

Logistics real estate market survey: Logistics properties as crisis winners – but with risks



Although the mood among providers of logistics investments has clouded over slightly due to the crisis, almost three quarters of those surveyed expect rents for logistics properties to rise over the next three years.

Scope surveyed 16 providers of logistics investments to assess their current and future situation. Together, the respondents manage more than 380 billion euros in real estate and offer various investment solutions such as special AIF or real estate funds diversified across different types of use. A quarter of the respondents also offer investors logistics real estate investments via debt capital vehicles.

Result of the survey: Although the expectations of the 16 providers remain positive for 2020 and 2021 for all segments in which they are active, their mood is subdued compared to the previous year due to the crisis. This applies in particular to providers in the project development sector.

Due to the trend towards online shopping, which has been accelerated by the crisis, logistics investments are considered to be much more robust than the retail and hotel sector, for instance. As a result of the crisis, investors are paying more attention to the sectors in which the tenants of logistics properties are active. While online retail, food and pharmaceutical logistics are relatively crisis-resistant, the letting risks in the automotive industry including its suppliers and in mechanical engineering have increased.

Rising rents expected – at least for the next three years

Despite the corona crisis, 73% of those surveyed expect rental prices for logistics properties to increase in the next three years. 27% expect stagnation. The development of rents will vary depending on location and economic structure. Good locations in metropolitan areas will become more expensive, while logistics centres in rural areas will be less in demand. Regions with an industrial character and dependence on crisis-prone sectors are more likely to experience declining rents.

In the short term, however, supply rents have fallen. From the beginning of the year to June 2020, prices fell by 8.6% and year-on-year by 3.4%. Only the metropolitan area of Berlin, which has the least industrial character, was excluded from this development and even shows a significant increase in supply rents in June 2020 compared to the beginning of the year by 14.5%. 60% of those surveyed expect returns of between 4% to 5%.

Germany remains in focus

Germany remains the most attractive logistics location for investors in the European context. 56% of those surveyed consider it attractive and as many as 44% consider it very attractive. Germany remains by far the largest market in Europe. The geographical location, infrastructure, economic performance, high technological standards and, last but not least, the large number of inhabitants with relatively high purchasing power (who can be reached as consumers) also speak in its favor.

Digression: open-ended mutual property funds plan more logistics properties

In addition to the logistics real estate market survey, the Scope rating agency asked the managers of open-ended real estate funds about the likely development of the shares of types of use in the portfolios in spring 2020. The result: 44% of the providers of open-ended real estate funds plan to increase their purchases of logistics properties in the next three years. Only 6% expect sales. By contrast, the intention to sell is predominant in the case of retail properties. 22% of those surveyed are considering selling and only around 17% expect to buy.

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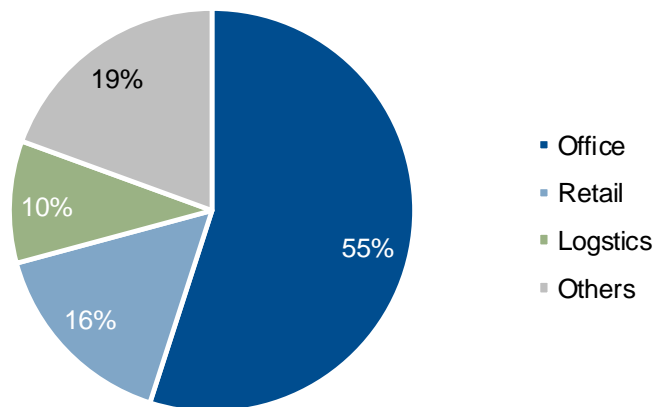
Logistics real estate – transaction volume remains high despite Covid 19 crisis

The importance of logistics properties in the portfolios of institutional real estate investors continues to grow steadily. The weight of these special properties is also increasing in more broadly diversified private investor funds. A key driver of this development is the sharp rise in the market share of online shopping and the associated change in the retail sector. However, the regular business with contract logistics also continues to perform very well.

Transaction volume 2019:
7.7 billion euros

According to the spring report 2020 of the Zentraler Immobilien Ausschuss e.V. (ZIA), an investment volume of 7.7 billion euros was implemented in the German logistics sector in 2019. This is almost the same as the previous year's figure. Looking at the entire commercial property investment market (2018: c. EUR 61 billion; 2019: EUR 72.6 billion), the logistics segment is in third place after office and retail with 9.2% and 10.6%, respectively, in both 2018 and 2019.

Figure 1: Investment volume by segment in Germany 2019



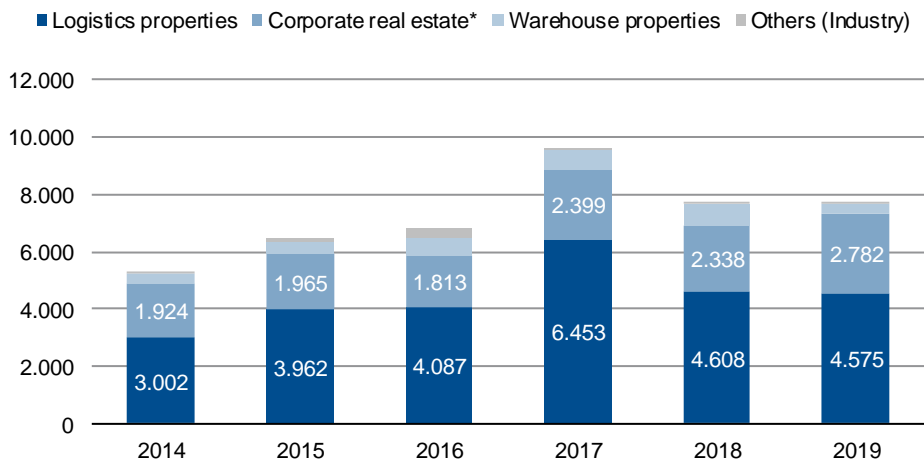
Source: ZIA Spring Report 2020; Design: Scope Analysis

1H20 transaction volume: 3,7 billion euros

Despite the Covid 19 crisis, the transaction volume in the logistics sector reached between 3.5 and 3.7 billion euros in the first half of 2020 according to the brokerage companies. This corresponds to the second-best half-year result after 2017, when more than five billion euros were achieved. It should be noted, however, that only around 38% of the transaction volume of the first half of the year occurred in the second quarter.

