

Logistics industry from the institutional investor's perspective

Article 1: Starting a Community of Inquiry and investigating why an institutional investor puts money into logistics

1. With respect to this article series

I am planning to write a series of short articles on the logistics industry to help facilitate internal improvements within my company, and facilitate a thesis on mutual profitable cooperation between a landlord and his logistics tenants. I currently work for DekaBank, one of the largest investment banks worldwide, headquartered in Frankfurt, Germany. One of the many asset classes DekaBank invests in is logistics and light industrial. Despite being a niche-player in this specific market, the company already owns more than fifty buildings across 12 countries, mainly in Europe. DekaBank's logistics investment volume is currently at approx. 2 billion euros.

To get the best and most accurate information on logistics matters, I would like to introduce the **CoI** (Community of Inquiry) principle in the following three LinkedIn groups:



Logistics Network



● Global Logistics & Supply Chain Professional Group



● Logistics Executive



● LinkedIn Pulse

My hope is that by jointly evaluating, enhancing and extending each article's contents, we will eventually gain a multi-disciplinary insight into the institutional investment side of logistics housing. And hopefully we find a way to connect mutual interests and getting a better insight into mutual struggling cases between the landlord and the logistics tenant, and by all means find possible solutions for it. For my company, it would mean that I can share the insights of numerous industry professionals, be it C-Suite executives, supply chain and construction specialists, developers and so on.

This joint CoI effort also gives participating logistics providers a unique understanding of the financial and economic behaviour of the institutional investor in the logistics housing business. In my opinion, this mutual sharing of knowledge (i.e. being transparent with each other instead of working from behind closed doors) creates a win-win situation for both the institutional investor and the logistics specialist.

2. Purpose of a Community of Inquiry

Very loosely, a Community of Inquiry is a group of individuals exploring a specific topic or problematic situation. Within professional and academic circles, but also in the general public, the use of communities of inquiry is well-known and wide spread, albeit not always named as such. Academia was the first to be relatively successful in identifying the properties of asynchronous learning networks, and the construct that has attracted considerable attention in higher education is that of the community of learners.

Higher education has consistently viewed community as essential to supporting higher levels of collaborative learning and discourse. Moreover, the asynchronous nature of online communication and the potential it presents for disconnectedness has focused attention on the issue of community. For the sake of argument, we will assume that a sense of community can be created online and that

we can apply the community of inquiry framework to the dialogue in our groups, as defined by Garrison, Cleveland-Innes and Fung (2004) and Arbaugh and Hwang (2006).

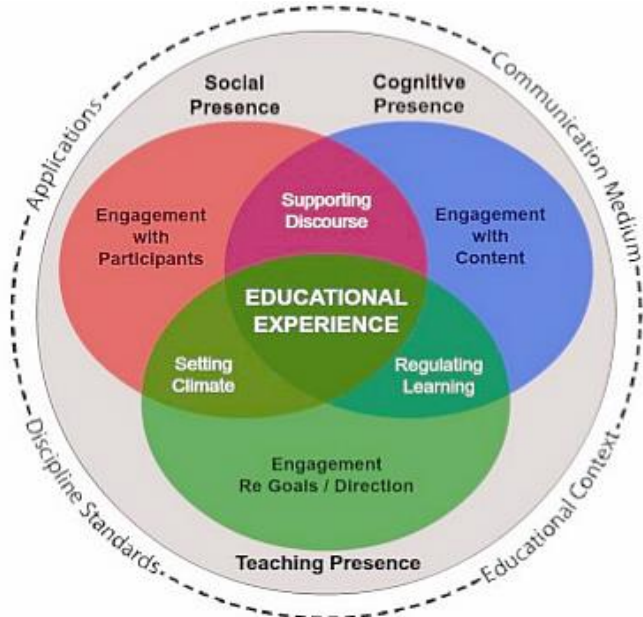


Figure 1: Community of inquiry Framework (source: Garrison, D.R., 2007)

I propose that everybody who wants to join this effort simply give his professional opinion and input, thus enabling the complete article series to become a useful extension of our body of knowledge. To assist this, I will leave some unanswered questions at the end of every article.

