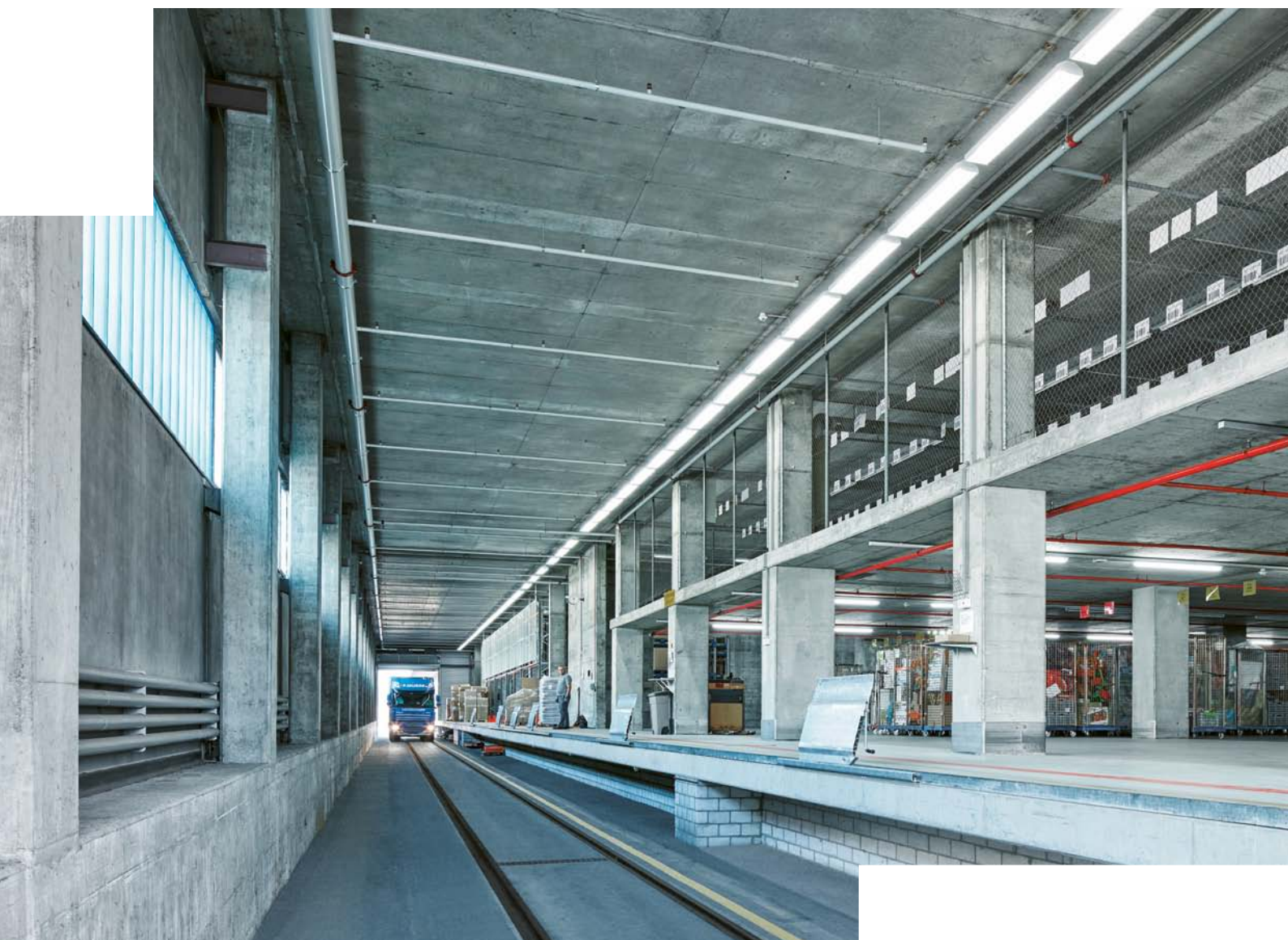


# 2018 Logistics Real Estate Report



# Foreword

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**Raymond Rüttimann**

Head of Global Real Estate Switzerland



**Sascha Paul**

Global Real Estate Switzerland

## Dear Readers

The logistics industry in Switzerland is on the move. Increasing traffic density, demand for ecological measures and constantly rising client expectations constitute the current underlying conditions of this dynamic sector.

The flow of goods to be handled is enormous and continues to grow at an above-average pace. The remarkable import volumes of 52 million tons are accompanied by export volumes of more than 20 million tons. Exports in particular are displaying impressive momentum, with an average growth rate of 3.6% per year.

Online trading, urbanization and digitalization are the megatrends characterizing the development of this market.

The high purchasing power and the importance of the industry in Switzerland are considerable. Swiss products enjoy an excellent reputation worldwide, and goods and services with a high added value are being produced.

In view of this situation, it is hardly surprising that logistics real estate in Switzerland is also gradually attracting the attention of investors – reason enough to analyze this interesting and dynamic market in more detail, and thus make a contribution to greater transparency in this segment.

We hope you will find this a thrilling and informative read.

Kind regards,

Raymond Rüttimann and Sascha Paul

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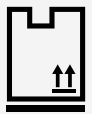
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# Overview of Switzerland as a Logistics Location



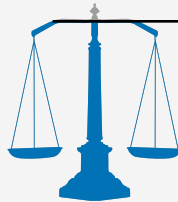
**3.7 million** private households<sup>1</sup>



**165 million**  
parcels transported (domestic)<sup>2</sup>

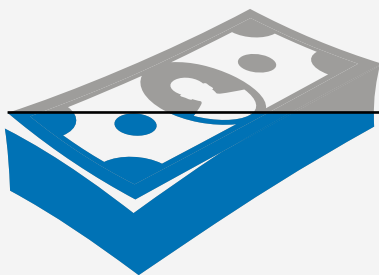


Annual investments in warehouses  
and depots amounting to **CHF 1 billion**<sup>3</sup>



Annual haulage capacity:

**28 billion ton-kilometers**



Total value of the logistics market:

**CHF 38.5 billion**<sup>4</sup>



**181,000**

people employed in logistics<sup>4</sup>

Sources (survey year in brackets):

1 Federal Statistical Office (2016).

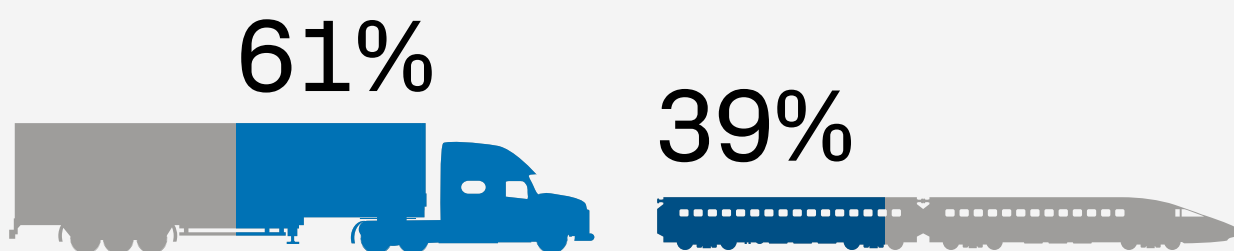
2 Credit Suisse estimate based on Swiss Post data (2017).

