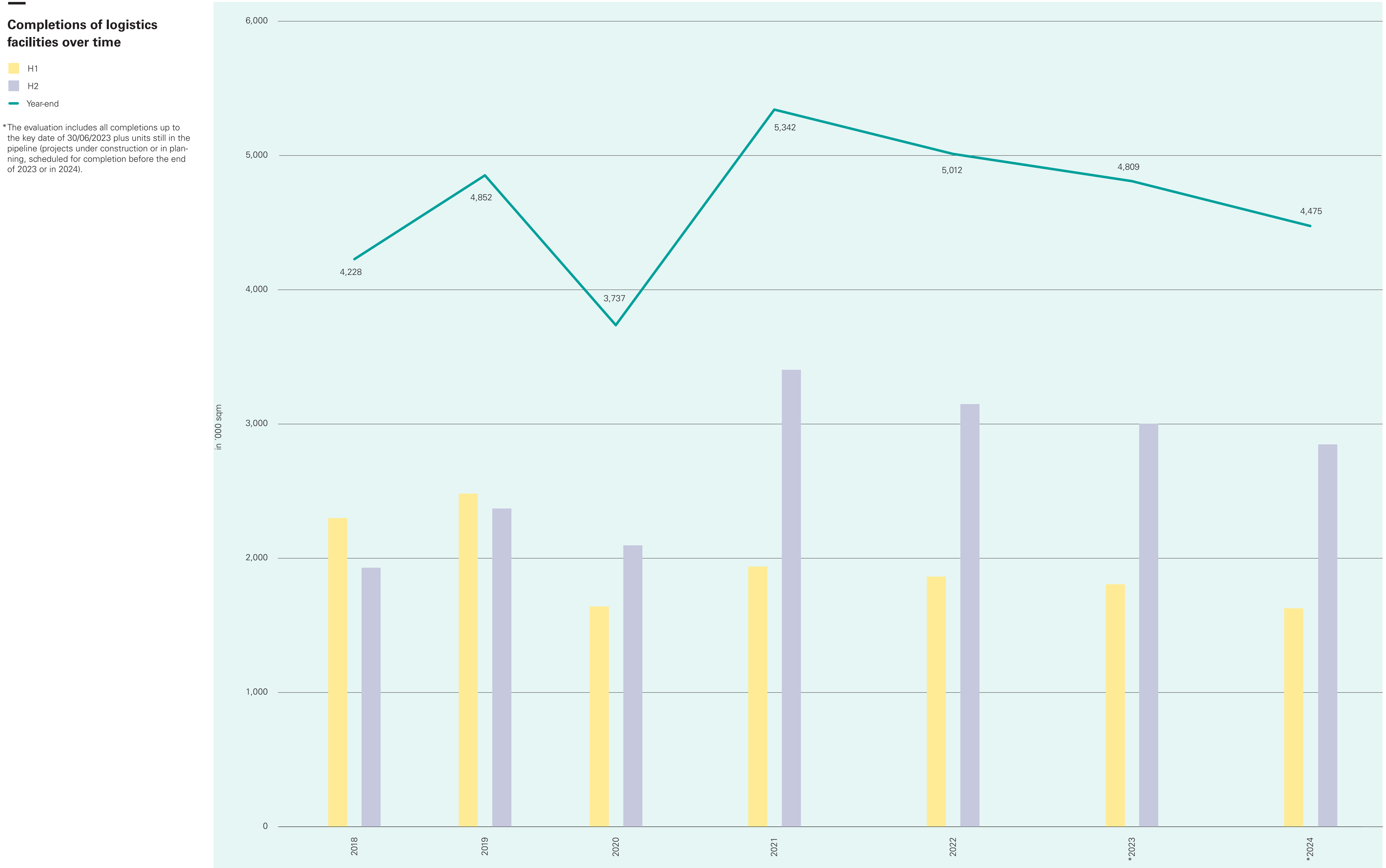
Completions of logistics facilities over time



*The evaluation includes all completions up to the key date of 30/06/2023 plus units still in the pipeline (projects under construction or in planning, scheduled for completion before the end of 2023 or in 2024).

Top 20 developers of logistics facilities, 2018–2023*

*The evaluation covers all completions up to the key date of 30/06/2023 plus units still in the pipeline (projects under construction or in planning, scheduled for completion before the end of 2023).

1.9 mn sqm

Units completed or in the pipeline (completions expected in 2023)
Panattoni

1.7 mn sqm

Completions volume
Garbe Industrial Real Estate

1.5 mn sqm

Completions volume
VGP Group

Panattoni Defends Lead Position

With nearly 1.9 million sqm in completed and (advanced) pipeline facilities, Panattoni is the most active operator on the market for logistics developments during the surveyed period of 2018–2023, just as it was the year before.

The developers next in line as far as completions volumes go—Garbe Industrial Real Estate ranking second with around 1.7 million sqm and VGP ranking third with 1.5 million sqm—also reported large volumes still in their pipelines for the ongoing year of 2023. According to the latest figures, Garbe Industrial Real Estate will be the most active property developer on the market in 2023 with nearly 500,000 sqm of completed floor space, closely trailed by Panattoni. Also included in the top 5 are Goodman and Dietz AG. The first owner-occupier in the ranking is e-commerce giant Amazon, having been absent from the top spots last year. This time, the US company placed sixth due to the recent development of two large-scale logistics centres.

The segment of institutional property developers was joined by a manager-owned developer, bauwo, a company that made the record with a development volume of around 640,000 sqm. Compared to the previous year, the composition of the leading ten developers has largely remained unchanged, with shifts limited to a minor reshuffling among the ranks.

Rhine-Ruhr Takes Lead in New-Build Construction for the First Time

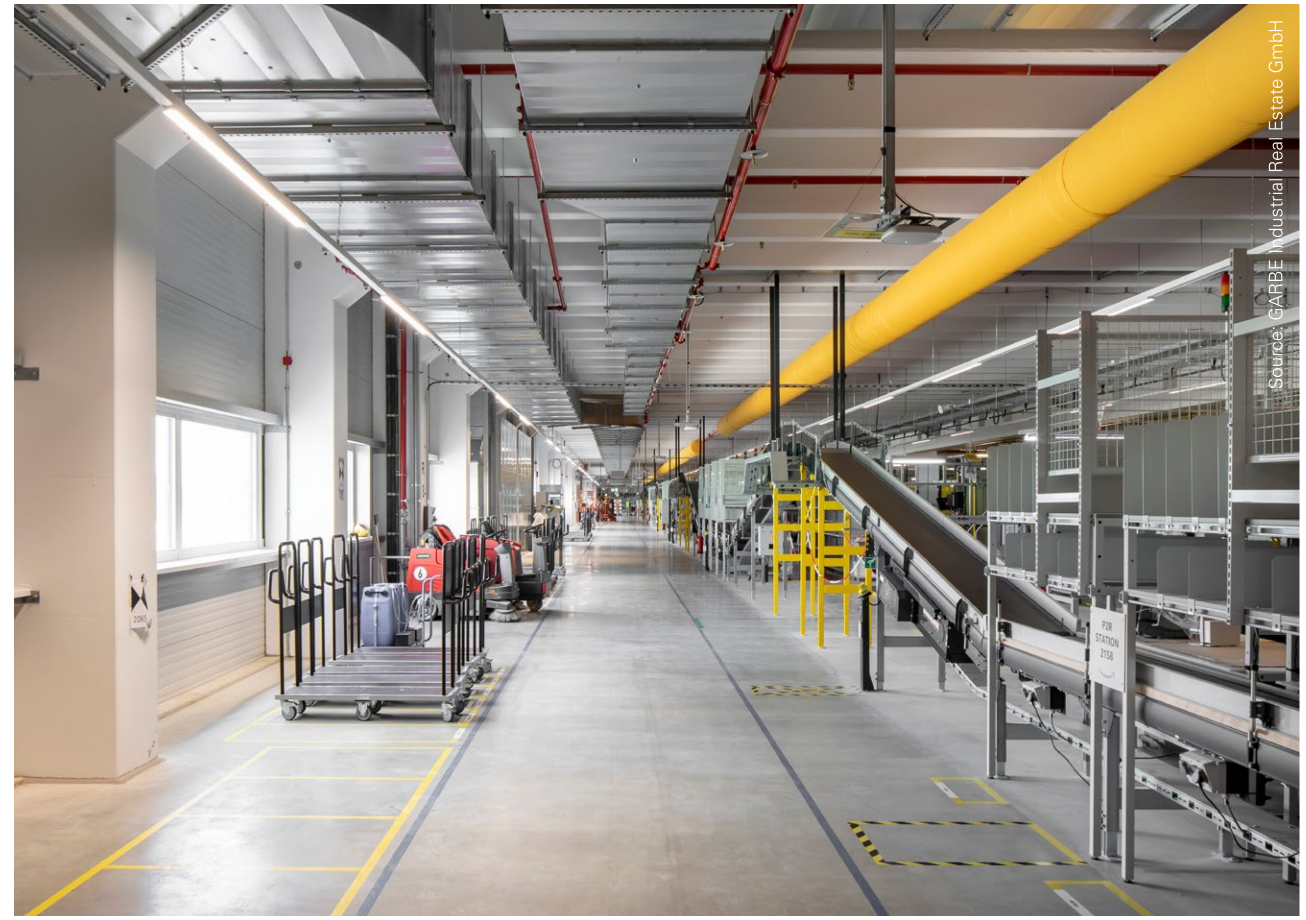
The Rhine-Ruhr logistics region, having presented itself as one of the major over-achievers within the regional ranking in recent years, now managed to take the lead among the 28 logistics regions for the first time as it reported a new construction volume of around 881,000 sqm for the current observation period. Trailing it closely is last year's top performer, the Berlin region, with a total development volume of around 840,000 sqm. The Rhine-Main / Frankfurt region also achieved an impressive result at more than 800,000 sqm, making it the last of the top three spots.

Meanwhile, two logistics regions from eastern Germany, meaning Halle/Leipzig and A4 motorway Thuringia, pushed their way into the top segment. Quite evidently, these regions claim an increasingly important role among the logistics locations in Germany because of their greater availability of land and their lower property prices, paired with a high appeal for logistics occupiers. Peripheral locations outside the analysed logistics regions therefore accounted for a share of about 25% out of the total development volume during the period under review. In the more recent past, this share has kept going up steadily because of the land shortage in conurbations. In fact, the share of peripheral location in the completions total is expected to exceed 40% this year.

Property Developers Remain the Most Important Group among Developer Types

When breaking completions down by developer types, it is striking to note that the share of developments that last year's forecast predicted for "pure" property developers has fallen slightly short of the mark so far. One of the causes to explain this could be that property developers have increasingly adopted a wait-and-see attitude in response to less favourable terms of financing. Especially speculative developments, which are exclusively the business domain of these property developers, have become much more difficult to implement in the current funding environment. As a result, owner-occupiers from the logistics and industrial segments as well as retail logistics operators are expected to expand their shares in development activities.

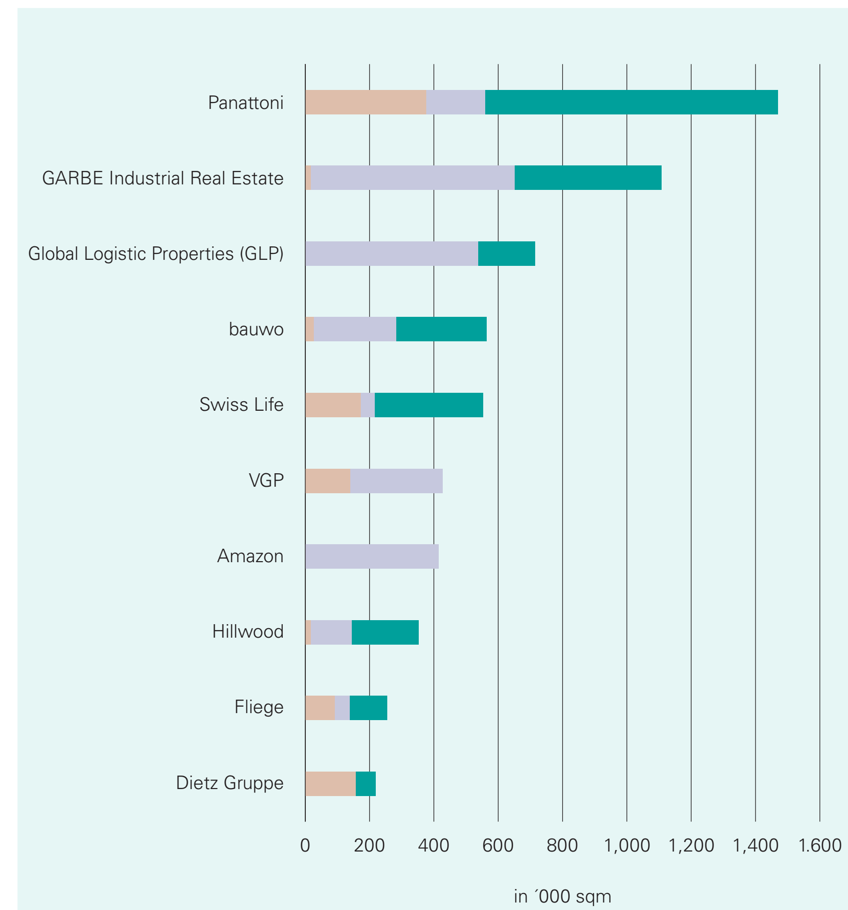
The composition of the top 10 developers has largely remained unchanged year over year (…).



Source: GARBE Industrial Real Estate GmbH

Top 10 developers of logistics facilities, 2023–2024*

Completed
Under construction
Detailed planning

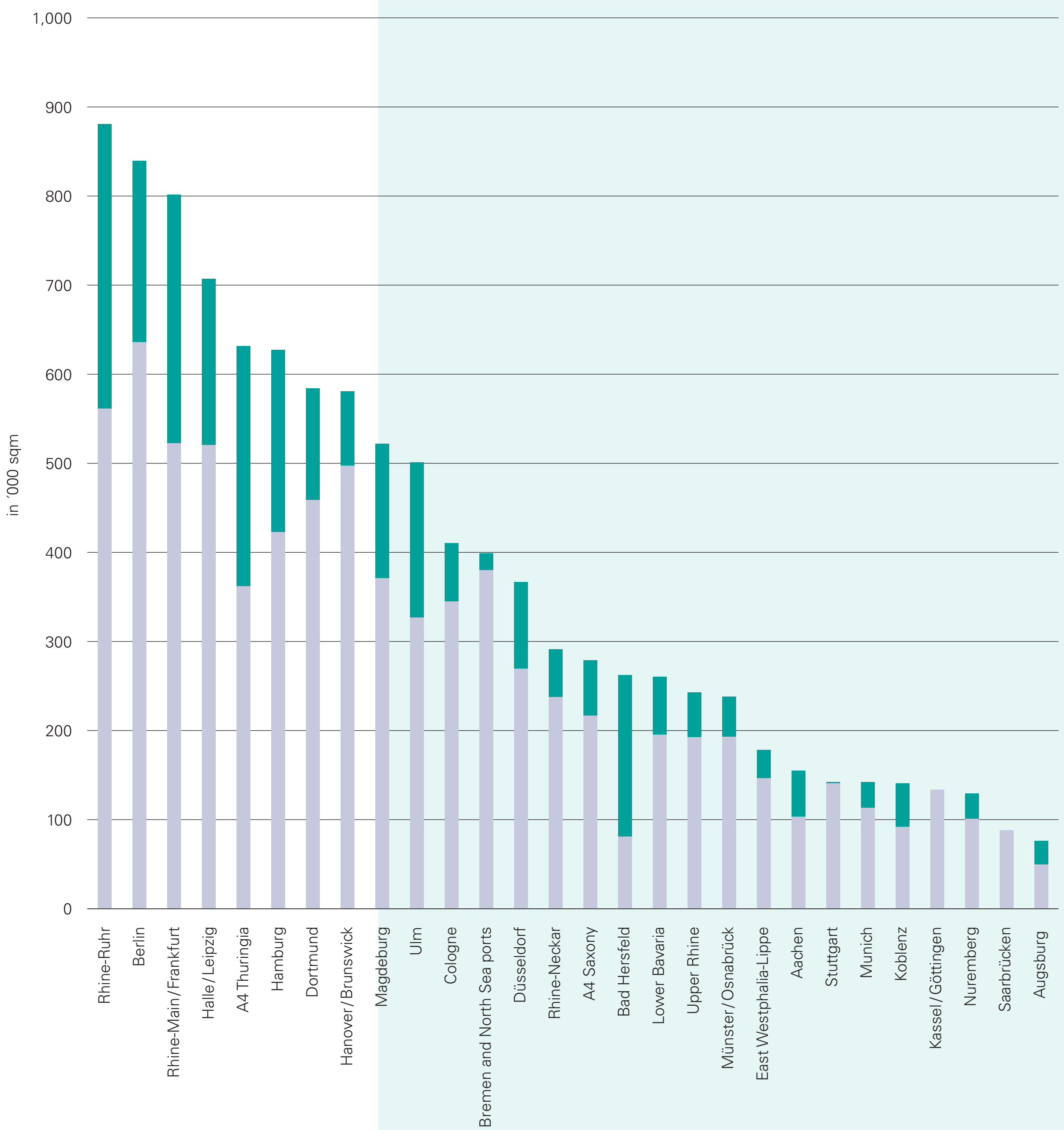


*The evaluation includes all completions up to the key date of 30/06/2023 plus units still in the pipeline (projects under construction or in planning, scheduled for completion before the end of 2023 or in 2024).

