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KEYNOTE INTERVIEW

Managing logistics real estate sustainably



Jan-Dietrich Hempel, co-managing director at logistics specialist GARBE Industrial Real Estate, considers the practical steps managers can take to combine commercial success with environmental performance

For over 20 years, GARBE Industrial Real Estate has been a market leader in German logistics property and an active owner and developer in Austria and the Benelux countries. Managing some 4.5 million square meters (48.5 million square feet) of sheds, the Hamburg-headquartered firm has recently begun to widen its reach into France, northern Italy and central and eastern Europe.

The company's co-managing director Jan-Dietrich Hempel discusses how ESG considerations have begun to play a growing role in determining its strategies and approach to fund vehicles.

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Q What have been the main drivers of the ESG agenda for your business?

While occupier requirements and regulation also play a role, it is the demands of our increasingly pan-European and global investor base that are the strongest driver for building certification, sustainability and all other aspects of the ESG agenda. Having said that, GARBE opted to act responsibly years ago already by starting vehicles explicitly focusing on core-plus/

value-add product, because using existing buildings as long as possible is obviously the smartest way to save resources.

But regarding developments in the past, we sometimes did not certify buildings because the market was so tight and investors were so keen for product that buyers did not insist or even wanted to avoid the extra cost. When we knew that a project would not end up in one of our vehicles and sold before completing construction, we sometimes skipped the certification because it would not change the price we got when exiting. That has changed, and now the majority of

buyers understand that ESG standards are a lever for additional value.

Adopting a new ESG standard involves a major organizational effort, so we took our time examining the various systems available to make sure that we backed the one that will best meet the overall trend. There is little value in adopting standards that do not earn market acceptance. Our analysis showed that GRESB would be the most value-creating standard because it is the most intelligent and also most widely accepted by globally-active investors.

Investors are always concerned about how they will exit from a fund vehicle. Adopting the GRESB standard, which we are quite confident will be the market leader worldwide, is part of the answer. In 10 years' time, having improved the portfolios of properties that we manage using GRESB standards, I am sure they will fetch an even more attractive price, particularly compared with a scenario in which they do not meet that standard.

Q What are the main advantages of the GRESB benchmark?

As well as being a developer and owner, GARBE is a 360-degree platform for logistics and light industrial, with all functions down to the property management level being done in-house. Investors buy a solution and not just a property when they invest with us, so as a manager we need to stick to ESG standards continuously and to prove that from an ethical point of view things are managed correctly.

The BREEAM, LEED and DGNB (German Sustainable Building Council) certification systems focus on the design, planning and construction of new buildings. But they do not value the management process so much.

We will still seek DGNB or LEED certification for new developments. However, that is only one component of the whole picture. There is a different set of considerations when



Germany's new distribution hotspots

The rapid growth of online retailing has put enormous pressure on the limited supply of logistics land and buildings in urban locations in Germany and the Netherlands, observes GARBE's Hempel.

The redevelopment of a former Ikea site exemplifies the emergence of new distribution hotspots in Germany.

"E-commerce occupiers are taking any sort of plot or building that is located close to densely populated areas. Their offerings in terms of delivery times are becoming ever more aggressive, so physical proximity to customers still counts. Often, they supplant other tenants by offering to pay a better rent. Contract logistics companies, which can be more flexible in how they design supply chains, are being displaced to other areas, so we see new logistics hotspots springing up beyond the urban fringes."

One such location is Werne in the Ruhr area of western Germany, where two years ago, GARBE, on behalf of its investors, bought a logistics site consisting of two huge buildings totaling 130,000 square meters (1.4 million square feet) formerly occupied by furniture retailer Ikea. The more modern of the two was refurbished and has now been let to third-party logistics operators. Meanwhile the other has been demolished and replaced with 95,000 square meters of new distribution space in two warehouses, one now let to consumer goods importer-exporter Euziel International, the other to a contract logistics company, too.

"Now Werne, in the recent past considered a pretty remote place, has become a new, sought-after logistics hotspot. More contract logistics will start to locate here. Quite a success!"

managing logistics buildings compared with offices, for example.

The type of office occupier really does not matter. Whether they are a law firm, tax advisors or a dentist, their overall energy consumption is pretty uniform. However, in logistics to make efficiency improvements you have to work very closely with the tenant,

and even if the building specification is identical, different tenants will have widely-varying energy consumption.

Standard logistics sheds can be used to distribute anything from building materials and car parts to food and pharmaceuticals. Some products are more temperature sensitive than others, while the number of vehicle

movements and the length of time that loading bay doors will remain open can be very different.

There is also a different challenge involved in getting energy consumption data from warehouse occupiers, because in a single-tenant building most of the big logistics companies will arrange for their own power supply, so their energy consumption is beyond the landlord's control. You have to manage it together with your client to produce a really holistic solution for the property.

