

Is there really **no space left** for logistics in Germany?

Tobias Kassner says new mindsets and strategies are needed to solve sector's land shortages

Every square metre of real estate needed already exists. It is a notion often cited, and it is cited in regard to logistics real estate, too. At the same time, it has always been acknowledged that surplus floor space is never evenly distributed but more prevalent in some places than in others.

In addition to the natural relationship between supply and demand, their cycle is also influenced by the real estate investment market. German real estate investments used to focus essentially on the use types: office, retail and sometimes residential. Logistics and industrial real estate played a negligible role.

That is, until the financial market crisis struck. Aside from many other aspects and trends, this resulted in industrial and logistics real estate becoming established as an investment commodity in Germany. Logistics has evolved into one of the most sought-after asset classes, and demand has become virtually impossible to meet. The shortages are perceived in regard to:

- effective floor area or warehouse area;
- land zoned for industrial and logistics real estate;
- and ultimately, to potential investment assets.

The discussion here will limit itself to the first two aspects.

SHORT SUPPLY IN WAREHOUSE UNITS

Real property is not an end in itself but serves a purpose – in this case the execution of logistics processes. Land suitable for this use type has been subject to persistently strong demand and in permanently short supply. The associated take-up in Germany grew from around 4 million sq m in 2010 to 6.6 million sq m by 2020. This implies an average annual growth rate of 5.1 %. Meanwhile, building

activity has more than doubled – from 2.1 million sq m in 2010 to 4.7 million sq m in 2020 – but still trails the strong demand. A bottleneck is gradually forming. So what are the demand drivers?

Of course, the steady growth of e-commerce has significantly contributed to demand. But the bread-and-butter business of the logistics sector is also generating keen demand. It reflects the shift toward Industry 4.0 and the general trend to outsource certain value-chain elements in manufacturing to logistics.

The gap between the net increase in completions and market absorption as sum total of lettings and owner-occupier take-up has been widening for years. Finding available accommodation keeps getting harder. Nationwide figures on the vacancy rates are unavailable, but a generally accepted assessment of a marginal vacancy average of around 2% illustrates the predicament.

INCREASINGLY DIRE SHORTAGE IN AVAILABLE LAND

Logistics developments require sites that meet specific needs and not every piece of land does. An industrial zone permitting round-the-clock operation seven days a week without noise constraints is ideal. Operators favour motorway access, ideally close to a slip road and with no residential area nearby. Commercial or special areas with matching parameters and low-level constraints are also highly popular.

‘Organising an interest group for residential real estate seems easy enough to do in Germany, but you will look in vain for a logistics alliance. This needs to change.’

Tobias Kassner, GARBE Industrial Real Estate

As well as keen demand for these sites, less and less land is zoned for logistics. And even then, the approval and planning processes are long-winded and marked by obstacles such as regulatory constraints on further soil sealing. While Germany will slow its soil sealing rate from currently around 63 ha/day to 30 ha/day by 2030, the EU Commission has gone even further: soil sealing is supposed to drop to net zero by 2050. None of this will help to alleviate the land shortage in the foreseeable future.

WANTED: NEW SITES FOR LOGISTICS REAL ESTATE

The end of the ongoing pandemic is not likely to bring any fundamental shift in floor space demand in the logistics sector. On the contrary, industrial production is already back up to speed. Important sectors such as the automotive industry have self-confidently embraced the structural challenges of the future. Another factor is the e-commerce boom, which continues unchecked.

The situation is reflected in future space requirements, which consultant bulwiengesa projects at 6-7 million sq m of effective floor area per year – matched by only around 5 million sq m in annual completions. Given these assumptions, is there any way to meet the space requirements? The answer could be yes if stakeholders try new approaches and strategies and bring fresh resolve to the search for and provision of such space.



The sections below will detail two of several possible measures:

Measure #1 – Brownfields

The strategy of recycling pre-used or obsolete sites is hardly new. But never before has the brownfield strategy been embraced by so many market players. The former focus on industrial and railway sites has been expanded recently to include defunct open-pit mines, quarries, landfills and military conversion areas. Moreover, in urban areas decommissioned leisure and cultural venues as well as disused municipal infrastructure are available.

No relief should be expected from the office segment since it has virtually no excess capacity. But the situation could change. Many corporates have come to appreciate the home office concept, and are now considering downsizing their premises. If this happens on a large scale, office sites could become available. Similarly, retail assets, under pressure from e-commerce on the one hand, and successive lockdowns on the other, could become a source of urban brownfield sites.

The total stock of brownfield land in Germany is estimated at around 150,000 ha, offering plenty of potential to ease the strain. But a closer look will reveal

that detailed information is often missing. It would be extremely helpful if market players had access to comprehensive public land records to speed up the process of identifying suitable sites.

Moreover, it can be quite difficult to recycle brownfield sites. On the one hand, they tend to be contaminated (pollutants, ordnance, etc). On the other hand, such sites often contain massive structures above or below ground. Either scenario calls for thorough decontamination and demolition. For the stakeholders, they are not only costly but also risky and time-consuming. Providing substantial support in the related planning, approval and funding processes would be helpful.

While brownfields can provide significant relief to floor space shortages, they are not always the answer. After all, they are not available everywhere.

Measure #2 – A new mindset among all stakeholders

In addition to the above measures, many stakeholders should adopt a new mindset regarding logistics. According to a common stereotype, the logistics business creates no jobs and merely consumes land. Municipalities prefer to wait for a ‘white knight’ in the shape of a manufacturing business. However, the

time of large industrial and production plants has come and gone. Under the Industry 4.0 paradigm, labour productivity is enhanced by deploying efficient, compact and smart machinery while space requirements decline. Certain sections of the value chain are outsourced, including to logistics service providers. It is here, then, that valuable jobs are created. Word may not have got around that logistics has become a high-tech industry and is not the same as warehousing. Organising an interest group for residential real estate seems easy enough to do in Germany, but you will look in vain for a logistics alliance. This needs to change.

IS THERE REALLY NO SPACE LEFT?

The supply in land available for industrial-commercial use is admittedly contracting. But to say we have run out of land would be misleading. Rather, we need to think of new ways to find or create available plots of land. This will necessitate a coordinated effort by all stakeholders. There should be general agreement that the logistics business counts among the major growth industries and that it creates jobs in large numbers. It is high time to acknowledge this and to support it, for example by providing more space.

Tobias Kassner is head of research at GARBE Industrial Real Estate