Scope assumes that logistics investments in Germany will remain attractive for investors despite the Covid 19 crisis. The reasons: During the crisis, stationary retail (excluding pharmaceuticals and food) or hotel segment suffered particularly badly. The logistics sector shows strong differentiation. Depending on the tenant mix, there are significant differences in the level of rent deferrals of up to 40% in the various logistics sectors in the wake of the Covid 19 crisis. The comparatively limited supply of logistics properties, among other things because of a lack of plots in core locations that are available for construction activities, is driving prices. Investors will also pay more attention to the sectors of the property users in the future. Logistics properties are particularly sought after if their tenants come from industries that are less affected by Covid 19, such as online retail, food logistics or pharmaceuticals. Scope currently views the automotive sector, including its suppliers, and mechanical engineering with particular caution. Although Germany as an export nation is suffering particularly from the consequences of the Covid 19 crisis, it is well positioned in the European context. It is therefore important to keep a close eye on how the respective companies are developing.

Figure 2: Investment volume in commercially used real estate with logistics focus in Germany (in million euros)



*transformation/production real estate, industrial parks;
Source: ZIA Spring Report 2020; Design: Scope Analysis

Market survey: Sentiment among providers subdued – also for 2021

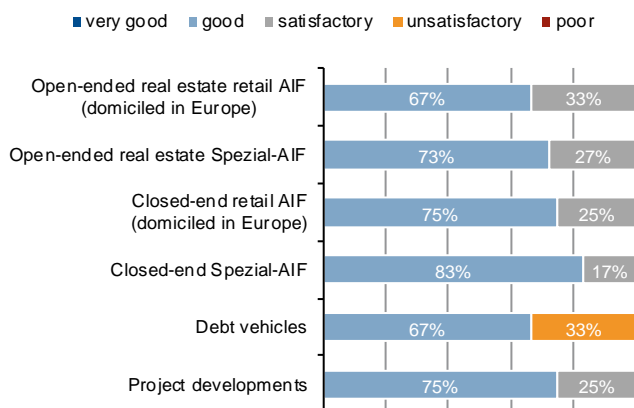
With regard to the year 2020, the surveyed providers of real estate investments assess the situation in almost all segments in which they are active as "good" or at least "neutral". They expect an improvement for 2021, but no provider assesses the situation for the coming year as "very good". The situation has deteriorated compared to the previous year's survey, particularly for providers in the project development sector. A year ago, 90% of these providers rated their situation for 2019 as "good" or "very good". In the current survey, only 75% of those surveyed rated their situation for 2020 as "good".

Providers of closed-end special AIF also largely assess their current situation for 2020 as "good", at 83%. For 2021 all providers of closed-end special AIF assess their situation as "good". It is therefore not surprising that, according to BNP Paribas Real Estate, special funds accounted for the largest share of the transaction volume in 2019, at 23.4%.¹ Despite the gloomier mood compared with the previous year, numerous providers are planning to launch or develop new products. Among other this development is due to, to the still low interest rates and high liquidity available on the market, but also due to the sharp rise in risks in other types of property use, such as retail or hotels. The logistics real estate segment is therefore an attractive investment alternative.

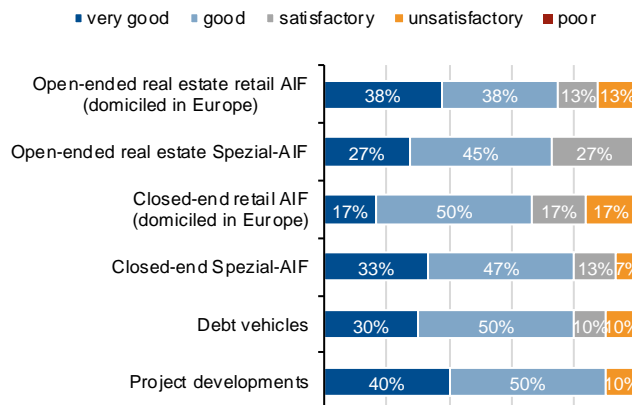
¹BNP Paribas Real Estate: Property Report 2020 – Logistikmarkt Deutschland

Figure 3: How do you assess the situation for your company in the current year (2020) in the business areas in which you are active?

2020:



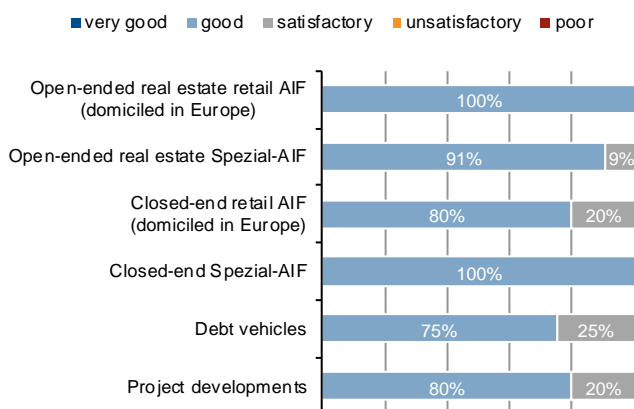
Antwort aus der Umfrage im Jahr 2019:



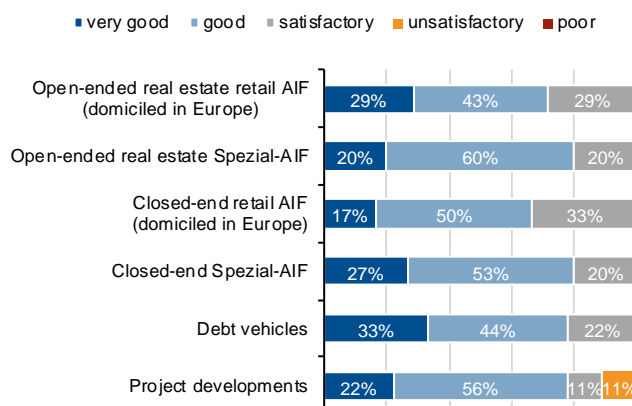
Source & Design: Scope Analysis

Figure 4: How do you assess the situation for your company for the next year (2021) in the business areas in which you are active?

