



Logistics properties at the prime locations are in short supply

Interview with Umut Ertan, Managing Director of Realogis Holding and Realogis Investment, Munich

The distribution business rightly insists on central warehouses, because in this way substantial savings and synergies can be achieved, in particular for staff costs. However, increasing numbers of properties are being rented and no longer built by the relevant company. This is pointed out by Umut Ertan, Managing Director of Realogis in the interview. Since 2005 his group of companies has been advising firms in the search for industrial and logistics properties, on fulfilment and investments. In his opinion many existing buildings urgently need to be modernised.

In your experience where is the most frequently unused potential for savings within the supply chain of the distribution business?

In our daily business we see a large number of old logistics properties with a lack of delivery options, insufficient building heights and technology which is no longer up to date. The insulation is often insufficient and the heating is outdated. This leads to high operating costs. At the same time the options for use are considerably restricted, for example for the food sector, so that the ability to lease the building is reduced.

What can you offer as an external advisor? How receptive is the distribution business to know-how from outside?

Recently we were able to successfully and exclusively support a commercial enterprise in leasing 25,000 m² of logistics property in North Rhine Westphalia. All the parties involved, such as promotion of trade and industry, project developers, architects and the planning authorities had to be coordinated within a very tight time-frame. This is very time-consuming and there are a lot of ... >>

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things to take into consideration. External advisors can save an enormous amount of time and money in these cases through their know-how and their contacts to the relevant experts. In this project it was only through the involvement of the advisor that it was possible to bring the project to a successful conclusion because of the very tight deadline. The distribution business is very receptive to property advice from qualified individuals because obtaining logistics properties is not part of the core business of the company concerned.

Tulips from Kenya or textiles from Taiwan – the movement of goods is becoming increasingly fast. How important is the warehouse in the value added chain?

The initial situations are very different here. Some warehouse costs are not the main factor within the supply chain, compared with transport costs for example. On the other hand, the right warehouse in the right location can also make enormous savings possible.

The distribution business is looking for increasingly large central warehouses. Does this make sense in your view?

Yes, by centralising the warehouse locations there are substantial savings and synergies, in particular in the field of staff costs.

Ownership, leasing or rent – what is the trend for warehouses? Are the leases becoming increasingly short-term?

The trend is increasingly towards renting, which also makes sense. At the moment the term for new-builds is more on the long side for the initial tenants because as a result of the economic crisis it is generally not possible to take out a lease for less than ten years. For current tenants there are generally terms of three to five years.

Is there a difference in the development in the distribution business compared with other sectors? Are there differences compared with other countries?

The demand for logistics properties was domina-

ted by commercial enterprises in 2009 throughout the Federal Republic. Logistics service-providers for example rented comparatively fewer properties. The relationship in 2010 re-adjusted to the longer-term more balanced average of these two key sectors.

Do you expect an increase in demand for logistics properties over the next few years?

Yes, owing to the worldwide recovery, in particular by China, demand for German exports will increase considerably. We already have a shortage of modern logistics properties in the main conurbations in good locations. This trend will accelerate further. The rental figures for the first half of this year are already higher than the values of the previous year.

How does one look for the right logistics location for one's own company?

The customer can often name the ideal location himself on the basis of internal location analyses. If not, a competent advisory company will be able to do this. It is more difficult to find a suitable building at the ideal location. In this case, one needs to check the building legislation and availability of plots of land. If there is a readiness to compromise by the company the location can also be found in an existing property. It is important that the entire market is investigated objectively before the decision is made.

The Hamburg harbour and the airport in Frankfurt are logistical hubs. Are there any plots of land left which have not yet been built on?

Demand is at its highest in these locations. Nevertheless there are still options open, in particular through the refurbishment of existing buildings, demolition or opportunities for expansion. However, there are other major intersections, such as the Nuremberg harbour, for which there will be a shortage of land in the short and medium term. Suitable existing properties are currently still available.

Warehouses are functional buildings. What is the level of standardisation?

Very high. The worldwide globalisation has defined minimum standards, as a result of which modern logistics properties are now very similar. It is irrelevant whether they are located in Germany, Turkey



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or the USA. This is also called the alternative appropriate uses, on which investors in particular place great emphasis because it ensures continuous rental income. In a modern standardised logistics property almost 90 percent of customer requirements can be met. The standard is therefore not far off the optimum level.

There are increasing numbers of traffic jams on the motorways, towns make city logistics more difficult with environmental zones, the state is earning revenue from the tax on fuel. How do the logistics experts react to this?

