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GERMANY NEEDS NEW BUSINESS PARKS

Opportunities and
Possibilities for
“Urban Areas”

Dare to Welcome Business Back to the City

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The introduction of the land category “urban area” through the re-enacted Land Use Ordinance (BauNVO) and the amendment of the Technical Instruction on Noise Abatement (TA Lärm) has been perceived and celebrated by political and administrative players mainly as an opportunity to create housing. But the distinguishing feature of “urban area” is actually a blending of use types, meaning the coexistence of residence and workplace. The concept has considerable potential for boosting business by exploiting the new land category, but so far it has barely been used. Historical reasons could be to

blame. One needs to remember that urban development over the past years and decades was defined by a trend to push business and industry out of town. But the paradigmatic shifts that Industry 4.0, urban production and e-commerce have brought, including city logistics, eliminate the need to separate residential from commercial areas. On the contrary: Manufacturing in locations close to the inner city—rather than in the suburbs—is both an option and a necessity. It is an option because of the low-emission manufacturing processes that businesses use today, and it is a necessity because consumers have

higher expectations in the availability of goods than they used to. Moreover, there is increasing interaction between manufacturing processes and logistics. One of the solutions is city logistics. For these reasons, new commercial units close to town centres and with an advanced mixture of functions are needed.

In many German metro regions, existing business parks with convenient access to the inner cities are fully occupied these days. A lot of companies have already responded to the changed parameters in the business sectors, and are increasingly renting premises that are suited to flexible use.



These so-called “flex spaces” can be customised to the requirements of the respective occupier, and are located in converted properties or business parks with multi-tenant structures from various industries. And this is precisely why business parks are such a sought commodity. They offer the option to combine logistics, warehousing and light manufacturing units with offices. The various accommodation types and sizes offer not just various use options but also the flexibility to adjust the premises quickly to changed requirements. This makes business parks particularly attractive for start-ups as well as for small and mid-sized businesses that rely on this kind of flexibility as part of their business strategies.

However, the market is already plagued by pent-up demand. A good way to close the gap between supply and demand would be to develop new business parks in peri-urban locations, to convert and revitalise existing schemes, and to integrate new commercial units in the city proper.

The latest amendments to German building legislation have created the basis for an urban development with mixed use



Inner-city business park “Am Nordring” in Munich (image credit: Christoph Knoch, source: Aurelis)

Flex spaces used for storage purposes at the “Am Nordring” business park (image credit: Christoph Knoch, source: Aurelis)



quarters, as well as for solutions addressing specific issues, such as moving last-mile logistics facilities (the final delivery leg to the customer) into the city.

But these innovations are only a first step. Raising the noise abatement limits by a mere three decibel (to 63 decibel in the daytime) falls short of the mark. The possibilities of passive noise abatement should be considered more carefully when setting such thresholds. Moreover, the regulatory distinction between unspecified traffic noise and industrial noise, which permits higher limits for the former, is obsolete. Once a given source of noise is classified as traffic noise, such as that generated by deliveries to a business or to consumers, lower noise abatement limits apply. This is out of touch with reality.

Property developers and planners should seek to advance the development of a genuinely urban agenda. This would include integrating business units into urban structures when zoning new use concepts. Many people move to the city to find better jobs or to shorten their commute to work. So a one-sided focus on residential use misses the mark.

Opportunities and Possibilities for “Urban Areas”

Business parks are the answer to challenges ...

Technical, economic, societal and planning-policy trends cause locational requirements both in manufacturing and in logistics to shift: In the manufacturing sector, technical innovation tend to have a massive impact on manufacturing processes and production sites: Today, they are often smaller in scale and open to flexible arrangements, have low emissions, and are therefore compatible with sensitive types of use – making industrial activity in the city a viable option again. The background to this is innovation, particularly technologies like additive manufacturing (including 3D printing), digitisation and automation. That being said, technological progress coincides with new

tasks and requirements in manufacturing and logistics. The future “speed factory” of Adidas demonstrates that facilities no longer need to be organised remotely and on a large scale, but will work just fine when integrated in cities, e.g. in business parks or converted properties.

To cope with the transportation challenges especially in the downtown areas

of major cities, business parks could assume the role of urban logistics parks, and plausible options for meeting the functional requirements could include multi-storey assets in combination with innovative transport modes.

