

Deloitte.



Industrial Real Estate
Our real estate investment perspective

Frankfurt, May 2020

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Our point of view

We think...

Let's discuss investment opportunities in industrial real estate against the background of the global COVID-19 crisis

Before COVID-19...

...the alternative asset class industrial real estate registered an increasing demand both from national and international investors due to a high value potential compared to established asset classes. Nevertheless, the limited supply of suitable assets and the lack of attractive alternative investments has led to a compression of yields in this asset class as well. Yields for industrial real estate average 4.5% (logistics) and 5.6% (manufacturing) by now.

Prospects for growth opportunities in rental and capital values were generally bright for industrial assets. This was 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. Online retail additionally helped to increase the demand for industrial property: big-box logistics warehouses in periphery locations and smaller units in metropolitan areas benefited from this trend, leading to increased demand.

Now, the coronavirus affects more and more people and ever larger areas of our private and professional lives. For all of us this means significant restrictions. We cannot live, work and travel as we are used to. There is no doubt that the virus will have a lasting effect on the world as we know it and will also change the way we work and live together.

We can't predict the future of the real estate market but we can use our cross-industry expertise to show the economic connections and dependencies and provide the best possible support for investment decisions from an independent perspective.

Industrial real estate a future-proof investment?

In particular, we see three possible drivers that might influence the demand for industrial real estate:



E-commerce sector might be growing even faster due to coronavirus since the spur adoption speed and the number of consumers that shop online increases, which might lead to additional demand for all logistic-related properties



Increasing inventory levels, resulting in manufacturers likely to reassess ideal inventory levels and business continuity plans, which could lead to increased demand for national warehouse/ logistic properties as well



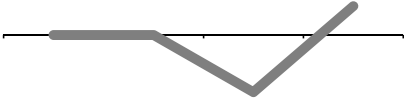
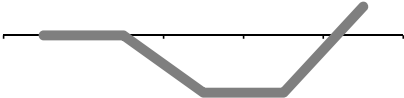
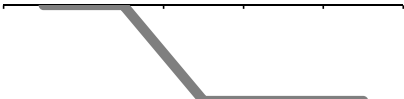
Manufacturing locations might diversify, with coronavirus possibly accelerating another structural trend, in the form of pushing manufacturing to new locations

Due to the complexity of the current situation, 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 industrial real estate sector trends.

Our view of the current situation

The unprecedented nature of the crisis makes forecasting difficult. Three scenarios are possible - history suggests a sharp drop and sharp recovery

Scenario	Shape	Probability	Description/ impact
1	 <p>"V-Shape" - deep, but short lived recession</p>	Likely	<ul style="list-style-type: none">• Virus can quickly be contained until May/ June• Securing the operational tasks of systemically relevant industries is of existential importance• Identification of critical resources in personnel/ infrastructure to maintain a minimum operation e.g. for medical supply• Massive drop in revenue and increased costs for building up necessary capacities negatively affect the liquidity of tenants
2	 <p>"U-Shape" - prolonged lockdown containment of virus takes longer than anticipated</p>	Plausible	<ul style="list-style-type: none">• Detect vulnerabilities in the supply chain and introduce appropriate countermeasures, e.g. source alternative suppliers and jumpstart supply• Coordination with financing banks regarding measures that may affect liquidity in the short term (e.g. deferral or reduction of redemption payments, extension of maturities, payment deferrals, extension of current account lines etc.)
3	 <p>"L-Shape" - prolonged measures to mitigate the pace of the spread & waves of new infections</p>	Unlikely	<ul style="list-style-type: none">• Continued shutdown in the manufacturing sector (partly or completely in terms of capacity) significantly increases the probability of default by tenants leading to a decline in occupancy, revenue etc.• Usage of aid funds, e.g. through the KfW programs set up by the Federal Government and the federal states, as well as the use of subsidies and guarantees