3. Investment considerations

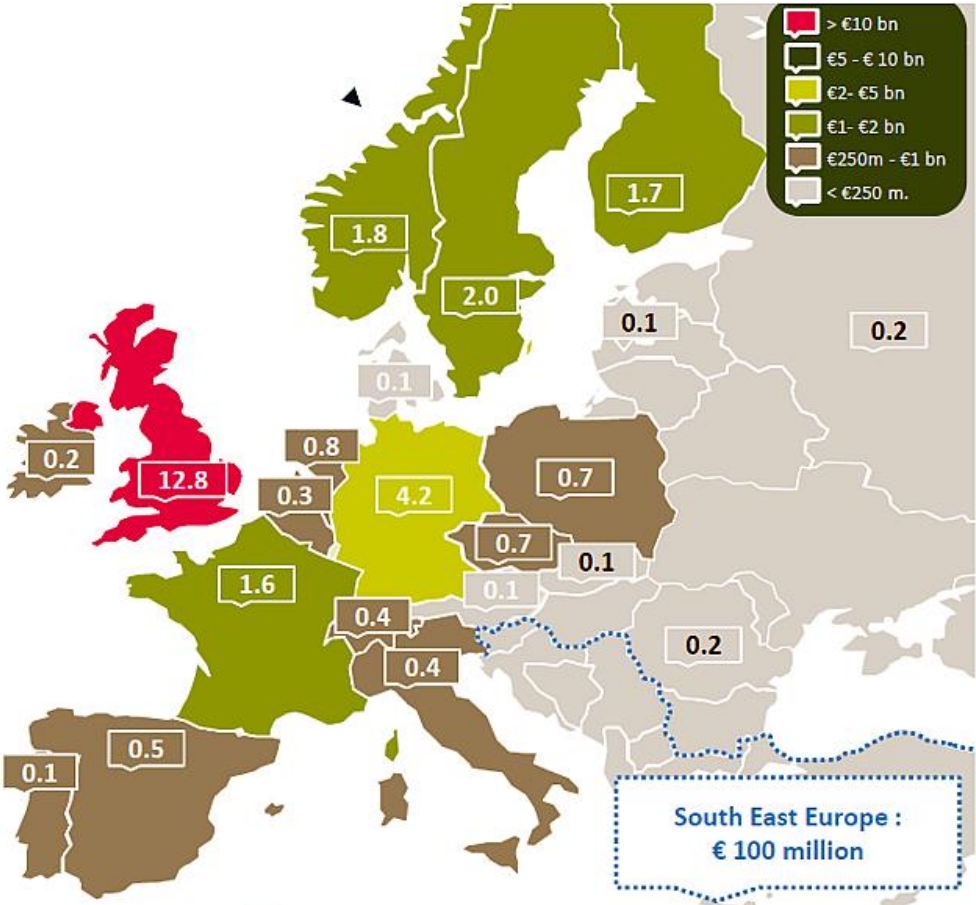


Figure 1: Investment volumes in logistics premises in 2014 (source: BNP Paribas, DekaBank, 2015)

The logistics industry provides investment banks such as DekaBank yet another tool to enhance risk-spread in their global property portfolios, diversifying asset liability matching and strengthening the growth potential of the logistics housing category. At the same time, it provides an acceptable investment yield with stable pricing in a category that typically has very good tenant solvency and credibility.

Having a separate logistics portfolio also provides regular high dividend payouts to the shareholders because of the high after-tax income. Also, the logistics asset class is becoming ever more important due to the steady rise of e-commerce and globalisation.