2020:



Antwort aus der Umfrage im Jahr 2019:



Source & Design: Scope Analysis

Rising rents expected

One result of the survey that is striking at first glance is that 73% of those surveyed still expect rent increases in the next three years despite the Covid 19 crisis. In contrast, 27% expect stagnation.

One explanation: Rents will increase primarily in good locations. This applies above all to logistics centres in metropolitan areas. However, they form only a part of the logistics property market. For other segments and locations - above all logistics centres in rural areas - the prospects are less positive.

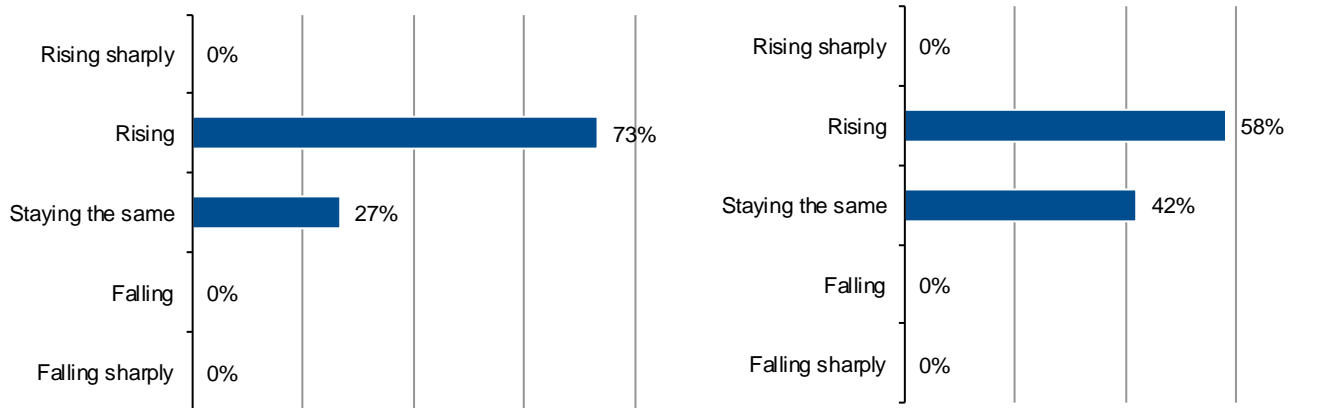
Furthermore, the development of rents depends on the economic structure of the regions. Rents will tend to fall in those regions that are heavily industrialised and depend on sectors that are strongly affected by the crisis, such as the automotive sector. BNP Paribas provides initial indications of this in its current research² on the Stuttgart location.³ Space take-up in the first two quarters of 2020 reached its lowest half-yearly result since 2014.

In the short term, moreover, the impact of Covid-19 on supply rents is already becoming apparent. According to an analysis by ImmoScout24, these have fallen by 8.6% from the beginning of 2020 to June, and prices have fallen by 3.4% year-on-year. This was the owners' reaction to a collapse in demand for storage space and distribution centres at the peak of the Covid-19 crisis in Germany to date. Only the metropolitan area of Berlin, which has the least industrial character, was excluded from this development and even shows a significant increase in supply rents in June 2020 of 14.5% compared to the beginning of the year.⁴

Figure 5: What rental price trends do you expect for logistics properties over the next three years?

2020:

Response from the survey in 2019:



Source & Design: Scope Analysis

Expected returns – 60% expect returns between 4.0% and 5.0%

The average initial net yield in the logistics sector in Germany in 2019 was 5.3%. However, according to the ZIA Spring Report 2020, it only reached 3.9% in the A-cities.⁵ In the first half of 2020, the brokerage houses determined an average initial net yield of between 3.5% and 4.0% for the top investment locations. In the case of newly built properties in very good locations within established logistics regions and with tenants of high credit standing, the

²BNP Paribas Real Estate: At a Glance Q1 2020 – Logistikmarkt Stuttgart

³BNP Paribas Real Estate: Logistikmarkt Stuttgart steht im Zeichen von Corona (15.07.2020)

⁴ImmoScout24: Boom des Online-Handels spiegelt sich noch nicht in der Nachfrage nach Logistikimmobilien wider (20.07.2020)

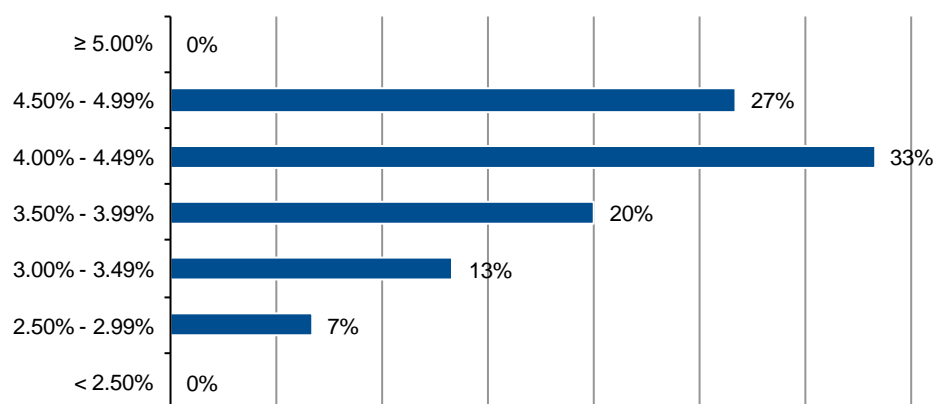
⁵ZIA: Spring Report 2020

brokerage houses have also registered transactions with net initial yields that are still significantly lower.

For 2020, one third of those surveyed expect net initial yields in a corridor of 4.0% to 4.5%. 27% of those surveyed even expect returns of up to 5%.

