



Industrial Real Estate

Our real estate investment perspective

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Industrial real estate market –
where do we stand and where do we go?

Our consulting approach



Our point of view

We think...

Let's discuss investment opportunities in industrial real estate

Great Potential is...

...offered by the alternative asset class industrial real estate. Due to increased investor demand, limited supply of suitable assets and a lack of attractive alternative investments, the yield compression for high-profile industrial properties remains strong with prime yields for industrial property standing close to 4.0% (logistics) and 5.0% (light industrial, manufacturing) respectively. Besides the yield advantage over the more established real estate asset classes, especially the spread vs. the reference interest rate of a ten-year federal bond indicates a stronger commitment of institutional investors in this segment.

Prospects for growth opportunities in rental and capital values are generally bright for industrial assets. This is mainly due to scarcity of designated land for industrial use in the highly demanded metropolitan agglomerations. This trend has been a constant driver for land prices and rents in recent years, particularly in the logistics segment. Additionally, tenants of industrial assets are often the former owner-occupiers, many of them are corporates on (indexed) long-term leases, usually securing cash flows from inflation and voids. Online retail, and its continuous expansion, is helping to increase the demand for industrial property: big-box logistics warehouses in periphery locations and smaller units in metropolitan areas benefit from this trend, leading to increased demand, while stationary retail is declining.

At the same time, attractive new asset types emerge, including e.g. hybrid „urban warehousing“ concepts (office/ retail/ warehouse).

Industrial real estate a future-proof investment?

We can't predict the future of the real estate market cycle but history shows that every period of growth is eventually followed by a downturn. What we observe, is a steadily growing investment community focusing on the industrial real estate sector. The transaction volume of German industrial real estate (here: owner-occupied industrial assets) has continuously increased over recent years. In 2017, it amounted to more than €3 bn. for the first time. Based on the transactions observed in the course of 2018, we believe this portion will further increase, leading to increased market liquidity in this asset class. Due to the complexity of this asset class it is essential to understand all critical parameters involved in a potential investment.

Deloitte can guide and support your investment decisions with our long-lasting experiences in the industrial real estate market as well as our expertise in real estate transactions, digitalization and current market trends.

Industrial real estate at a glance

Industrial real estate characteristics

Industrial real estate serves the company as a shell for operational processes

Industrial real estate can be defined by the following characteristics:

- Mainly used for **industrial purposes**
- The buildings usually combine several use types such as office, storage, production, research, service or trade areas and are therefore **mixed-use** commercial properties
- The tenant structure is characterized mainly by **medium-sized** enterprises
- Industrial real estate can be differentiated into **four categories**: converted properties, business parks, warehouse-/ logistics properties and light manufacturing properties
- Industrial real estate offers **third-party utilization, flexibility for change of use** and **suitability for different parties**

Categories



Converted properties



Business parks



Warehouse-/ logistics properties



Light manufacturing properties

Reused and revitalized commercial properties, which are nowadays relatively often located in inner-city locations

Coherent and self-contained commercial area, in which management and infrastructure are uniformly regulated

Existing objects with mainly simple storage facilities and service areas

Mainly hall-shaped buildings with a relatively small office share

Industrial real estate categories

Industrial real estate is divided into four categories with different characteristics

	Converted properties	Business parks	Warehouse-/ logistic properties	Light manufacturing properties
Purpose	From single-use object to a multi-tenant object with different types of use	Building purpose is mostly rental to companies	Storage, commissioning and distribution of products and goods	Suitable for different types of production
Structure	Former production facility or industrial area	Various buildings form the park as a unit	Mainly existing properties with simple storage facilities and service areas	Hall-shaped objects with moderate share of office areas
Area types	All area types	All area types (office area 20-50 %)	Flexible and inexpensive area types	All area types but mainly production area
Location	Often inner-city	Outskirts of the city	Urban existing schemes	No general assumptions
Accessibility	Good via private and public transport	Good	Good via private transport	No general assumptions
Characteristics	Potential for densification, mix of revitalised historical and new buildings, due to the historical and industrial image they often have a special charm (red-brick character)	Management and infrastructure are uniformly organized	Different expansion- and quality standards, reversible and suitable for a higher value usage, area <10,000 sqm (distinction to pure logistics properties), low stock turnover rate	Hall area is also suitable for purposes like storage, research and service as well as wholesale and retail, capability for third-party utilisation depends on the location