3 Federal Statistical Office (2015).

4 GS1 Switzerland (2016).

Of this,

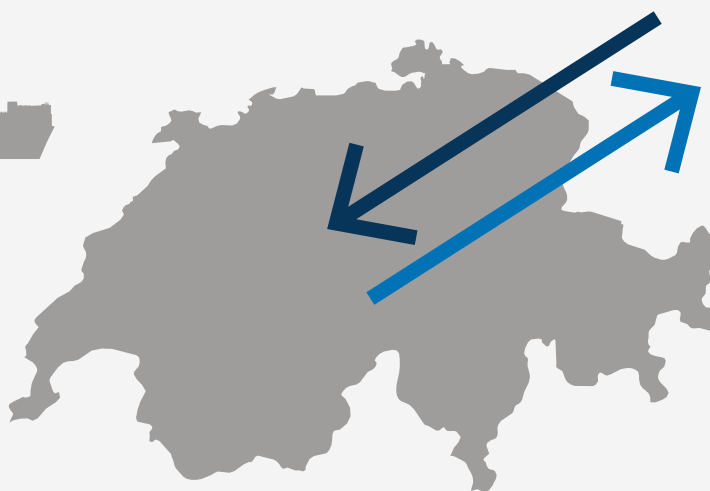
61% is conveyed by road and  
39% by rail.<sup>5</sup>



Export surplus in trade  
in goods amounting to  
**CHF 35 billion**



Place **11/160** in the  
World Bank's Logistics  
Performance Index (LPI)<sup>7</sup>



Exports: CHF 220 billion  
Imports: CHF 186 billion<sup>6</sup>

Sources (survey year in brackets):

5 Federal Statistical Office (2016).

6 Swiss Federal Customs Administration (2017).

7 World Bank (2016).

# The Swiss Logistics Market. An Example of Growth

Behind every click triggering an online order there is physical shipment of goods, which is often quite complex. The logistics industry is responsible for ensuring that the supply of goods runs smoothly and that all goods are available at the right time, at the right place and in the desired quantity. For this purpose, logistics is concerned with the transport, storage, handling, order picking, sorting, packaging and distribution of goods. The Swiss logistics market is on the verge of a spurt in growth, as the logistics industry is benefiting from a broad-based upswing in the economy, and also because the powerful trend toward online trading is simultaneously causing a strong structural increase in the demand for logistics services.

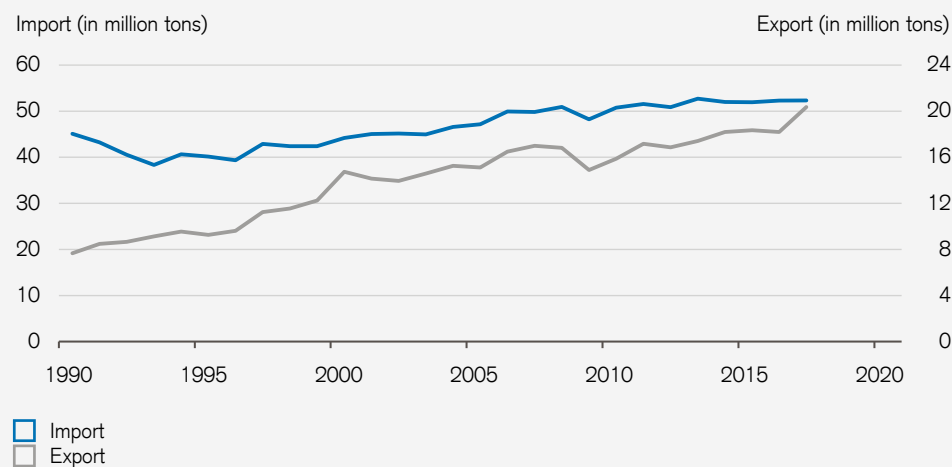
## Globalization as a driver of labor division and logistics requirements

The flow of goods around the globe is rapidly increasing in the wake of globalization, with the result that the logistics industry is flourishing across all continents. The more intensive trading

and exchange of capital allows countries to specialize in their own core competences. The goods produced are exported worldwide, and conversely, greater quantities of goods are imported. The increasingly differentiated division of labor results in many goods crossing national borders several times in the course of the production process, which thus inflates foreign trade statistics. This results in an increase in turnover for the logistics industry. Switzerland, however, is not an international goods hub, as the labor costs and land prices in Switzerland are too high. Swiss logistics simply handles the flow of goods, which either have Switzerland as their destination or their place of origin. Nonetheless, because of the high purchasing power and importance of the industry in Switzerland, the flow of goods to be handled is considerable, and it is increasing at an above-average rate. Export volumes have steadily increased since 1990 to over 20 million tons, and imports to over 52 million tons (see figure 1). Exports in particular are displaying impressive momentum, with an average growth rate of 3.6% per year.

**Figure 1: Export and import of goods to and from Switzerland**

Seasonally adjusted foreign trade volume in Switzerland



Sources: Swiss Federal Customs Administration, Credit Suisse

With an added value of around CHF 40 billion, logistics has become an important economic sector in Switzerland. More than 181,000 employees earn a living in this diverse sector. In particular, the strong position of the industry contributed to a positive growth in the number of workers of around 15% over the past eight years.

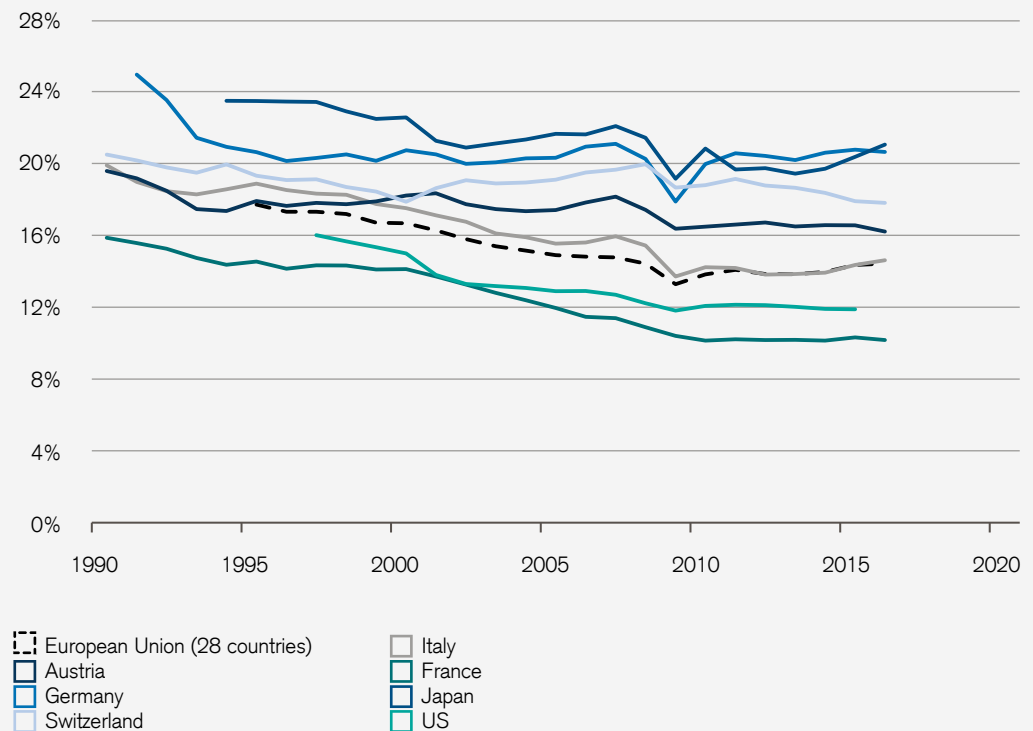
### Strong and sustainable Swiss industry

The Swiss industry has held up well in spite of the major challenges posed by the financial crisis, the euro crisis and the debt crisis. Its share of gross domestic product (GDP) fell to below 18% in the years leading up to 2016 (see figure 2), but this was mainly due to the shock effect of the suddenly strong Swiss franc. In view of the good export figures for 2017, this ratio should return to the level of the leading countries in this respect, such as Germany and Japan. In contrast to a number of other western industrialized nations, which are struggling with the problem of deindustrialization, the share of industry in gross added value in Switzerland has declined only slightly since 1990. In fact, Switzerland is one of the world's leading countries in terms of per-capita industrial production. According to estimates by the GS1

Switzerland trade association, most of the logistics revenue in this country is derived from palletizable general cargo logistics (39.3%); full truckload logistics (20.1%), where the whole load is transported to a single recipient without further handling; and the courier, parcel and letter services (19.0%), in which Swiss Post holds a strong market position. In addition to these, tank and silo services also play an important role (11.0%), transporting liquid and gaseous goods. The logistics industry consists to a large extent of forwarders and transport companies. Many manufacturing companies have their own logistics departments with their own different range of tasks. But because logistics processes are also becoming more complex, and economies of scale promise lower costs, the trend is clearly toward outsourcing logistics tasks and collaborating with specialized logistics providers. Overall, the Swiss logistics market comprises a market volume of CHF 38.9 billion in terms of value (estimate by GS1 Switzerland for 2017). A slight increase to CHF 39.5 billion is forecast for 2018. In view of the improved economic situation in Europe and Switzerland, it is reasonable to expect that Swiss logistics providers will benefit from an increasing demand for transport.