Completed facilities by logistics region, 2018–2023*

- 2018–2022
- 2023*

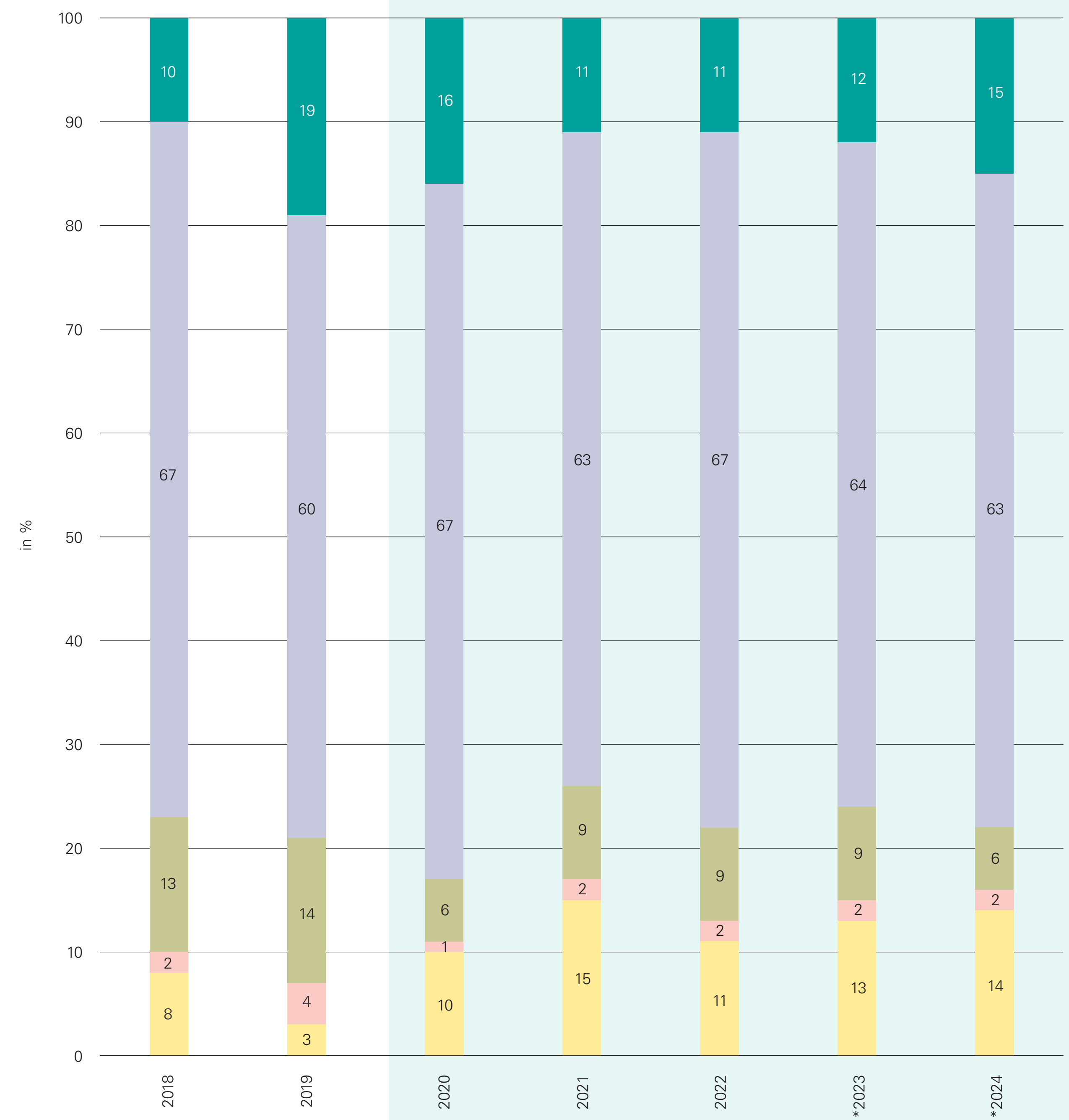
*The evaluation covers all completions up to the key date of 30/06/2023 plus units still in the pipeline (projects under construction or in planning, scheduled for completion before the end of 2023).



Shares in the annual completions volume by developer type

- Retail logistics
- CEP service providers
- Logistics operators
- Property developers
- Other owner-occupiers

*The evaluation includes all completions up to the key date of 30/06/2023 plus units still in the pipeline (projects under construction or in planning, scheduled for completion before the end of 2023 or in 2024).



2.2 Investment Market for Logistics Property

A massive slump even on the industrial real estate market

The shock-frozen state of the commercial real estate transaction markets has not spared the industrial segment (and thus not the logistics segment either). That said, the figure for the second half of 2022 is actually not to be scoffed at. With a total volume of more than 5 billion euros (thereof about 65% logistics), it barely undercut the mid-year total of 2022. In sum, investments added up to a year-end total of c. 10.2 billion euros, with logistics real estate accounting for about 59%. While this falls short of the high-water mark of 2021 (11.6 billion euros), it still exceeds the average of the past five years.

But the robust figure for the second half of 2022 is primarily explained by the fact that the consequences of shifted market parameters will affect the investment market with a certain delay. Since it can take months to negotiate transactions, and since parties to a given transaction will not (be able to) respond instantly to exogenous shocks, the full impact of the drastic rise in interest rates was not felt until 2023, as is impressively illustrated by the chart below. With a total volume of only about 1.5 billion euros by mid-year (thereof >900 million euros representing logistics assets), it is by far the slowest half-year within the observation period.

When Will the Market Find a Stable Basis?

This leaves the question as to when the markets are likely to bounce back. Judging by the sentiment among market players, it is safe to assume that they will not give up their wait-and-see attitude until there is clear evidence that inflation and financing costs have found a stable level. Market insiders have suggested that, in principle, the pricing of logistics real estate had progressed further toward a stable basis by mid-year than can be said for most other commercial real estate classes.

"Following the interest rate shock and the economic downturn, the investment market for logistics real estate has stabilised, and market operators have come to terms with the new reality on the ground. But it will be some time yet before investment volumes and prices go back up. At the same time, the growth outlook of the logistics segment is better than average when compared to other types of real estate."
(Bertrand Ehm, Savills Immobilien Beratungs-GmbH)

The survey panel, too, takes a cautiously optimistic view of the near- and medium-term development of the investment market. Yet it becomes evident here as elsewhere that, while the situation may well improve, it will do so at a steady pace and on a moderate level, according to the respondents. In terms of their number and scale, investments are not expected to regain their pre-crisis levels until well after 2025.

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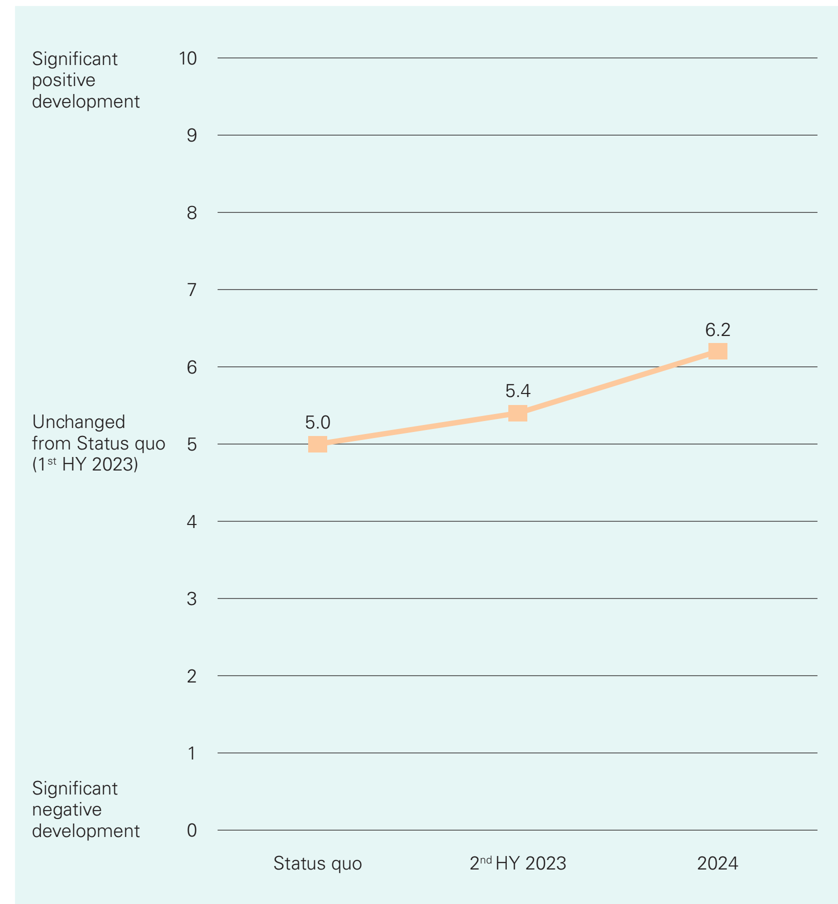
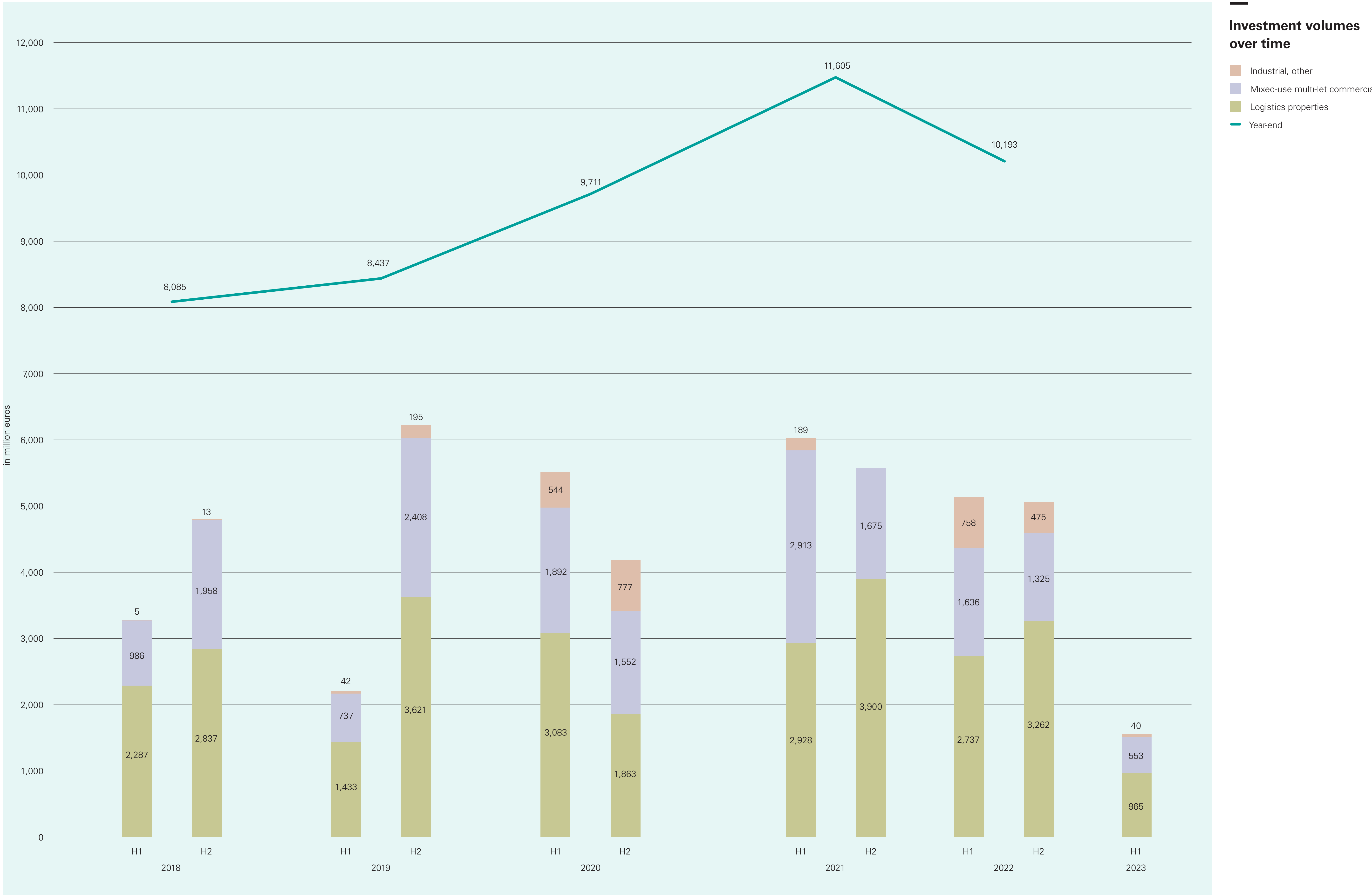
10.2 bn euros

Investment volume for the year as a whole, with logistics real estate accounting for about 59% thereof.

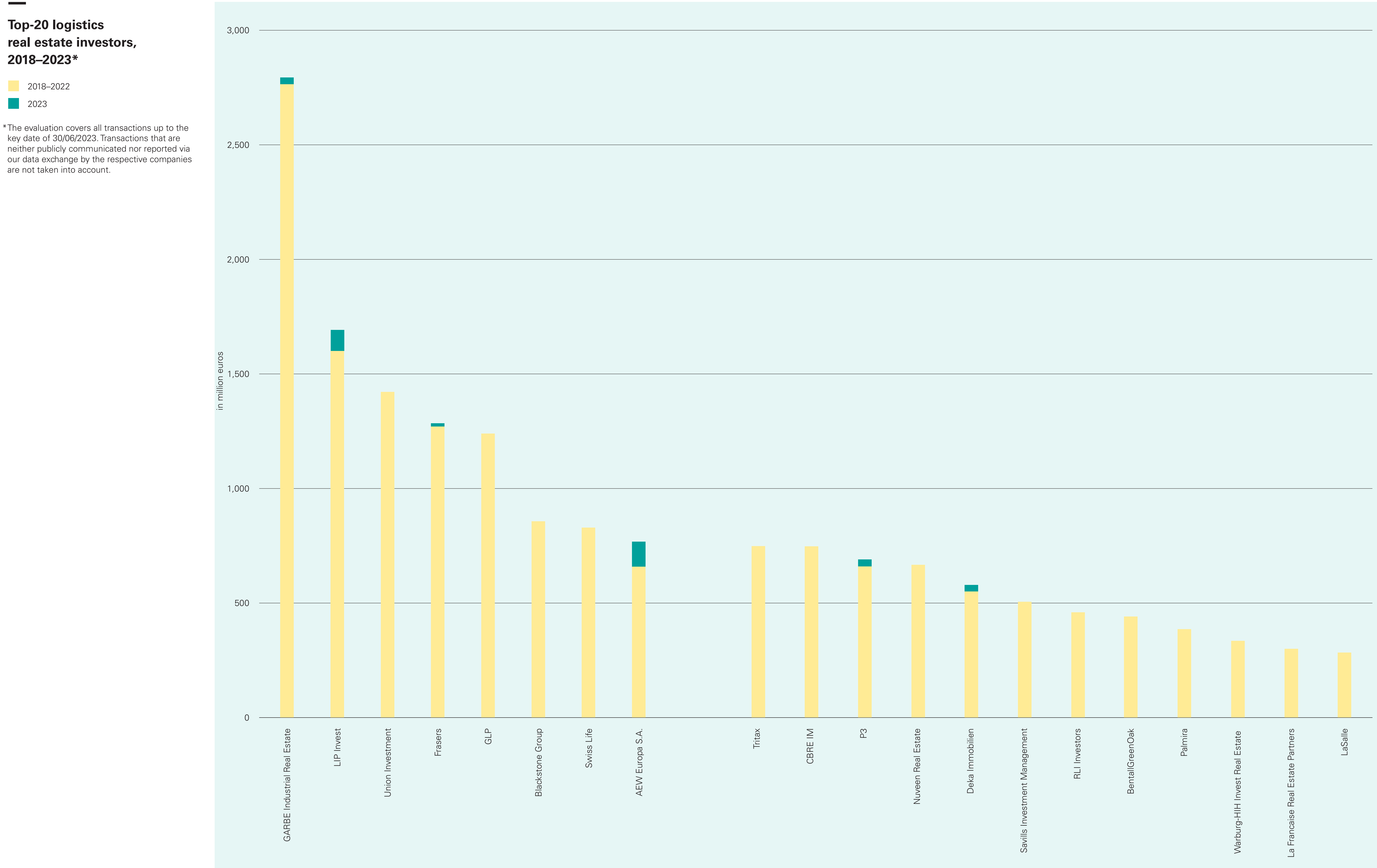
Survey findings – anticipated investment market development



Investment volumes over time



Top-20 logistics real estate investors, 2018–2023*



*The evaluation covers all transactions up to the key date of 30/06/2023. Transactions that are neither publicly communicated nor reported via our data exchange by the respective companies are not taken into account.

Few Changes in the Operator Structures on the Investment Market

Given the generally low investment volume of 2023, the ranking of the 20 leading investors did not see any major changes. AEW Europe is the only investor who moved up in the ranking after a large-scale acquisition, jumping from 13th to 8th place. Matching its performance last year, Garbe Industrial Real Estate remains at the head of the field with a considerable lead this year, having invested a total volume of c. 2.8 billion euros during the period under review.

Shared Top Spot at Mid-Year 2023

The principal reticence on the investment market is very clearly reflected in the mid-year ranking. For one thing, the market situation has caused the ranking of active investors for the first half-year to be reshuffled when compared to previous years. Among the 20 leading investors of prior years, only 6 players have so far transacted acquisitions in 2023.

This explains why just over 100 million euros invested by mid-year were enough for two players, AEW Europe and J.P. Morgan/Cromwell, to claim the shared top rank. For the sake of comparison, Garbe Industrial Real Estate claimed the top spot at mid-year, having already invested more than 700 million euros.