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

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



Business parks

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



Warehouse-/ logistics properties

Existing objects with mainly simple storage facilities and service areas



Light manufacturing properties

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

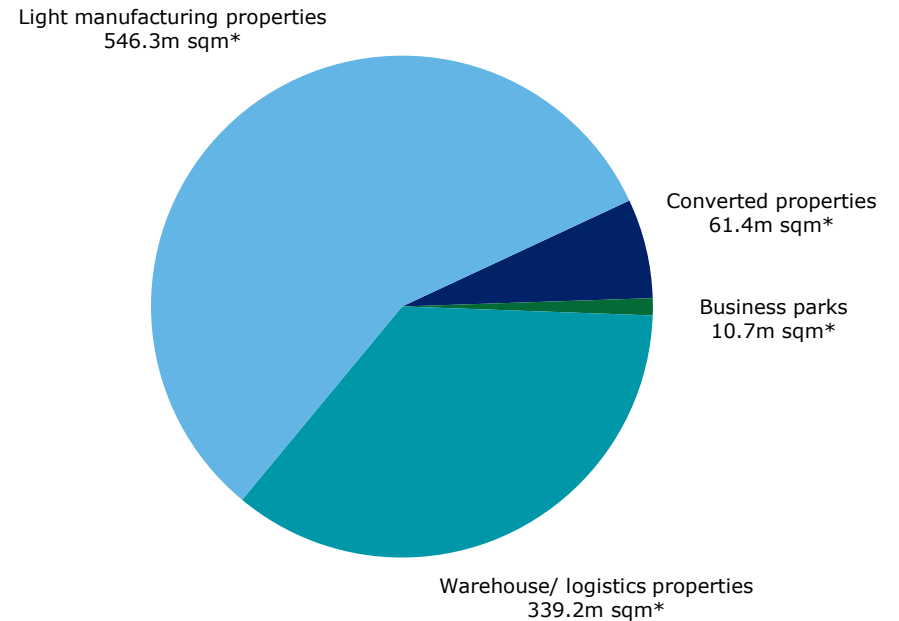
Light manufacturing properties represent more than half of the floor area of industrial real estate in Germany

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 57% 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.

Overview of floor space of industrial real estate in Germany

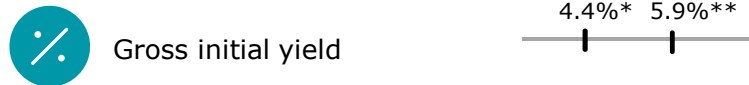


Industrial real estate market – current situation and future outlook

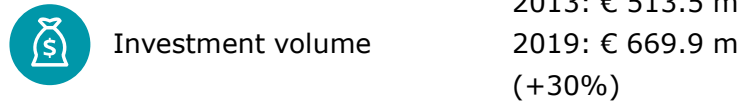
German investment market - industrial real estate

Key facts industrial real estate in Germany

Converted Properties



Gross initial yield



Investment volume

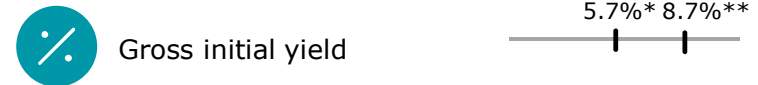


Take-up

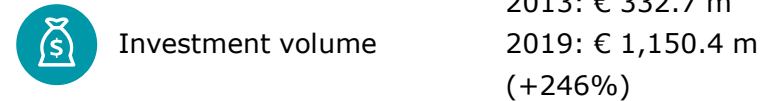


Market share -
Converted properties

Business Park



Gross initial yield



Investment volume



Take-up



Market share -
Business park

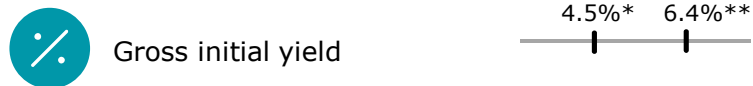
* Prime yield, average yield **

Source: Initiative Unternehmensimmobilien: Marktbericht Nr. 12
Deloitte 2020

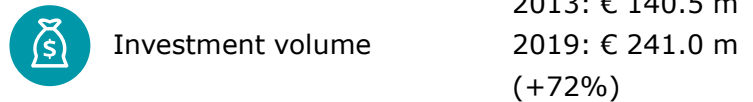
German investment market - industrial real estate