**Figure 2: Swiss industry remains important by comparison**

Share of industry in GDP



Sources: Federal Statistical Office, OECD

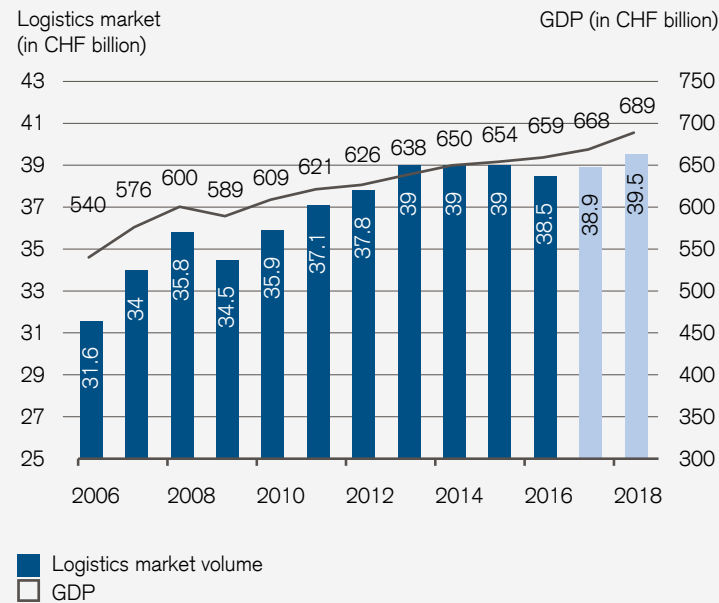
The moderate appreciation of the euro against the Swiss franc should principally benefit export-oriented companies. The logistics sector is considered a procyclical sector, as shown by the strong correlation with the performance of the GDP (see figure 3).

### Rapidly growing online trading puts logistics in the spotlight

In online trading, consumers prefer the provider that offers the simplest and fastest delivery. This means that the value of logistics has soared from a purely mechanical activity to a strategically important service – because it also influences the decision to buy. Online trading volumes in Switzerland have risen by 8.7% annually over the past three years, to nearly CHF 9 billion (2017). Due to the high rate of returns, logistics services grew even more quickly, with growth rates in the double digits expected. Automation is becoming more and more important here. The increased use of robotics, in particular, allows an improvement in the speed and accuracy of order-picking operations. Prologis, one of the world's largest owners and operators of logistics real estate, estimates that with every additional billion in online sales (in euros) the demand for logistics space increases by 77,000 square meters. Therefore, besides the expanding flow of goods due to globalization, the growing online market opens up interesting opportunities with regard to logistics real estate and the entire value chain of the logistics industry.

**Figure 3: The overall Swiss logistics market in relation to GDP**

Logistics market estimate for 2017 and forecast for 2018 (including GDP, nominal)



Sources: GS1 Switzerland, University of St. Gallen, Credit Suisse



### Special features of the Swiss logistics market: The cabotage ban

The term cabotage refers to the provision of transport services within a country by a foreign transport company. Such services are prohibited under the Land Transport Agreement between Switzerland and the EU. The ban serves to protect domestic transport companies and limits the services foreign logistics operators can provide to cross-border shipments. A distinction is made between “grand” and “petit” or small cabotage: “Grand cabotage” includes transport between two EU member states, or between Switzerland and an EU member state using a vehicle registered in a third country. “Petit cabotage” refers to the provision of domestic transport services by a vehicle registered abroad. In 2005, Switzerland lifted the ban on grand cabotage for freight transport with the EU. Transport of goods between the EU member states as well as between these countries and Switzerland is permitted both by road and by rail. There is no question of a further relaxation of the rules. The prohibition of so-called cabotage journeys between two locations within Switzerland using foreign vehicles for road and rail transport is indispensable for the entire Swiss haulage industry. One consequence of the cabotage ban, however, is that in Switzerland the proportion of empty runs is over a quarter of all shipments.

“

The growth potential of online trading is far from exhausted, which will further fuel the demand for logistics real estate. Considering the limited space available, property rents and prices are expected to benefit from this in the medium term.



Derendingen distribution center

# Digitalization and Logistics.

## Logistics Today and Tomorrow

As with every sector, the logistics industry is also undergoing pronounced changes. On the one hand, as a supplier and thus a service provider for the manufacturing industry, the logistics sector is exposed to the processes of change in industry (Industry 4.0). On the other hand, it also has to anticipate upheavals that lie ahead within its traditional remit of transport and warehouse logistics. Digitalization in particular promises fundamental changes, for example with regard to means of transport. It is hard for anyone to reliably predict today whether goods will be delivered in the future by drone, or with the help of a fully automated underground goods transport system, or by self-driving transport robots, or by some combination of all of these. Yet these new transport possibilities that are being widely reported in the media are not the only thing that will shape the logistics business of tomorrow. The potential of digital networking extends much further than this.

### Online trading causes a surge in logistics flows

By far the biggest influence comes from digital consumption, or the constantly growing volume of online trading. The shift in sales from over-the-counter retail to online is accompanied by greater logistics requirements. This is mainly due to the

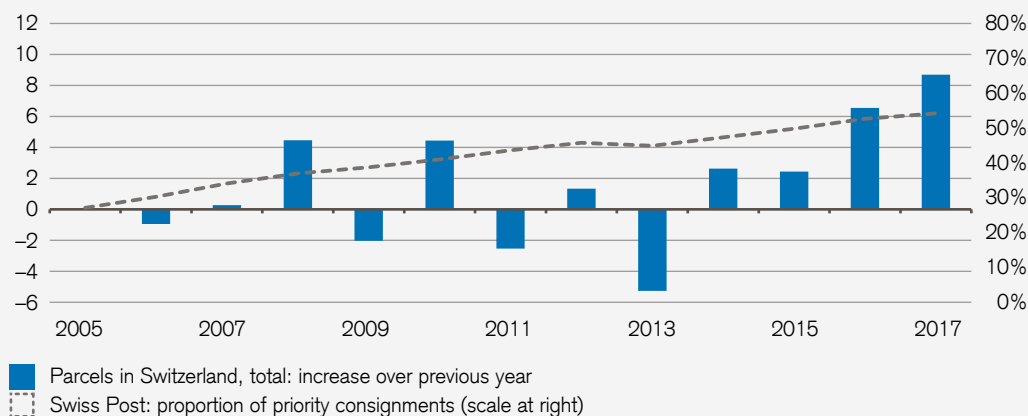
smaller individual deliveries, taking over the “last mile” of transport to the consumer, and the increase in the rate of returns. In terms of logistics real estate, the demand from online merchants is about three times higher compared to bricks-and-mortar retailers for the same retail turnover.<sup>8</sup> Cushman & Wakefield, one of the world's largest real estate consultancies, expects a 77% increase in logistics space requirements for Germany by 2021 compared to today. Thus, even without any growth in the volume of retail trade, the mere shift from over-the-counter retail to online sales itself is leading to a surge in logistics flows.