Industrial real estate in Germany

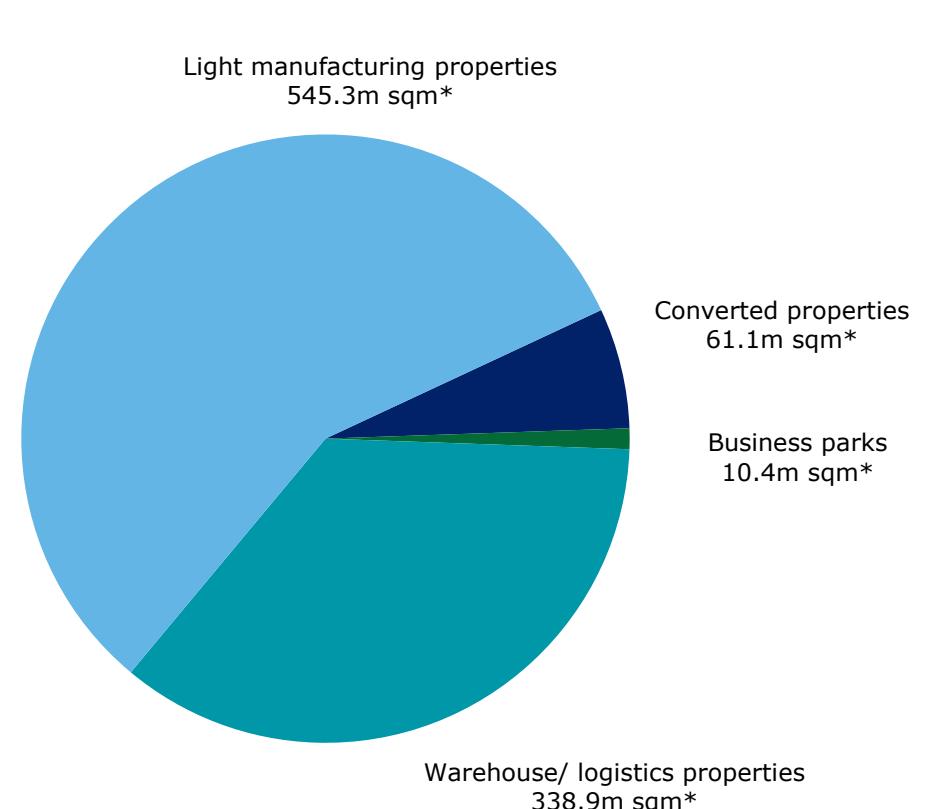
Light manufacturing properties represent more than half of the floor area of industrial real estate in Germany

Germany is a highly productive location characterized by several big enterprises and strong medium-sized enterprises. Therefore it is plausible that light manufacturing properties and warehouse/ logistics properties represent the biggest share of industrial real estate.

Rising popularity for converted properties within the last years lead to an increasing completion. But the property type still represents only a marginal share (~6%) of the overall industrial real estate floor area compared to light manufacturing properties and warehouse/ logistics properties amounting to 60% and 35% respectively.

Only a few new projects for business parks were realized within the last years. Leaving business parks with a minor share of approx. 1% of the overall industrial real estate floor area.

