



Logistics Developers in Germany

Surging Significance of Logistics

A variety of societal and economic developments have helped to steadily elevate the importance of logistics in Germany in recent years. Political drivers, such as the globalisation and the EU's eastern enlargement has turned Germany more and more into the logistics hub of Europe. The country's competitive, export-driven economy encourages the process. Many of its large and mid-market companies are active worldwide, and benefit from global demand for German products. Another factor boosting the logistics sector's gain in significance is the behaviour of private consumers. The intervals at which the latest products are ordered, often via the Internet, keep shortening, while time slot deliveries and returns logistics are raising the service expectations. Looking forward, there is reason to believe that this pattern will continue to expand.

Optimal fulfilment of industry and consumer expectations require enormous floor-space capacities and adequate property qualities, and many of the existing properties no longer meet these requirements. Developers and investors therefore need solid market know-how if they wish to remain competitive and capable of responding to new challenges. Being able to answer questions such as

“Who,” “Where,” and “How much” is of essence. So the specific lack of transparency in the commercial market is the primary aspect bulwiengesa has decided to screen this segment.

Researching Commercial and Logistics Space in Germany

Important benchmarks in real estate market research include, inter alia, the total stock of floor space and the construction activity. For the logistics real estate market, however, these benchmarks are available only in the form of very sketchy data. There are principally two approaches to determine the stock. One, the top-down approach uses regional economic stats to derive the total stock, whereas the other, the bottom-up approach, conducts a primary survey to determine all properties complete with building floor space data. The first approach requires comparatively little time, but is highly sensitive to statistical distortions because of its heavy reliance on assumptions, and provides barely any details regarding the properties' features, suitability, and state of repair. The bottom-up approach, by contrast, is very specific, and delivers in-depth information in regard to qualitative factors, but is hampered by high effort involved in terms of man-hours and time to completion. This drawback explains why such

EDITORIAL

Dear Readers,

Logistics real estate has increasingly moved into the investor focus in recent years. This is explained not so much by rising prices in other asset classes, but specifically by the strong market dynamics in this segment. Germany's location and its strong export trade, globalisation and the ongoing fragmentation of manufacturing processes have spurred the growth of the German logistics market.

Online trading is fuelling the next growth surge, and it is too early to say where the trend is headed in quantitative and qualitative terms. The retail trade is too busy contemplating new approaches to permit any qualified predictions.

The powerful dynamics of this development has prompted bulwiengesa to study the market segment in depth. At this time, we are delighted to offer the following market insight.

Sincerely Yours,



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Commercial and Logistics Space in Germany, 2012

Property Type	Floor Space		Market Volume	
	(mn. sqm)	Share	(bn. euros)	Share
Corporate real estate	932.3	35.7 %	529.4	47.4 %
• Production	542.0	20.8 %	298.1	26.7 %
• Existing logistics assets	254.8	9.8 %	127.4	11.4 %
• New logistics assets	68.6	2.6 %	61.7	5.5 %
• Transformation	60.3	2.3 %	42.2	3.8 %
• Trading estates	6.6	0.2 %		0.0 %
Industrial	1,359.0	52.0 %	475.7	42.6 %
Trade	310.0	11.9 %	93.0	8.3 %
Research & development	10.0	0.4 %	18.5	1.7 %
Total	2,611.3	100.0 %	1,116.6	100.0 %

Source: bulwiengesa, updated on the basis of the Spring Real Estate Industry Report 2003

drilldown data is available for few segments and sub-areas only. bulwiengesa exploits both approaches, using its proprietary field data to verify and substantiate projections.

The rising significance of logistics and industrial property for the real estate economy, including as investment assets, was recognised by bulwiengesa early on. In response, we have continuously monitored the market on the property level since 1997. We have since identified more than 8,000 properties in the logistics and industrial sectors, adding up to around 80 million sqm of floor space nationwide, and aggregated them in a proprietary database. Few other companies in Germany serving this segment have such a comprehensive real-estate-economic knowledge of market-relevant metrics, such as rent rates, transactions, or property inventories. Nonetheless, there is precious little information on the total floor space stock, with the exception of a few regions. By systematically expanding the property-level study of the German real estate market, bulwiengesa successively enhanced the transparency of the market.

The Spring Real Estate Industry Report 2003 became the first to venture an estimate of the total floor space stock for commercial and logistics space in Germany on the basis of extensive macro- and regional-economic calculations. This

data has been continuously updated by bulwiengesa, including drilldowns to cover the various commercial sub-types (e.g. industrial, logistics, etc.), and full-scale surveys to enhance their quality. The latest survey findings report a total floor area of nearly 2.6 billion sqm or a market volume of well over 1,100 billion euros. bulwiengesa estimates the floor space stock of certain property types, e.g. modern logistics properties, to total 68.6 million sqm, and the equivalent market value to total well over 61.7 billion euros.