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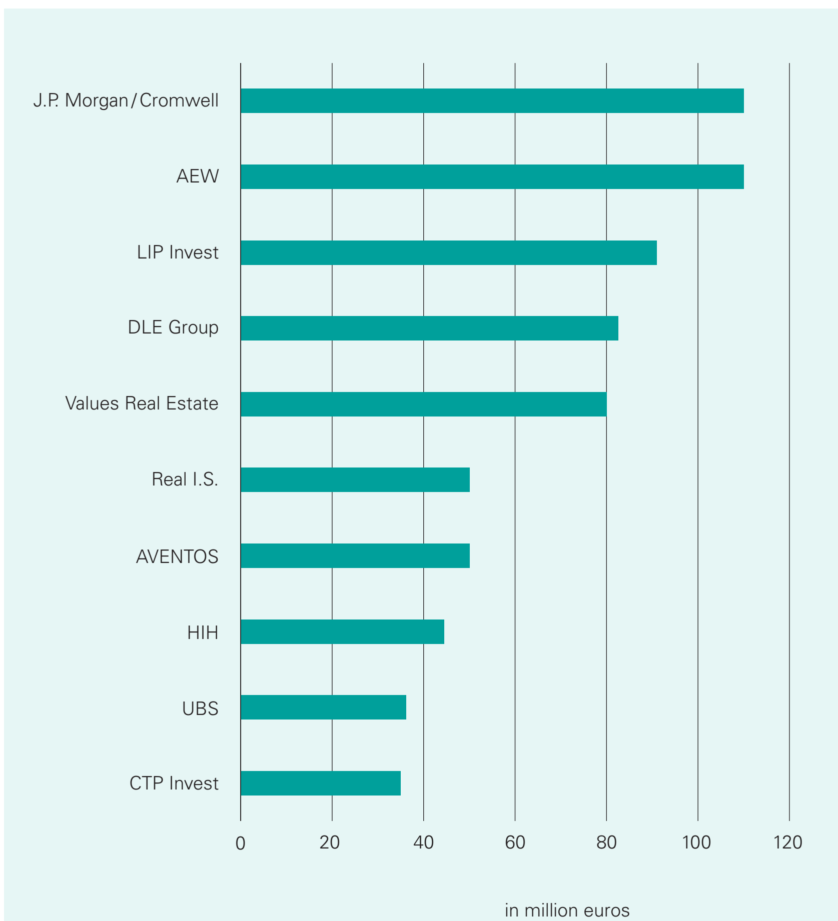
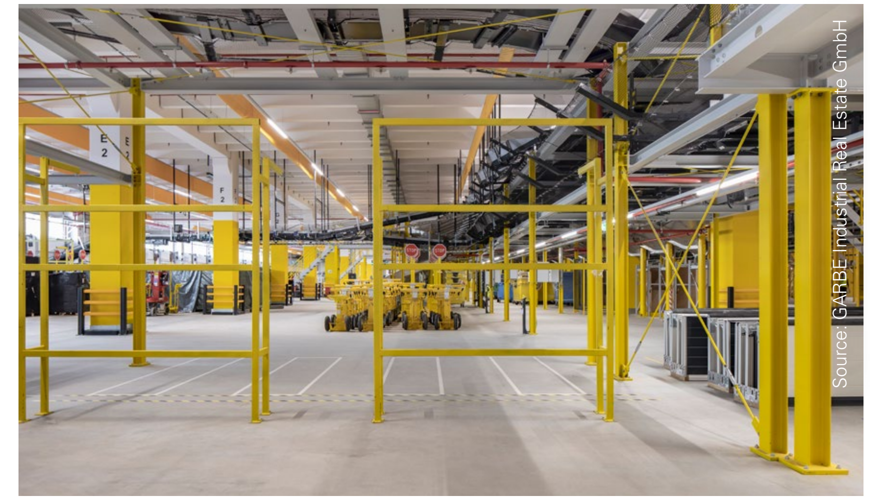
Top 10 logistics real estate investors, 2023*

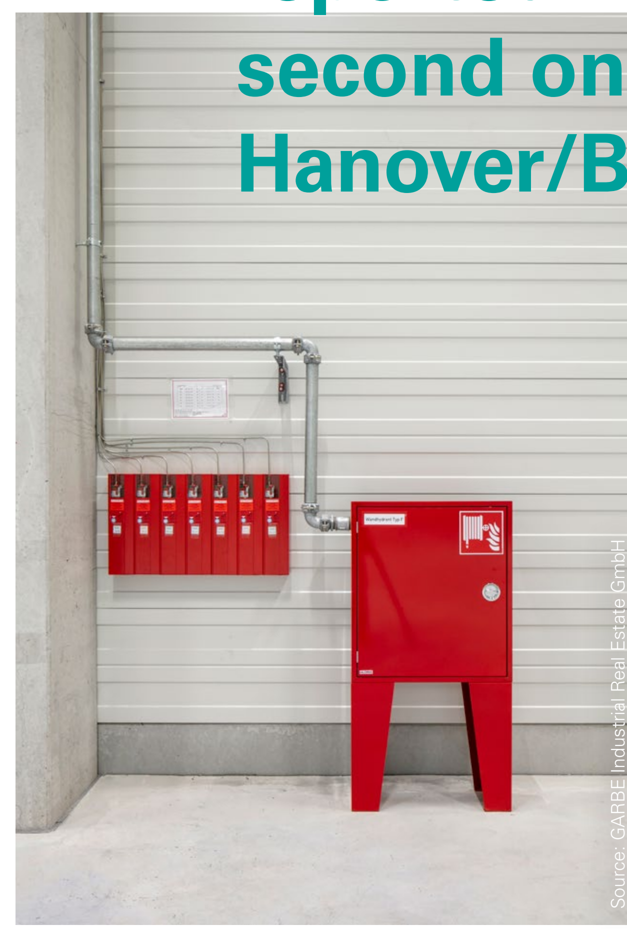
Investment volumes

*The evaluation covers all transactions up to the key date of 30/06/2023. Transactions that are neither publicly communicated nor reported via our data exchange by the respective companies are not taken into account.

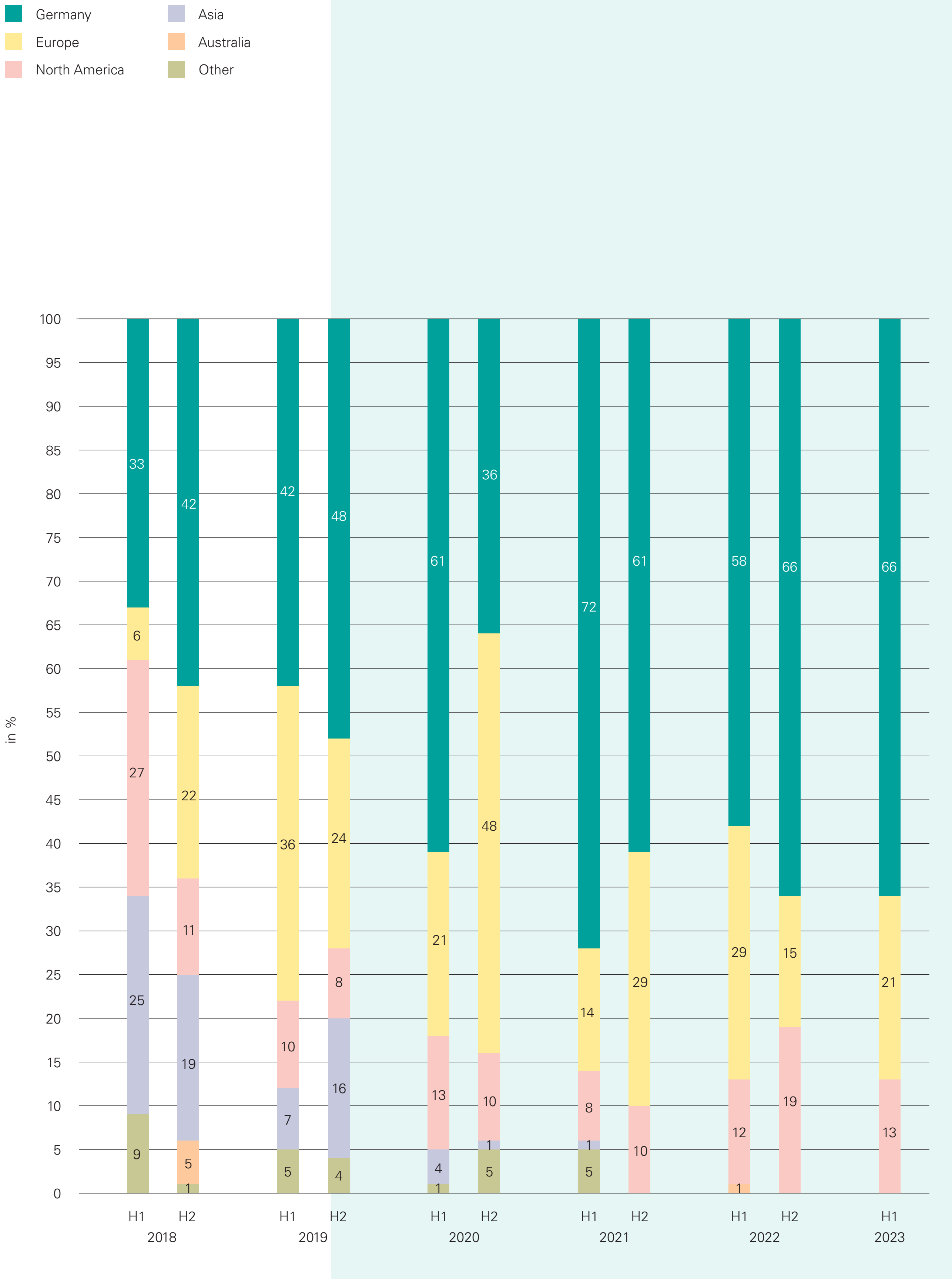


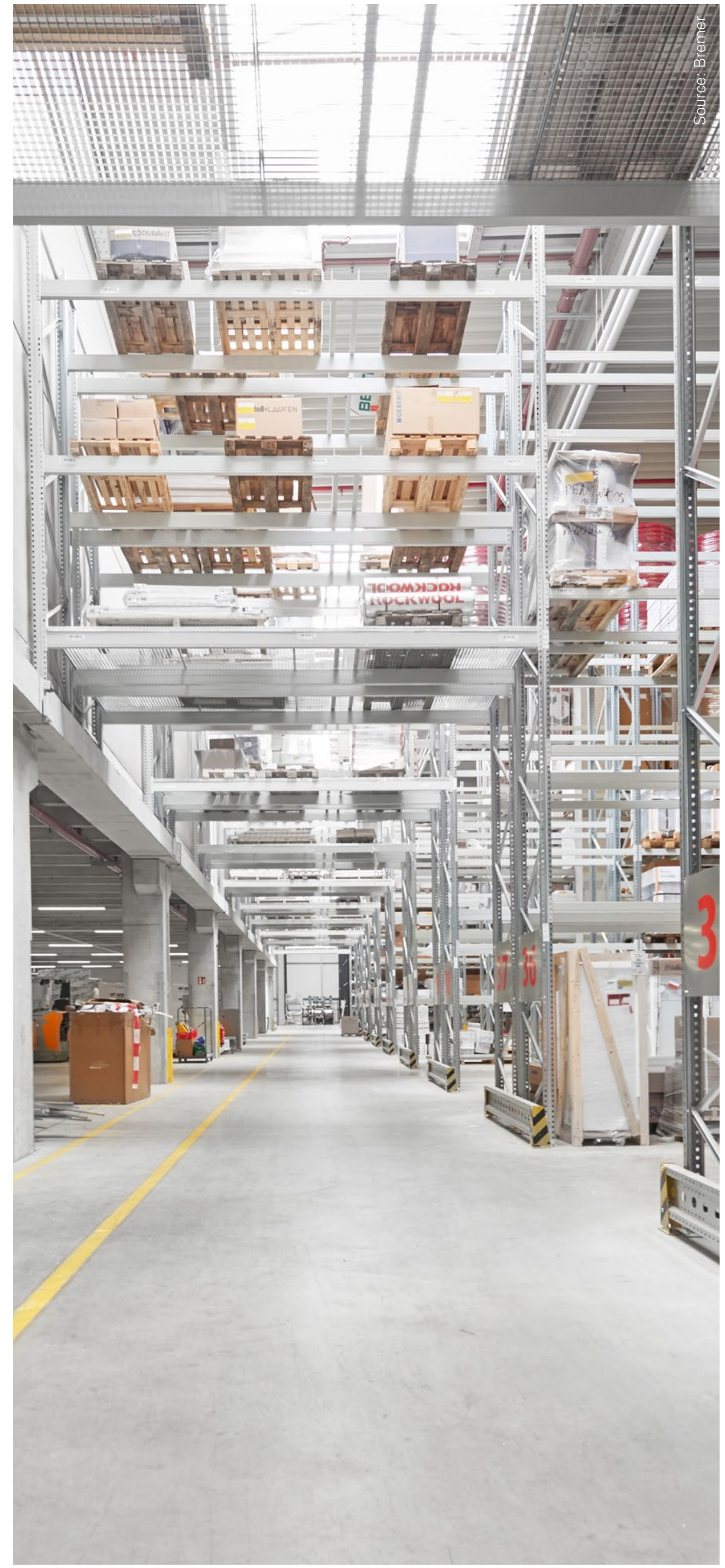


By mid-year 2023, the highest investment volume was again reported from Frankfurt, second only to the Hanover/Brunswick region.



Investment volume by origin





Market Still Dominated by German Investors

The German logistics real estate market continues to be dominated by domestic buyer groups which had already accounted for just over 60% of the revenue total in 2022. The first half of 2023 reaffirmed the situation, in any case. Players from Germany account for around two thirds of the investment volume, whereas Asian investors currently prefer, just like in 2022, not to invest directly in the German logistics real estate market, which is to some extent explained by the ongoing real estate crisis in the Chinese sphere of influence.

Investment Activity by Logistics Region

Compared to last year's survey, the ranking of logistics regions has been significantly reshuffled. However, this is hardly attributable to any actual transactions completed in 2023 (due to the low total volume) but rather to the forward shift of the observation period by one year, with the year 2017 now omitted from the calculation as a result. This is illustrated by the fact that Berlin, which seemed poised to take the top spot from the Rhine-Main/Frankfurt region last year, has dropped back to fourth place in this year's ranking. Conversely, the Hanover/Brunswick region moved up several ranks, placing second, just ahead of the Hamburg region, with an investment volume of c. 1.8 billion euros during the observation period.

>

Rhine-Main / Frankfurt Remains Attractive

Demand for space in the Rhine-Main / Frankfurt logistics region has not slackened, given the region's central location and its proximity to many manufacturing businesses including those in the pharmaceuticals sector. By mid-year 2023, the highest investment volume was again reported from Frankfurt, second only to the Hanover / Brunswick region. Considering the low overall volume, however, it should be noted in this context that single transactions have a far greater impact on the breakdown this year, and that the latter is somewhat less meaningful as a result. That being said, one of the most fascinating figures is one that cannot simply be gleaned from the chart below. Boasting a share of 47%, peripheral locations outside the established logistics regions account for nearly half of the entire logistics real estate investment volume this year to date. The figure is more than twice as high as the periphery's long-term mean (22%). Several definitive factors are driving this development, including the greater land availability in remote locations but also the building quality.

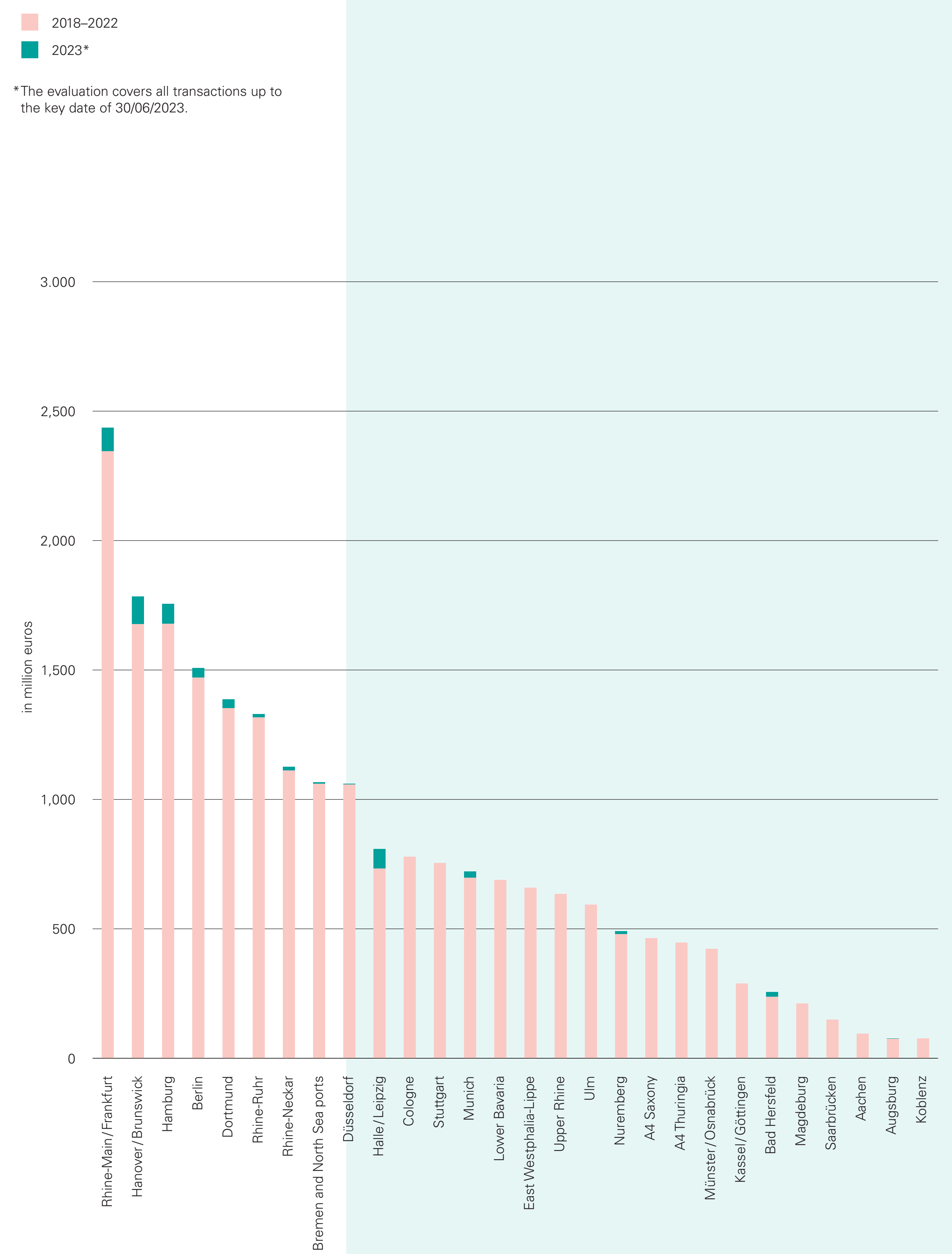
22%

Long-term mean volume of investments in logistics real estate in peripheral locations outside the established logistics regions.