Floor Area

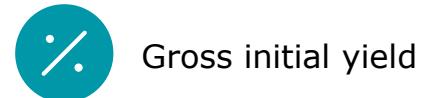


Industrial real estate market – current situation and future outlook

German investment market - industrial real estate

Key facts industrial real estate in Germany

Converted Properties



First half 2013: € 220.8 m
First half 2018: € 254.2 m
(+15%)

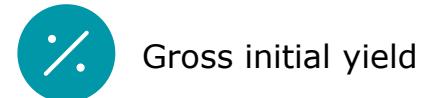


First half 2013: m² 163.5 t
First half 2018: m² 139.9 t
(-14%)



Area: 6%
Total value: 8%

Business Park



First half 2013: € 199.1 m
First half 2018: € 147.0 m
(-26%)



First half 2013: m² 148.0 t
First half 2018: m² 210.7 t
(+42%)



Area: 1%
Total value: 3%

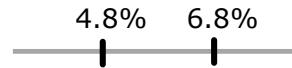
German investment market - industrial real estate

Key facts industrial real estate in Germany

Warehouse-/ logistic properties



Gross initial yield



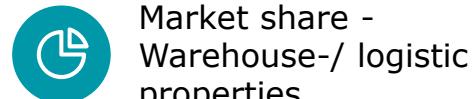
Investment volume

First half 2013: € 77.6 m
First half 2018: € 126.5 m
(+63%)



Take-up

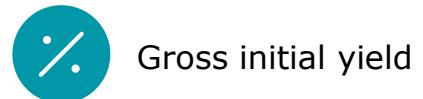
First half 2013: m² 193.0 t
First half 2018: m² 139.9 t
(-28%)



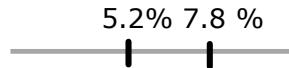
Market share -
Warehouse-/ logistic
properties

Area: 36%
Total value: 37%

Light manufacturing properties



Gross initial yield



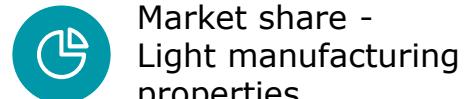
Investment volume

First half 2013: € 187.8 m
First half 2018: € 193.6 m
(+3%)



Take-up

First half 2013: m² 22.5 t
First half 2018: m² 21.5 t
(-4%)