Decision-making amongst institutional investors is firmly grounded in scientific research, extensive market reconnaissance, top-notch consulting services and the use of internal resources. For an investment bank such as DekaBank, which is active in 23 countries worldwide, these internal resources are a priceless asset. For banks like DekaBank, many of these investment decisions are drawn from macro-economic figures and analysis.

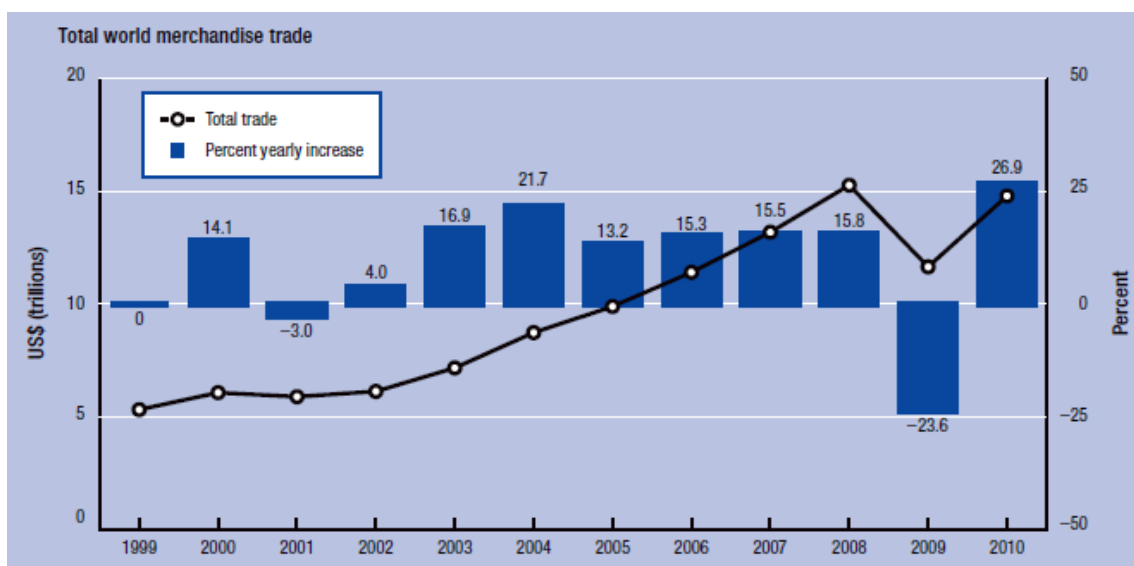


Figure 3: Total world merchandise trade 1999-2010 (source: Ratliff & Ramudhin, 2012)

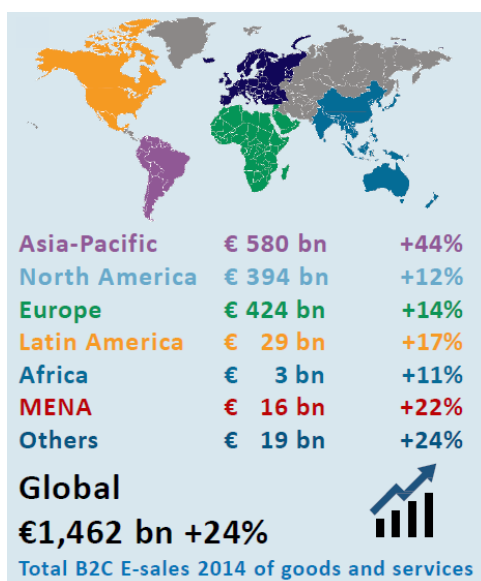


Figure 4: Total B2C E-sales 2014 of goods and services (source: Ecommerce Foundation, 2015)



Figure 5: Top 10 E-Commerce countries (source: Ecommerce Foundation, 2015)

The above statistics are only a few of the many that are combined and interpreted to make a judgment about investments in the logistics industry. Data is compiled and analysed to make international comparisons of macroeconomic conditions using a number of elementary performance indicators:

- Development of inflation;
- Long-term interest rates;
- Net borrowing/lending of consolidated general government sector;
- General government debt;
- Unemployment rates;
- Imports and exports, related to Gross Domestic Product (GDP);
- Goods trade with (non)-EU countries;
- Container transport moves.