With GRESB you get credit for providing transparency about data and processes that is only possible to obtain by working closely with the tenant. You also get points for improving performance in a step-by-step manner, which is really important because logistics is all about looking at the little things over time and improving them. It is a process, and GRESB recognizes that management process.

Q How far have you progressed in implementing GRESB?

We are currently implementing GRESB for a fund with 20 properties and for new vehicles we will implement it from the start. Other existing vehicles will follow, although it will take a little time because solving hardware and software issues, such as implementing the smart metering that enables the active management of properties, can be quite a workload given the number of properties we manage.

The investors in each fund also have to give their approval because they need to be comfortable with releasing data to comply with the transparency requirements that really set GRESB apart from other benchmarks. GRESB starts with a one-year training period during which you implement the standard, provide the data, and start actively managing the portfolio.

But the fund is not openly benchmarked against others until you have had the results and then the

opportunity to make some improvements. There is a learning curve before you stand naked in front of the public, so to speak. We are confident we can reach that benchmark earlier than the end of the grace period.

Q Can brownfield development and refurbishment offer sustainability benefits?

GARBE develops brownfield sites, and our funds buy a lot of core-plus and value-add property. If you want to be a responsible investor it is unwise to focus on only new buildings because new construction produces substantial CO2 emissions. It is worthwhile looking more closely at older buildings to see if they can be adapted to today's standards and used for another couple of decades.

It takes a number of years for the potential for lower energy consumption to catch up with the energy you waste in demolishing existing buildings on a previously-developed site and then constructing a new building. Logistics use is so variable in terms of energy consumption that it is cumbersome to calculate. But it will take much longer than 10 years depending on what you build and what it is used for.

“If you want to be a responsible investor it is unwise to focus on only new buildings because new construction produces substantial CO2 emissions”

Another crucial consideration in deciding whether to demolish and redevelop is that in densely populated areas where you have a strong economy, the true value of an older logistics property is not necessarily in the building itself, but in the legal situation it represents – the permission to generate a certain level of traffic, noise and other emissions by operating a logistics business on that plot. That is a factor often overlooked in the discussion.

Developers and investors need to be careful they do not change so much about the property that they endanger that permission. Existing sites are particularly valuable because European policy limits the amount of greenfield land allocated for development, and for most municipal zoning authorities logistics is at the bottom of the list of desirable uses for the small quantity of land that is available.

Brownfield development makes commercial, as well as environmental, sense. That is why at least half our projects over the past couple of years have been brownfield or semi-brownfield. In the coming years newbuild projects in Germany are likely to be delayed even more frequently than they are at the moment by environmental campaigners. The pressure of demand will continue to grow though, because the pandemic has speeded up the rate at which e-commerce has taken market share from traditional retail.

By buying brownfield sites and reusing as much space as possible you can secure better public acceptance. The Garbe Logistics Park Westfalenhütte in Dortmund was built on the site of a former steel mill, located close to the city center for historical reasons. People were already used to noise and intense emissions, and unemployment was high; logistics offered improvement in all respects so local acceptance was strong and permitting not an issue. When developing in environmentally sensitive areas we seek agreement with local stakeholders regarding building design to avoid delays later on. ■

Logistics and commercial properties

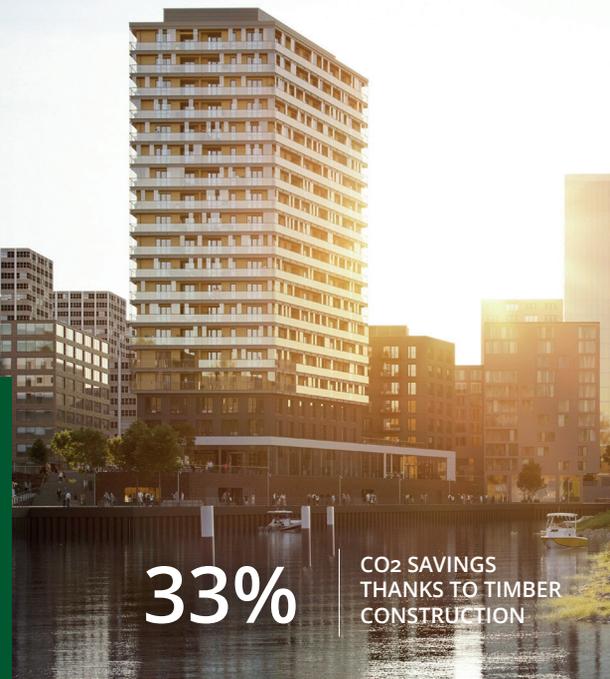
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170,000 t

CO2 SAVINGS PER YEAR

Did you know that...

...70 % of our project developments are built on "brownfields" (former industrial wastelands) and lead to new uses for the land while 90% of our project developments meet the Gold Certification requirements of the "Deutsche Gesellschaft für nachhaltiges Bauen" (German Sustainable Building Council)? **Logistics and commercial properties**

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