Having more than doubled this year to date:

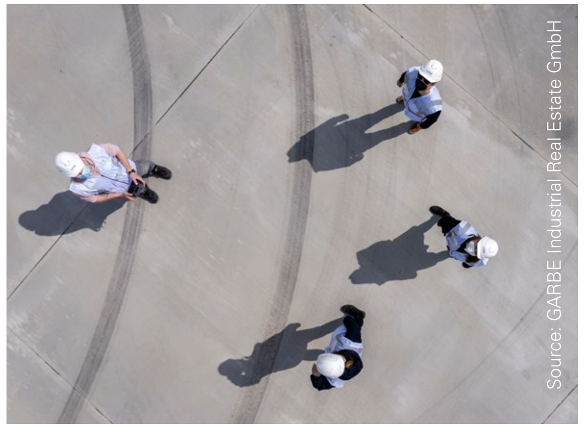
47%

Investment volume by logistics region, 2018–2023*



3

Construction Costs and Construction Periods



3.1 Mild Easing of Constructions Costs

The construction costs topic has become a permanent fixture in this survey series, and it is being closely followed in 2023, too. The past year was characterised by significant increases in energy prices and keenly felt shortages in the building materials supply. The ramifications of the coronavirus pandemic were further reinforced by the Russian invasion of Ukraine – their combined effect not boding well for the building trade. Although global parameters have not radically changed since the publication of last year's edition of the survey, there are a number of new developments worth reporting.

A closer look at how the construction cost index for commercial operational buildings has been trending reveals that the price spiral is following a generally regressive dynamic. During the period between the fourth quarter of 2021 and the first quarter of 2023, the change rates of the index over prior-year quarter always ranged between 15.3% and 19.4%. During the second quarter of 2023, by contrast, the drastic price growth slowed down to 8.0% over prior-year quarter or 0.6% quarter-over-quarter, meaning compared to Q1 2023. There is now reason to believe that the trend will continue in the ongoing third quarter.

>

1 https://www.destatis.de/DE/Themen/Wirtschaft/Konjunkturindikatoren/Preise/bpr110.html#241652

Source: GARBE Industrial Real Estate GmbH

5.6%

drop in prices for carpentry and timber construction works

The material costs are strongly influenced by the availability of materials, by inflation, by energy prices and by the general demand situation. With respect to the inflation rate, a slight slowdown month on month was noted in July 2023, but at 6.2%[2] it still remained on a high level in absolute terms. The trend is definitely influenced by energy prices, among other factors. It was interesting to see that import prices and producer prices for natural gas dropped significantly over prior year (when sold to industrial customers) whereas end consumer prices continued to go up.[3] On top of that, the fuel prices relevant for heavy equipment began to push up again lately—having recovered in spring of 2023—even though they still remain well below the average price level seen in 2022.[4]

If you take a differentiated look at the price trend, a breakdown by construction services shows that prices in some segments have actually experienced a modest decline year on year (May 2022 – May 2023) in spite of the brisk development dynamic. The pricing of steel construction works, which had stood out with a particularly brisk 28% increase last year, eased slightly (-1.1%), for example. Softening timber prices are visible in the pricing of carpentry and timber construction works, which dropped by 5.6%. The trend is once again reflected in the DIHK Business Survey (Early Summer 2023): It suggests that the polled companies in the construction industry continue to regard the prices of raw materials and energy as their greatest business risks. Then again, the share of companies who take this view has gradually declined from its peak level of 91% last year down to 72%, thus staying just ahead of the risk of skilled labour shortages, which was quoted by 70% of the respondents.

As of summer 2023, it is therefore safe to say that the general supply situation for building materials has generally improved, and that competition among the construction industry players has started intensifying again. However, while having a dampening effect on the future trend in construction costs, this development is not driving up demand in the current situation.

"Although demand for construction services has neither dried up nor slowed all that much, it remains well below the level seen in previous years."
(Michael Dufhues, Bremer AG)

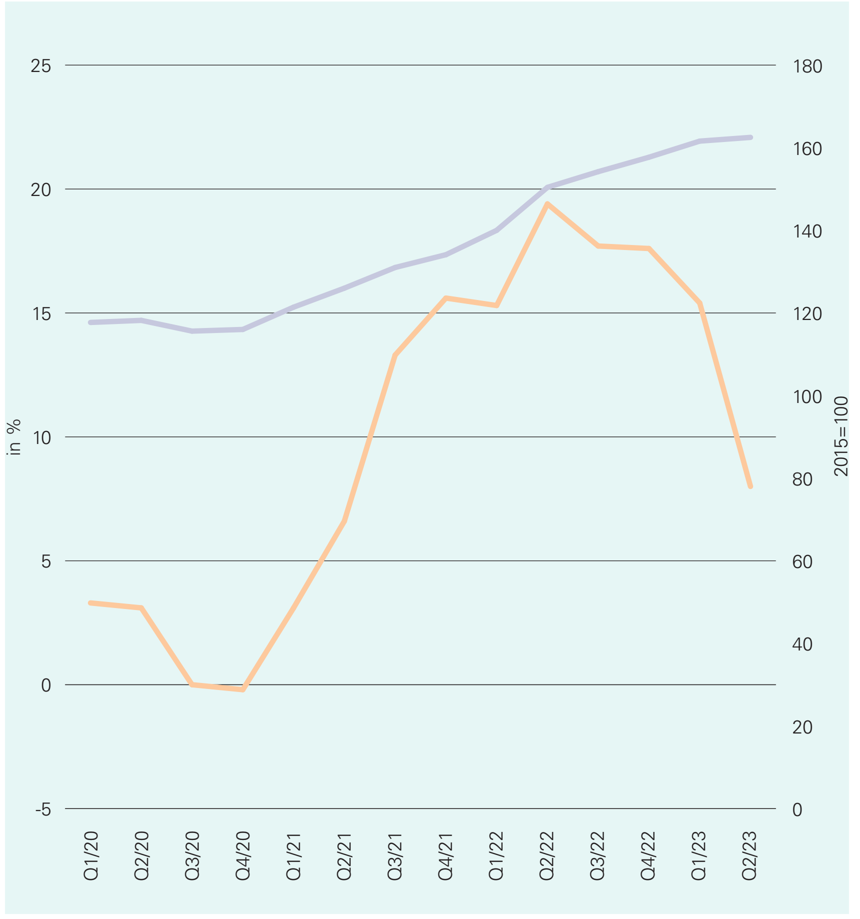
With a view to the year ahead, there is reason to believer that prices in general will follow a lateral trend. The survey findings suggest as much, as respondents expect construction costs to remain stable in the ongoing year and moderate upward growth in subsequent years. Reasons for the trend that come to mind include an improved availability of materials and a lower level of demand for construction services, especially in other real estate segments. But this does not apply to the same extent to all construction services. Tightening environmental and technical requirements for buildings have filled the order books especially of building services engineering firms so that no major price drops are to be expected for such construction services.

2 https://www.destatis.de/DE/Presse/Pressemitteilungen/2023/08/PD23_311_611.html
3 https://www.dashboard-deutschland.de/indicator/tile_1667826504852
4 https://www.adac.de/verkehr/tanken-kraftstoff-antrieb/deutschland/kraftstoffpreisentwicklung/#seit-2021

Construction cost index for commercial operational buildings and change over prior-year quarter

- Change
- Construction cost index (2015 = 100)

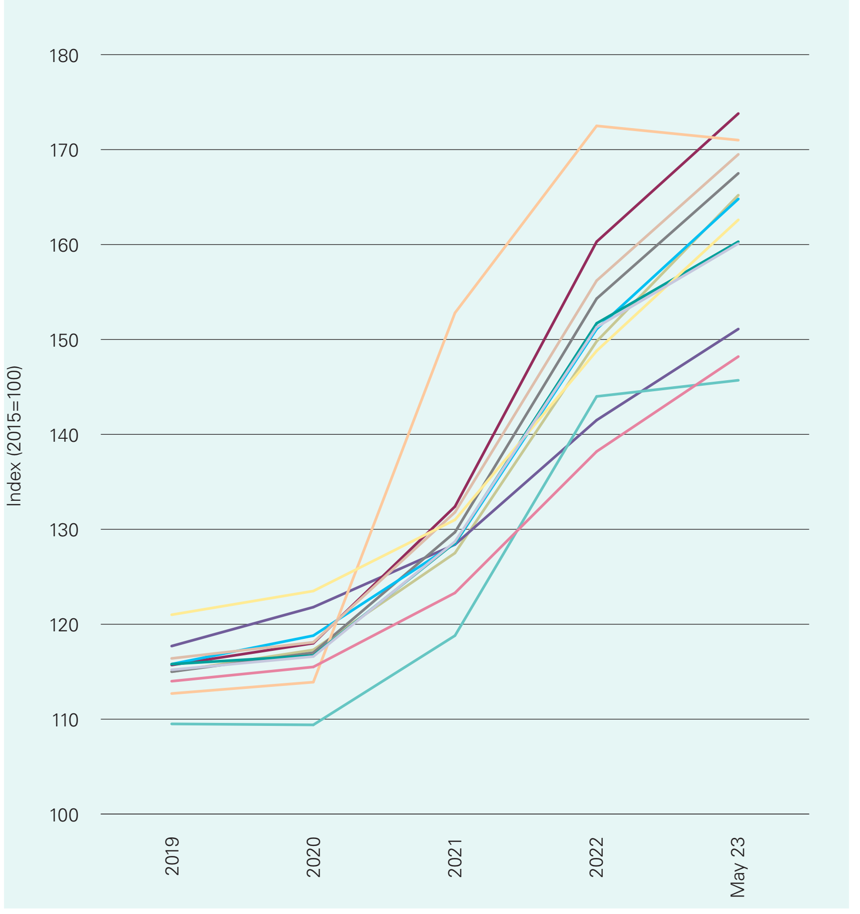
Source: Federal Statistical Office



Price trend for the construction of new operational buildings, by construction service

- Shell and core
- Earthworks
- Drainage canal works
- Brickworks
- Concrete works
- Carpentry and timber construction works
- Steel construction works
- Waterproofing work
- Roofing work
- Sheet metal work
- Scaffolding work
- Fit-out work

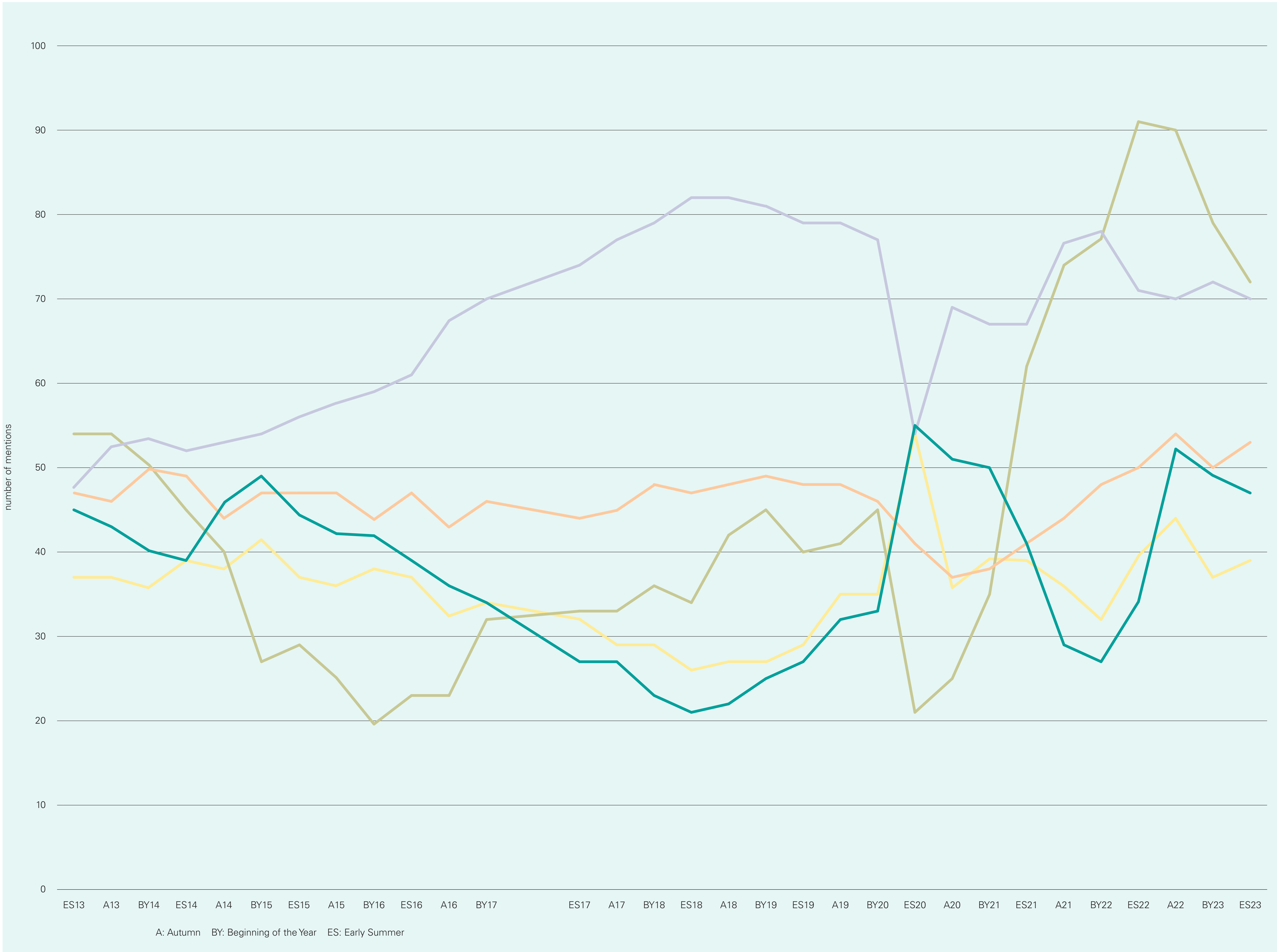
Source: Federal Statistical Office



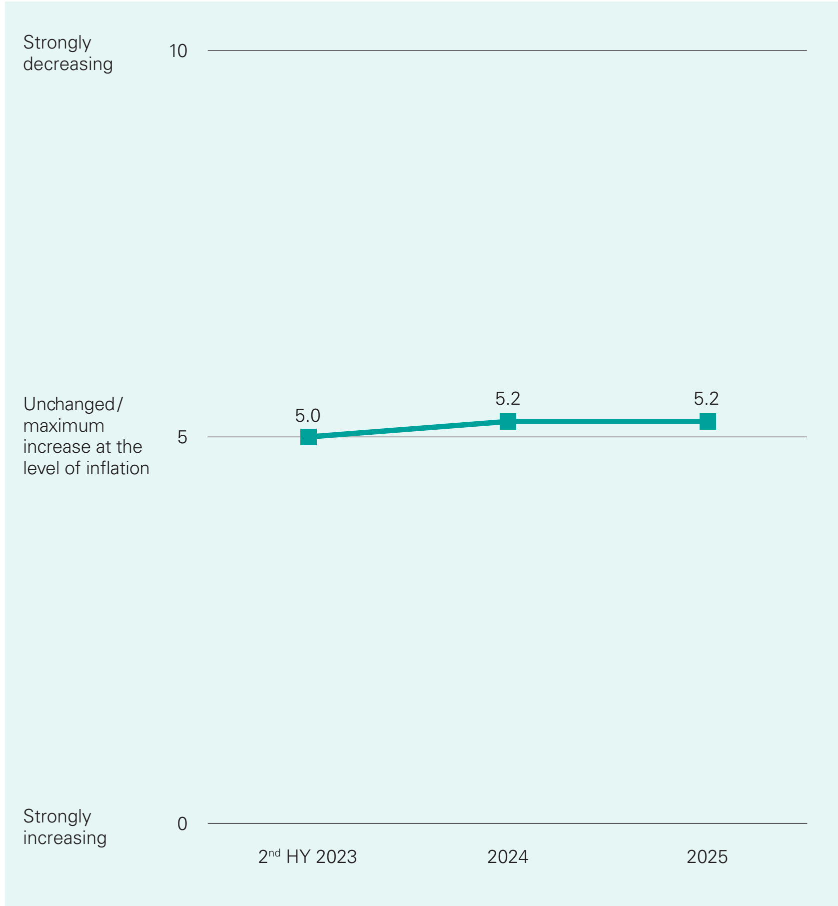
Current business risks in the construction industry

- Domestic demand
- Labour costs
- Shortage of skilled labour
- Energy and commodity prices
- Economic policy parameters

Source: DIHK Business Survey
Beginning of the Year & Early Summer 2023



Survey findings – anticipated construction cost growth



3.2

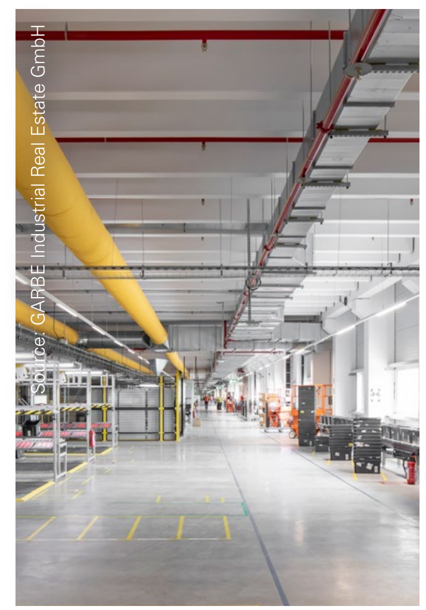
Do Tightened Requirements Lead to Longer Construction Periods?