At present, returns in the logistics sector are difficult to forecast. On the one hand, due to the Covid 19 crisis, some logistics segments are trading at high prices, such as the food or pharmaceutical sectors. On the other hand, other industrial segments, such as the automotive sector including its suppliers, are under particularly strong pressure.

Figure 6: What yield level (net initial yield) will logistics investments achieve on average by the end of 2020?



Source & Design: Scope Analysis

Logistics markets: Germany still in focus

According to the product suppliers surveyed, Germany remains the most attractive logistics location for investors in the European context. 56% of those surveyed consider it attractive and as many as 44% consider it very attractive. One reason for the clear result is certainly that the respondents are mainly active in Germany. However, according to the Fraunhofer SCS, Germany is also the largest market in Europe in terms of logistics turnover, with EUR 278 billion in 2018.⁶ The World Bank's Logistics Performance Index regularly places Germany in first place worldwide.⁷ Germany is also one of the most important markets in Europe due to its geographical location, infrastructure, economic performance, high technology standards and, last but not least, the large number of inhabitants with relatively high purchasing power who can be reached as consumers.

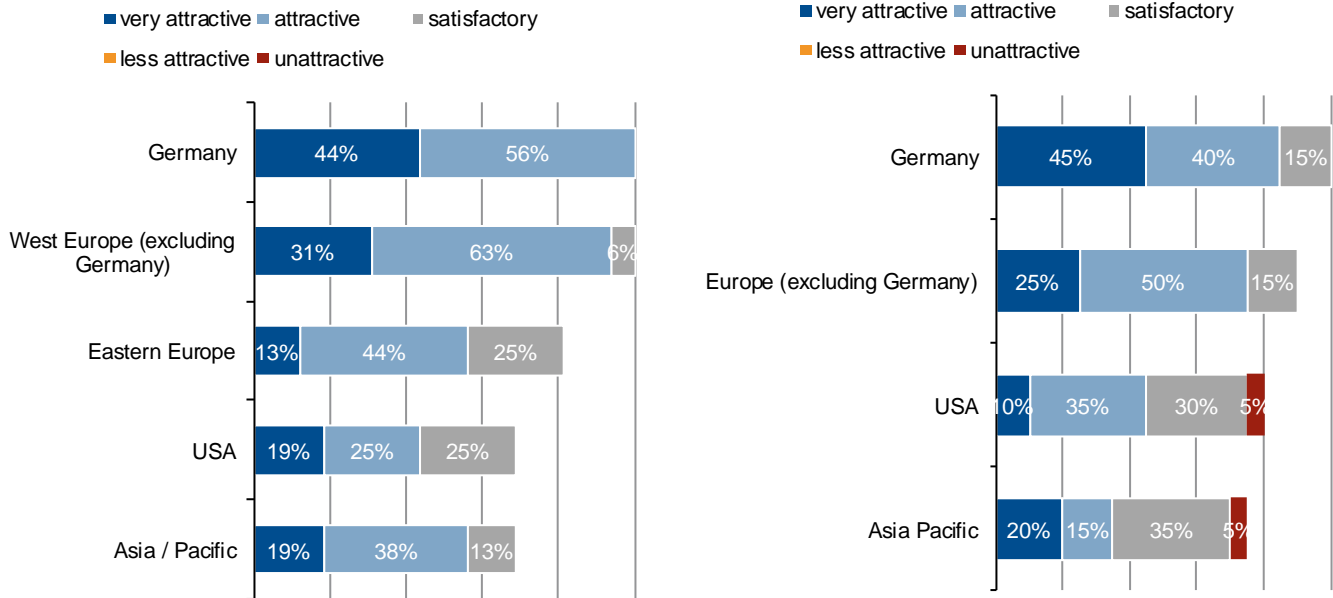
⁶Fraunhofer SCS: TOP 100 in European Transport and Logistics Services 2019/2020

⁷THE WORLD BANK: Logistics Performance Index

Figure 7: How do you basically assess the following logistics markets from an investor perspective?

2020:

Response from the survey in the year 2019:

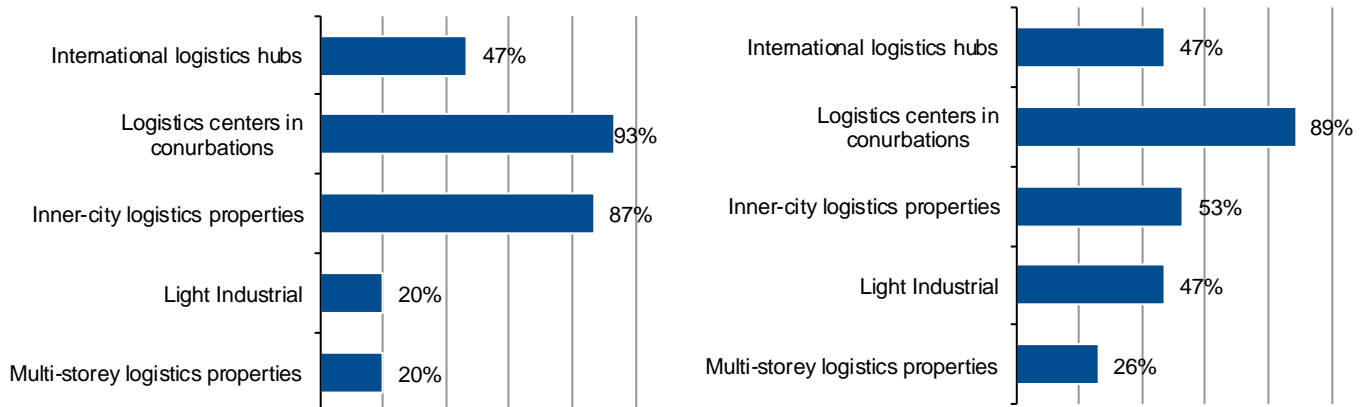


Source & Design: Scope Analysis

Figure 8: Which logistics markets are currently the most interesting for your company?

