

An aerial photograph of a large logistics warehouse. The dark asphalt surface is filled with activity. In the upper right, a blue semi-truck with a white trailer is parked. In the lower center, a blue forklift is positioned next to a large stack of cardboard boxes. To the left, another blue forklift is visible. The background shows the white structure of the warehouse building.

Logistics Properties

Investing in assets with an outlook

Aareal
YOUR COMPETITIVE ADVANTAGE.

Management Summary

Logistics Properties – dynamic, profitable, crisis-proof

Logistics properties are getting more and more popular. It used to be a niche product but this type of investment has by now become an established asset class. It is popular also among institutional investors on account of its interesting risk/return profile. Germany has seen its share in total investment volume rising steadily over the last few years. The demand for land use and construction activity in this segment has been at a record level in 2019. In the first three quarters of the year 2020 the market in Germany registered 2.32 bn investment volume, this being one of the best results for the first nine months of a year.

Logistics is **one of the most significant sectors of the economy world-wide** and it is logistics which actually enables business success in many sectors. In the past decades, logistics has moved on from being pure transport and warehousing processes into being a **global network of distribution and production centres**. Goods are assembled, packed and readied for shipment in logistics properties.

The consequences of the Corona crisis have shown us the fragility of supply chains that are geared to just-in-time processes. A **restructuring of the supply chain** can create more proximity to production sites or the final consumer. But whoever wants to react more quickly and flexibly to future breakdowns has an increased need for warehousing. Some market players are already talking about **a trend to "just-in-case processes."** The demand for properties in central logistics regions will continue to increase along with the rising need for goods in the rapid growth in e-commerce.



Investors profit from an independent asset with a high capacity utilisation and stable cash flow. Innovative technologies that help to make logistical processes even more efficient, transparent and sustainable give the sector additional drive.

Aareal Bank supports interested investors with **innovative and customised financing solutions**, developed by an experienced **expert team** from the logistics and property sectors.

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Logistics: motor of the economy

Outsourcing and e-commerce as growth drivers

The logistics sector is an important element of the economy. It is this sector which enables the ongoing provision of vital goods and the parts produced by component suppliers. In the past decades, the logistics industry has expanded strongly, principally due to far-reaching outsourcing of production and manufacturing, and preparation of production orders to client specifications, and other distribution services. The aim of the outsourcing is optimised processes and the creation of synergies so to be able to produce even more cost effectively, and increasing service quality and flexibility in regard of intermeshed supply chains. The boom in online commerce has also increased demand for logistics services.



Reverse shift in processes: just-in-case is the new just-in-time in times of Corona

The future is getting closer! After their experience of the pandemic, the sectors of the economy, particularly in those areas such as the automotive or the medical industry, are focusing on stabilising their supply chains. But if you want to shift manufacturing and production to locations close at hand, you need comprehensive nearshoring processes. Experts are assuming that producers will demand more warehousing capacity to absorb external shocks to supply chains better: just-in-case is the new just-in-time. The restructuring of supply chains leads to an increased demand for new floorspace and creates expectations that logistics properties will rise in value particularly in the conurbations.



5.5

trillion
Euro

Global
sales volume
logistics

Statista (2020): Logistics industry worldwide –
Statistics & Facts



279

**billion
Euro**

Sales volume
Germany

[Statista \(2019\): Statistiken zum Thema
Transport und Logistik](#)



”Whoever manages the world’s logistics chains, manages the global economy.”

Prof. Michael ten Hompel, TU Dortmund,
Managing Director of Fraunhofer Institute for Material Flow and Logistics IML

Accelerated e-commerce

Online commerce has gone up in double figures over the last few years, 2019 alone by 16.7 percent. In Germany 3.46 bn consignments were dispatched in 2019, by 2024 this figure is set to be 4.5 bn. The pandemic has strengthened this trend and the demand by online retailers for big warehousing and distribution halls near the city.

Rising demand meets thin supply

Logistics properties play a key role in smooth processes along the value-added chain of production and consumption. Whether through restructuring or increased demand from e-commerce: the growing demand comes up against a growing scarcity of available land and so there is a lack of modern warehousing space at strategic locations. There is still a high investment requirement in spite of increased construction activity over the last few years. Investors who build modern and contemporary space can expect high capacity utilisation and stable cash flow.

Logistics properties as desirable asset class

Although they were a niche product for a long time, logistics properties are now a popular and established asset class for institutional investors such as investment companies, pension funds, insurance companies and utilities.

But why is this asset class so popular?

Low volatility

Logistics properties are relatively stable in their rent level and provide modern floorspace at good strategic locations which are very easily re-lettable.