The subject of sustainability just keeps on gaining in significance. In this context, and against the background of rising financing costs, the question presents itself to what extent tightening structural requirements impact the construction periods of logistics properties. It would be plausible to assume that stricter specifications would noticeably lengthen the time to completion. Evidence on the ground, however, suggests it is simply of key importance to engage in careful planning ahead of time if you wish to avoid such delays.

"Various aspects come into play in the sustainability context whose effects differ. Assuming you already have a clear idea what the requirements for a given property will be, the planning process might be a bit longer. But if your planning is meticulous, the actual construction period should ultimately not be much longer." (Michael Dufhues, Bremer AG)

Technological progress keeps opening up new means and ways for achieving sustainability objectives, for instance in the areas of insulation, heating and power supply. This presupposes that the chosen sustainability objectives are clearly defined ahead of time so as to make it possible to coordinate the structural and engineering measures necessary for their implementation with the objectives and to plan accordingly. However, there is no basis for establishing a direct connection between sustainability requirements and construction periods.

Technological progress keeps opening up new means and ways for achieving sustainability objectives (…).



3.3 The Logistics Property as Energy Power Plant

46%

of the respondents stated that the option to construct logistics properties as plus-energy buildings is not acknowledged.

37%

of the respondents stated, however, that this is (rather) the case.

Logistics development projects are often met with scepticism by the general public, one issue in this context being the high level of land consumption and the associated soil sealing. This ignores the fact that logistics properties could, in principle, contribute to the energy transition. One approach toward this end is to turn the logistics property into an energy power plant, so that such buildings not only run on renewable energy but actually produce it on site. The greatest potential for doing so is the use of the usually sprawling roof surface for generating power through photovoltaics. In combination with energy saving measures, such buildings can, in the best case, produce more electricity than they consume during active operation. The excess energy can then either be stored or fed into the local power grid.

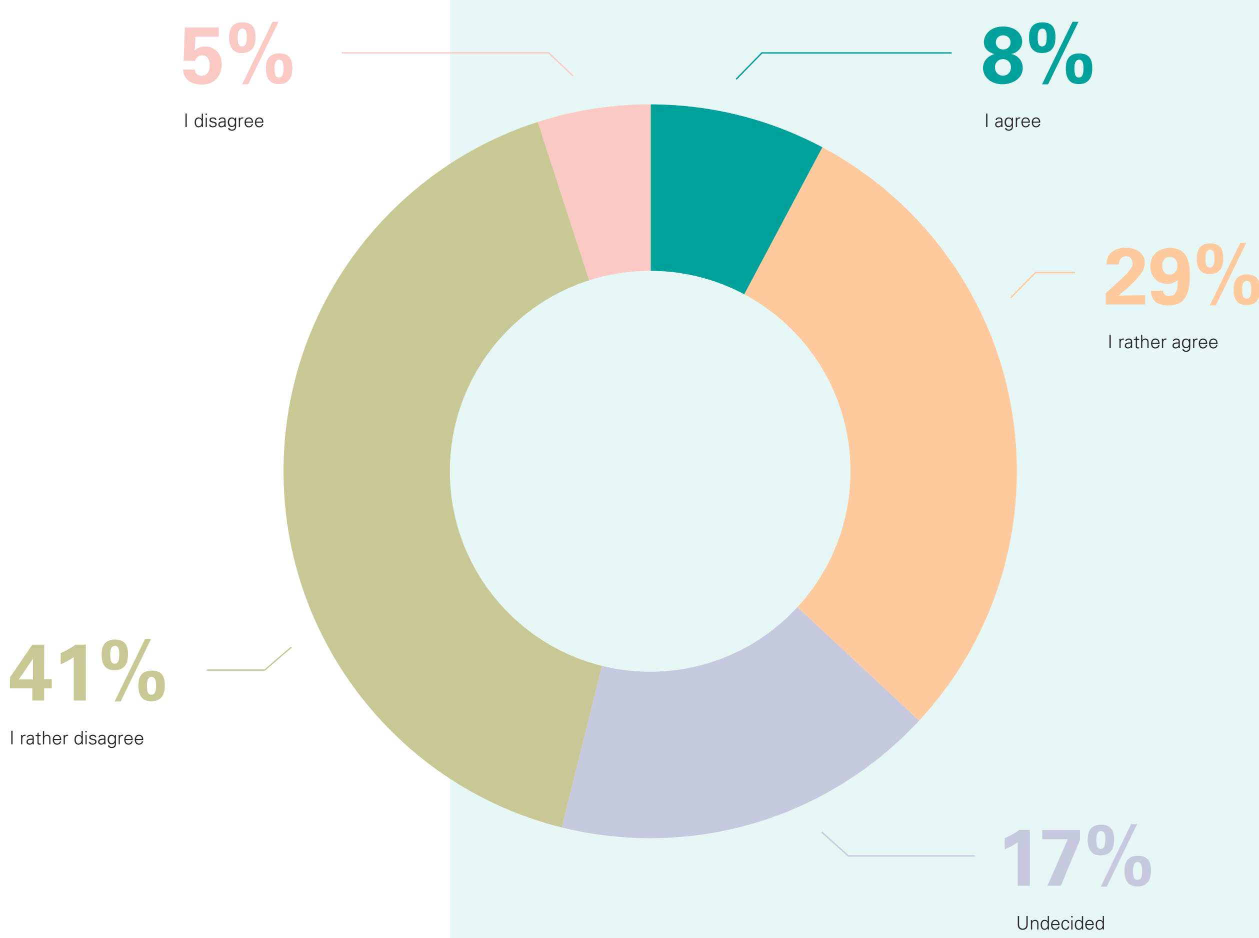
However, what sounds terrific and plausible in theory, faces high obstacles in reality. Any effort to construct such properties or to subject them to comprehensive energetic refurbishments—assuming this is technically feasible—presupposes that the necessary legal and technical parameters are in place. Yet these remain inadequate for the time being. Another relevant aspect is cost effectiveness. Aside from the ESG context in and of itself, the construction of a plus-energy building comes with substantial extra costs. To what extent these will be recovered in the future depends strongly on the longer-term development of energy prices. So, this is something only time will tell. That ESG conformity and the potential for energy production increases the value of a given property and turns it into an investment-grade product for the long term is undisputed. In the foreseeable future, the cost/benefit ratio will therefore keep shifting toward the benefit side and could boost the evolution of logistics properties into energy power plants.

Insofar as this will represent an active contribution to the energy transition and increase the general acceptance of logistics real estate, it is ultimately a positive outcome for all stakeholders involved. However, a closer look at the answers returned within the scope of the survey reveals that such an outcome remains a long way off. 46% of the respondents stated that the option to construct logistics properties as plus-energy buildings is (rather) unlikely to be acknowledged in the approval process for designated development land. Conversely, 37% of the respondents stated that this is (rather) likely to be the case.

Survey findings – logistics property as "energy power plant" in the approval process

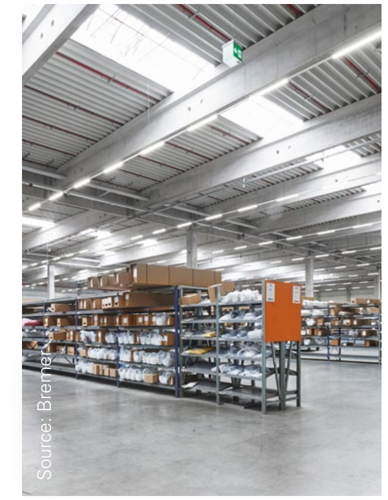
Source: bulwiengesa

The option to build modern logistics properties as plus-energy buildings ("energy power plant") is appreciated by cities and municipalities when designating and allocating land for logistics real estate, and simplifies the approval process.

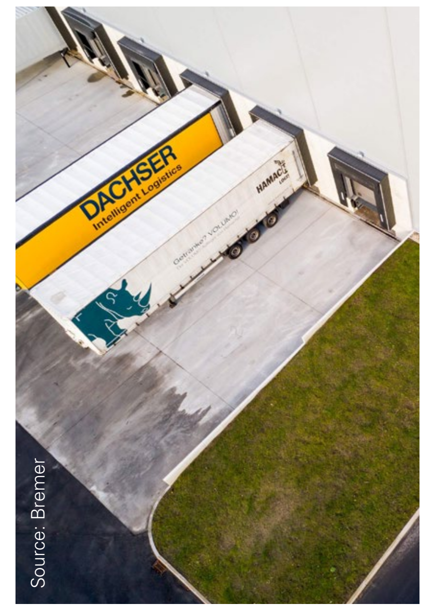


4

Financing Market: Much Depends on Site, Concept and ESG Compliance



Source: Bremer



Source: Bremer

Source: Bremer


Source: Bremer

4.1

The Interest Rate Reversal Sent the Commercial Transaction Volume Tumbling

No matter whether you take office, retail, micro-living, senior living or logistics: Good news were coming from none of the commercial asset classes on the investment market during the first half of 2023.

The inflation rate in the eurozone amounted to 5.3% in July, and thus already undercut the estimated 2023 annual average of 6.1%[5] by mid-year (Germany: 5.4%[6]).

>

5 Source: eurostat; https://ec.europa.eu/eurostat/documents/2995521/17075124/2-30062023-AP-DE.pdf/25320a31-63a1-a868-4179-f280677fb95f
6 Source: Ifo Institute for Economic Research; https://www.ifo.de/fakten/2023-06-21/ifo-konjunkturprognose-sommer-2023-inflation-flaut-langsam-ab-aber-konjunktur

This suggests that the interest rate moves of the first half-year did by all means have the desired effect even if the ECB's stated target mark of 2.0 percent inflation in the eurozone will remain out of reach until 2024 or beyond.

In late July, the European Central Bank raised the key lending rate to 4.25%. Historically speaking, it is still a low figure. That being said, the pace of the interest-tightening cycle over the past months gave real estate markets comparatively little time to adjust to the "new" interest rate reality.

Interest rates could gradually stabilise during the second half of 2023. While it is true that the ECB has not ruled out further interest rate moves as the year progresses, the general expectation is that even if they were to happen, they would be comparatively moderate.
>

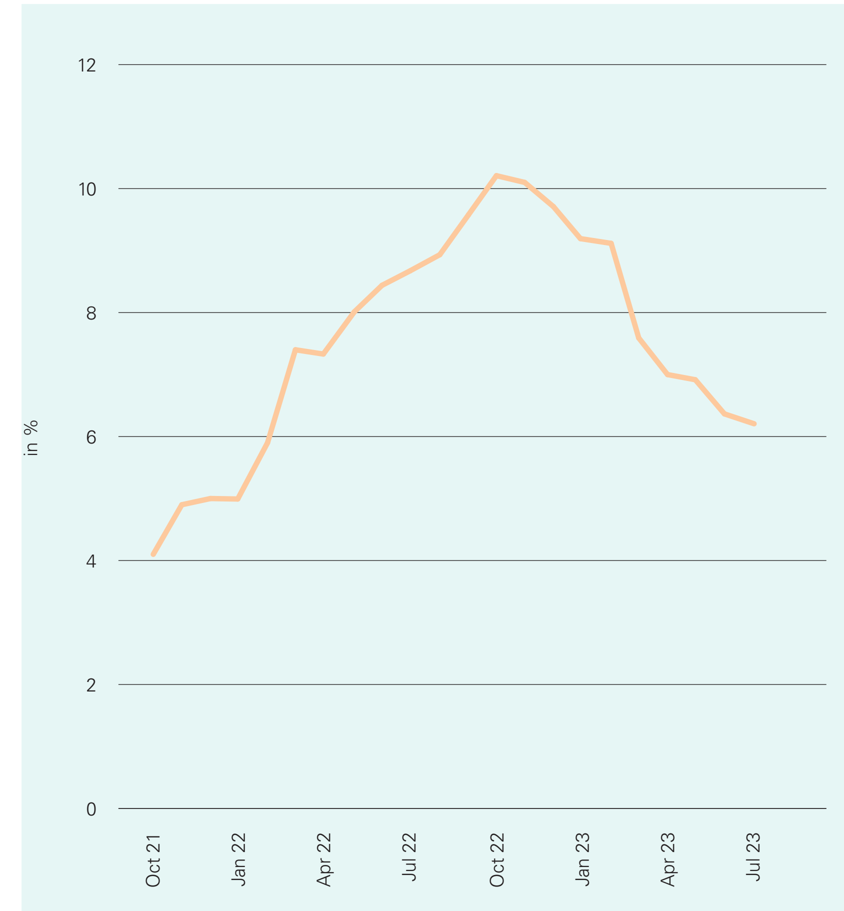
4.25%

ECB key lending rate by the end of July
Historically speaking, it is still a low figure.

Annual rates of change of the consumer price index in the eurozone

Annual rate of change

Source: Eurostat

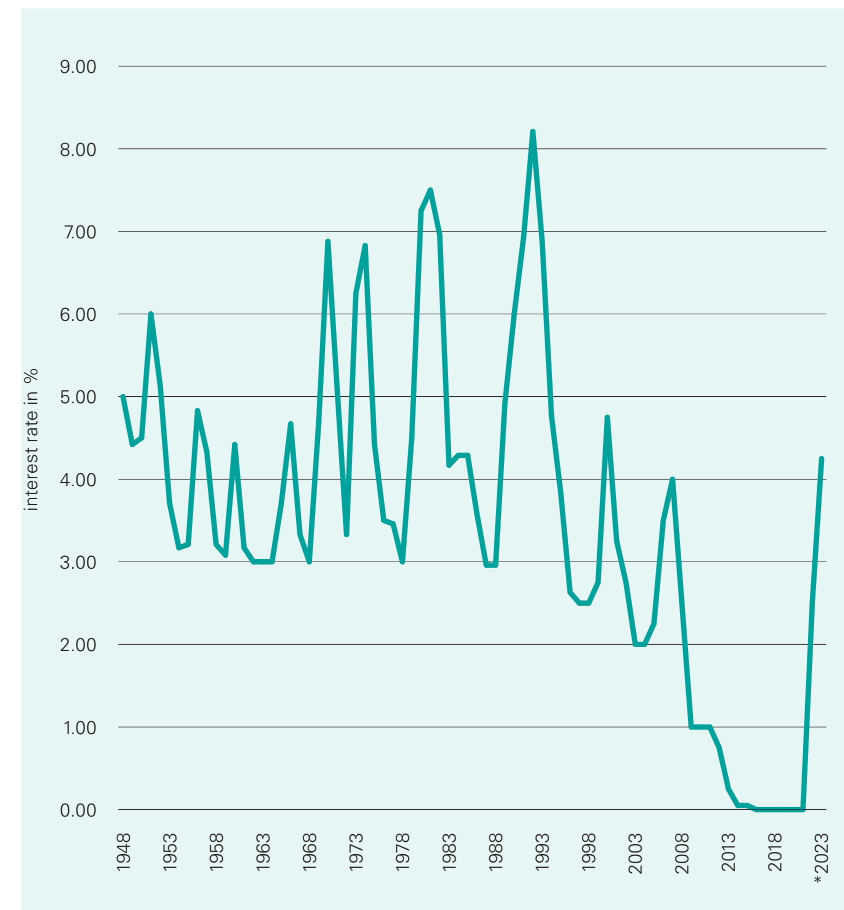


Development of the key lending rate in Germany and in the eurozone

Discount interest rate of the Bundesbank up to and including 1998 (annual average), ECB key lending rate (year-end rate) for 1999 and years thereafter

Source: Bundesbank, ECB

*As of August 2023



Refinancing Rate Rising Sharply

The key lending rate increases by the ECB have decisively influenced the way capital market rates have been trending. The Euribor interest rate (Euro Interbank Offered Rate), which represents the reference interest rate for the funding of property developments, has gone up noticeably lately.

The increase in the market interest rate and reference interest rates, such as Euribor, influence the interest rate conditions that are quoted in the context of financing a property development or of acquiring an existing property.

The swift increase of the refinancing rate creates issues primarily for those property developers and investors who bought properties at what are now "historic" market conditions. As mentioned in the market chapter, price-to-rent ratios dropped by about one third in the wake of the interest rate hikes. To illustrate without referencing an actual property, here is an example: A logistics asset in a peripheral location of Berlin that sold for 30 times its annual rent as recently as early 2022 is now down to a price-to-rent multiple of around 20 in the current market environment.