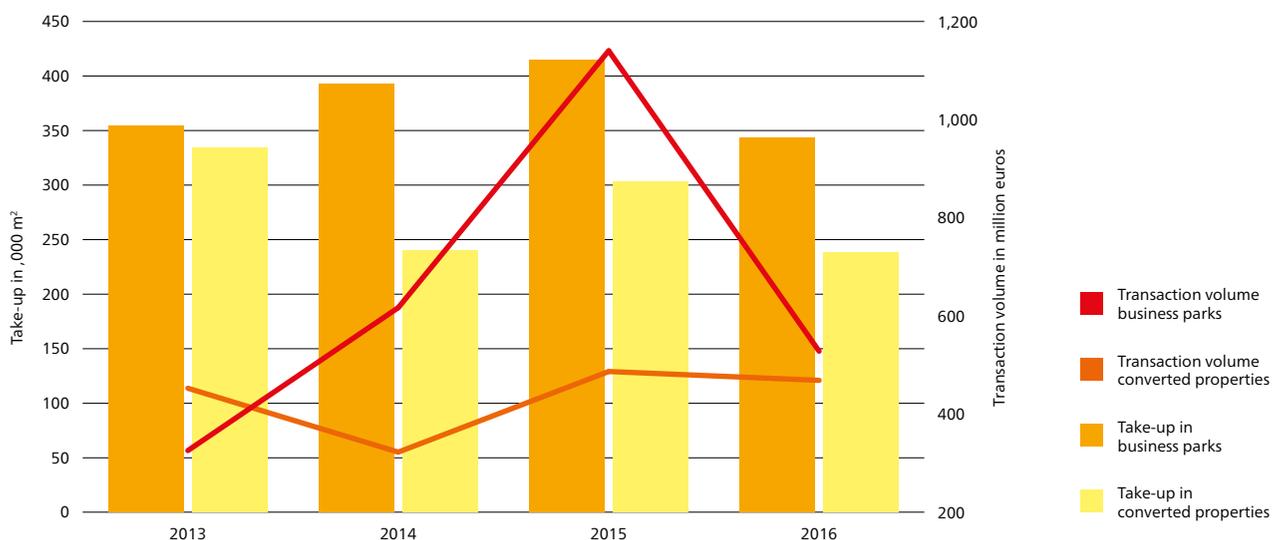
So business parks could by all means be understood as answer to the challenges outlined above. Especially the development of business parks beyond conventional concepts toward a type that favours flexible spaces provides answers to future parameters even today. The good thing about such premises is that they are flexibly scalable and even reversible to accommodate a variety of uses. But even the existing stock of business parks meets the mixed-use requirement of the “urban quarter” half way by addressing a broad-based target group.

... but are rarely developed



Business Park Düsseldorf Süd (source: SEGRO)

Business park take-up and transaction volume, 2013–2016





The market has long been aware of the fact, and take-up in either property category has soared in recent years. Analogously, investors have recognised the potential and are increasingly interested in these asset classes. However, the market action in 2016 showed a downward trend both in lettings and transactions. These setbacks are not to be blamed on contracting demand, but on short supply.

At the moment, business parks in Germany have a combined usable floor area of around 9 million sqm. Construction activity in this segment reached its absolute peak in the early to mid-1990s. With a year-end total of nearly 300,000 sqm of completed floor space each, 1998 and 2002 were also strong years. Comparing the annual figures between 1990 and 2005 reveals that completions differ from one year to the next, sometimes considerably so.

The stats show moreover that the average floor space completed in business parks over five-year periods in the new millennium was noticeably lower

than it had been in the 1990s. In 2010, barely 12,000 sqm came on-stream, the lowest figure on record—down from over 425,000 sqm in 1994. Over the past 20 years, construction activities have slowed considerably, and the downtrend in ranking during this market cycle suggests as much. Since 2008/2009 at the latest, competition with other types of use has rapidly intensified, and this goes in particular for residential real estate. There is a manifest tendency among policymakers to favour housing projects for gap site and conversion area development. Business players rarely succeed with their bids, not least because of recent price hikes.