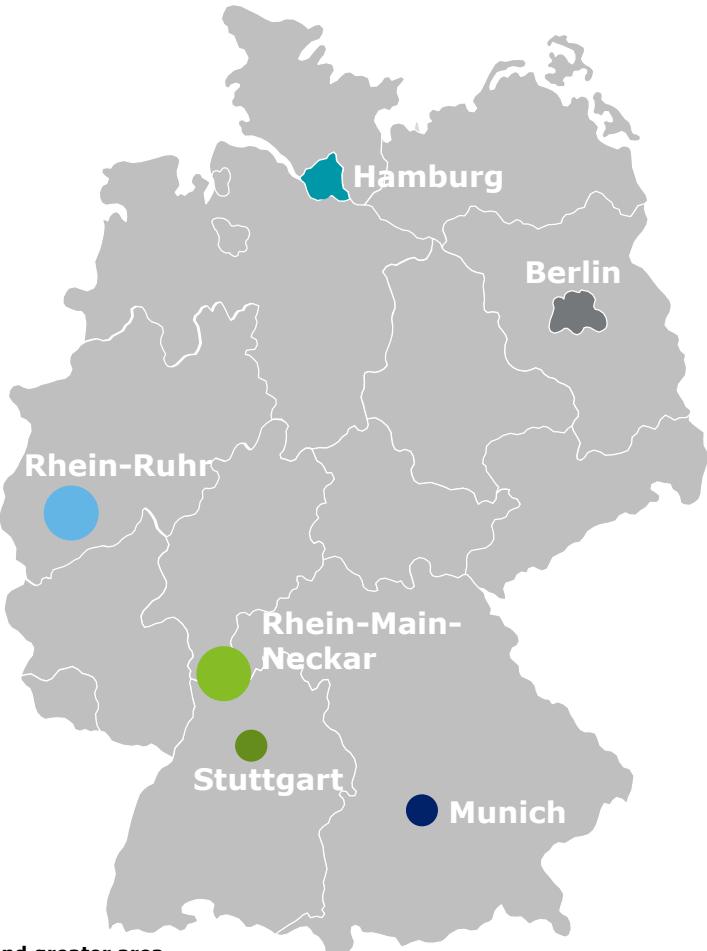


Market share -
Light manufacturing
properties

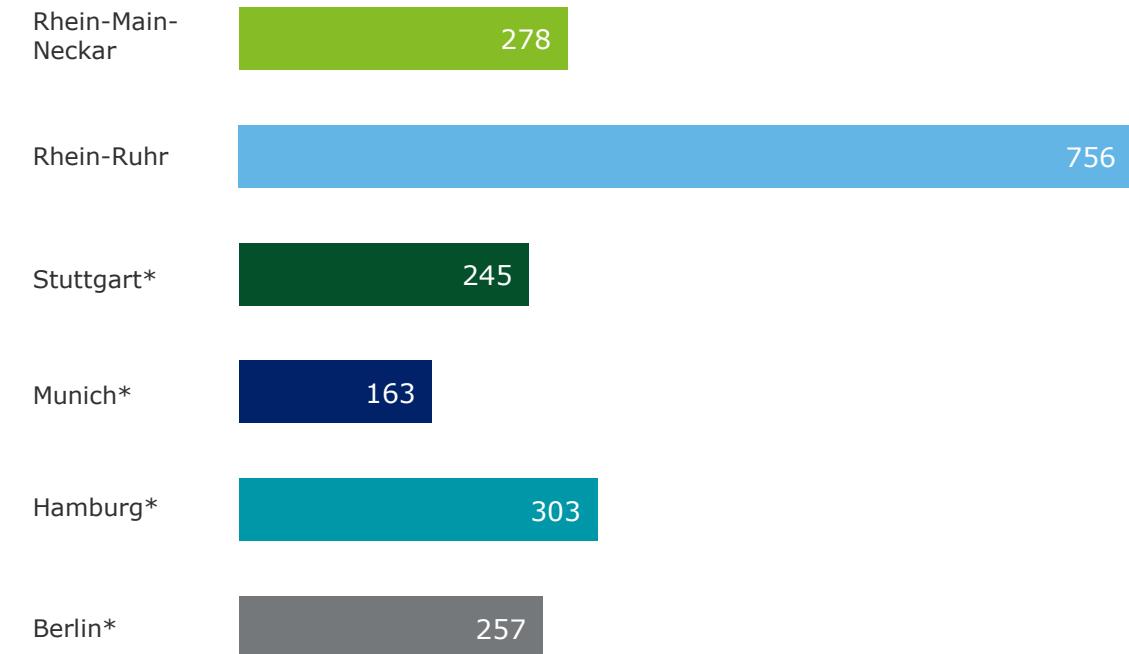
Area: 57%
Total value: 53%

German investment market - industrial real estate

Investment attractiveness in German A-locations**



Investment volume 2017 in m €



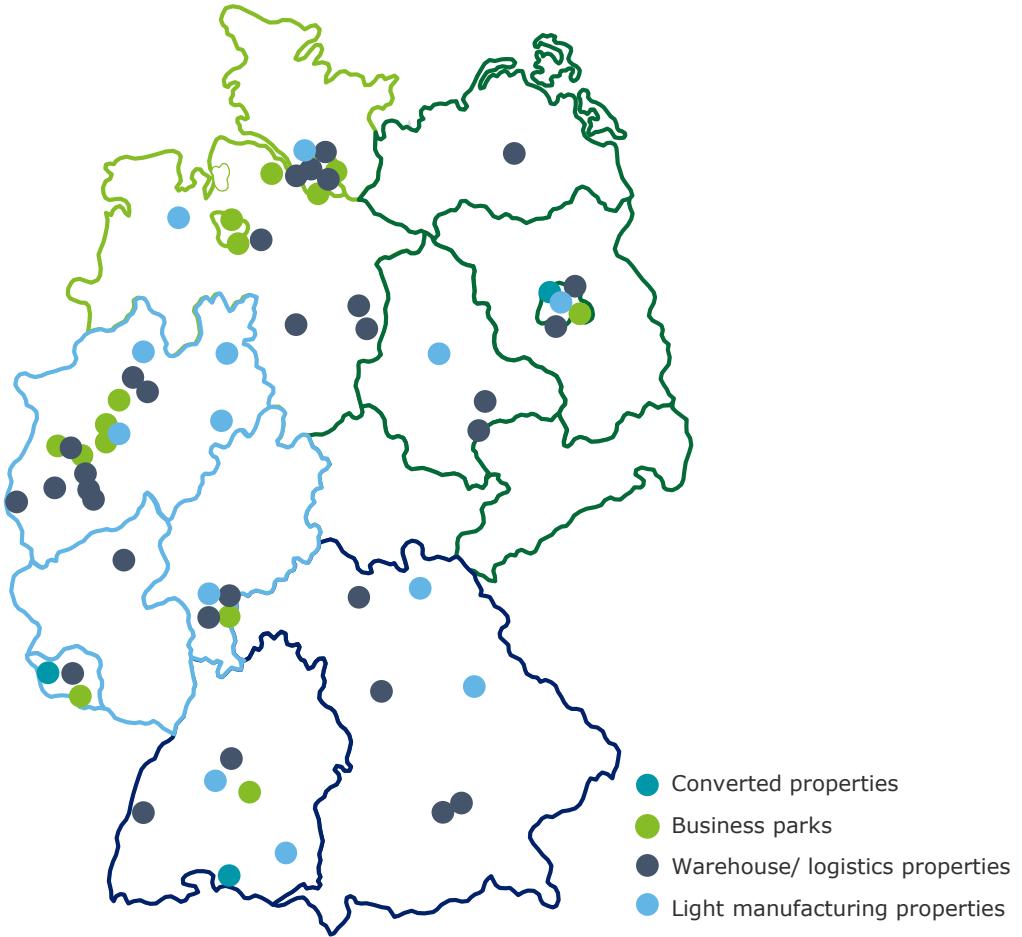
Total investment volume in Germany in 2017: 3,005

*City and greater area

**A-locations: Most important German hubs with national and partially international relevance. Within all segments performing markets

German investment market - industrial real estate

Investment activities in the secondary and tertiary market



Investment volume 2017 in m €



*Excluding transactions in A-locations

German investment market - industrial real estate