High predictability

The value of a property is very predictable from basic data such as location, infrastructure and connections. Unlike with other commercial properties, there is no emotional value.

High adaptability

The market is able to react well as a result of short planning and construction cycles. This is because building projects for logistics properties can be realised, stopped or adapted quickly. So the market stays relatively stable.

Low risk

The relatively low investment total for a given property means that investors can diversify already with moderate investment volumes using portfolios.



What should investors remember?

Logistics properties are real powerhouses. Behind their plain façades, tons of goods are moved every day, highly-automated processes run, and timing to the exact second ensures precise delivery and efficiency. In order to meet those demands, logistics properties have to develop their construction quality and flexible functionality. Where there is no land, construction has gone upwards. Especially in Asia where land is particularly expensive, high rises are already a familiar sight in logistics and are served by infrastructure specially tailored to them and by complex technologies and delivery vehicles. Generally speaking, investors ought to focus on the following when investing in a property:

✓ Flexible use options

To avoid the risk of vacancies, the logistics property ought to be very flexible as regards alternative usage, so that when tenants change, the building can be quickly let again without complications. And if existing tenants want to re-tool their processes, for example towards greater digitalisation or automation, the building has to be able to meet the new demands without difficulty.

✓ Location

Location is the decisive factor for logistics properties as well. Location is a central criterion in deciding on an investment. Distribution centres in the city are becoming more and more popular, as they enable delivery in just a few hours. But big production and consignment centres with good links to traffic nodes such as highways, harbours or airports are just as attractive. It is also important that several tenants can possibly be served at the location so as to reduce the risk of vacancies.

✓ Environment

Another important factor in deciding on a given property location is the immediate environment. What are the other logistics properties nearby? Are there residential areas nearby? Is there enough labour? Is there an option of expanding the logistics floorspace if required or are there construction limits? What are the options in regard of energy supply, light, digitalisation, Internet connectivity? What is the situation as regards sustainability and climate protection?



Trends: the future of logistics

The core task of logistics is to meet the rising demand for the supply of goods. But irrespective of that, the sector is faced with big challenges.

Urbanisation

Estimates show that in mid-century, about 70 percent of the population will be living in mega-cities. Higher population means higher demand for logistics services whether for the B2B or B2C market. One-day delivery becomes one-hour delivery. Building micro-hubs, that is small multi-storey warehouses in the city, and new storage systems at the recipient often offers the potential to shorten delivery routes and reduce the ecological footprint. Work is also being conducted on new transport means such as drones and self-driving delivery vans or subterranean transport routes.

Automation and digitalisation

Already today, digitalisation in logistics contributes to making logistics processes more transparent, more efficient and more manageable. Autonomous transport systems, robots, and multimodal tracking and tracing systems have become a part of everyday life in the logistics sector. Experts see a high potential for the use of artificial intelligence. 3D printing is revolutionising the manufacturing of certain products on site, saving time and transport. Over time, logistics properties will develop from being warehouses into digital hubs with hybrid functions.

Sustainability

There are demands on logistics also in regard of climate protection and sustainability. So nearly all logistics corporations already looking at possibly electrifying their fleets or at new autonomous transport systems. As regards buildings, thought has to be given to models for renewable energy supply or self-generation and storage of power, for example to charge electric delivery trucks. The to-do list also includes designing insulation, heating and cooling in a climate-friendly way. Multi-storey buildings can be built to avoid a high degree of soil sealing. This concept is also useful in optimising land use in the megacities of the future.

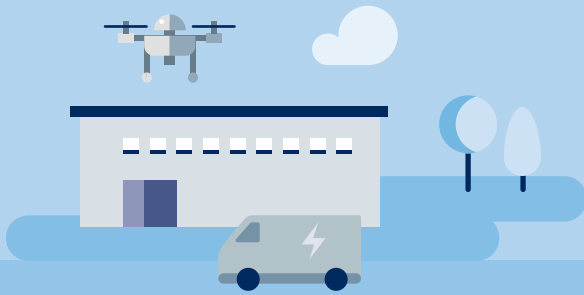


Drivers and trends in logistics

Logistics is a fantastic growth market which is subject to dynamic development due to increasing demand, the advance of technology and sustainability issues. Modern logistics properties with good links to traffic facilities will remain an attractive asset class in the future.