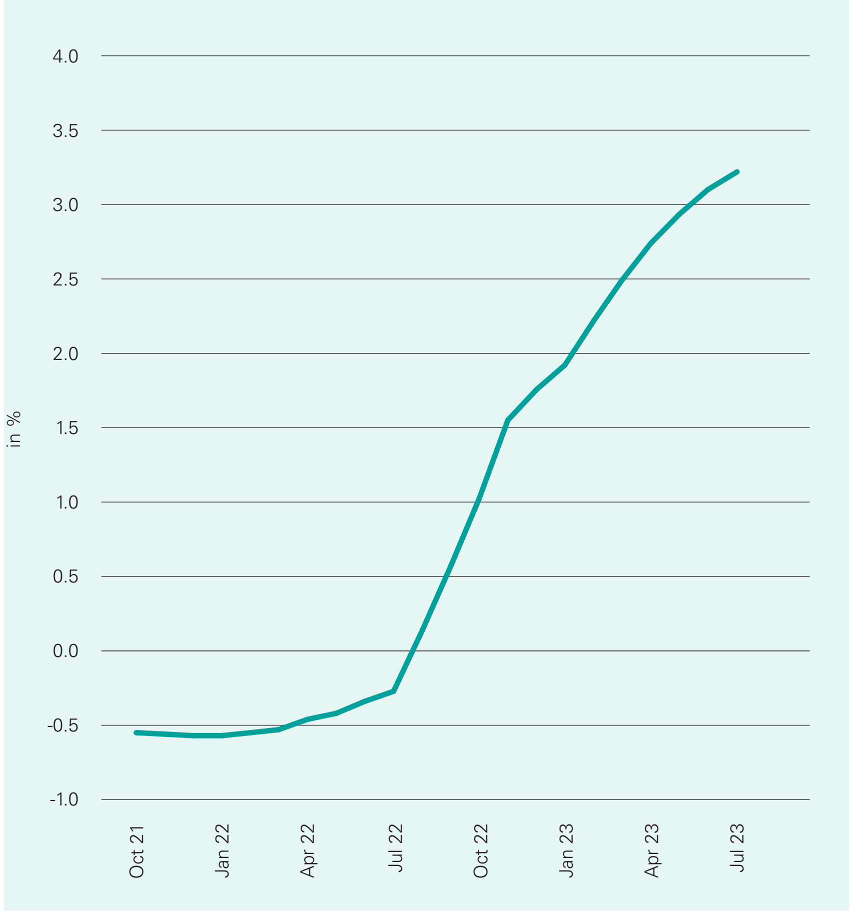
All market players must come to terms with the new reality before the market gradually regains its momentum.

"The interest rate increases and the uncertain performance of assets keep transactions markets in a sort of holding pattern. According to our estimate, it will take some more time yet before a new equilibrium is found that can serve as stable basis for the recovery of transactions markets and of new-build construction, too."
(Teresa Dreo-Tempsch, Berlin Hyp AG)

Euribor trend (3-month rate)

Interest rate

Source: euribor-rates.eu



Source: Bremer

All market players must come to terms with the new reality before the market gradually regains its momentum.

Source: GARBE Industrial Real Estate GmbH

4.2

Willingness to Finance Remains Strong

Compared to previous years, little has changed about the principal willingness to finance logistics real estate.

"Berlin Hyp has always pursued a conservative business strategy. Accordingly, we have not changed anything about the basic parameters of our loan agreements during the past year, nor do we intend to change them now.

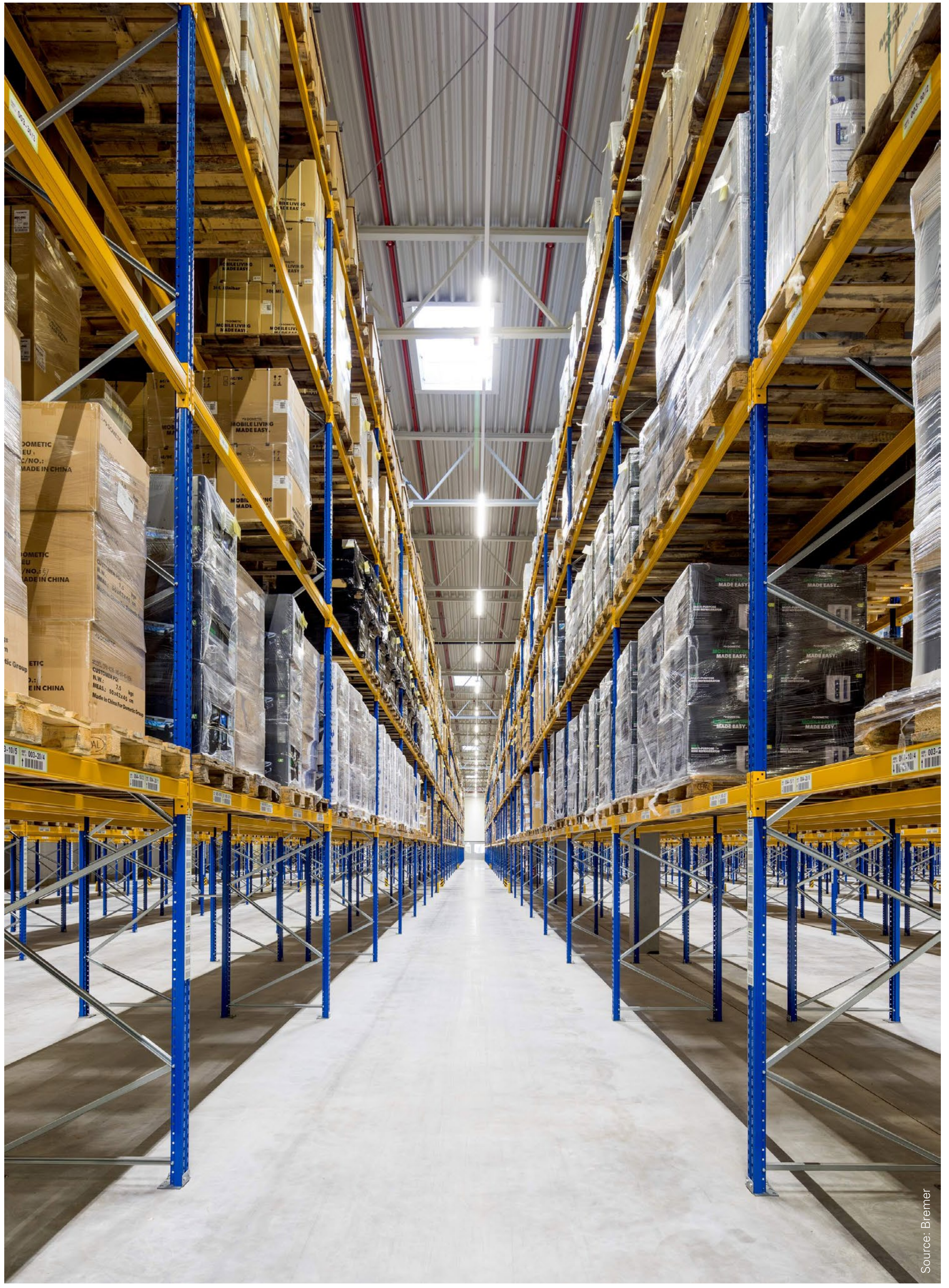
We keep an eye on the market situation, and individually examine each borrowing request and each property to be financed. This includes, in addition to classic criteria such as location, lettability or alternative use potential, a thorough check of the capital servicing capacity, not least because of the increased level of interest rates."
(Teresa Dreo-Tempsch, Berlin Hyp AG)

Against this background, it has become virtually impossible to obtain third-party financing for speculative developments. Even with pre-lets already in place, many banks now wish to charge a certain risk mark-up (depending on the tenant). Just like in other asset classes, lenders pay particular attention to the alternative use potential and the ESG compliance both of new buildings and existing properties. That explains why, in a market that is becoming more and more selective as the transaction activity is slowing, sustainable investments tend to carry the day.

"Increasingly, the question presents itself whether sustainability is having a positive effect on the market value of real estate. The answer is provided by the converse argument. In the future, it will be very difficult or impossible to place a non-green property on the market, regardless of its asset class.

Even today, it is possible to predict the long-term viability of real estate with the help of detailed data on carbon emissions. It is a basis that can be used to initiate the relevant transformation measures. It is our stated goal to assist our clients during their transition to a more sustainable real estate inventory. It is expressly for this purpose that we developed the transformation loan."
(Teresa Dreo-Tempsch, Berlin Hyp AG)

Just like in other asset classes, lenders pay particular attention to the alternative use potential and the ESG compliance both of new buildings and existing properties.



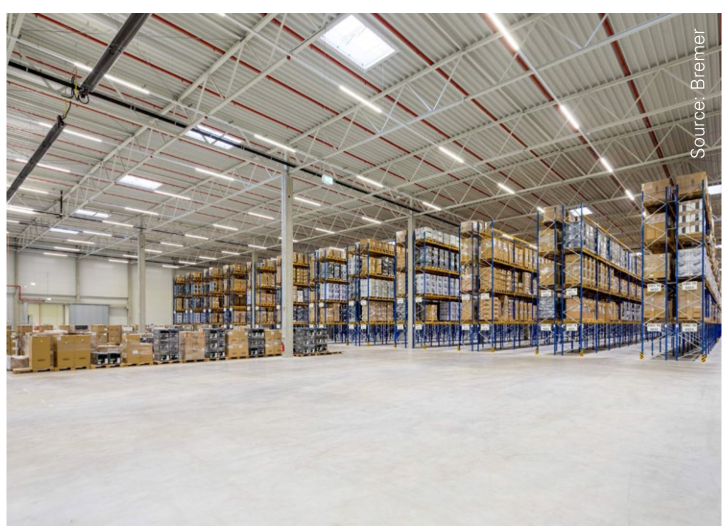
Source: Bremer


Source: GARBE Industrial Real Estate GmbH


Source: GARBE Industrial Real Estate GmbH

The BF.Quartalsbarometer sentiment indictor score for Q2 2023 equals

-17.29


Source: Bremer

4.3

Sentiment among German Real Estate Lenders Brightening Ever so Slightly

After six successive troughs, the score of the BF.Quartalsbarometer sentiment indicator just started to perk up again slightly. The barometer score for the second quarter of 2023 amounted to -17.29. Whether or not this already ushered in a reversal in sentiment remains to be seen as the year progresses and in 2024.

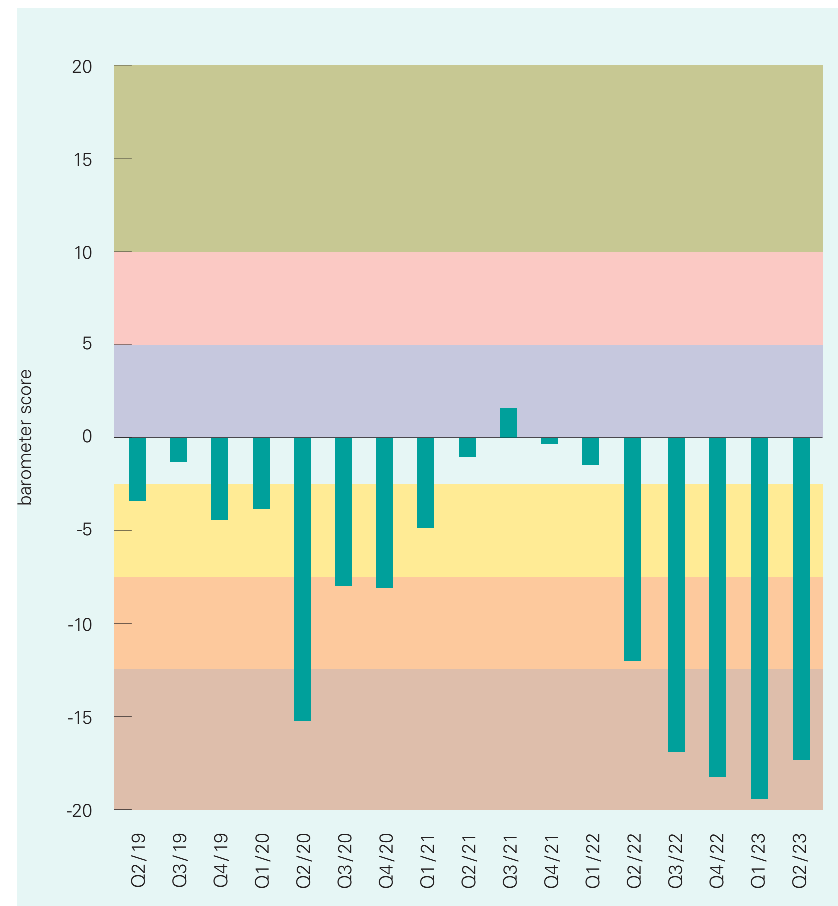
The trend toward risk minimisation is relevant for all market players, not just for financiers. As a result, the few transactions (compared to previous years) that do move ahead range in the low- to mid-price segment. Large-volume lendings (> 100 million euros) are the total exception at the moment, as panel respondents of the BF.Quartalsbarometer survey agree, even if some transactions continue to be reported here and there. A majority of the panel members therefore continue to rate risk minimisation as key aspect in new lendings (see BF.Quartalsbarometer findings for Q2 2023).

>

Trend of the sentiment indicator over time

- Very accommodative lending
- Progressive lending
- High willingness to finance
- Balanced market
- Limited willingness to finance
- Restrictive lending
- Credit crunch

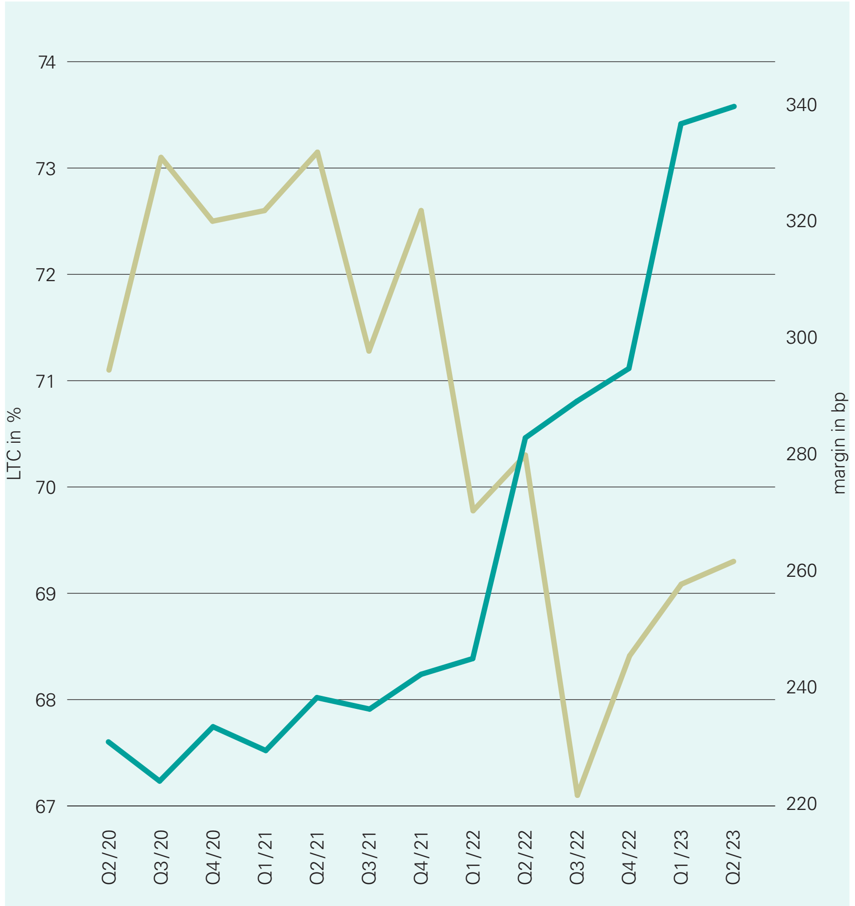
Source: BF.Quartalsbarometer



LTC (avg.) and margins (avg.) for commercial property development financing

- Avg. LTC
- Avg. margin

Source: BF.Quartalsbarometer

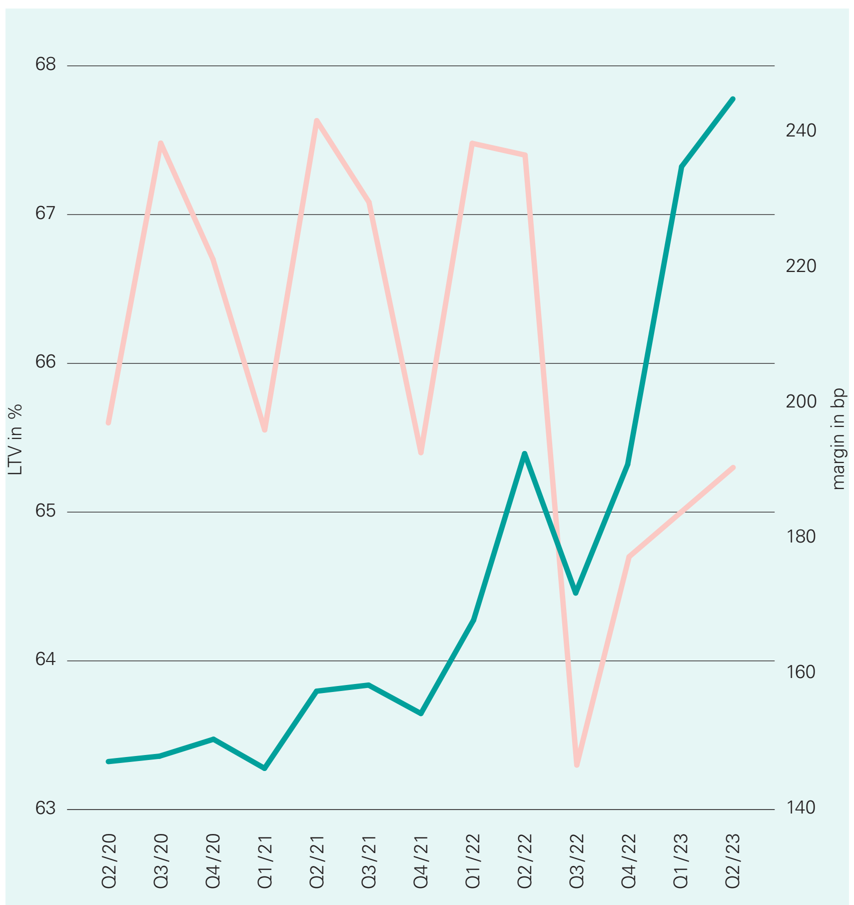


LTV (avg.) and margins (avg.) for commercial property inventory financing

- Avg. LTV
- Avg. margin

Source: BF.Quartalsbarometer

Note: These represent all-in margins (incl. liquidity costs). The figures presented on this page, some of them aggregated, refer to the asset classes apartment building core, residential portfolio core, office building core and value-add, and shopping centre core in the case of inventory financing, as well as new-build ownership apartment core, shopping centre value-add, office building value-add and logistics real estate core in the case of property development financing.