Light manufacturing- and warehouse/ logistics properties represent 85% of completions and more than 2/3 in pipeline

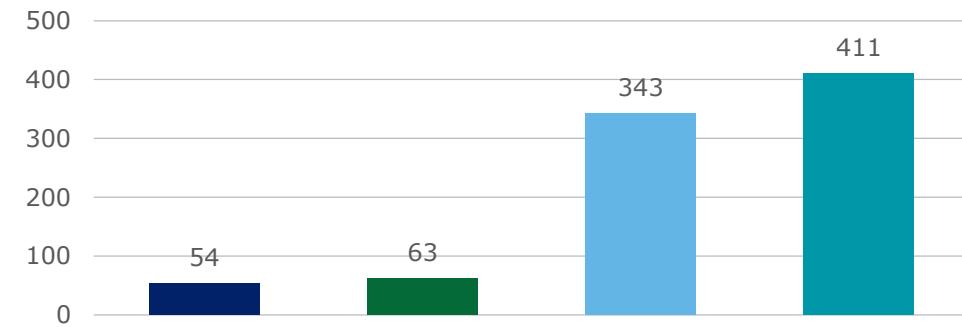
Completions and pipeline of industrial real estate in Germany 2018

- The completions in the first half of 2018 were already higher than the total number of completions in 2017. An increased investors' focus on transformation properties is the result
- High investment focus is placed on business parks, because the completion lies 60% higher compared to the last five years
- Warehouse- and logistics properties still represent a large proportion of completion, but there is no unusual dynamic
- Completions of light manufacturing properties in the first half of 2018 are higher compared to the last five years