### Excellent potential for the processing of small-part logistics

Digitalization of production processes makes it possible to adapt products and services ever more precisely to the individual customer. Personalized products are on the increase, and this increases the demands on logistics and drives growth, especially in small-part logistics. This trend is reflected for example, in the volume of parcels shipped in the Swiss market (see figure 4). Since 2013, the number of parcels shipped has risen by around 20 million, to the record level of 165 million.<sup>9</sup> This growth, which last year reached 8.7%, is set to continue over the coming years.

**Figure 4: Parcels shipped**

Change in the number of parcels in millions compared to previous year (estimate)



<sup>8</sup> Prologis report (2016): “E-Commerce Impact on Logistics Real Estate”.

<sup>9</sup> Credit Suisse estimate based on Swiss Post figures (2017).

Sources: Swiss Post, Credit Suisse



A study undertaken for the German parcels market concludes that the number of parcels transported is set to double by 2025.<sup>10</sup> Swiss Post is therefore investing in the construction of three new regional parcel centers in Graubünden, Ticino and Valais. Increasing customer expectations regarding flexibility and speed of delivery are an additional driver in the development of modern logistics solutions. This trend is reflected in the growing proportion of parcels carried by Swiss Post at the priority rate (see Figure 4). This rose from 27% in 2005 to 53% in 2017.

However, it is not only the high growth rates of online trading in the B2C segment that are contributing to the growing parcel volumes. In the B2B environment, too, more and more companies are ordering goods directly from the producers, who in turn are taking advantage of the opportunity to avoid the middlemen and to gain access to valuable customer data. In the age of big data, predictive analytics and artificial intelligence, better data also promises to offer new opportunities for logistics companies. It allows better utilization of the capacity of vehicles and storage areas, empty runs can be minimized, inventories can be managed more efficiently and additional earnings can be generated.

#### **When the shelf talks to the robot**

Digital networking creates opportunities that were not available until recently. For example, digital platforms are set to offer temporary use of unused storage space and transport capaci-

ties through a sharing agreement. Zalando has taken up a similar platform idea, and integrates the stationary retailers with their local stocks of fashion into its own logistics structure. In so doing, the German online retailer is increasing its logistics capacities at a single stroke, while opening up an additional source of income for stationary retailers. The interaction of various different technologies will have an even greater effect on the logistics industry. Warehouse buildings can be fully automated using robot and sensor technology. The big names in the industry, such as Alibaba, JD and Amazon, already have such intelligent warehouses in operation. Here, the operator no longer goes to the goods: instead, the goods are robotically guided and delivered to the operator, who merely monitors and finalizes the picking process. This allows the logistics executives to load more, higher shelves. This is likely to have the following consequences for logistics real estate: higher, more flexible halls, a floor load-bearing capacity of 10 to 15 tons or more, as few supporting pillars as possible, an efficient data and electricity supply network, and intelligent building technology. The supplier systems for industry will grow along with the production processes, and will come to be seen more and more as an integrated part of the entire value chain. For the leading online retailers, this logistics upgrade has already been accomplished, and logistics has become part of the corporate strategy with the aim of staying one step ahead of the competition.

<sup>10</sup> McKinsey & Company (2016). Parcel Delivery: "The Future of the Last Mile".

# The Swiss Logistics Real Estate Market. Small but Beautiful

The Swiss logistics real estate market is on the move. Online trading, urbanization and digitalization are the megatrends characterizing the development of this market. The large portfolio of old properties, along with the trend toward automation and standardization of logistics, is leading to a strong demand for investment, and in the future this should make logistics real estate increasingly attractive for third-party investors from outside the sector.

### Specific requirements for properties and locations

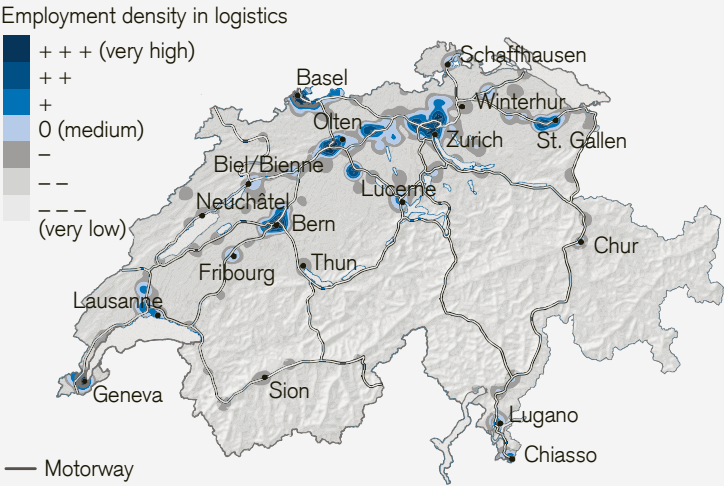
When it comes to logistics real estate, the location plays a central role, with other criteria sometimes also being relevant, as in the case of office and retail space. The location criteria also depend on the function of the logistics property and the user's requirements. While for industry, proximity to the production site is a decisive criterion for the location of storage facilities, for logistics service providers in general it is the proximity to conurbations and to the motorway that counts the most. A glance at the spatial distribution of logistics workplaces makes this quite clear (see figure 5). Besides the conurbation communities of the major

centers, hotspots also include locations at motorway intersections (especially that from the A1 to the A2), which enable efficient handling of shipments in various regions of the country, and at border locations. Many logistics properties also have a siding with railway access. This allows goods to be transferred from rail to road (and vice versa) in what is known as a "cross-docking" facility.

In addition to the traffic situation, the regulatory environment within the perimeter of the plot is also of decisive importance for the choice of location for logistics real estate. Many logistics companies, which are for example active in the field of goods handling or postal and courier services, require a 24-hour operation in order to offer their services cost-effectively and with sufficient speed of delivery. There are also numerous requirements for the building itself. These relate to factors such as floor load-bearing capacity, hall height and shunting areas. Such building-specific factors are crucial, particularly for logistics real estate that is held as an investment, because they have a considerable influence on the pool of potential tenants (see figure 6).

**Figure 5: Logistics hot-spots along the A1 and A2 motorways**

Employment density in logistics-related sectors, 2015



Sources: Federal Statistical Office, Credit Suisse, Geostat

**Figure 6: A broad catalog of requirements**

Requirements for the location and the building for logistics space

<b>Macro location</b>	Proximity to conurbation
	Sufficient availability of specialists
	Proximity to airport/freight port
<b>Micro location</b>	Rail connection
	Proximity to motorway access
	Conflict-free neighborhood
	Option of 24-hour operation
<b>Plot/building</b>	Sufficient share of office space
	Extension options/ground reserves
	Generous shunting areas
	Sufficient number of truck parking spaces
	High floor load capacities
	Sufficient room heights
	Wide pillar spacing in the building

Source: Credit Suisse

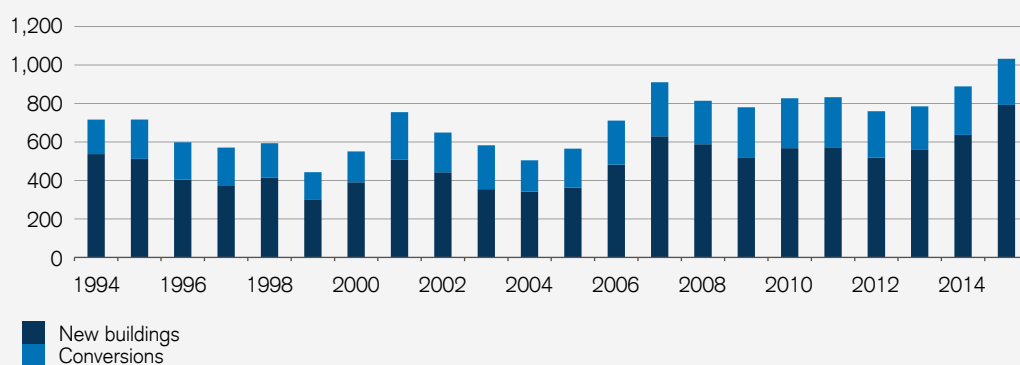
## Dynamic development of construction activity