2020:

Response from the survey in the year 2019:



Source & Design: Scope Analysis

Logistics centres in the conurbations are still ahead in the favour of suppliers

In terms of the type of logistics property, logistics centers in the seven major conurbations (Berlin, Düsseldorf, Frankfurt, Hamburg, Leipzig, Munich and Stuttgart) continue to lead the pack in terms of providers. More than 90% of the respondents rate them as interesting. Inner-city logistics properties follow close behind with 87%, followed by international logistics hubs at a slight distance (47%). It is therefore not surprising that, according to BNP Paribas Real Estate, approx. 24% (in 2019) and 28% (in the first half of 2020) of the transaction volume in the logistics segment is attributable to conurbations. By comparison,

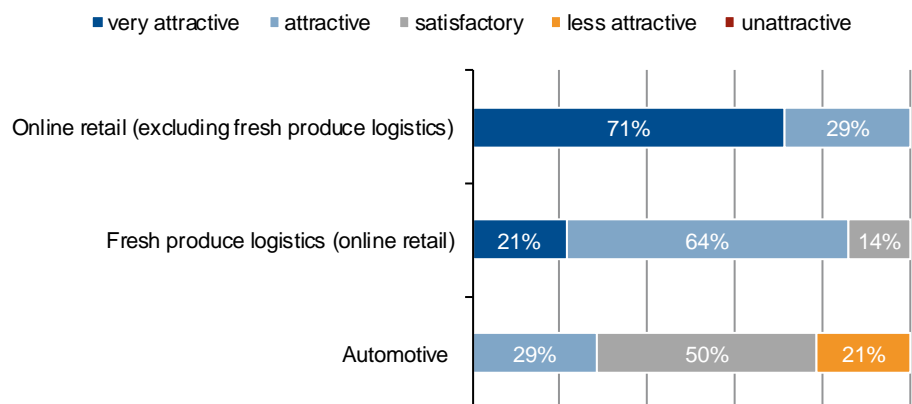
in 2018 EUR 1.9 billion or 27.1% of the transaction volume will be attributable to conurbations.⁸

The fact that less than half of the respondents rely on international logistics hubs indicates the coming end of large "boxes" in rural regions ("in the area"). In the past, this type of logistics property has always been at the top of the shopping list of asset management companies.

The assessment of multi-storey logistics properties is remarkable. Only 20% currently consider them interesting. Two-storey warehouses are often seen as the model of the future, enabling the company to respond to rising land costs in core locations that are in high demand for other types of use (especially residential). However, there are currently hardly any properties available, which confirms the comparatively low survey value. Nevertheless, it is very likely that demand here will increase in the future.

When asked how providers assess future demand from the online retail (excluding fresh produce logistics), fresh produce logistics (online retail) and automotive sectors, online retail (excluding fresh produce logistics) in particular was rated very positively. 29% of the providers rated this area as "good" and 71% even as "very good". Automobile received the most negative evaluation. It comes as no surprise that the assessment of online retail is positive: in the Covid 19 crisis, customers' purchasing behaviour shifted further from bricks-and-mortar retail to online retail. The automotive and mechanical engineering sectors have suffered greatly as a result of the Corona pandemic and the associated economic crisis.

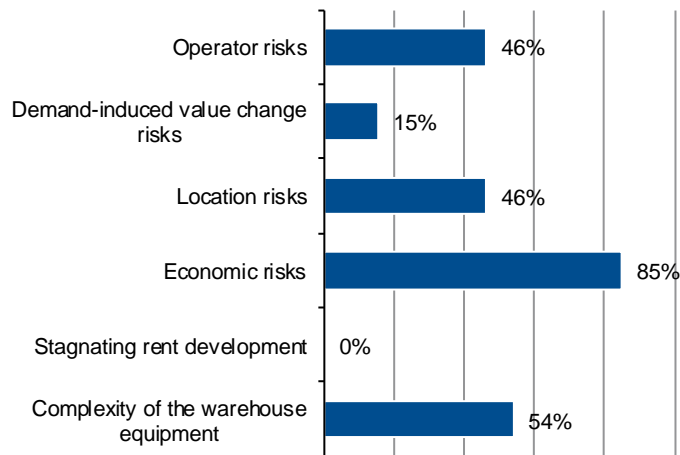
Figure 9: How do you see future demand from the following areas:



Source & Design: Scope Analysis

Figure 10: What do you consider to be the biggest risks in logistics investments?

2020:



Response from the survey in the year 2019:



Source & Design: Scope Analysis

85% of those surveyed still regard economic risks as the greatest risk for logistics investments. Scope assumes that Germany will see a decline of around 5.5% of real GDP in 2020 and even expects a decline of 9.1% for the Euro region (see Sovereign Outlook Q3 Update). The logistics sector will also not be unaffected by this development. The Covid 19 crisis will affect the users of logistics properties in different ways, depending on whether the property in question is an inner city logistics property or a logistics hub. Scope expects losses in the industrial sector in particular which is also heavily dependent on foreign trade. This sector affects a large proportion of logistics users.

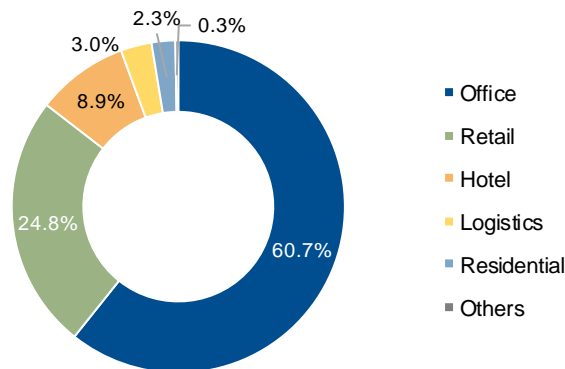
Digression: Open-ended mutual property funds plan further expansion of investments in logistics properties

In addition to the survey of providers of logistics real estate funds described above, the rating agency Scope asked the managers of open-ended real estate funds in spring 2020 about the likely development of the shares of the types of use in the portfolios. The result: 44% of the providers of open-ended real estate funds plan to increase their purchases of logistics properties in the next three years. Only 6% expect sales. By contrast, the intention to sell is predominant in the case of retail properties. 22% of those surveyed are considering selling and only around 17% expect to buy. This survey result also reflects the structural change due to the increasing market share of online shopping. At present, consumer behavior is increasingly influenced by online shopping as a result of the Covid 19 crisis, with stationary retail in the non-food sector suffering particularly badly. As a result, retail properties – especially shopping centers – are expected to be purchased much less frequently by open-ended real estate funds this year. Logistics and residential real estate are therefore becoming a more important focus of fund managers.