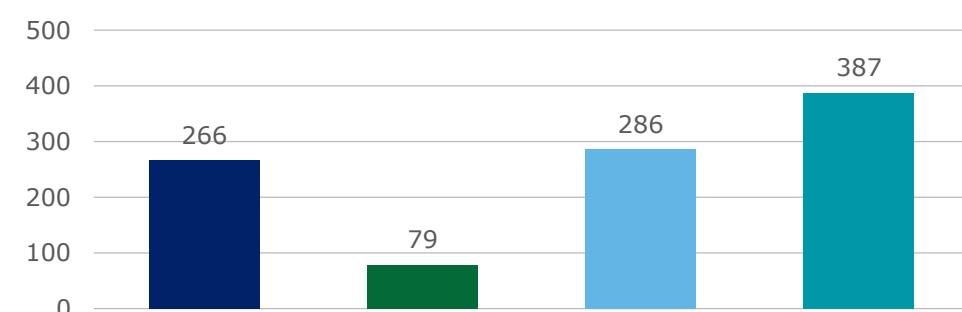
Outlook 2019

- Expectation of an continuous increase of industrial real estate area due to an expected solid economic growth in 2019

Completions of industrial real estate first half 2018 [in t sqm]



Pipeline of industrial real estate second half 2018 [in t sqm]



■ Converted properties ■ Business parks

■ Warehouse/ logistic properties ■ Light manufacturing properties

Int. investment market - industrial real estate

Investor's point of view

International investors - in Germany

- The German industrial real estate market is dominated by German sellers and buyers
- Only 14% of acquisitions and disposals are made by European players and 5% by investors from north America
- The remaining 81% of transactions are made by domestic investors, emphasizing the fraction of foreign investment on the German industrial real estate market

International investors - worldwide

- Nontraditional assets (e.g. mixed-use properties) and new business models such as "properties with flexible leases and spaces" are expected to attract an increasing number of investors
- Strong construction pipeline in the US for industrial real estate results in a high investment activity on the us market
- A recent series of mega deals in the industrial real estate market of India attracted the attention of investors globally

Drivers and influences worldwide



Growing e-commerce sector influences the distribution of warehouses



Supply chain modernization influences the industrial real estate market



Our consulting approach

Our consulting approach

We focus on the parameters critical for success in industrial real estate and help you to assess every single one of them in order to make solid investment decisions



Tenure & Tenancy

- Indexation clauses
- Lease term duration and extension options
- WALT
- Stabilized Occupancy/vacancy rate
- Tenancy structure



Competition

- Online potential
- Disruptive business models



Cash flows

- Utilization concept
- FM cost benchmarking



Building structure

- Floor plan
- Site layout
- Renovation works
- Third party usability



OPEX/ CAPEX

- Modernization bac



Asset categories

- Converted properties
- Business Parks
- Light manufacturing properties
- Warehouse-/logistic properties



User

- Satisfaction/experience
- Default probability
- Level of dependence on asset



Non-recoverable costs

(Triple-net vs. Double net)



Owner

- Private investor
- Institutional investor



Industry 4.0

- Blockchain based transactions
- Internet of things
- Artificial intelligence



Demographic change

- Lackage of qualified specialists
- Industrial sector sustainability



DIGEX*

- Technical infrastructure, building automation & connectivity

* Digital expenditures

Our consulting approach

Deloitte provides profound market knowledge in the industrial real estate sector

Market situation in a nutshell

- We define the industrial real estate market by four investment categories: converted properties, business parks, warehouse-/ logistics properties and light manufacturing properties
- The relevance of those four categories becomes increasingly important for the German investment market
- A high increase in transaction volume shows the unrestricted marketability of mixed-use industrial real estate
- Rising interest of investors due to higher RoI (Return of invested € twice as much as in secondary office sites)
- Local players with great industry knowledge and/ or focus on a specific asset class
- Specialization reflected in organizational set-up (usually by asset classes and/ or region)

Consulting approach and service offering

- We focus on the factors which are critical for success in the industrial real estate sector
- We know the opportunities and possibilities without neglecting typical dangers in the market such as the probability of default in the industrial sector
- Our service for investments in single properties and portfolios covers, inter alia:
 - Real estate valuation & due diligence
 - Real estate transaction advisory
 - Financial due diligence
 - Commercial due diligence

Profit from the experience we gained through our previous projects – and from the insider knowledge of a thought leader in the real estate sector!