Over the past 20 years, an average of approximately CHF 0.7 billion per year has been invested in logistics real estate (new buildings and reconstruction). This is not much compared to the main commercial space categories (office space: CHF 3.0 billion, retail space: CHF 1.6 billion). Unlike retail space, however, the trend for logistics space is clearly upward and thus reflects the growing demand. In 2015, construction investments in warehouses and depots amounted to more than CHF 1 billion, of which a good three quarters was for new buildings (see figure 7). Most of the recent investments have been made in well-connected locations outside the urban agglomerations. Only just over a third of investments between 2010 and 2015 were attributable to locations in city

centers and conurbation communities. An analysis by client shows that the logistics space market is largely in the hands of private companies. It appears that the vast majority of the investments here are used to cover the company's own space requirements, for the carriers, logistics providers, retailers and industrial manufacturers. This is also reflected in the fact that only around 13% of investments are made by institutional investors or construction or real estate companies (mid 2010 to 2015) (see figure 8). In contrast to Germany, the US and the UK, for example, there is still hardly any real developing market for logistics real estate in Switzerland. Much more important are the parties who, as building owners, primarily execute building projects for subsequent letting, as office (28%) and residential space (43%).

**Figure 7: Construction investments of over CHF 1 billion for the first time in 2015**

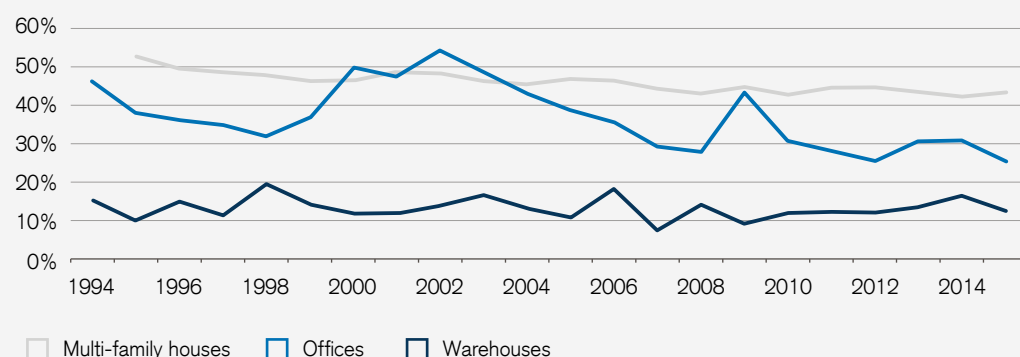
Construction investments in warehouses and depots, 1994–2015, in CHF million



Sources: Federal Statistical Office, Credit Suisse

**Figure 8: Logistics space primarily built for personal use**

Construction investments in warehouses and depots by institutional investors and construction/real estate companies, percentage of total construction investments



Sources: Federal Statistical Office, Credit Suisse

An evaluation of building applications for logistics and storage space from 2013 to 2018 shows that the most important investor in current projects is the wholesale and retail trade (34% of planned construction investments). For example, the major Swiss food retailers are currently investing heavily in the modernization of their logistics and in their own production facilities. The logistics and transport sector, which provides logistics services on behalf of third parties, is the second-largest investor with a share of 30%. The remaining projects are divided among the combined sector construction and real estate (15%), manufacturing industry (13%), pharmaceuticals (6%) and others (2%) (see figure 9). Geographically, the main focus in recent years has been on the Basel–Bern–Lucerne–Winterthur quadrangle. Dealers invest primarily in locations between Zurich and Bern, which are suitable for supplying large parts of Switzerland. Logistics service providers are somewhat more diversified regionally, but show a clear preference for locations close to motorway junctions. Many of the larger projects of the construction and real estate companies are located in the Zurich area.

### Attractive level of return

Due to the modest size of the local rental market for logistics space, only limited statements can be made regarding floor-space prices, rents and yields. The rental prices for logistics space (and thus also the market values) depend on various factors (see figure 10).

In addition to the macro and micro location, the features of the plot of land and the buildings also have a decisive effect. These factors include, for example, the proportion of office space and the quality of the interior fittings for logistical uses. In addition, there are contract-specific factors such as the duration of the contract and the tenant's credit rating.

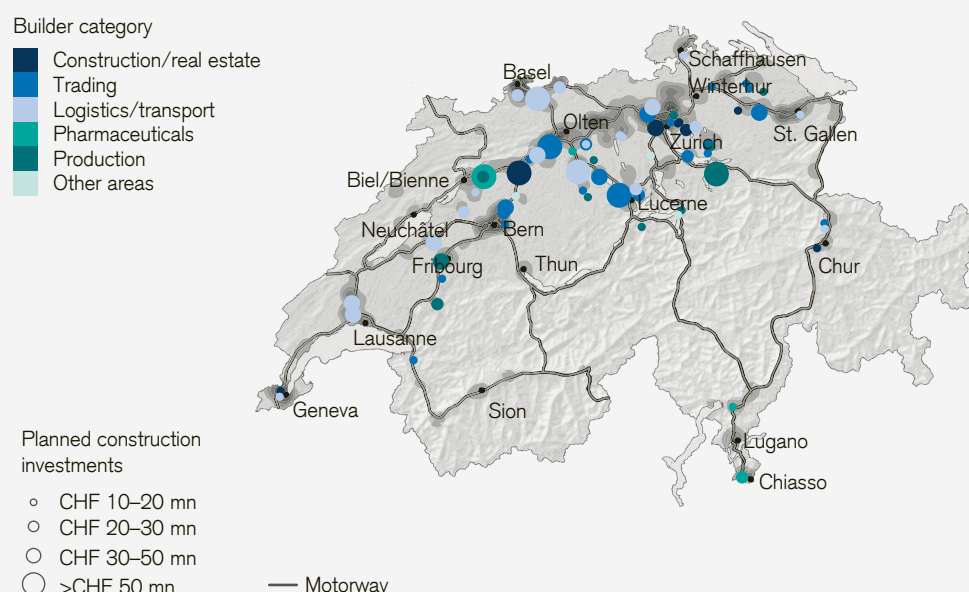
**Figure 10: Location and building characteristics**

Factors that influence rental price

	Rents increase with ...
<b>Macro location</b>	Proximity to conurbations
	Proximity to airport/freight port
	Proximity to traffic junction
	Location in a logistics cluster
<b>Micro location</b>	Rail connection
	Proximity to motorway access
	Conflict-free neighborhood
	Option of 24-hour operation
<b>Plots/buildings</b>	Complexity of the property (for example distribution center versus simple storage facility)
	Special facilities (e.g. cold storage rooms, high-bay warehouse)
	Floor load-carrying capacity and room height
	Proportion of office space
	Condition of the buildings

Sources: Wüest Partner, Credit Suisse

**Figure 9: Focus on conurbations and motorway junctions**  
Building applications<sup>11</sup> for logistics and storage space, 2013–2018



<sup>11</sup> Projects with a volume of CHF 10 million or more are taken into account.