These indicators give an overall picture of the international competitive position of a country. The macroeconomic circumstances define the basic climate within which companies are active. Good macroeconomic conditions ensure a favourable climate in which enterprises can function well.

(source: Dataportaal van de Nederlandse Overheid, 2015)

A secondary dataset deals with specific logistics locations. There are various critical selection factors that determine whether a property is in a true winner spot or not. In this case, it is very important for the institutional investor to work with a first-class consultancy, especially when operating in unfamiliar territory. A few key elements to location selection are:

- Highway access: regularly rated the No. 1 critical site selection indicator in due diligence processes. Access to a high-quality highway infrastructure will definitely improve a company's profitability.

Mark Crawford, business writing specialist and logistics consultant, stated the following in 2015 "When companies undertake a site search, they are evaluating three key elements:

- 1) How to reduce the total cost of operation
- 2) How to reduce the risk of business interruption
- 3) How to improve speed to market for customer deliveries.

All three of these elements can be greatly impacted by proximity to high-quality transportation systems, especially highways. Transportation costs are easier to manage with good access to highways, particularly for supply chain and manufacturing operations. Therefore, it is no surprise that highway access is a top concern for companies that are locating or expanding their facilities.

Highways need to be multi-lane roads with some limited access and speeds of 55 mph or higher. Interstates are even better. Trucks use fuel more efficiently when they are traveling at 60 miles an hour rather than sitting at traffic lights or in stop-and-go congestion. Faster speed to market improves a company's overall profitability."

- Proximity to major markets provides access to customers and workforce talent.

Richard H. Thompson, who leads the Global Supply Chain & Logistics Solutions team for JLL, observes that, "Ten years ago when you ordered a shirt online, or a book, it got to you in five to seven days and you were pretty happy. Now, you're kind of thinking you're going to get it next-day. The customer-service requirements continue to escalate.

Enabling next-day delivery once meant locating distribution within reasonable proximity to an airfreight hub, such as the major FedEx facilities in Memphis or Indianapolis. But back in the day, next-day customers were more willing to pay extra for such a quick turnaround. Now that buyers not only want faster, but also cheaper, fulfilment needs to happen with the kind of proximity that allows next-day delivery at regular parcel rates."

In any case, close proximity allows better access; not just access to the buyer, but also access to talent, access to customers, and, for a logistics service provider's headquarters, access to other major facilities.

- Labour cost and availability are other key factors to consider. General labour conditions are worth watching, but a more difficult area to evaluate is the market for specialized logistics and supply chain management talent. Areas with substantial logistics operations may have a strong talent

pool, but there may be more competition for that limited resource, which can raise costs. Constant turnover can also disrupt operations.

- Locations need to provide access to the largest and/or most rapidly growing consumer bases.
- Locations should have strong multimodal connections (highway, ship, rail and air transport).
- There should be ongoing investments in logistics infrastructure in the area, e.g. new manufacturing facilities, port expansion and rapid transportation growth that converge to drive a major need for investment in the distribution network. A stalled infrastructure project or the addition of tools, taxes, or fees to cover costs can dramatically change the original assumption.
- No contradiction with governmental guidelines and environmental regulation. The willingness of the government and other authorities to invest in the area or support private and institutional initiatives.