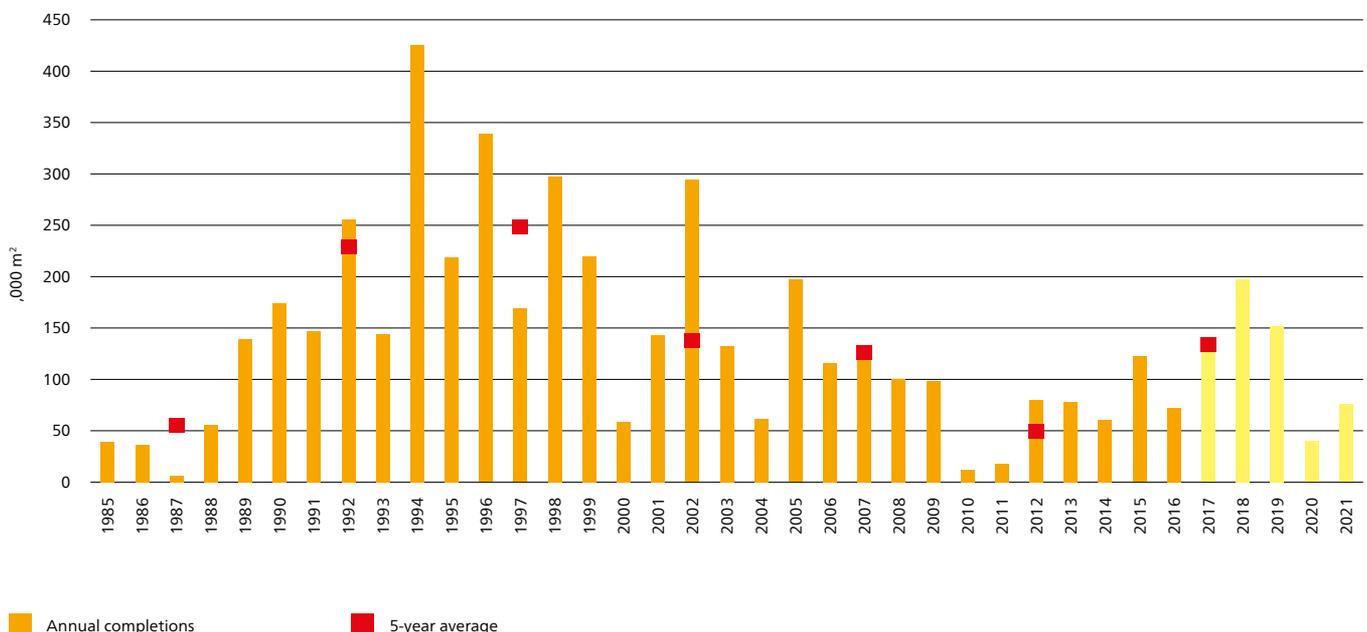
here and there in response to the re-kindled interest of occupiers and investors. But all things considered, construction activities must be rated as modest. Causes underlying the sluggish development include competition with other types of use, difficult zoning regulations, and a political preference for housing. In the longer term, rising demand in this segment is radically at odds with the completions rate.

What can be done to boost the pace of development for business parks as well?

The Pipeline is Slow to Fill

2015 marked the first year since 2008 that floor space in a volume of over 100,000 sqm was completed in business parks. The very next year, the completions volume plunged again. Although the pipeline through 2019 shows a higher level than the low completions level seen in the years since 2010, attractive new development concepts are pursued

Completions and floor space in the business park pipeline, 1985–2021



Do Urban Areas Pave the Way for the Construction of New Business Parks?

The introduction of the new “urban area” category is supposed to permit the small-scale mixing of the use types residential and commercial while also bringing in social, cultural and other facilities. With a PCR limit of 0.8 and a FAR limit of 3.0, the permissible building density has been raised considerably when compared to special residential areas and mixed-use areas. During daytime hours, a noise level of 63 dbA are permitted in “urban areas,” which is 3 dbA more than in core areas and mixed-use area, and which implies a doubling of equivalent noise sources.

This means that the planning envelope in regard to an increased reconcilability of commercial use types plus increased traffic flow with residential use has effectively been expanded.

Accordingly, there is reason to assume that the number of plots potentially eli-

gible for the creation of business parks in urban locations will go up. This would be welcomed by companies in need of floor area, but also by property developers and investors. The admissibility of other types of use could arguably pave the way for setting up social facilities like crèches or cafeterias as well as leisure attractions of local residents to coexist harmoniously with commercially used premises in these “urban areas.” This would be another major stepping stone in the ongoing effort to reconcile family and job.