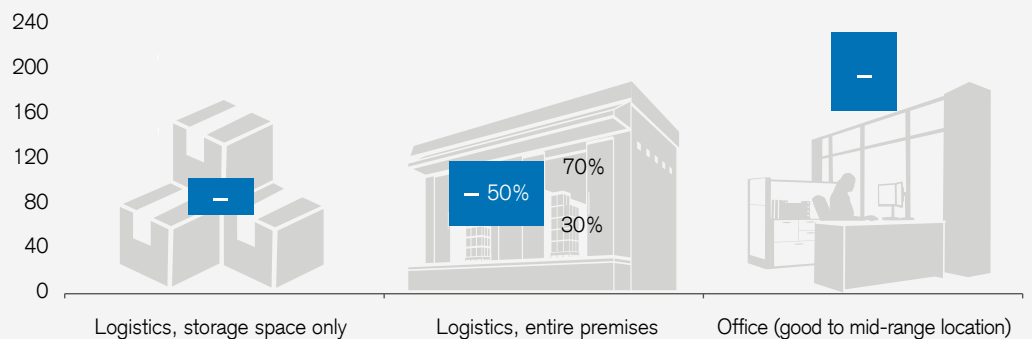
Sources: Baublatt, Credit Suisse, Geostat

Basic net rentals for storage space in Switzerland are likely to range on average from CHF 70 to CHF 103 per square meter, and they are even higher if office components are included (70% quantile at CHF 113 per square meter) (see figure 11). This range is likely to be much higher in top locations near centers and transport hubs, as well as for complex sites. The same also applies to newer properties (the average construction year in the representative sample was 1981). Office space in good to mid-range locations generates around double the rental income of logistics space.

Wüest Partner sees a slightly declining trend in cash flow yields for logistics real estate. As rents are generally trending sideways, this indicates rising market values for logistics space. While the gross cash flow yield from 2008 to 2012 was still over 8% (median), the current range between the 30% and 70% quantile is between 5.9% and 7.8% (see figure 12). However, these levels are likely to be much lower at top locations and for newer sites. Nevertheless, compared to other commercial investment property (office buildings: 5.4%–6.9%), the yield level of logistics real estate is still attractive.

**Figure 11: Much better value than other commercial space**

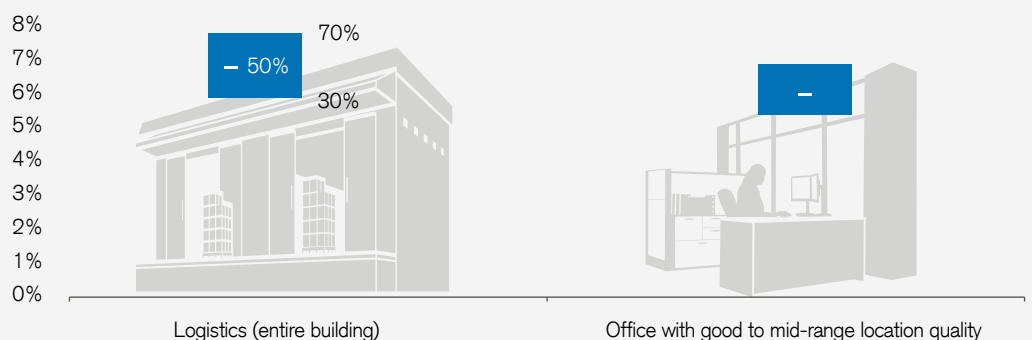
Bandwidth of basic (net) rentals in CHF/m<sup>2</sup>, 2015–2017



Source: Wüest Partner

**Figure 12: Attractive yield level**

Bandwidth of cash flow yields (gross)<sup>12</sup>; valuations with reference date 2015–2017



<sup>12</sup> Gross target rental income divided by market value.

Source: Wüest Partner



# Interview Maurice Weber

W+P Weber und Partner AG, Wil

**Weber und Partner employs 75 staff and has offices in Wil, Bern and Zurich. They are planners and consultants for industrial and logistics properties. What is meant by this?**

Many factors have to be taken into consideration for logistics real estate to be profitable for both the owner and the companies renting the premises. Planners therefore need comprehensive knowledge of the construction and logistics sectors. If a company sees limited development options in its existing premises, it is reliant on finding a suitable new site. Experienced consultants and planners provide comprehensive assistance in this process – from choice of location through the best possible project approach (in terms of logistics processes, machinery/equipment, structural design etc.) from within to the exact configuration of single-source operations and construction.

**What are the key factors for multifunctional modern logistics space?**

Large lifting capacities on all levels, maximum size support grids, adequate ceiling height for multiuse options and strategic reserves. Other requirements include options for expansion in all areas (operations, logistics) and an optimized position on the site.

**What are the trends from your perspective? In which direction is the logistics market heading?**

The logistics chain is becoming faster and faster; in other words, the requirements placed on logistics in terms of speed and lot size/pre-fabrication are rising. As a result, two key factors emerge from within the overall logistics chain:

- Sustainable solutions must be found for supply and disposal in suburban areas. The traffic gridlock between Bern, Zurich and Basel is forcing us to consider solutions revolving around city logistics; in other words, handling and consignment warehousing is moving ever closer to the city.
- Order figures and delivery speeds are notably rising due to the strong growth in online retailing. This means that logistics centers have to increasingly look for solutions for small and minimum-quantity consignments. At the same time, package services are growing constantly. On the road, delivery services for small consignments are being carried out within 24 hours. Supply also means disposal of course – empty packaging, returns, waste.

**What makes the logistics market in Switzerland particularly attractive? What makes it particularly difficult?**

**Attractive:**

The distances for a complete provider are manageable. With the right locations, a company will be able to cover the entire country, giving it an important role in imports and exports as a Swiss hub. This automatically makes it an interesting joint-venture partner for major international logistics providers, so that the Swiss market can be covered.

**Difficult:**

Due to the number of people living in Switzerland, the processed volumes are smaller than in Germany for example, which again makes the unit prices relatively unattractive. Added to this is Switzerland's topography, which often prevents simple deliveries without long and difficult journeys.

**What projects are you working on at the moment? What are the core issues?**

We have a range of projects underway in different phases (concept, project, implementation) in various sectors (food, drink, pharmaceutical, mechanical and plant engineering, logistics services, steel trade, infrastructure, etc.). Depending on the sector, the challenges and therefore the core issues vary greatly. But overall it is fair to say that Switzerland is built up, and that even in the rather large-scale industrial sector, it must deal with its land resources very carefully. Compared to the European countries that surround us, experienced planners from Switzerland are coming up with very innovative solutions and ideas. Land prices and salaries are undoubtedly much higher in Switzerland than in the rest of Europe, so this forces us to look for automation solutions and ways to get the maximum usage out of the space.

**How do you and your customers deal with the lack of space? Do you plan to use more high-bay warehouses or multilevel logistics space? Does this present new challenges for intralogistics?**

Intralogistics has always planned from the inside out, which means that we have always sought optimized length/height ratios. The challenge today centers more on disused and sometimes complex industrial sites that have built up over decades. How can we derive the maximum from a plot of land? How can we build multifunctional real estate but still keep channels short and processes simple? In terms of high-bay warehouses, we always have to consider the overall costs in our planning. For example, an automated high-bay warehouse can be built economically up to around 40 meters high. This enormous height means that we can accommodate many more pallets per square meter. Operating costs can also be saved through automation. It is therefore not surprising that high-bay warehouses have traditionally been used in Switzerland. However, the trends in logistics planning are moving away from automated high-bay warehouses toward flexible compact and channel storage facilities with shuttle systems that can be installed in conventional warehouses flexibly and in stages (increased capacity, improved performance).

**Everyone is talking about e-commerce. Has the impact of online and multichannel business been overestimated?**

No, I think this trend will see even greater growth over the next few years. Our society has reached a certain level of prosperity. As a result, there aren't necessarily financial pressures when it comes to making purchases. This in turn means that people can shop online from the comfort of their own home without first making major price comparisons. Networking and ubiquitous advertising also play a key role. Everything can be ordered quickly via an app, people don't have to do anything else. The next generation is growing up in the digital world and primarily uses online channels. As the young generation will also achieve a certain level of purchasing power in a few years' time, this trend will really start to take off then.