Our consulting approach

Our service portfolio from an investor/ operator perspective

Typical components of our industrial real estate M&A transaction & due diligence services include:

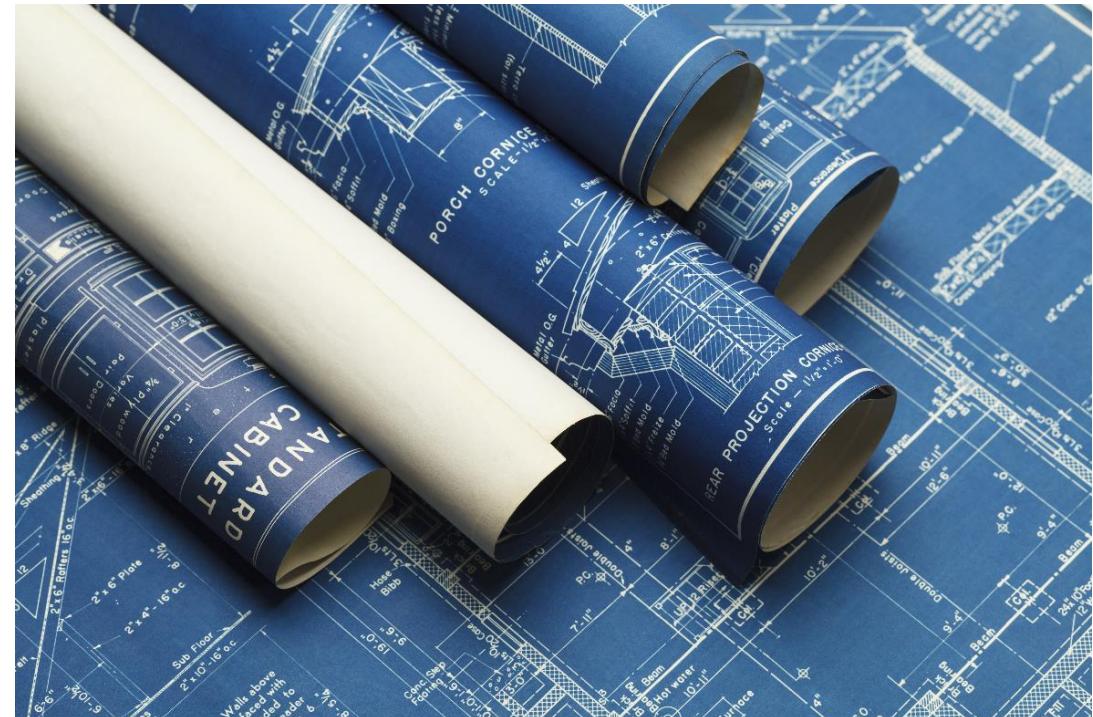
- Analysis of industrial real estate market conditions and trends, including forecast of future demand, etc.
- Regional competitive analysis of the relevant industrial real estate markets
- Commercial leases analysis including tenancies analysis regarding economic key figures, creditworthiness and business sustainability
- Review of concepts (strategic, operational, fit out and area review)
- Financial modelling & real estate valuation
- Preparation, review and 2nd opinion regarding asset business plans from a market and real estate perspective
- Benchmarking of key figures including vacancy levels, yields, investment costs, etc.
- Location, site and property analyses, SWOTs, lease reviews, market rental assessment, operating costs benchmarking
- Analysis of potential savings and revenue optimization in personnel and material costs, in connection with outsourcing concepts

Core Services

Financial DD

Commercial DD

Real Estate DD & Valuation



Our consulting approach

Our team set up combines experienced transaction advisors and experts from the industrial real estate sector

Central contacts



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*Selected experts; our project teams have multiple members



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