Logistics properties account for around 3% of the portfolios of open-ended property funds

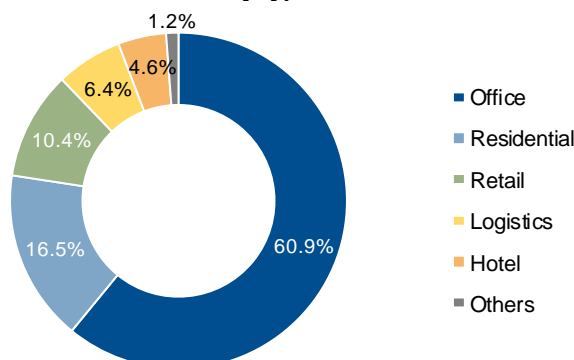
Background: Open-ended real estate funds managed a market value volume of around 90 billion euros in 2019. The share of logistics properties in the portfolios has increased from 2.7% at the end of 2018 to 3.0% at the end of 2019. In 2019, purchases of around EUR 8 billion were made. Logistics properties accounted for 6.4% of the purchase volume. This represents an increase of 3.6 percentage points compared to 2018, but logistics properties still play a subordinate role in the overall portfolio context. But almost two-thirds of the fund managers plan to increase the logistics share of the portfolios. Some 10% of those surveyed are even planning a significant expansion (see Fig. 12).

Figure 11: Allocation of portfolios by type of use at the end of 2019



Source & Design: Scope Analysis; Market study and ratings 2020.

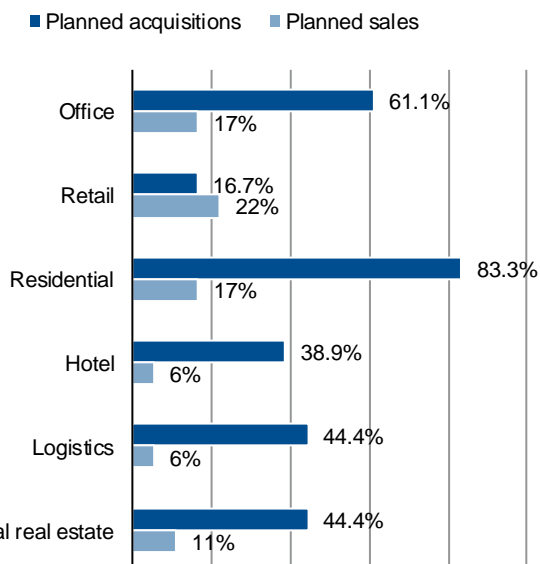
Figure 12: Investments by type of use 2019



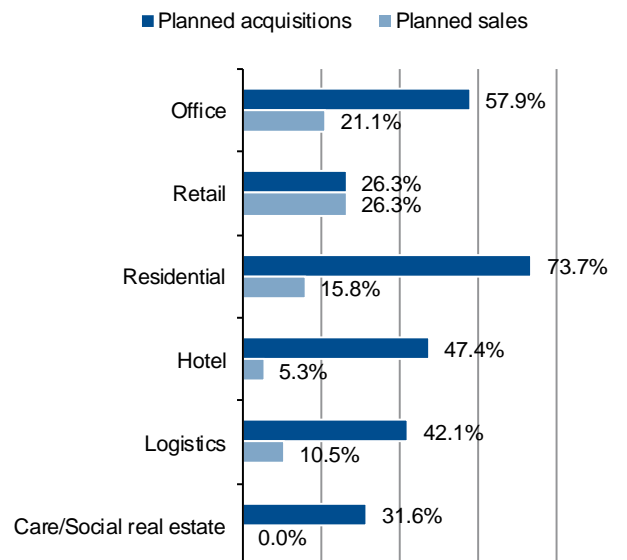
Source & Design: Scope Analysis; Market study and ratings 2020.

Figure 13: Which types of use will increasingly be the focus of your transactions in the next three years (2020 - 2022)?

2020:



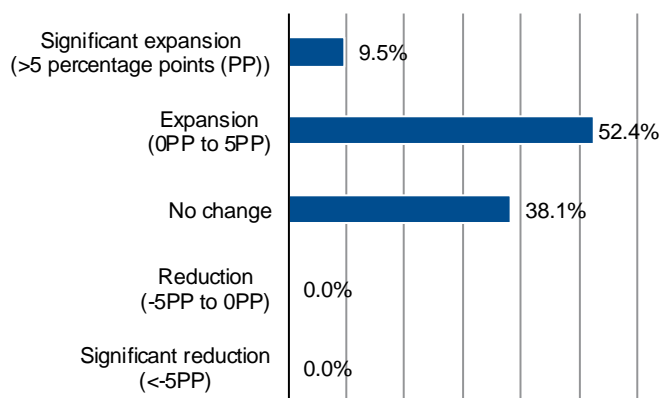
Response from the survey in 2019:



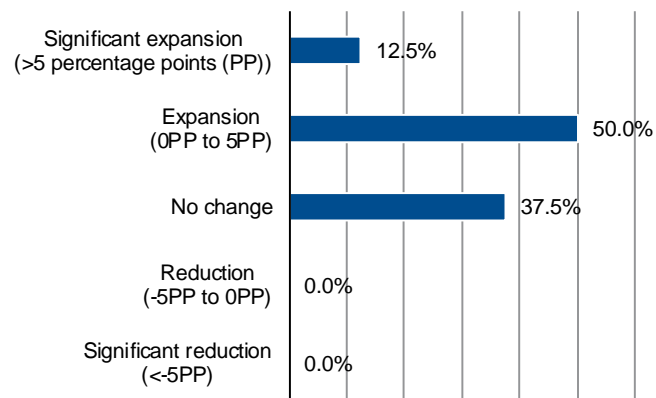
Source & Design: Scope Analysis, [Market study and ratings 2020](#).