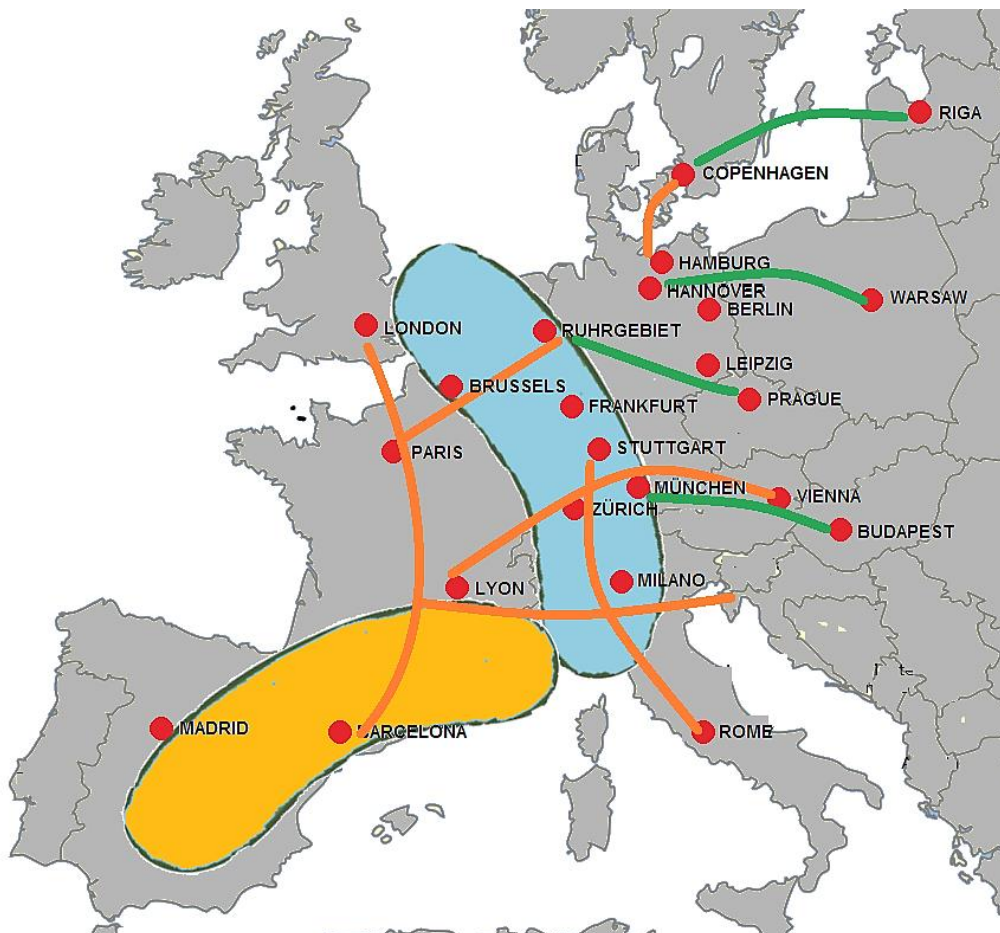


Figure 6: Map with the European blue and gold banana regions (source: author)

The Blue Banana (also known as the Hot Banana, Bluemerang, European Megalopolis, Manchester–Milan Axis or European Backbone) is a corridor of urbanisation in Western Europe with a population of around 111 million. It stretches approximately from North West England in the north to Northern Italy in the south. The more southerly Golden Banana is known for its modern industries, such as electronics, aeroplane manufacturing, and research centres.

On the map, you find the established economic axes in orange and the developing eastern-Europe axes in green. When assessing a location, knowledge of the logistics axes, hubs and sub-hubs is very important.

A third data set needed to assess a potential investment in logistics property is building data, which can be derived from architectural plans, construction drawings, technical and contract documents, building permits, fire department regulations, current market developments, and perhaps specific tenant assumptions and wishes (build-to-suit buildings), environmental challenges, sustainability matters, etc.

This data set is normally compiled during the technical due diligence. Some interesting data are crosslinked with the commercial survey and assessment of the building. Trying to get a feeling for the building and its original construction costs is one of the biggest issues.