Key facts industrial real estate in Germany

Warehouse-/ logistic properties



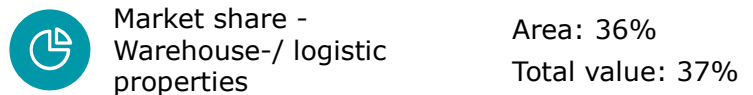
Gross initial yield



Investment volume

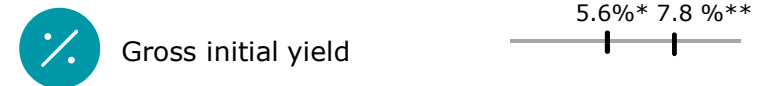


Take-up

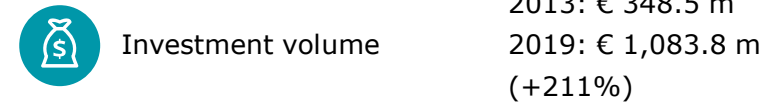


Market share -
Warehouse-/ logistic
properties

Light manufacturing properties



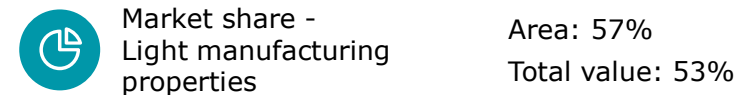
Gross initial yield



Investment volume



Take-up



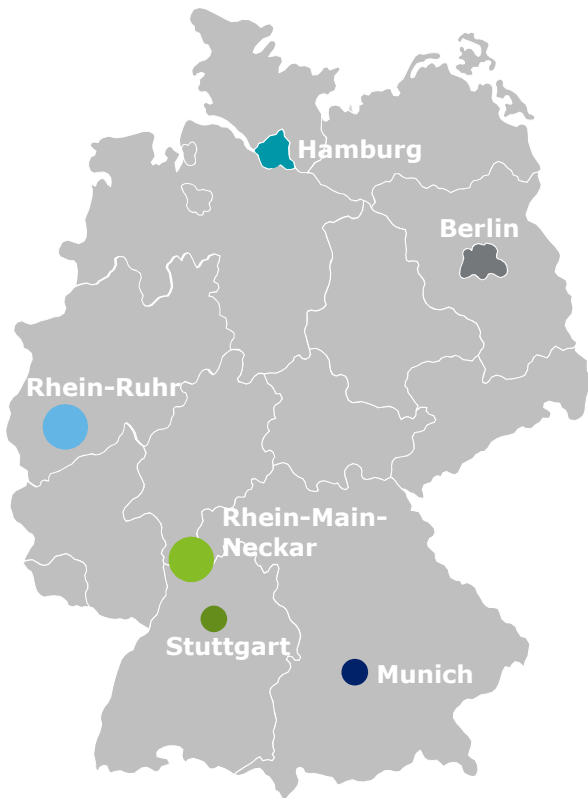
Market share -
Light manufacturing
properties