Who Develops Modern Logistics Space in Germany?

To answer this question, bulwiengesa screened its database once more with the objective to analyse and categorise the main players by volume on the development market for modern logistics space. The data on which the screening was based included both internal and external databases, along with freely available information, such as press releases and sales kits. The screening took exclusively new properties or expansions into account that were completed between 2008 and September 2013, because these come closest to matching the criteria for investment-grade assets. Unlike office real estate, properties of this type are rarely ever built as (wholly or partly) speculative construction, we also studied the construction activities of the most

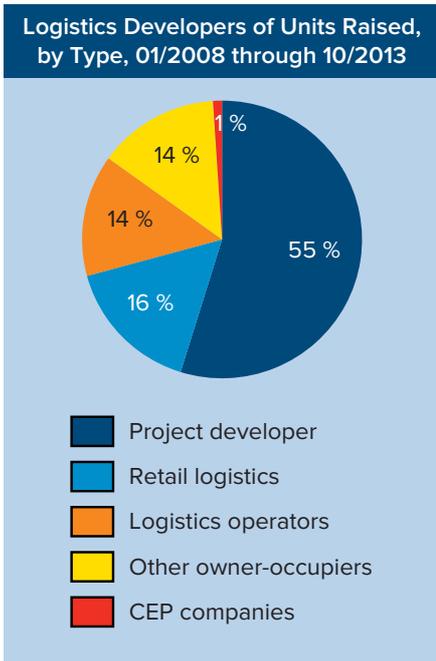
prominent owner-occupier groups. The screening generally distinguished between five types of developers:

- Developers: The core competence being the development of (logistics) real estate (e.g. Ixocon, Garbe, et al.)
- Logistics operators: The core competence being the provision of logistics services, usually for third parties (e.g. Fiege).
- Retail logistics operators: The core competence being retail trading, either as retail multiple or as supplier (e.g. Kaufland)
- CEP companies: The core competence being the distribution of courier/express/parcel shipments (e.g. DHL, Hermes)
- Other: owner-occupiers incl. misc. players, often industrial and manufacturing companies and SME

While the major project developers often publish exhaustive details on their assets, the quality of the data disclosed by the groups owner-occupiers and other is very limited. Comparable surveys and polls have traditionally limited themselves to standard sizes (e.g., 5,000 to 10,000 sqm). This survey, by contrast, studied the market as a whole for the express purpose of including smaller areas, too. The latter type of venue, which tends to be developed by owner-occupiers (e.g. SMEs), are much harder to capture.

Classic Developers Dominate the Market

The evaluation shows that 12.7 million sqm of modern logistics space was raised between 2008 and October 2013 alone. According to a top-down estimate, this equals one fifth of the entire modern floor space. Classic developers raised 55 % thereof, or 7 million sqm in absolute terms. At the same time, the development activities of many small and medium-sized enterprises (SME) in a wide variety of sectors develop logistics properties under their own steam, and do so



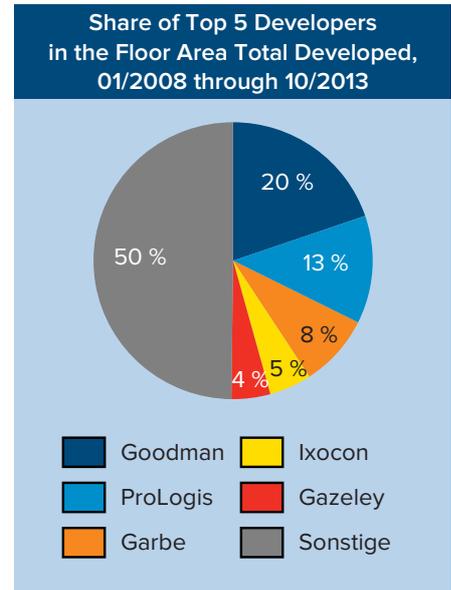
in a volume that is anything but negligible. The share of retail logistics operators, especially major local-convenience multiples such as Rewe, Edeka, Kaufland or Netto, deserves particular mention because it accounted for nearly 16 % of the entire transport and warehousing space developed since 2008. That said, logistics companies and other users / industries also accounted for well over 14 % of

the developed floor area. Planning, commissioning and holding one's own logistics assets is particularly common among industrial players.