International building costs per sq.mtr. of internal area - 2014							
Country	Currency	Sq.mtr. costs in national currency			Sq.mtr. costs recalculated to USD		
		Warehouse/ Factory	Large Ware- house DC	High-Tech Factory/ Laboratory	Warehouse/ Factory	Large Ware- house DC	High-Tech Factory/ Laboratory
Australia	AUD	770	950	1.560	700	864	1.418
Brasil	Real	1.520	1.960	4.060	667	860	1.781
Canada	CAD	910	1.010	1.410	883	981	1.369
China	CNY	2.580	3.050	5.870	450	525	975
Germany	EUR	620	750	1.750	558	675	1.575
Hong kong	HKD	13.500	15.000	25.000	1.742	1.935	3.226
India	INR	29.420	37.190	44.400	507	641	766
Ireland	EUR	510	890	1.600	460	800	1.440
Japan	JPY	154.500	207.900	455.000	1.578	2.124	4.648
Malasya	MYR	1.890	2.430	4.060	585	752	1.257
Netherlands	EUR	890	860	1.150	801	774	1.035
Oman	OMR	440	410	620	1.158	1.079	1.632
Poland	PLN	1.500	1.800	2.500	473	568	789
Quatar	QAR	3.460	4.010	4.480	951	1.102	1.231
Russia	RUB	26.730	27.720	66.000	810	840	2.000
Singapore	SGD	2.200	2.500	3.080	1.732	1.969	2.425
South Africa	ZAR	4.000	4.500	7.020	408	459	716
South Korea	KRW	927.000	721.000	2.678.000	832	647	2.404
United Arab Emirates	AED	4.360	4.100	6.150	1.188	1.117	1.676
Uganda	UGX	1.267.500	1.267.500	3.168.750	360	360	950
United Kingdom	GBP	840	940	1.570	1.292	1.446	2.415
USA	USD	880	1.160	1.820	880	1.160	1.820
Vietnam	VND	9.246.180	9.371.980	16.353.790	436	442	771

Table 1: Overview general building costs worldwide (source: Bond University., Turner & Townsend, adapted by author)