Then again: The political debate regarding the introduction of this new land category was triggered by the demographic growth in many German cities. The implementation of Germany’s ambitious housing development programs calls for an expansion of the urban planning options, given the fact that the conversion areas are largely used up and that many

cities have run out of areas with potential for subsequent densification. Unlike in mixed-use areas, the “urban area” land category does not dictate an equilibrium of the various use types. While this could be interpreted to favour the development of new housing, such an interpretation would ignore the mixing of use types that is characteristic of an “urban area.”

Moreover, the highly important nighttime limit for noise abatement was left unchanged in the draft bill for the “urban area” category that was passed. It would, however, be a key factor for the development of genuinely urban areas to adjust the limit.

It is safe to assume that Germany’s major cities, and specifically their core areas, have more or less reached a density of such a degree that even the zoning of urban areas will not permit subsequent densification on a major scale. Peripheral areas of inner cities are therefore most likely to move into focus, meaning locations of a growing significance within the urban fabric as urban logistics and manufacturing sites.

Creating new housing is a popular thing to do among citizens, municipalities and investors alike. Yet the neat thing about the creation of business parks is that they could simultaneously help to cope with the challenges of city logistics and intra-urban manufacturing. Since the various use types are likely to compete for shares in the new land category, it would be sensible for developers, occupiers and municipalities to engage in dialogue to fully exploit the potential of the new “urban areas.” To this end, it will be of the essence to showcase the added value of use concepts that the creation of business parks will bring for a given city and its residents, and thereby to avoid a mono-track fixation on housing development. Urban living is ultimately all about diversity and needs to take the needs of many different user groups into account to live up to its promise.



Modern format of a business park, illustrated by the Kontrastwerk complex in Cologne (image credit: Ingo E. Fischer, source: Aurelis)

Andreas Fleischer Talks about the Challenges Facing Business Park Developers



Andreas Fleischer,
Director Northern Europe at SEGRO

Construction activity in the classic asset classes has increased at breakneck speed over the past five years. By contrast, the number of recent business park developments has been rather modest so far. Are business parks late bloomers in the real estate cycle?

Modern business park have always been an important and profitable asset class. Still, many property developers used to steer clear of such properties because of their complex management when compared to single-tenant logistics real estate. Here and there, the reservations regarding this asset type were reinforced by adverse developments. They were compounded by the issue of growing transport volumes from the goods delivery traffic that new business parks will generate. This has caused many towns to be even more reticent about zoning new areas for business and logistics parks than they are with other asset classes. But to address these challenges is actually quite rewarding.

What are the lessons that developers of new business parks have learned from past mistakes?

Business park developers increasingly see it that buildings are given an appealing design, and generate value-added for local residents, employees and municipalities in equal measure. Modern mixed-use

concepts, for instance, tend to integrate cafeterias, crèches or leisure options. Occupiers should have the use of an adequate blend of areas for services, storage and light manufacturing. The office footprint is often smaller than it used to be. In the best case scenario, the individual companies complement each other to form a sector mix that may potentially generate synergies for the location. Developers also ensure that business parks have easy access to public transportation in order to roll back motorised commuter traffic.

Which practical issues may business park developers encounter when seeking to move into new “urban areas”?

The new “urban areas” create a legal foundation for the implementation of new concepts that bring residential and commercial premises closer together. This is indispensable for a consistent re-densification of inner city areas. In terms of traffic engineering, however, German conurbations have already come close to exhausting their stress capacity. The situation is becoming particularly precarious in inner-city transport hubs. In places like these, business park developers need to cooperate closely with local authorities and occupiers to relieve the strain on these hubs, e.g. by choosing efficient property concepts and innovative delivery methods – such as e-bikes.

Is the extra leeway in terms of planning regulations that the “urban area” concept promises even relevant for your property development strategy?

The fact that an extreme land shortage coincides with skyrocketing demand for peri-urban business parks and logistics parks calls for novel solutions on the part of property developers. To address this challenge, any expansion of the planning law parameters is useful and welcome. What matters now is to make the most out of the new-gained latitude by introducing innovative concepts. And this is actually our property development strategy here at SEGRO’s.

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Title image

Christoph Knoch, Munich

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