Given the e-commerce boom, it would have been plausible if the CEP companies had done most of the building in recent years. Indeed, this demand group did play a key role – but only indirectly so. Unlike during past cycles, however, they refrained from raising the occupied properties as proprietary developments. More often than not, the major logistics hubs of CEP companies are raised by classic developers. Analogously, smaller units within the distribution network (delivery depots) are often realised by small developers. While these are rarely market leaders, they have usually made a name for themselves in their respective niche market.

Major Developers Dominate the Market ...

The table of the top 20 developers shows that international companies have a large footprint on the German logistics real estate market. Especially the two



leading global players – Goodman and ProLogis – dominate the German developer market, and together account for 32 % or 2.2 million sqm. Among the classic developers, though, German companies have a robust market presence, too. Yet it is striking to see how far Goodman and ProLogis are ahead of the German group Garbe, which ranks third. The developer business of Goodman and ProLogis benefits from their global networks, standardised products, and aggressive expansion and acquisition policies. They collaborate with many international logistics operators, offering them assets of comparable quality the world over.

The classic development market, while being dominated by major multinationals, leaves plenty of leeway for a large number of smaller companies whose development volume lags far behind that of the top dogs. Also active in the German logistics segment are developers whose core competence is property development in other segments in addition to the logistics area, such as retail and residential. Cases in point would be bauwo Grundstücks-GmbH or ECE Projektmanagement. Small- and medium-sized project developments focus especially on the area of smaller and specialised logistics projects.

Top 20 Developers of Modern Logistics Properties, 01/2008 through 10/2013*

Rank	Developer	Developed Area (m. sqm net area)
1	Goodman Germany GmbH	1,381,000
2	ProLogis Germany Management GmbH	880,600
3	Garbe-Group	519,900
4	Ixocon GmbH	387,200
5	Gazeley Germany	341,300
6	greenfield development GmbH	252,700
7	FIGE Logistik	212,000
8	Alpha Industrial GmbH & Co. KG	204,200
9	ECE Projektmanagement GmbH & Co. KG	186,500
10	Gateway Real Estate AG	184,500
11	Habacker Holding GmbH & Co. KG	174,500
12	Harder & Partner	173,700
13	Segro	162,100
14	Carlyle Investment Management L.L.C.	114,800
15	bauwo Grundstücks-GmbH	112,600
16	Logicreal	111,800
17	Alcaro Invest GmbH	106,200
18	Panattoni Europe	89,900
19	Verdion	84,300
20	Dietz AG	75,800

* as to 1.11.2013

... but Concentrate Mainly on Established Logistics Regions

This is the upshot of an evaluation of the new assets covered by the survey and built by the Top 5 developers for logistics space in Germany. In preparation of the survey, we identified Germany's logistics regions by analysing the location and locational quality of all logistics assets included in bulwiengesa's own property database. The logistics regions are represented in the following map, supplemented by the properties the 5 leading developers completed since 2008.

The development activities of the Top 5 were particularly brisk in North Rhine-Westphalia, Hamburg, and Central Germany (Kassel / Göttingen, Thuringia along the A4 motorway, and the Rhine-Main metro area). Then again, there are a few projects realised conspicuously outside the key logistics regions. Two reasons to explain these one-off projects come to mind: The local rootedness of the future occupiers, who wish to remain just where they are, and a limited development of new logistics hubs in Germany that are to some extent attributable to the increasing land shortage in the established regions, or to an enhanced na-

tional connectivity of alternative regions. This trend manifests in southern and western Germany, particularly the area between Munich and Stuttgart, central Hesse, and the Aachen region seem to benefit from the development. The properties constructed by the major developers are raised predominantly in the well-established logistics regions. This goes to show that the major companies tend to pursue a risk-averse development policy, as it is reasonably safe to assume that a given asset, especially in case of speculative projects, will be well received and easy to market to occupiers and end investors in these blue-chip logistics regions. Smaller developers benefit from the fact that the big players focus on the classic logistics regions. The federal structure in Germany and the many small and medium-sized enterprises, including those in peripheral locations, provide a niche market for small-scale developers to establish a footprint.

Follow-up screenings will be conducted shortly

Looking forward, the framework of the bulwiengesa logistics screening will permit a continuous monitoring of the ongoing development, as well as its documentation and the successive improvement of the drilldown depth. At the same time, additional issues will be traced and analysed in conjunction with the screenings. The intention is, in particular, to take a closer look at the subject areas of ownership structures and building activity by owner-occupiers.

That being said, we remain open to suggestions! Also, we will gladly discuss the screening contents and insights with you. Do get in touch with us – we look forward to your feedback!

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Logistics regions and building activity of selected developers, 01/2008 through 10/2013