Anforderungen an eine ideale "Multi-User" Lagerhalle	
Geschossanzahl - Halle	1 Etage/n
Hallengrößen pro Halle (ggf. teilbar)	mind. 10.000 m ²
Büroanteil	5-10%
Hallenhöhe minimum (UKB = Unterkante Binder)	10,8 m UKB
Hallenhöhe ideal (UKB = Unterkante Binder)/	12,5 m UKB
Stützenabstand	12 x 24 m / optimal 18 x 24 m
Tragkraft Hallensole min. (1 t/m ² = 10 kn/m)	50 kN/m ²
Tragkraft Büro min. (1 t/m ² = 10 kn/m)	4 kN/m ²
Tragkraft Mezzaninen (1 t/m ² = 10 kn/m)	mind. 0,5t/m ² , einfach entnehmbar
Sohlenebenheitstoleranzen	Deutschland/Italien DIN 18202, Tabelle 3, Niederlande NEN 2743, Din Zeile 4, Abhängig 'Aisle'-Verteilung
Rampen (Überladebrücken pro Halle)	mind. 1 pro 1.000 m ²
Rampen (ebenerdiges Tor pro Abschnitt)	1 pro Abschnitt
Überladebrücken Tragfähigkeit	6t/m ²
Rolltore	Immer auf Bodenhöhe
Cross-Dock/X-Dock	Zweiseitige Andienung, Bodentraglast mind. 30 kN, basierend auf ca. 5 mtr. Höhe
Rangier-/Hoffläche (Mindesttiefe)	35 m (45 m bei Lang-LKW's)
Sprinkleranlage (z.B. ESFR Sprinklerung, nach Erfordernis Regalsprinkler)	ESFR Roof Net Type, laut FM Global Standards zertifiziert
Heizung Halle	Gasdunkelstrahler, mind. 6 Grad C mit Aussentemperatur von -10 Grad C
Heizung Büro	Gasheizung
Beleuchtung Halle	Normalnutzung 200 Lux, grobere Arbeiten 300 Lux, feinere Arbeiten 500 Lux
Beleuchtung Büro	Laut Arbeitsgesetz
Batterie Ladestationen	- Raum frei von Erschütterungen, trocken, frostfrei und kühl. - Raumtemperatur zwischen +10 °C und maximal +25 °C liegen - Eigener Brandabschnitt vorgesehen, Explosionsschutz und Lüftung - Wände, Decke und Boden feuerbeständigen Bauteile
Stromversorgung	Meistens mind. 400 kVA (Kilovoltampère), einfache Trennmöglichkeit per Hallenabschnitt
Umzäunung	Vollständige Umzäunung des Grundstücks, Mindesthöhe 2 m
Videoüberwachung des Geländes	Abhängig vom Logistikbetreiber
Pförtner / Anmeldung und Vereinzelungsanlagen für Zugang der Mitarbeiter	Ja, und LKW's sollen ein Hürde haben bevor die Rampen erreicht werden
Parkplätze	ausreichend für PKW / LKW und Trailer, PKW's separiert vor innerem Zaun
überbaute Grundstücksfläche	45%-60%, also Erweiterungsmöglichkeiten notwendig
Weitere Anforderungen	- Möglichst mit Flachgründung - Betonsole ohne/wenig Fugen - Stahlbetonstützen - Dachtragwerk nach wirtschaftlichen Anforderungen - Flachgeneigte Dachflächen - Ökologische Aspekte wie Regenwassernutzung, Einsatz von Photovoltaik und Umsetzung von ökologischen Ausgleichsmaßnahmen
ADR Lagerräume	Wenn ADR Storage Rooms (European Agreement Concerning the International Carriage of Dangerous Goods by Road) Lagerräume zu Verfügung stehen, meistens verpflichtet
Nachhaltigkeit	Schaumlösanlagen anwesend (meistens) BREEAM Zertifizierung, USA immer LEED

Table 2: Entwurfsmerkmale „ideale“ Lagerhalle (source: author)

A fourth data set assesses important legal and tax issues, including:

- Previous purchase acts
- Land registry documents
- Zoning plan/zoning violation issues
- Environmental hazards
- Covenants or restrictions on the property that would limit the use of the property
- Potential issues with the chain of title to the premises that may interfere with the full ownership
- Accurate property value estimates
- Release or retention of deposits
- Limitations on remedies and liability
- Covenants and equitable servitudes/rights
- Lease agreements (risk assessment)
- SLA agreements with property managers, technical companies, etc.
- Guarantees
- Insurance
- VAT, corporation taxes, capital transfer taxes, real estate taxes, grants, tax rulings.

The combination of the above data sets cover all factors to consider prior to purchasing an investment by an institutional investor.

4. The initial first year of investment

I will shortly explain the strategic follow-up after the logistics building has been purchased. Of course, the job does not end once the property is purchased; evaluating your investment's performance is an ongoing internal process. There are various ways to look at the performance of a building, with functionality and utilisation by the user/tenant on one side and an investor's benchmark towards ROI (Return on Investment) on the other.

When looking at the utilisation of the building, a lot of objective and independent tools are at one's disposal. Granted, many investors don't really care about building utilisation, or simply don't want to work with the tenant to make the building better operationally. Regardless, an investor should benchmark operational environmental elements like energy, water, carbon, waste, transport, and wellbeing. These are measurable factors that can be easily evaluated and benchmarked.

There are also a lot of possibilities for assessing the building's performance based on building design and equipment, current use and operations, and potential future performance. The results should help tenants and investors when considering acquisition, disposal, renovation or leases.