Lower Leverage Rates Enhance the Appeal of Alternative Capital Providers

It has become clear in the wake of the financing shift that margins in the financing business have adjusted as well. The average margins both in inventory financing and property development financing followed a highly successful trajectory in the more recent past, as either margin kept climbing to new peak levels ever since data aggregation started in 2012. Although this trend would, in and of itself, be a good thing from a financier's perspective, it cannot offset the muted sentiment that has prevailed among property developers since the interest rate reversal, so that a sense of uncertainty prevails among market players.

The loan-to-cost ratios and the loan-to-value ration, having bottomed out toward year-end 2022, are now back on a slightly upward trend. During the second quarter of 2023, the debt ratio equalled 69.3% LTC (+0.1% compared to Q1 2023) and 65.3% LTV (+0.3% compared to Q1 2023).

Alternative forms of financing keep getting more important for property developers as a result. Especially mezzanine capital, but other instruments for increasing the equity capital (private equity / joint ventures and forward commitments) are visibly gaining in significance, as the polls conducted for the BF.Quartalsbarometer show.

Demand for alternative forms of financing

Source: BF.Quartalsbarometer

Which alternative forms of financing are particularly in demand at present?	Q1 2023	Q2 2023
Senior secured debt instruments (e. g. senior secured bonds or whole loan structures)	19.0%	15.7%
Junior secured or unsecured debt instruments (e. g. subordinated secured bonds or senior unsecured corporate bonds)	17.2%	15.7%
Mezzanine capital (e. g. subordinated bonds or loans)	31.0%	31.4%
Equity capital (e. g. private equity, joint venture)	20.7%	21.6%
Indirect financing through forward commitments	12.7%	15.7%

4.4

Outlook

As the inflations rates are gradually levelling out in sync with a simultaneous lateral movement (possibly accompanied by a marginal growth) of interest rates, while material and construction costs are stabilising, it is currently reasonable to assume that the risks for all market players will become easier to gauge in the coming months and years, so that the commercial real estate market can expect its transaction activity to regain its momentum and the financing business to follow suit as a result.

Just when this may come to pass is hard to say, and it depends above all on the time it will take price levels to find a stable basis.

Word from market insiders suggests that the logistics real estate market has made significantly faster progress than the bulk of the commercial real estate segments.

But to consider this a return to "normality" would be misleading. Historically speaking, the past decade with its sustained low-interest and zero-interest policy was anything but normal. Since the 2% target set by the European Central Bank is obviously out of reach in the short term (despite regressive inflation rates), a return to a zero-interest policy is not to be expected any time soon.

And thus it becomes necessary to face the facts on the commercial real estate markets, even and especially on the logistics real estate market. The "super cycle" is over. Nor will the record figures reported in recent years be likely to come within reach again any time soon. The market environment has shifted, which does not necessarily mean it has deteriorated.

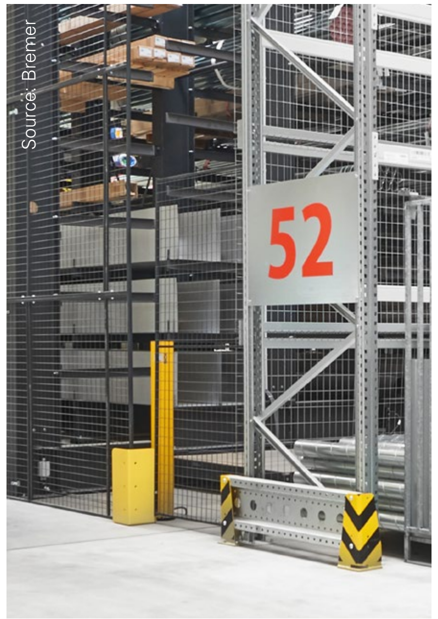
"Despite the changed market environment, the real estate market has a silver lining, especially the logistics real estate market: For instance, prime rents in Germany's leading logistics regions registered double-digit growth during the first half of 2023, compared to 2022. This is primarily explained by re-lettings of particularly sought-after units. Moreover, the upward trend of the prime rents is attributable to the supply shortage which coincides with a keen demand for space in the metro regions."
(Teresa Dreo-Tempsch, Berlin Hyp AG)

The market environment has shifted, which does not necessarily mean it has deteriorated.

Source: Bremer

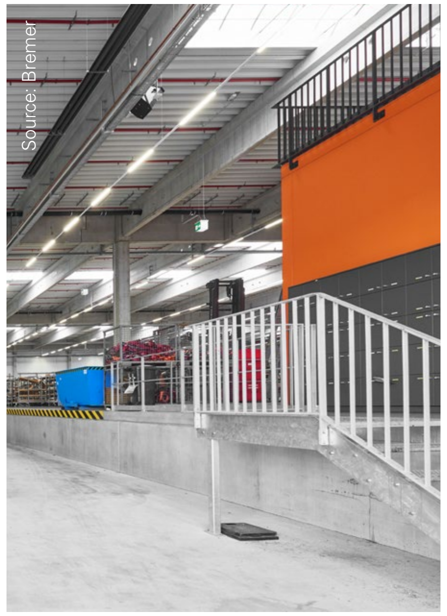
5

Trends and Challenges in Germany's Logistics Real Estate Market



Source: Bremer


Source: Bremer


Source: Bremer

Source: Bremer

5.1 Development of Rents

Notwithstanding the regressive tendencies of the German economy, demand for logistics facilities continues to exceed the available supply, and significantly so. The situation therefore prompted a significant growth in rent rates for units of this type last year.

The first half of 2023 saw the pace of the rental growth slow down. Although investors have come to use more caution and care in the selection of assets, the attractiveness of this asses class remains intact due to the rental growth and the low vacancy level. Virtually no vacancies at all are reported from modern logistics properties that meet a high energetic standard and boast convenient transportation access. Speculative developments still have very short marketing periods but are comparatively hard to find because of the drastically altered funding environment.

>

The fact that demand has remained strong despite the adverse economic conditions is attributable to a plethora of influencing factors. A remarkable consequence of the robust logistics boom during the coronavirus pandemic is the substantial increase in inventory levels of companies when compared to levels of the recent past. One of the pandemic's effects was to cast doubt on the previously dominant just-in-time delivery concept. Lately, the preferred strategy to increase the resilience of such supply chains against disruptions has been to stock up the inventory on hand. In the absence of speculative property developments, the floor space supply has contracted even further, prompting (sometimes substantial) rent increases in many locations.

In addition, the requirements in new-build construction regarding energy efficiency and other ESG criteria keep being tightened, which in turn drives up construction costs and subsequently rent rates, too. The rental growth thereby triggered affects not just established logistics centres but also so-called "second tier cities" that have demonstrated their ability to meet the requirements of occupiers and that are therefore subject to robust demand.

However, the surge in rent rates has begun to slow in the ongoing year of 2023, as the rental trend in the logistics regions of the Class A cities shows.

The question whether or not rent rates will manage to maintain their current level or even go up further can only be answered via an assessment of future demand dynamics.

"Prime rents jumped up significantly in 2022 and continue to soar in 2023. The trend is set to continue, although the absolute growth rate will be moderate. Various factors, such as the general expansion of the sector, the land shortage and the construction costs, act as drivers of the continued rent growth."
(Bertrand Ehm, Savills Immobilien Beratungs-GmbH)

The question whether or not rent rates will manage to maintain their current level or even go up further can only be answered via an estimate of future demand dynamics.

Development of logistics rent rates in the Class A Cities (absolute)

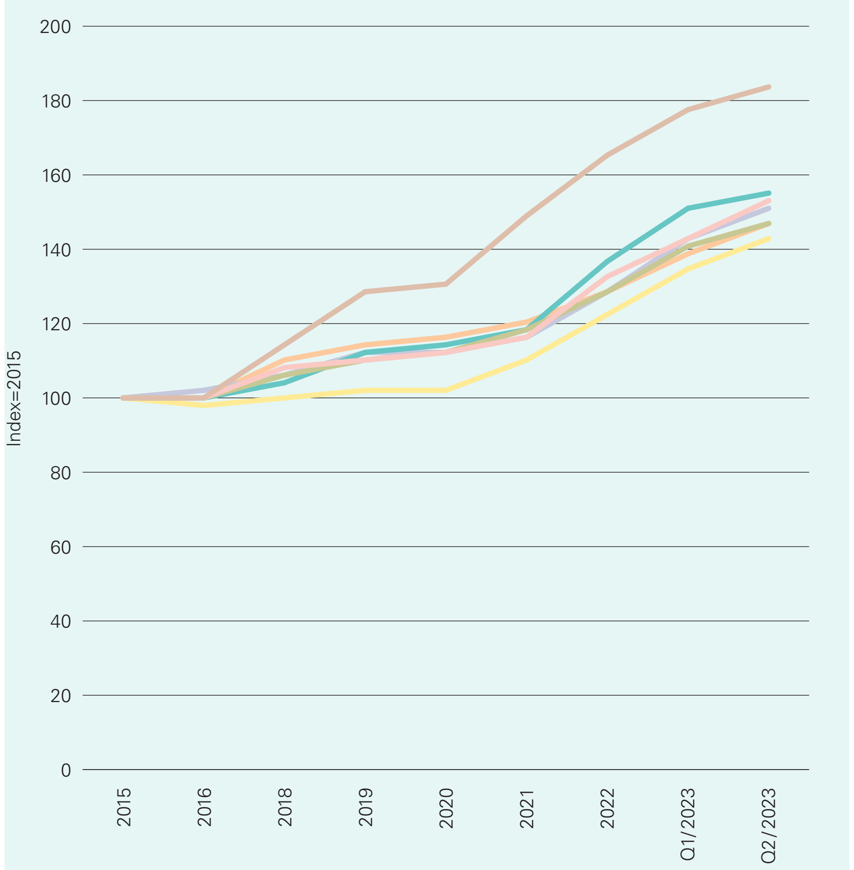
Source: bulwiengesa

	Q4 2015	Q2 2023	Development
Berlin	4.9 euros/sqm	9.0 euros/sqm	**+84%**
Düsseldorf	5.4 euros/sqm	8.0 euros/sqm	**+48%**
Frankfurt	6.1 euros/sqm	8.4 euros/sqm	**+38%**
Hamburg	5.7 euros/sqm	8.4 euros/sqm	**+47%**
Cologne	5.6 euros/sqm	7.8 euros/sqm	**+39%**
Munich	6.7 euros/sqm	9.2 euros/sqm	**+37%**
Stuttgart	6.1 euros/sqm	8.4 euros/sqm	**+38%**

Development of primes rents for logistics facilities in the Class A cities

Berlin
Düsseldorf
Frankfurt
Hamburg
Cologne
Munich
Stuttgart

Source: bulwiengesa



Source: GARBE Industrial Real Estate GmbH

5.2 Growing Logistics Volume

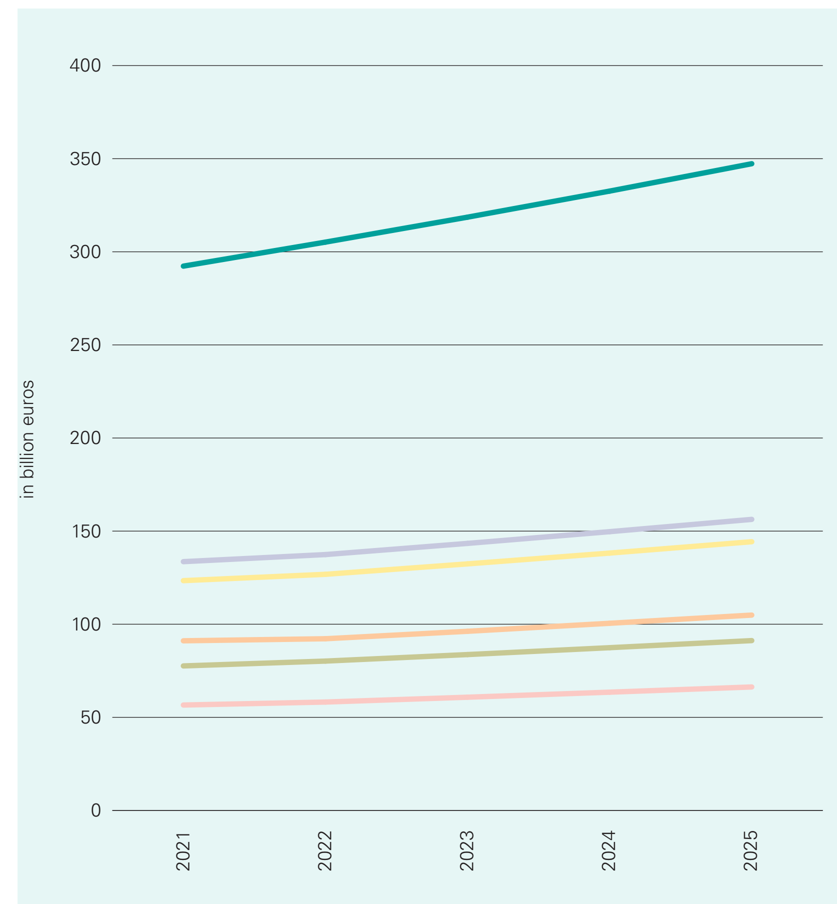
Demand for logistics facilities is closely tied to the economic development of the logistics sector in general; over the past years, the logistics industry has steadily expanded in this context.

Despite the slumps it had experienced during the COVID-19 pandemic, the logistics sector permanently recovered in 2021, seeing its total volume climb to approximately 294 billion euros. The logistics volume refers to the market size of the logistics sector based in the sector's costs and revenues. With a view to the future, forecasts suggest that the logistics volume will keep going up and grow to 345 billion euros by 2025 – implying an enormous increase by around 17.3 percent.

Forecast of the logistics volume for the largest logistics markets in Europe

- Germany
- France
- United Kingdom
- Italy
- Spain
- Netherlands

Source: Fraunhofer Institute



5.3

Where there Is Light, there Must Be Shadow

Due to jitters and bottlenecks within the global supply chains and also due to subdued consumer sentiment, cargo handling has noticeably slowed.

This development has caused goods to be stored in increased quantities in warehouses, especially seasonal products. The impressive boom that e-commerce experienced during the pandemic, when in-store retailing was hit by lockdown closures, has ebbed out in the time since. In a parallel development, online retailers are downscaling their inventories in order to increase their liquidity.

Even in retailing, demand for traditional revenue drivers such as the market for sanitary products and interior decorating has become largely saturated. The economic parameters in certain retail sectors no longer show the level of previous years. At the same time, the foreign trade outlook for the German industry has dimmed as well. It is a shift directly caused by the slowing foreign demand for German goods, which in turn is attributable to the tight monetary policy in the United States and in Europe.

Overall Outlook Bright Nonetheless

In spite of the prevailing market conditions, the prospects are by no means all bleak. Price levels will stabilise again within the near future. Reassuring news are also emerging from other business sectors. The automotive industry has regained a certain degree of stability, although it still falls short of the pre-pandemic level. A major impact from the automotive industry is expected to be caused by the imminent restructuring measures in conjunction with the industry's transition to electric mobility.

Most of the manufacturing plants of German auto makers will remain in operation, but automotive suppliers will have to reorganise their business because of the radically different specifications of vehicle components. One of the major challenges facing the logistics industry in this context is the storage of batteries for electric vehicles. The need to upgrade existing properties and the new-build construction of logistics centres for the safe storage and handling of batteries as a hazardous material will generate additional space requirements.

Meanwhile, online retailing keeps gaining in relevance, so that the number of parcel shipments will also continue to grow. Despite the minor current slump in e-commerce sales that is due to the economic situation, it is reasonable to predict that this sector will remain one of the definitive drivers of the floor space demand in the logistics segment. The growth of online retailing has not yet reached its saturation point, and holds the promise of further potential. Its growth is always flanked by a proportionate increase in the volume of parcel shipments.