Naturally not with a great deal of pleasure. The competition between the various actors, which was already harsh, has intensified further. On the

other hand, there has been a change in the perception of the logistics sector, in which other users of logistics properties are also involved. Politics, the authorities as well as the general population are now not quite as sceptical of logistics as they were ten years ago.

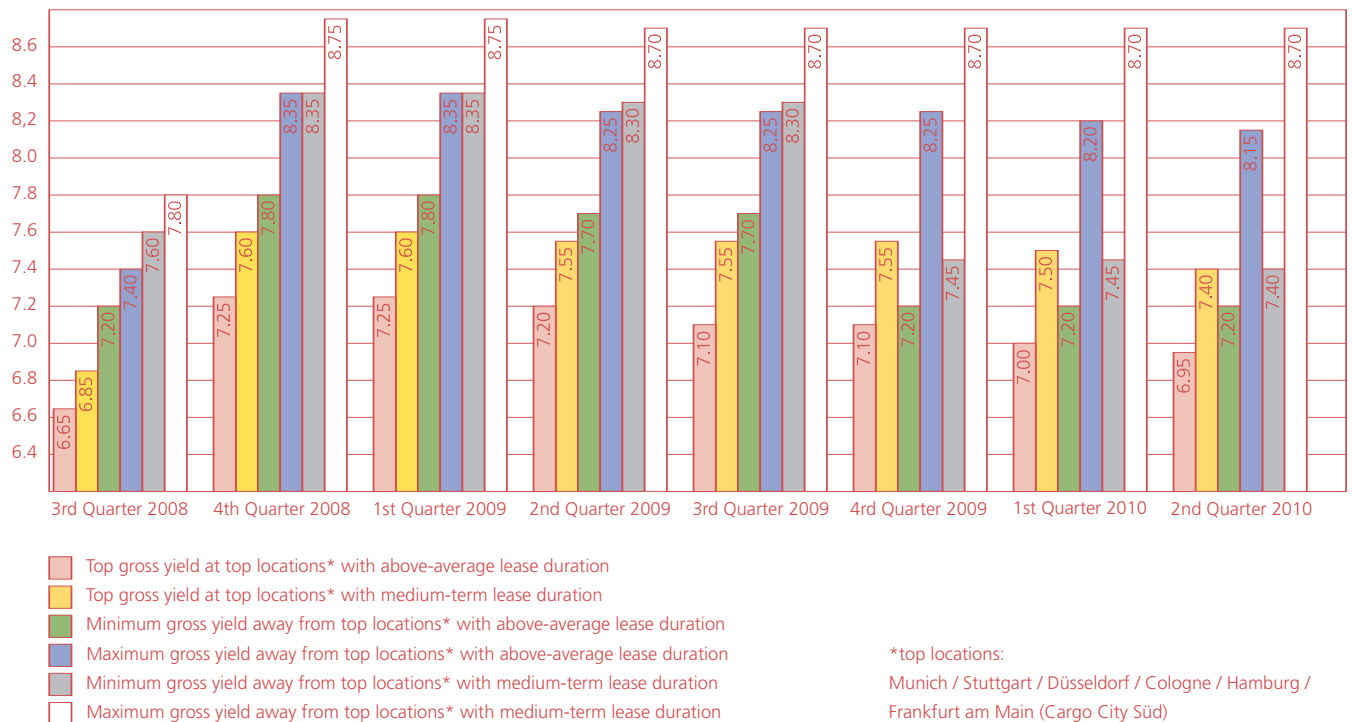
Do the railways have a future in supply chain management?

We have a request for rail connections only in very rare cases. There a role for the railways to play only for very high volumes and in industrial manufacturing processes. Nevertheless dual mode logistics properties represent a good quality of location and sustainability.

(Interview: René Schellbach, www.ixtenso.de)

Top returns for logistics properties slide to under 7%

Return on logistics properties in relation to lease duration at top locations* in Germany



Press report from 07.07.2010:

The gross earnings for logistics properties at the prime German locations of Frankfurt am Main, Hamburg and Munich have slipped under the 7% mark during the second quarter of 2010 according to figures from the Realogis broker. Last year Realogis was still able to achieve gross earnings of 7.10% to 7.25% at the best locations. Even at less prominent locations, earnings are moving downwards. The Managing Director Umut Ertan gives the reasons for the slide in the prime segment as the shortage of supply in new-build properties with long-term leases. Even for older warehouses earnings declined because there were not enough properties available – particularly in the low risk categories of core and core+. Ertan expects the first portfolio sales of logistics properties this quarter.

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