**In terms of city logistics, numerous ideas are being discussed about the "last mile". What approaches do you think are the most promising for Swiss towns and cities?**

The special factor in Switzerland is its fantastic rail network, so it would be a sin not to exploit this potential in city logistics initiatives. Goods can be transported by rail – also underground – to city centers where small vehicles can take over local-level distribution. We have produced studies on this for SBB and major distributors. The challenge lies in bringing the right partners together (real estate owners, SBB, goods distributors, transport local-level distribution).

# City Logistics. The Challenge of the Last Mile

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Following years of exodus from cities, the major Swiss centers have seen a period of regrowth since the turn of the millennium, and their growth has notably accelerated in the past few years. Because of the shortage of land and regulatory obstacles, part of the growing demand for urban housing is switching to the suburbs. Today, around 3.6 million, or 43% of Switzerland's 8.4 million inhabitants live in one of the country's five major conurbations, and this number is set to rise significantly by 2030 (see figure 13). This growth is accompanied by various challenges, including logistics.

One particular driver of logistical processes in urban regions is e-commerce, as this has a crucial impact on logistics streams (see page 10): The sharp rise in finely distributed consignments based on the trend toward smaller, and therefore a larger number of households, coupled with consumers' rising demands for speedy delivery and additional services represent major challenges for logistics providers in urban regions.

## **Numerous challenges for logistics in urban regions**

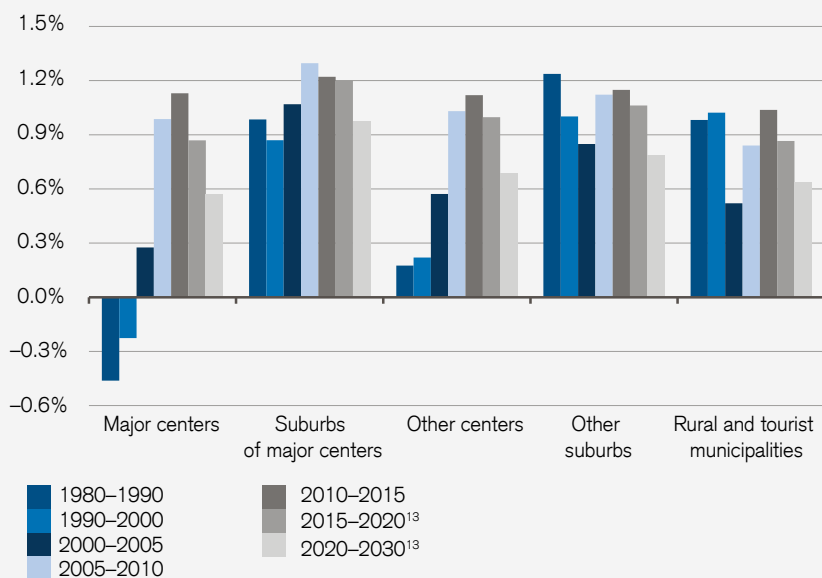
Growing bottlenecks in the transport infrastructure and a high regulation density (e.g. banning trucks at nighttime) make the work of logistics providers more difficult, particularly in conurbations. The increasing significance of urban logistics is reflected in the doubling of delivery vehicle registrations over the past 25 years (see figure 14). These are frequently used to transport packages. According to the 2013 statistics on the transport of goods issued by the Swiss Federal Statistical Office, half of the goods volume delivered by light transport vehicles travels short stretches of less than ten kilometers. Delivery vehicles are used primarily for local-level distribution.

Initiatives to improve profitability in urban goods transport and conquer the last mile have been keenly discussed in specialist circles for a number of years, the topic being known as urban logistics. These initiatives essentially revolve around four points: Firstly, alternatives to classic delivery by truck/small transporter are



**Figure 13: Strong growth in conurbations**

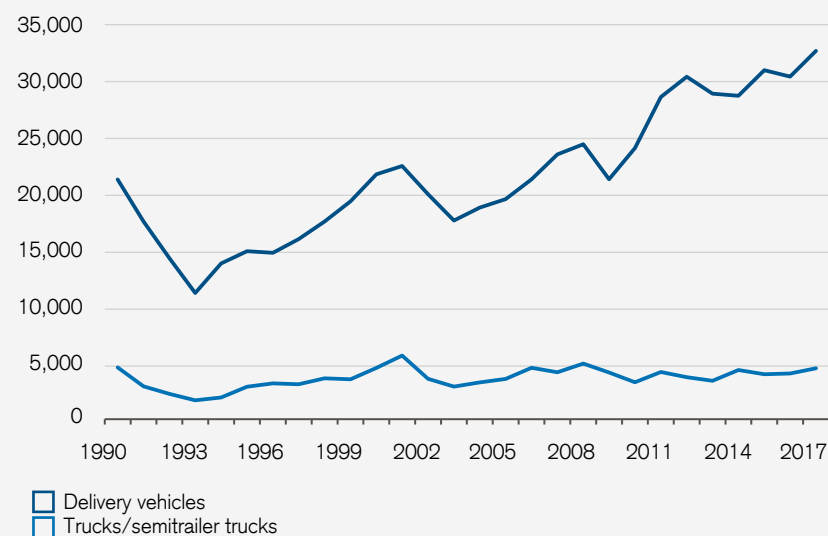
Population growth as a percentage per time period, annualized



Sources: Credit Suisse, Swiss Federal Statistical Office

**Figure 14: More delivery vehicles on Swiss roads**

Registrations: annual registrations, in number of vehicles



Source: Swiss Federal Statistical Office

being proposed (electric vehicles, self-driving cars, drones, etc.). Secondly, new delivery models are being introduced or tested (such as collection points and packstations at central locations). A third approach for more efficient urban logistics is based on cooperation: logistics providers, parcel services and dealers should not only share their transport and storage capacity, but also their data, thereby boosting resource efficiency.

### Real estate concepts for the urban logistics of tomorrow

A fourth proposal involves the real estate. Ideally, an urban logistics real estate concept is a cascade-shaped system that comprises warehousing (regional depots and e-fulfillment centers) in a conurbation and a network of small distribution centers and tiny micro-depots within the town or city itself. This approach is designed to significantly speed up the last mile and even make same-hour delivery possible on a broader basis. Office and retail space can also be repurposed for inner city logistics, as the key issue for urban logistics space is the ability to reach end customers – no classic requirements such as those placed on conventional logistics buildings (e.g. height of ceiling, lifting capacities) have to be met.<sup>14</sup>

Such cascade-shaped systems for urban logistics are still visions of the future for both Switzerland and Germany. There are several reasons for this: Firstly, same-day and same-hour delivery are still side issues – next-day delivery has only just been widely achieved in the last few years. Secondly, there is a lack of space in the major centers which means that logistics space is in competition with other uses, such as residential and office. Thirdly, the Swiss centers are relatively small, which is why locations outside the city limits can often cope with the last mile quickly enough.

<sup>13</sup> Forecast.

<sup>14</sup> See Bulwiengesellschaft (2017). Logistics and real estate 2017: "Urban logistics – into the city with new ideas", page 58–63.



### **Logistics solutions for the last mile are gaining importance**

The urbanization and triumphal march of online and omnichannel commerce are also set to continue in Switzerland in the next few years. This in turn increases the urgent need for sustainable and economic solutions for urban goods distribution. As quick and flexible solutions for the problem of the last mile are gaining importance for consumers, public opinion about the logistics sector is also expected to change and the political acceptance of new logistics projects in urban space to rise. Urban logistics space will increase in value. Converting types of

areas that tend to have falling demand – particularly stationary retail trade areas – should therefore become more attractive to investors. Furthermore, being linked into logistics networks will also become more important in new developments of business and commercial areas in urban regions. One current project that has adopted an interesting approach in this regard is the Espace Tourbillon in Geneva – a major site development incorporating mainly flexible-use commercial and industrial space. An underground logistics terminal is planned that will also be accessible for heavy goods vehicles and connected to every building.