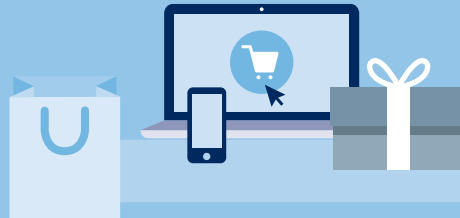
Onshoring – Nearshoring

Just-in-case is the new just-in-time. Based on experiences in the Corona crisis, we are expecting increased movement of manufacturing and distribution sites into the vicinity of production locations, and higher warehousing levels to create more resilient supply chains.



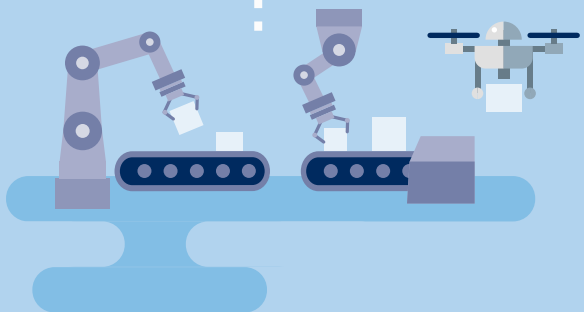
Growing E-Commerce

The growth in e-commerce and rising customer requirements trigger an increase in demand for transport and warehousing space in central regions and close to the city.



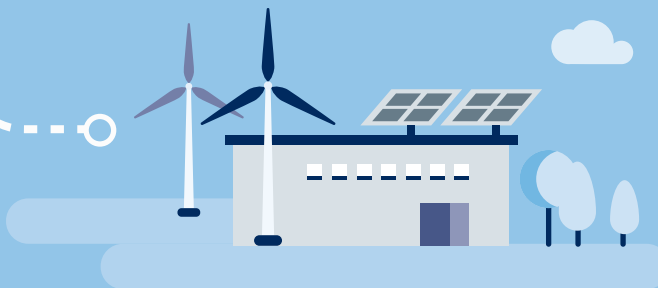
Digitalisation/ automation

Logistics properties are transforming themselves from warehouses into automated digital hubs. In the interests of transparent delivery routes and enhanced efficiency, the trend is towards the ongoing automation and digitalisation of processes.



Sustainability

Logistics experts are increasingly being asked to present concepts for regenerative energy supply and climate-friendly building operations.



Urbanisation

2050 will see 70 per cent of the world's population living in cities. But already now, the demand for a reliable supply of goods and commodities is going up and innovative city logistics with new delivery routes are on the march.



Interview with an expert

The logistics market at a glance



Three questions to Klaus Severin Schöttmer

Managing Director
Special Property Finance
at Aareal Bank

What is the special expertise of Aareal Bank in the logistics property segment?

We recognised the potential of this asset class early on and put together a team of finance specialists and experienced logistics experts already more than 20 years ago. The aim is to provide investors and logistics companies with comprehensive and innovative finance solutions. Our team has already carried out various high-volume pan-European financing transactions of up to € 600 million. Our close links to our clients rest on our deep understanding of local markets.

Why are logistics properties so attractive?

Logistics is a fundamental growth market. An increased need in e-commerce, intensifying competition and new technologies keep on developing new concepts and optimisation measures along the supply chain. Logistics buildings

that are tailored to that are a central element of the trend. Increased demand meets with low supply, leading to low vacancy rates and a stable rental development in central logistics regions.

What advantages do you see for investors who invest in this asset class?

Because logistics are able to adapt to a change in the economic situation to a high degree, investors are buying an extremely flexible asset. The Covid-19 pandemic has further increased the demand for logistics services. Investors are not tied to a given sector, which further reduces their risk, when they invest in logistics properties, including in portfolios. Investors profit from a stable cash flow and a sector that is dynamic and looks to the future.

Investing in logistics properties

The key criteria for success

- ✓ **Multifunctionality**
Can the property be used by other tenants (delivery access routes, load-bearing capacity of the ground, ceiling heights et cetera)?
- ✓ **Utilisation rates**
Does the property demonstrate a stable tenancy rate?
- ✓ **Market situation**
How have rents developed over the last few years and how strongly is the competition represented?
- ✓ **Location**
how good is access to transport/access to labour/proximity to sales markets/clients?
- ✓ **Equipment**
Is there the option of updating the property for digital technologies such as automation and robots?
- ✓ **Sustainability**
How high is the energy consumption? How climate-friendly are insulation, heating and cooling? Are options for energy generation used (photovoltaics)?

Aareal Bank as your partner

Aareal Bank supports investors in choosing and financing logistics properties. A team of internationally experienced bankers and logistics experts has been dealing with the specific requirements of logistics companies for 20 years in Europe, Asia and the US. They have great experience in financing complex trans-European logistics portfolios.

You have questions or would like advice to finance logistics properties?

Feel free to contact us.



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