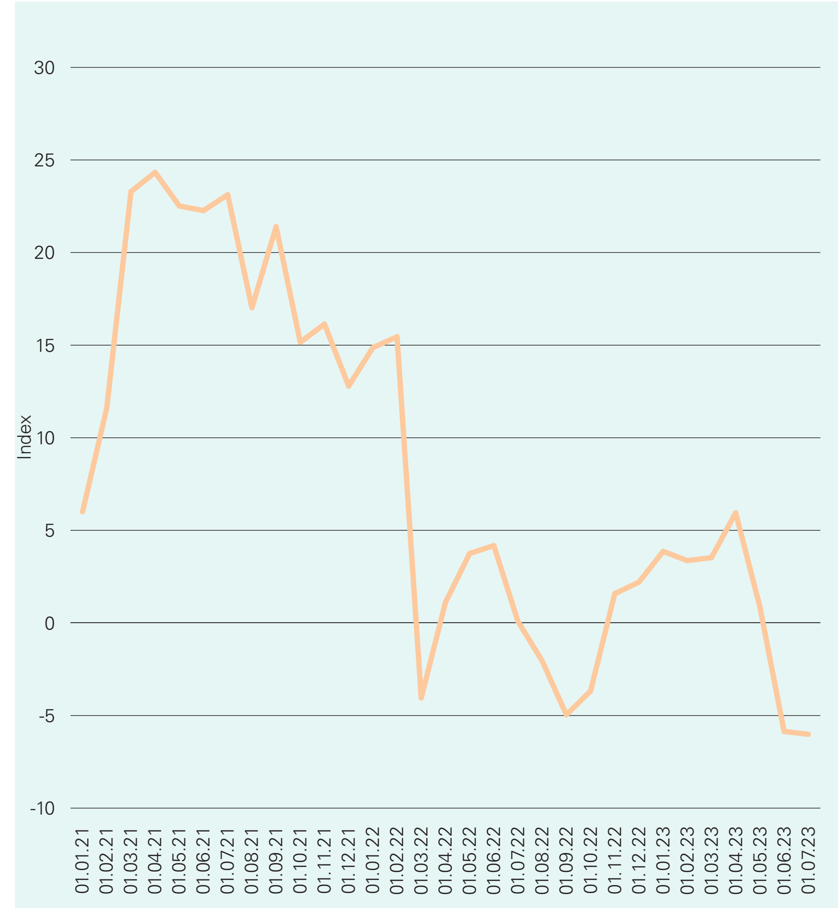
Aside from the ramifications of the pandemic and of recent economic crises, there is another factor that plays a key role for the development capability of logistics sites, this being the availability of human resources – or the skilled labour shortage, as it is commonly called to describe a macro-societal issue. For quite some time now, warehouse operatives and lorry drivers have been urgently wanted. Here as in many other sectors of the German economy, bottlenecks have formed that will keep narrowing in future because of challenges like the country's demographic change.

The issue is exacerbated by factors like the massive workload and the modest paychecks in logistics that seriously contribute to the shortage of skilled labour in the industry. One way to cope with these issues could be the automation of workflows to make up for the short supply of human resources.

Export sales forecast in the manufacturing industry

Index

Source: ifo Institute for Economic Research

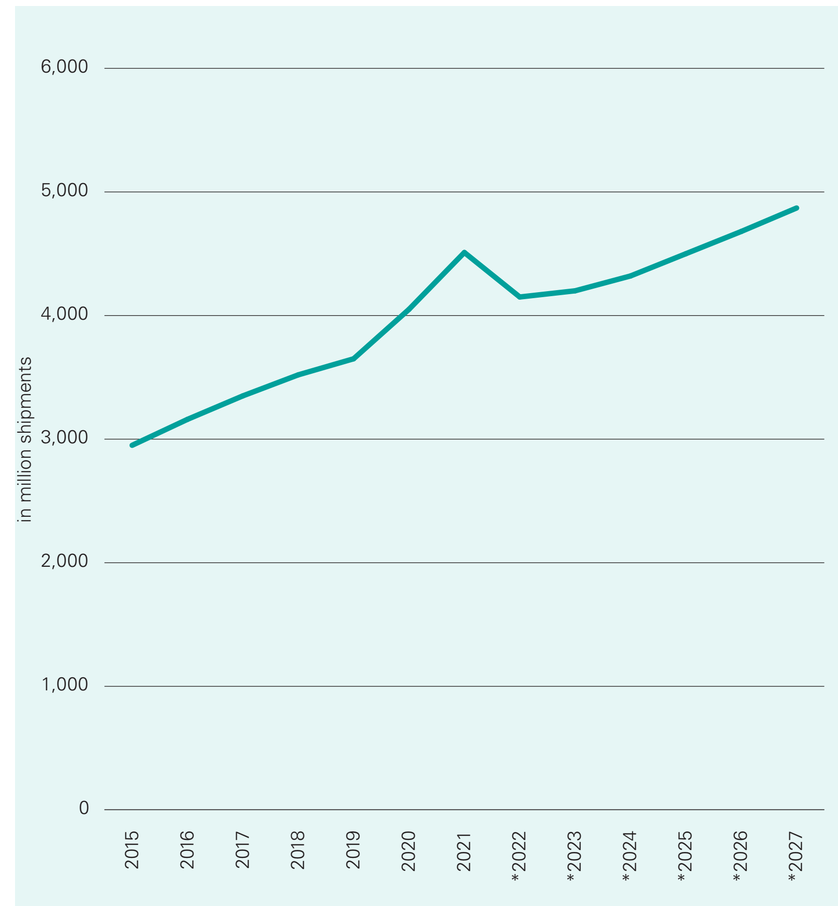


Development and forecast for the parcel shipment volume in Germany

Volume of shipments

Source: KEP Studie 2022 (CEP survey), KE Consult market analysis

*Forecast



Source: GARBE Industrial Real Estate GmbH

Forecasts suggest that the logistics volume will grow to

345

billion euros by 2025

Source: GARBE Industrial Real Estate GmbH

Source: GARBE Industrial Real Estate GmbH

5.4 Scoring Model: Land and Labour Supply Potential

The short supply of labour and available land represent some of the main challenges facing the logistics real estate industry.

In Germany's conurbations, development plots are rarely designated for logistics use anymore. The best way to bypass the shortage of space is therefore to choose sites in "second-tier cities" where land designated for this purpose remains available.

The section below discusses various parameters that are useful when assessing and quantifying the potential for logistics real estate development in a given location. The scores thereby obtained reference the 28 logistics regions in Germany that have been defined for this survey. The scoring itself is based on the evaluation of the land development potential and of the potential labour supply.

The parameters are evaluated using a Z-score, which rates the performance of one given region by comparing it to the other regions.

The land development potential is operationalized based on the existing building stock and completions of the recent past. The level of land prices is one of the indicators that the evaluation takes into account when determining the availability of land. Both the absolute number of employees and the share that jobs in the trade/transport sector claim out of the employment total play a role in the analysis of a region's labour potential, as do its unemployment rate and the level of labour costs.

Shown here are the shares in the highest scoring figure among all regions. Accordingly, the scores do not reveal whether the land development potential or the potential labour supply of a given region is "high enough" or "too low" but only how that region positions itself within the overall landscape of all logistics regions.

The results show that especially logistics regions in eastern Germany, such as A4 motorway Saxony, A4 motorway Thuringia, and Magdeburg, have a high land development potential. The outcome is primarily explained by the fact that these locations did not use to be at the centre of development activities and that, comparatively speaking, therefore more development land was available, so that land prices were on a lower level, too. Conurbations are home to the greatest potential labour supply, particularly the major ones, because they are home to the largest number of workers in absolute terms. But even in this context, smaller regions (by population) like Halle / Leipzig or Magdeburg score highly by returning a higher potential for available human resources and lower labour costs.

Scoring model for land and labour supply potential in the logistics regions

Source: bulwiengesa

5.5

Emerging Trends in Demand for Space (Selection)

Presented below is a selection of forward-looking industries and examples for locations that are most likely to attract companies from these industries in the future and that support their subsequent activities. The underlying idea is that setting up production and research facilities belonging in this sector will have downstream consequences for local logistics space demand (generated e. g. by suppliers, warehousing needs, etc.).

That said, we need to bear in mind that the mentioned forward-looking industries in Germany may hunt for premises anywhere because industrial development is, of course, not limited to any one region. The presentation herein merely highlights the fact that some cities and regions are better positioned to attract these industries than others because of their historical strengths and existing infrastructure. It represents the status quo, and it should be noted that many of these industries are present nationwide, and that the actual distribution of companies and research centres across Germany may change over time precisely because of the high significance of the mentioned aspects of land availability and the potential supply of labour. The reason some regions are explicitly mentioned here as being specialised in certain industries is that they attract investments and growth more than others because of their specific infrastructure, potential labour supply and options for collaboration.

Green Energy and Green Technology

When it comes to global demand for clean energy and sustainable solutions for environmental issues, German companies play a leading role in the areas of renewable energies, energy efficiency, waste management and water management. This causes the German logistics business to gain even further in significance while demand for logistics facilities is also increased by the transition from linear supply chains to those of a circular economy. Coveted locations in this context could be situated especially in northern Germany, most notably in regions with access to the North Sea because these are important for offshore wind farms. Moreover, companies domiciled in such regions have ample access to green mains electricity.

E-mobility …

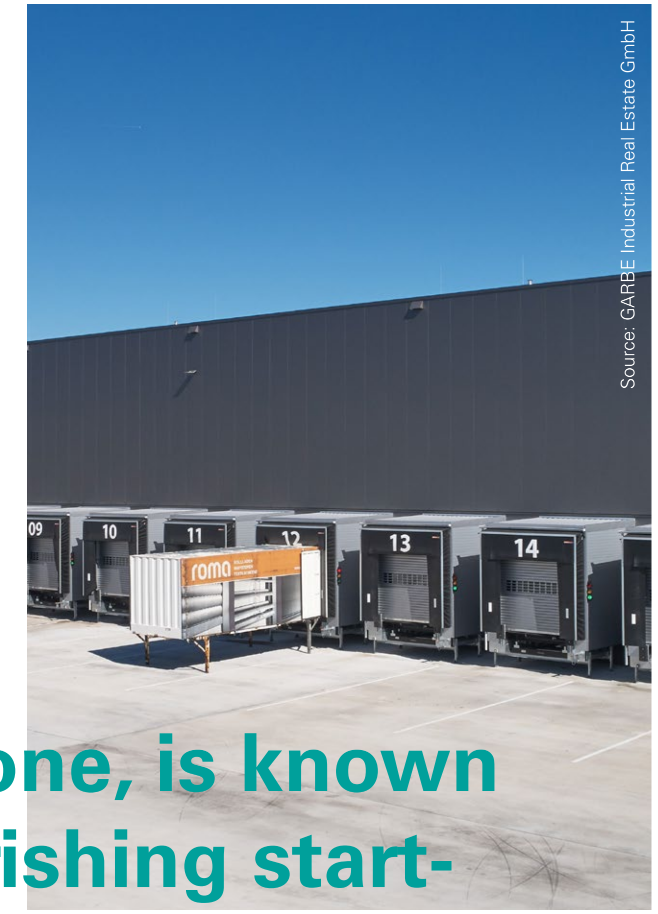
Germany's automotive industry is in the process of positioning itself long-term as one of the global leaders in this sector. With the transition to electric vehicles, autonomous driving, and mobility services, the sector will keep gaining in significance even though the switch to electric power implies a fundamental transformation for this industrial segment. Despite the already initiated transformation processes, the established regions of the automotive industry that are home to Germany's major auto makers and their associated supplier industry (Stuttgart, Hanover/Brunswick, Munich) boast optimal conditions for defending their positions as leading automotive centres. Munich is moreover an important research centre for autonomous driving.

Life science and biotechnology …

The ongoing demographic change and technological advances imply great opportunities for German companies in the areas of medical technology, biotechnology and digital health applications. Cluster locations for these technology sectors include cities like Tuttlingen for medical technology, Heidelberg and Mannheim or Berlin and the Rhine-Main region for biotechnology, and Munich for pharmaceutical research. It was not least the coronavirus pandemic that highlighted the enormous potential that these sectors have for the logistics real estate sector (e. g. specialised cold-storage warehouses, manufacturing warehouses, etc.).

Artificial intelligence / digitisation / automation …

Germany has a robust foundation in AI research and development and in digital technologies. This sector is likely to keep expanding rapidly, and to influence various industries such as manufacturing, logistics, healthcare and finance. Berlin, for one, is known for its flourishing start-up scene, which concentrates on digital technologies as well as on AI and software development. Munich and Karlsruhe are also home to major research centres and companies specialising in this field. Bavaria has a strong robotics and automation industry, concentrated especially in Munich and Augsburg. A number of relevant companies are also located in the Ruhr. Even if the impact on the logistics space demand that this sector generates is probably limited, automation engineering is in and of itself one of the major future-oriented developments from which logistics properties stand to benefit, and is therefore highly relevant for the entire sector, as far as current evidence suggests.



Source: GARBE Industrial Real Estate GmbH

Berlin, for one, is known for its flourishing start-up scene, which concentrates on digital technologies as well as on AI and software development.

Source: Bremen

5.6 De-Coupling/ De-Risking and Reshoring/ Nearshoring Effects

The concept of reshoring and de-coupling has been the subject of numerous discussions in the context of strained supply chains and economic policy shifts worldwide. The reshoring of previously outsourced manufacturing capabilities thus coincides with a phase-out of the idea of full globalisation. In a parallel development, logistics operations are also being shifted back to domestic markets.

However, recent evidence shows that the destination for reshoring manufacturing capabilities is rarely Germany. Nor are there any signs in this context that globalisation has been entirely abandoned. Rather, supply chains are being adapted to shifting conditions on the ground, and optimised to meet security needs.

At the moment, the cost factor still seems to play the dominant role for the organisation of supply chains. Nevertheless, it is safe to say that strategic considerations are increasingly prioritised over possible short-term savings by many companies.

"Reshoring and nearshoring has become an important driver for the logistics industry. However, the stated intention to move capabilities back has not always been acted upon. There are various reasons to explain this. Setting up proprietary structures and reorganising supply chains requires time and money. Moreover, the shortage of skilled labour will make it impossible to bring production and logistics capabilities 'back home' without strengthening automation. Still, the relocating of capacities against the background of reshoring and nearshoring processes does increase the demand for space – and not just short-term but medium- and long-term as well."
(Bertrand Ehm, Savills Immobilien Beratungs-GmbH)

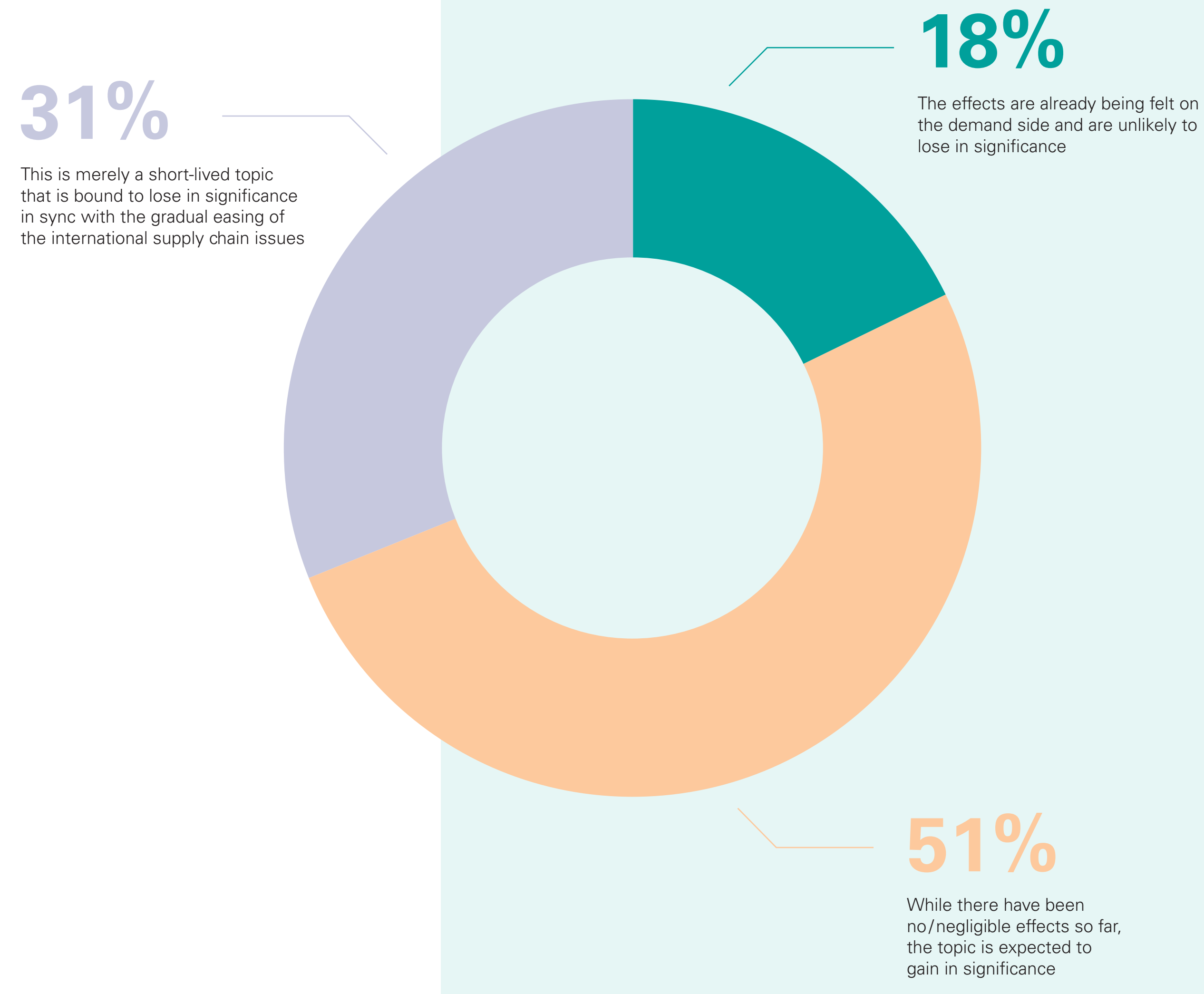
Naturally, relocating manufacturing sites or restructuring supply chains takes a certain amount of time. This explains why the ramifications on the occupier markets will not be immediately visible. A large majority of market players actually expect the process to gain in significance going forward.

Rather, supply chains are being adapted to shifting conditions on the ground, and optimised to meet security needs.

Demand-side ramifications of the de-coupling / de-risking topic area

Source: bulwiengesa

Which of the subsequent statements on the de-coupling/de-risking subject are you most inclined to agree with?



Source: GARBE Industrial Real Estate GmbH

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