# Logistics Real Estate as an Investment. An Ideal Instrument for Diversification

In English-speaking countries and increasingly in Europe too, logistics real estate has prevailed as its own investment class. On average, logistics space offers high cash flow yields compared to office and retail space, and it is ideally suited for diversifying existing portfolios. The interest in logistics real estate is growing on the back of the dramatic rise in e-commerce. Logistics providers are benefiting from higher goods handling, which is also being driven by an ever denser division of labor. The intensity of the change is forcing many companies to focus on their core business and outsource their logistics. Real estate plays a crucial role in this business. On a global basis, specialist real estate companies and logistics REITs such as Prologis (US), Segro (UK) and Garbe Industrial Real Estate (Germany) have pressed ahead in successfully developing, renting and operating logistics space and also offering additional consultancy services.

## Logistics real estate is also set to become established in Switzerland as an investment class

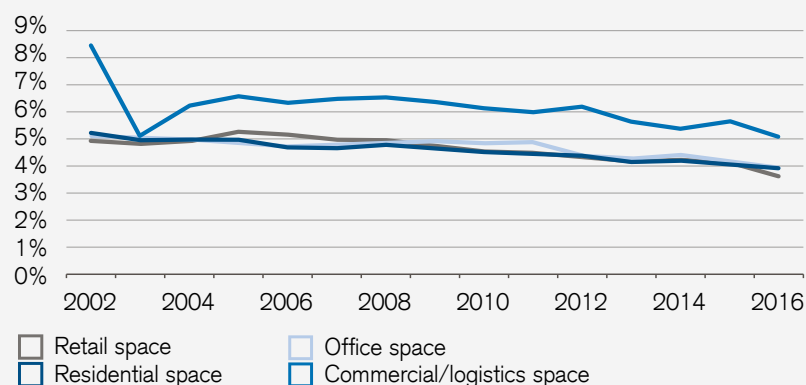
Logistics real estate is also slowly grabbing investors' attention in Switzerland. The prevailing negative interest rate environment is likely

to accelerate this trend even more. Driven by low interest rates, the high demand for real estate investments has put initial and cash flow yields in all segments under pressure. Buying higher yielding logistics space can counteract falling cash flow yields and provide greater diversification for portfolios. This is an interesting option, particularly for large real estate portfolios that are geared toward commercial space and investors with a long-term orientation. According to the MSCI Swiss Real Estate Index, net cash flow yields for commercial and logistics space were higher than those of residential, office and retail space (see figure 15). In most years, the difference in these usages was more than 100 basis points. However, these figures must be relativized to eliminate any difference between logistics, industrial and commercial real estate.

In addition to these strengths, logistics real estate offers investors various long-term opportunities (see figure 16). Logistics is a growth sector. Demand for new logistics space is expected to continue in the next few years, particularly in urban regions (see page 18). The digitalization and increased outsourcing of retail business toward online and multichannel commerce is having a long-term impact on supply chains. This means that logistics will become a success factor for goods suppliers, as they constantly try to find direct sales channels to customers. Businesses are therefore showing an increased willingness to invest in logistics infrastructure, using logistics services as a means of differentiating themselves from the competition. Goods producers are also increasingly recognizing that they need the help of specialist logistics providers, which is why the logistics sector is continually growing.

Nonetheless, investors must also factor in certain drawbacks in deciding whether to invest in Swiss logistics real estate. Specifically, market liquidity in the logistics real estate market is limited due to the manageable market size. Logistics sites also demonstrate a higher level of user specificity. Tenancy agreements are therefore typically longer than for other commercial real estate, but this can

**Figure 15: Attractive cash flow yields for logistics real estate**  
Net cash flow yields according to the MSCI Swiss Real Estate Index



Sources: Bloomberg, MSCI, Credit Suisse

Historical performance indications and financial market scenarios are not reliable indicators of future performance.

also be an advantage for income stability. The logistics market has also become much more complex over the past few years. Profound knowledge of this market is therefore a must for successful investments in logistics real estate, and a longer investment horizon is advisable.

### Not all logistics real estate is suitable as an investment asset

To qualify as an investment asset, logistics real properties must fulfill certain criteria, including the key one of third-party usage. Large sites are typically rented by a small number of companies, which means that there is high dependency on a few tenants, and the question of re-letting the premises inevitably arises as the end of the

tenancy approaches. To minimize the long-term risk of loss of rental income and increase the chances of high value retention, investment assets should therefore offer attractive space for the largest number of potential tenants. This requires an advantageous macro and micro location from a logistics perspective, and a building style that can easily provide flexible usage of the space. The more specific the tenant's requirements, the longer the agreed tenancy duration should be.

### Buffers against declining yields from retail space

The diversification issue comes increasingly into play as an argument for investing in logistics real estate. Different segments of the real estate market often find themselves in differing stages of the real estate cycle, as they are not subject to the same drivers. The same applies to long-term trends that create structural change in market segments. The cyclical drivers of the logistics space market are, in particular, the development of foreign trade, consumption and the overall economy.

In the past few years, total returns for office space had a low correlation with those of commercial and logistics space (correlation coefficient:  $-0.14$ ); between the latter and residential space, there was actually a sharply negative correlation ( $-0.51$ ). There are other cyclical drivers at work here compared to logistics space, such as population and employment growth. By contrast, the cyclical drivers of retail space are similar to those of logistics space. Accordingly, the overall yields of logistics and retail space have been quite closely correlated for many years (see figure 17). While total returns for retail space have suffered since 2012, those for logistics space have seen a sharp upward trend since 2014. Here, a significant structural driver is set to come into play: e-commerce, which has risen sharply over the past few years, is putting the yields of the stationary retail trade under pressure, while at the same time logistics areas are benefiting from the shift toward online retailing.

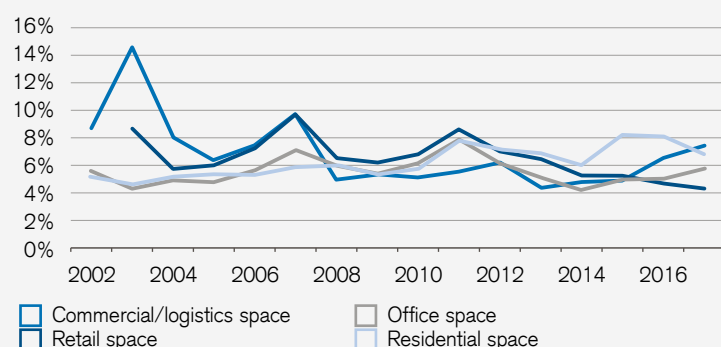
The overall conclusion from the above considerations is that logistics space can make a significant contribution to risk diversification in a real estate portfolio. This contribution has grown over the past few years, as the performance of logistics space has decoupled itself from that of retail space.

**Figure 16: Valuable addition for large real estate portfolios**  
SWOT analysis Logistics real estate as an investment

Strengths	Weaknesses
Comparatively high cash flow yields	Comparatively small market and lack of market liquidity
Suitability for portfolio diversification (other structural drivers)	Dependency on a small number of tenants
Less contested real estate segment	Larger swings in demand
Low property expenditure for owners	
Opportunities	Risks
Economic upturn spurs demand for logistics space	Large asset specificity
Growth through boom in online and multichannel retailing	Higher costs when changing tenant demand for logistics
Shortage of logistics space in urban regions	Slump in foreign trade (protectionism, weak global economy)
Growing distribution of tasks increases demand for logistics	Logistics market has become more complex, direct investors need in-depth market knowledge
Digitalization and industry 4.0 creates change in supply chains and requisite infrastructure	

Source: Credit Suisse

**Figure 17: Decoupling of logistics and retail sales yields**  
Total return according to the MSCI Swiss Real Estate Index



Sources: Bloomberg, MSCI, Credit Suisse

Historical performance indications and financial market scenarios are not reliable indicators of future performance.



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