Figure 14: Against the background of the growing importance of e-commerce: How will your target allocation for the usage type "logistics" change over the next three years (2020 - 2022)?

2020:



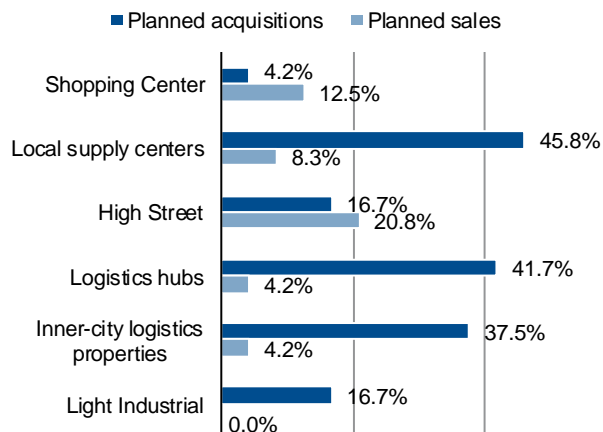
Response from the survey in 2019:



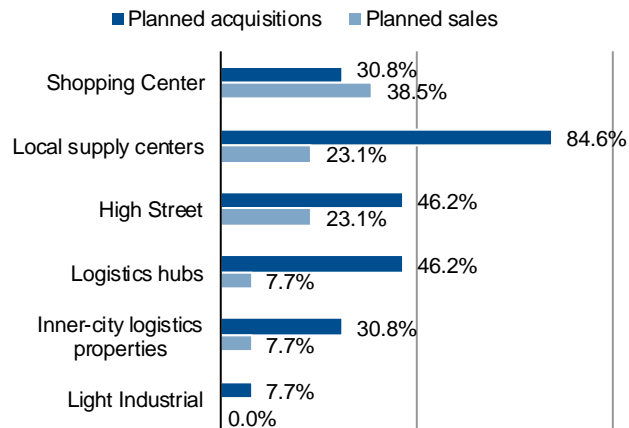
Source & Design: Scope Analysis, [Market study and ratings 2020](#).

Figure 15: What concrete influence does this have on your investment behaviour?

2020:



Response from the survey in 2019:



Source & Design: Scope Analysis, [Market study and ratings 2020](#).

Interview with Peter Salostowitz, IndustrialPort GmbH & Co. KG



IndustrialPort is Germany's leading company for the analysis and provision of comprehensive specialist information on hall buildings and logistics properties and regularly publishes Germany-wide market reports together with the international real estate consulting companies Catella and Savills.

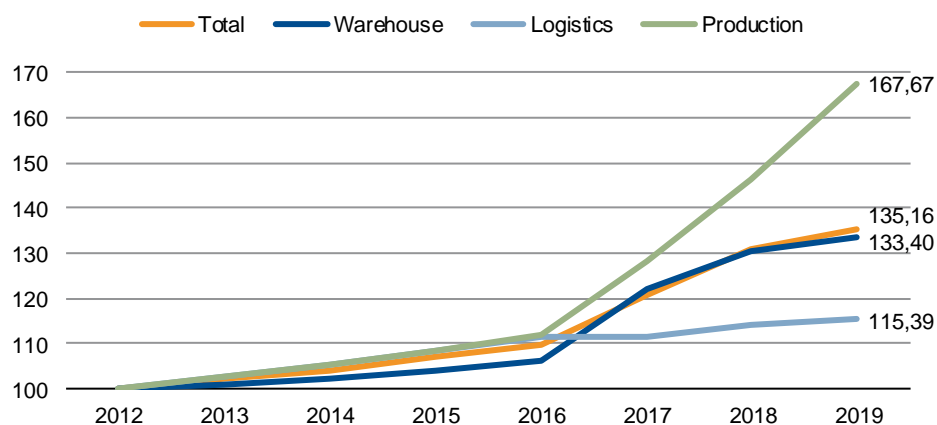
What key statements can be derived from your industrial property index in 2019? Are changes discernible?

The growth in rents has slowed down noticeably. Rents are still rising significantly in the core locations. By contrast, stagnation can be observed in the less established locations, although the absolute level of rents has in some cases approached the level of rents in the core location in recent years. It is interesting to note, however, that in the peripheral locations the rental price growth is strongest. These are catch-up effects. The background to this is above all the low availability of land in the conurbations.

Rental price growth has slowed noticeably, with relative rental price growth being strongest in peripheral locations. Here we are talking about catch-up effects. The background to this is primarily the low availability of land in the conurbations, which is leading to settlements on the periphery.

The rental dynamics are reflected in the three categories of use: warehouse, logistics and production are different. In 2019, rents for production halls rose most sharply. At 14.6%, the increase was at the level of the two previous years. Rents for warehouses rose by only 2.2% in 2019. As in the previous year, growth has thus slowed down considerably. Rents for logistics warehouses showed the weakest development. Only a slight increase of 1.0% can be identified here. The weak upward trend of previous years thus continued. One of the main reasons for the particularly strong increase in warehouse and production halls compared with logistics halls is that the two types of hall, warehouse and production, are increasingly being used as logistics areas for which a higher rent can be charged. This shows a great advantage of buildings that are simple and robust, but allow more flexible use.

Figure 16: Industrial Property Index (IWIP): 2012 = 100



Source: IndustrialPort; Design: Scope Analysis

What market development in the logistics sector has the Covid 19 crisis led to in recent weeks or months?

Logistics properties are still in demand among investors. However, due to the statement by the German government that rents for commercial space may be paid at a later date, some tenants have reduced or stopped paying rent. This has led to defaults, some of which are considerable. However, these losses are also dependent on the sector, so that it can be seen that the fund companies were hit quite differently, depending on the tenant mix. The automotive sector in particular has suffered greatly. On the other hand, food logistics, pharmaceutical logistics and mail order logistics companies have a higher demand and thus need. This gives rise to the desire on the part of owners to give preference to letting vacant space to "crisis-proof" sectors.