* Prime yield, average yield **

Source: Initiative Unternehmensimmobilien: Marktbericht Nr. 12
Deloitte 2020

German investment market - industrial real estate

Investment attractiveness in German A-locations**



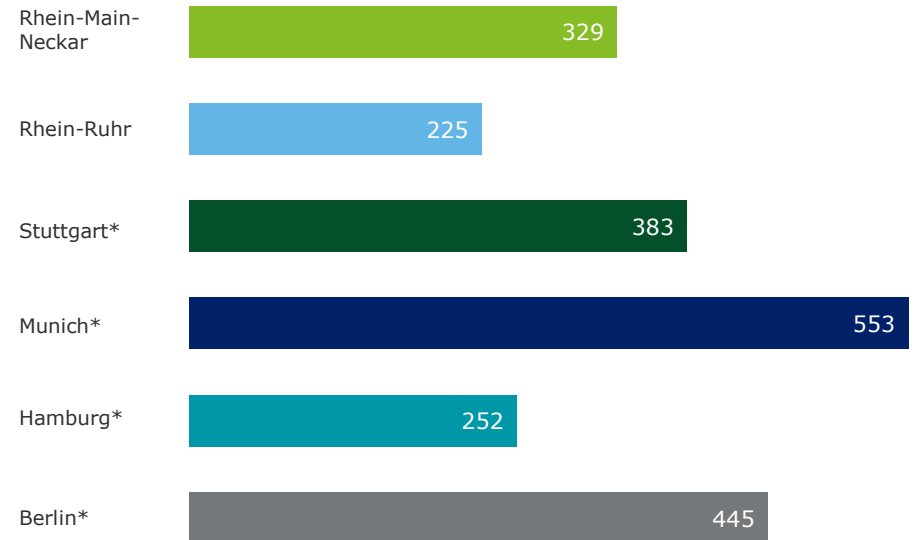
*City and greater area

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

Source: Initiative Unternehmensimmobilien: Marktbericht Nr. 12

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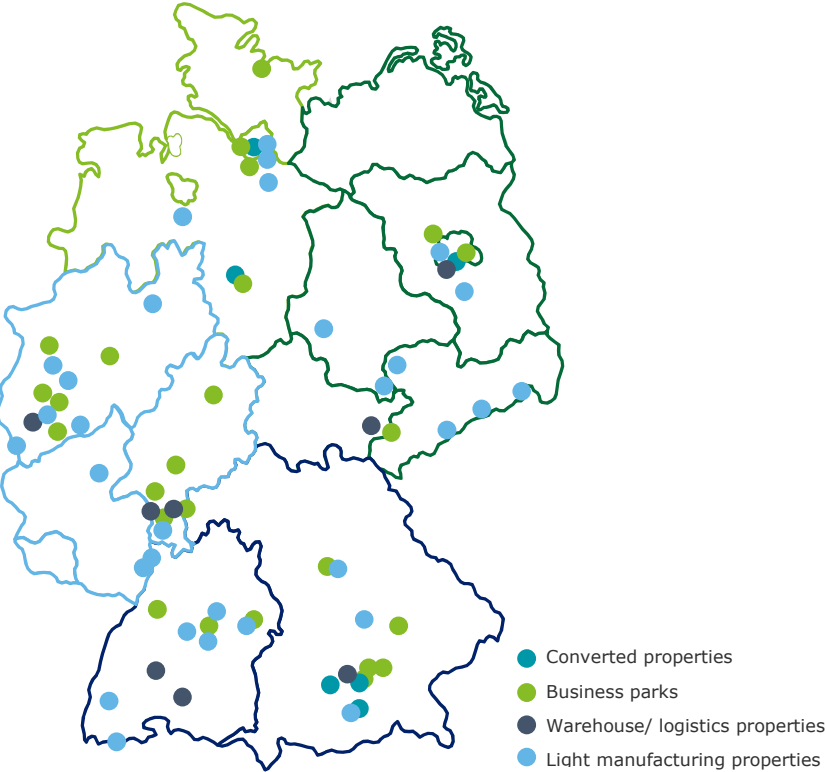
Investment volume 2019 in € m



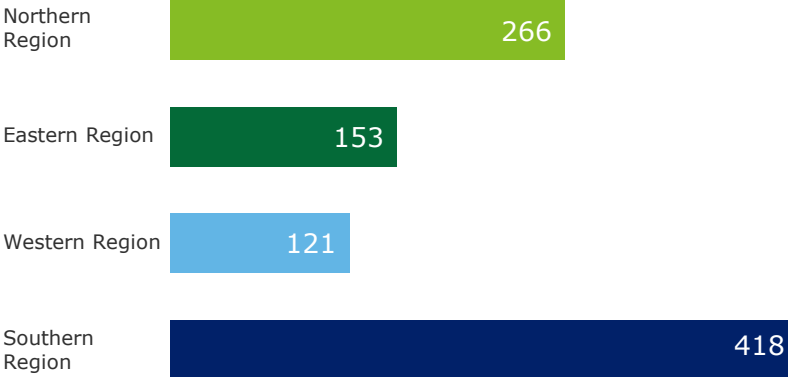
Total investment volume in Germany in 2019: 3,145