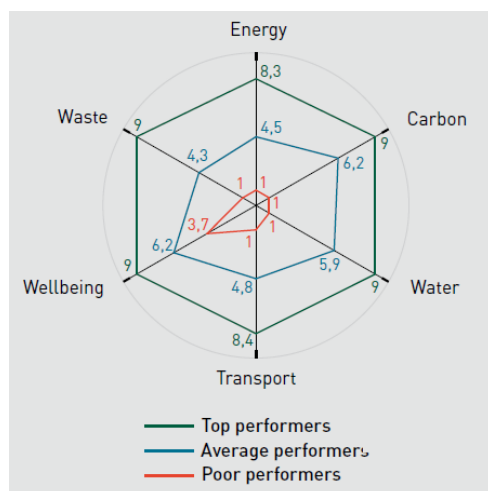


Figure 7: example of performance indicator, showing the gap between top and poor performers (source: Green Rating Alliance, 2012)

DekaBank is an investor that already has a mindset around pro-active logistics tenant participation. One good tool for aiding a common tenant/landlord understanding of the building performance is the Green Rating™ assessment tool from the Green Rating Alliance (see picture 7). Although very time consuming and expensive, the tool delivers valuable performance information.

Along with building utilisation, the financial and economic performance of a building within the overall property portfolio needs to be considered. Within DekaBank many specially developed tools are in place, but these are mostly aimed at internal use, focusing little on developments in competing portfolios.

For both internal and external reasons, it can also be quite interesting to periodically look at the IPD Pan-European Annual Logistics Consultative Index to see if logistics assets are still a performance booster in the portfolio.

IPD Pan-Europe Annual Logistics Consultative Index									
	Total return index Dec 2013 Dec 2001 = 100	Total return index Dec 2014 Dec 2001 = 100	Total return % Local Currency 1 yr	Income return % Local Currency 1 yr	Capital growth % Local Currency 1 yr	Annualised total returns %Local currencies			
						3 yr	5 yr	10 yr	
Logistics	214.4	244.6	14.1	6.9	6.7	8.9	8.0	6.6	
Industrial	233.6	272.0	16.4	6.7	9.2	9.2	8.1	6.2	
Retail	247.8	271.9	9.7	5.5	4.0	6.6	7.4	6.1	
Office	191.1	207.9	8.7	5.1	3.5	6.0	6.3	5.4	
All Property	215.2	235.3	9.4	5.3	3.9	6.5	6.8	5.8	

Table 3: IPD Pan-European Annual Logistics Consultative Index 2014 (source: MSCI, 2015)

As you can see, the Total Return Index shows that logistics and industrial investments are outperforming any other asset class when it comes to capital growth and total return. So this is one of the information sources that, combined with several others, gives reassurance about logistics investments.

Internal analysis relates to IRR (Internal Rate of Return), DCR (Debt Coverage Ratio), LTV (Loan-to-value Ratio), ROE (Return on Equity) and ROI (Return on Investment & Leverage principle).

The questions to the Community of Inquiry

1. We see investments in logistics properties involve a lot of prior considerations and analysis. Is the role of the tenant neglected, too much singled out, or is it just fine in the purchase assessment processes as described above?
2. If you are of the opinion the role of the tenant is neglected, which possibilities do you see to optimise the internal investor’s business processes related to the tenant’s influence on the purchase process?

About the author



Jan van den Hogen is an inspiring senior real estate professional with a strong affinity towards logistics and light industrial real property. The necessary management skills are present and currently Mr. van den Hogen heads the Tenant Relationship Management Logistics department for Deka Immobilien GmbH, a subsidiary of DekaBank, one of world's largest institutional investment banks. Through continuous education Mr. van den Hogen constantly extends his body of knowledge in the field of activity.

To share knowledge, professional aptitude, market insights and managerial expertise, he is a part-time lecturer of MSc (Master of Science) students in the field of FREM (Facility and Real Estate Management) at various universities.

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Many thanks go out to Mr. Locke McKenzie, who is always willing to help me with the English language and grammar in my articles. As a journalist, proofreader and translator, he works tirelessly to ensure my content is clear, readable, and refined.

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