Mr Salostowitz, what development do you expect this year and next year in the logistics sector in terms of demand for space?

Many market participants assume that logistics will come through the crisis and the associated shutdown better than other types of real estate such as retail or hotel. But even before the crisis, industrial production was already weakening - as a result of a slowdown in the overall economy. Now other industrial companies are also coming into difficulties - such as the aviation industry. Estimates by economic research institutes are predicting significant declines in German gross domestic product. Although some areas of logistics are booming, such as online retailing, pharmaceuticals and health care, it is unlikely that they will be able to compensate for the expected declines in other sectors of industry and trade.

This is also the view taken by some scenarios relating to total revenues, such as that of BCI Global, which assumes slumps of up to around 40% in revenues, depending on when the company returns to normal operations. These scenarios received initial "support" from take-up announcements by brokers or sublease offers from major logistics service providers. As a result, demand for space will tend to decline.

And what is your forecast for transaction volume?

Despite all the negative news from the economy, such as rising unemployment and high uncertainty about the future, it is noticeable that there is still a lot of money in the market and that it is now looking for its way.

Due to the developments of the last few weeks, investors are increasingly turning away from hotels and retail. Office space is now also being viewed more critically. Thus the focus is moving towards logistics.

In addition, it is felt that every second week a large new fund specialising in logistics real estate is coming onto the market. Most of the new funds have the same purchase profile, so that the sought-after properties will continue to experience positive market developments.

Funds that are not willing or able to play a role in these locations will increasingly move into the more peripheral areas and acquire less marketable buildings with a higher risk profile, such as production properties or multi-storey logistics properties.

This means that in 2020 - well into 2021 - we will continue to see a high transaction volume.

What changes or trends in the logistics markets do you expect in the short term, but also in the medium term against the background of the Covid 19 crisis?

Against the background that about half of the logistics performance in Germany is industrial logistics and is the key industry in the mechanical engineering/automotive sector, there will be deeper cuts at this point for the first time. The economic development to date, which has had a dampening effect on rents, already proves this. The German Chamber of Industry and Commerce (DIHK) expects German economic output to slump by 10% in 2020, and for the export industry even to decline by 15%. This will not leave the logistics required for this unscathed, especially if the steadily increasing number of economic experts are right, which rules out a V-shaped recovery of the economy. Thus, the locations that are interesting for this type of logistics and have a high level of warehouse space for these industries will have to contend with vacancies.

Another 30% or so of the logistics performance is accounted for by trade logistics. The Covid 19 crisis will probably lead to an increase in home office activity, but also to higher unemployment. As a result, consumption will be reduced on the one hand, and on the other hand, the question arises as to whether today's halls are always in the right locations or whether the available space will be able to meet the changing demands of use. I would not affirm this in every case.

The other 20% of the logistical performance is broadly diversified. No clear statements can be made here.

Which logistics concepts are most affected by the Covid 19 crisis, positively or negatively?

Up to now, there have been two views that were more or less diametrically opposed: warehousing versus just-in-time. While warehousing is more expensive, it offered a supposed advantage in the event of strikes or "unpunctuality". In Corona times, however, it became a real competitive advantage for its users, because it was the only way to ensure that production could continue, while goods coming mainly from Asia were no longer arriving just-in-time due to plant closures, collapsing supply chains or closed borders. It is therefore not without reason that many companies are thinking about returning to warehousing - in whatever form and to whatever extent.

In connection with this realization, many industrial companies - but also politicians - have expressed the wish to manufacture certain products in Germany again, such as vital pharmaceutical products (e.g. antibiotics), medical equipment (e.g. respirators) or hygiene articles (e.g. masks and gloves), in order to limit dependencies on China.

And last but not least, the fact that borders were closed for weeks led to the insight that logistics facilities that are on the "Eastern European" side of the border for cost reasons often lose their financial advantage in times of closed borders.

It can therefore be assumed that - at least for a moment of shock - this will lead to a rethink in industry and logistics with regard to warehousing and the question of location. Whether the old patterns of thought will then prevail due to cost pressure or whether it will lead to actually new patterns of action is completely open, however.

In your opinion, what are the biggest risks for the logistics sector and why?

A huge issue is whether the formerly existing supply chains are still functioning or when they will function again. Non-functioning logistics chains can very quickly lead to production stops through no fault of one's own - combined with a high risk of insolvency. Politicians have reacted to this and ensured that insolvencies are "not accepted" by the courts. However, this only leads to a shift. As a result, we will see a high level of insolvencies at the end of 2020, coupled with a sharp rise in unemployment. This, in turn, will lead to a drop in demand - and consequently fewer logistical services will be needed.

This effect will also be intensified by the decline in industrial production. After all, industrial production is the backbone of German logistics.

The topic of home offices will also have a very significant impact on logistics - and not only when it comes to transporting conference baked goods.

Issues such as construction site logistics will receive little attention in the event of a decline in orders in the construction industry, should the crisis that has been pointed out materialize.

So there are many aspects that have an impact on logistics - the most serious, however, would be a severe slump in the German economy - as well as in the global economy for an exporting nation like Germany. And that is unfortunately what it looks like at the moment.

Do you see a change in investor behavior due to Covid-19? If so, which one?

The trend is clearly towards logistics real estate - in conjunction with the establishment of new logistics real estate funds - and at the expense of hotel and retail real estate.

In most cases, Germany is now only a sub-market. This means that the focus is increasingly becoming European. However, there is no uniform trend for Eastern or Western European markets. Also, due to the scarcity of the product in the desired locations, "auxiliary" production properties and locations that have been rather avoided so far are being bought. The trend towards top locations will continue, but the shortage of products is forcing companies to move to the periphery.

When looking at users, there will be an increased focus on sectors that are considered winners of the crisis, i.e. primarily medicine, pharmaceuticals and online trading. The automotive and aviation industries are rather avoided. There will be no change at all with regard to the growing importance of ESG, which further reinforces the winner/loser issue in the selection of sectors.

Mr Salostowitz, thank you for this interview.



Market survey logistics real estate

Logistics real estate as new crisis winners with risks

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