German investment market - industrial real estate

Investment activities in the secondary and tertiary market



Investment volume 2019 in € m



*Excluding transactions in A-locations

Source: Initiative Unternehmensimmobilien: Marktbericht Nr. 12
 Deloitte 2020

German investment market - industrial real estate

Light manufacturing properties represent 50% of completions and more than 2/3 in pipeline

Completions and pipeline of industrial real estate in Germany 2020

- The total floor area of the converted properties that went into operation was rather modest at around 31,000 sqm in the first half and 0 sqm in the second half of 2019. This is mainly due to the lack of availability of suitable space
- High investment focus is placed on business parks. The floor space put on the market in recent years increased. Last year's completions exceeded the completions average of the past five years by about 155 %
- Warehouse- and logistics properties still represent a large proportion of completion, but there is no unusual dynamic

Outlook 2020

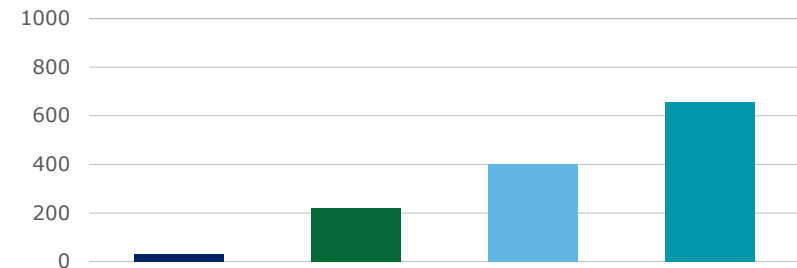
- Demand for accommodation in multi-tenant properties has steadily increased. The property pipeline has nevertheless tended to decline or stagnate in this asset class
- The majority of the buildings currently under development are manufacturing properties, often developed for single tenants who have already signed a long-term lease. COVID-19 could lead to a change of use for some developments, e.g. for a logistics use, should the tenants default due to the crisis

* Comprising properties under construction, completed properties & projects with advanced planning

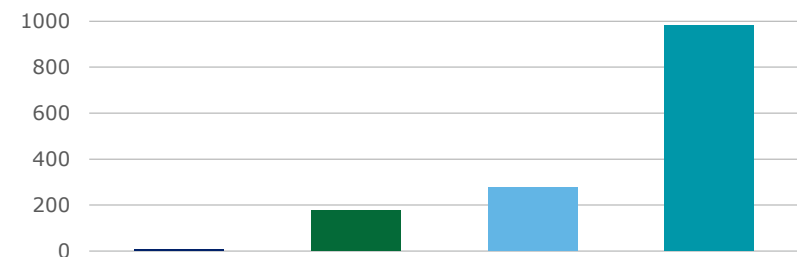
Source: Initiative Unternehmensimmobilien: Marktbericht Nr. 12

Deloitte 2020

Completions of industrial real estate 2019 [in t sqm]



Pipeline of industrial real estate 2020 [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 (58%) and European (24%) buyers
- As expected, the seller's market is also dominated by domestic investors. More than 2/3 of the sellers are from Germany
- The remaining share of transactions is largely distributed among foreign investors from North America and Asia

Industrial real estate investors and COVID-19

- Nontraditional assets (e.g. mixed-use properties) and alternative business models such as "properties with flexible leases and spaces" attract an increasing number of investors
- Those assets have been a top-performing real estate sector for institutional investors in recent years
- And while the COVID 19 crisis is likely to put pressure on yields in many areas, the property type still is expected to outperform

Possible drivers and influences due to COVID-19 worldwide



E-commerce sector might be growing even faster due to coronavirus since the spur adoption speed and the number of consumers that shop online increases



Increasing inventory levels, resulting in manufacturers likely to reassess ideal inventory levels and business continuity plans, which could lead to increased demand for warehouse/ logistic properties



Manufacturing locations might diversify, with coronavirus possibly accelerating another structural trend, in the form of pushing manufacturing to new locations



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
- The 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

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*Selected experts; our project teams have multiple members



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