

## Business Parks: The Renaissance of a Classic Property Type

### INTRODUCTION

BEOS Survey is an analytic series that reports quarterly on the latest in corporate real estate, also covering the related segments of industrial, manufacturing, and logistics real estate.

This issue discusses the category of business parks as a subgroup of corporate real estate. Properties of this category provide several types of floor space (e.g. office, service or warehouse areas) of varying size within a single building cluster. They are quite popular among small and medium-sized enterprises (SME) because of their flexibility. It is actually a property category of long-standing tradition. Prototypes of it emerged in England toward the end of the 19th century. Since then, they have steadily spread across the globe, including Germany, where developers like Vielberth, Calliston and GiP began to establish business parks in the late 1970s. However, they have yet to gain the same significance here as in Anglo-Saxon markets, where they are often called “flex spaces.” Despite the principally high demand in Germany as an industrialised country dominated by SMEs, some of the existing properties, especially older ones, suffer from structural issues. These may be obsolete either because they followed a misguided concept from the start, or because they no longer meet the requirements of potential present-day occupiers. However, they are often erroneously cited as evidence for the seeming obsolescence of the category as such, which in turn explains why the number of new projects of this type was so low until recently.<sup>1,2</sup> There is reason to believe, though, that business parks will gain in significance going forward. This issue of BEOS Survey details the reasons why.

### THE BASIC IDEA UNDERLYING BUSINESS PARKS

The basic idea that led to the development of business parks was the desire to create a structured environment for entrepreneurs, featuring a single administration along with the proper infrastructure. This makes them the equivalent to the organically evolved and frequently owner-occupied commercial

structures in dedicated trading estates or industrial areas. Their key advantage is the infrastructure they provide, as it offers unprecedented flexibility to occupiers and enhances the cost effectiveness.<sup>1</sup>

Business parks provide standardised building clusters in a landscaped estate with ample parking and a distinct campus character. In response to market fluctuations, the concept has undergone a number of changes in Germany that are primarily reflected in changes of the floor area breakdown into the use types storage / logistics, production, services, and office.<sup>1,2</sup>

### “MORNING AFTER” FOR BUSINESS PARKS FROM THE 1990S

Originally, business parks were designed with a comparatively small share of office space, the bulk of the premises being allocated for the use types of storage, manufacturing and services.

In conjunction with Germany's reunification, demand for office floor plate began to surge in the early 1990s, and with it the rent rates for downtown offices. Business parks that were often realised in the suburbs or on greenfield land frequently offered much lower office rents, and thereby gained in appeal even for classic office tenants that were driven out of the inner cities. This becomes readily apparent when you look at the gap between prime rents in downtown areas and those paid on the urban periphery. In the case of Germany's Class A cities, for example, a vast difference of up to €17.00 / sqm developed between average rents in central and remote locations, respectively (Phase 1 in Figure 01).

Some of the former business park providers intended to benefit from this market cycle. They shifted the focus in business park layouts noticeably towards office use. This was done by re-using existing properties, but also through the extensive development of new schemes. The wish to meet the increased demand for office space often produced virtual office parks with an office share of 80% or more.<sup>1,2</sup>

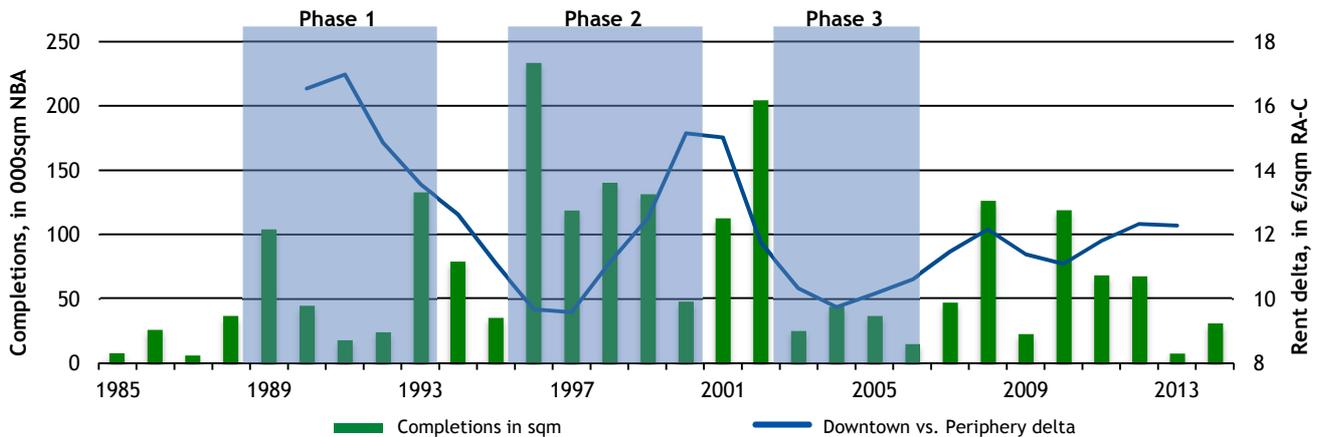


Fig. 01: Relation between the rent delta and completions in business parks (indicative construction)<sup>3</sup> (source: bulwiengesa AG)

A look at the completions statistics will clearly show a surge in building activity, even though completions did not peak until 1993 and 1996 due to the time-to-plan lag and implementation lag. By this time, the rent delta had dropped back below €10 / sqm. Then again, the 1990s in Germany were paced by a brisk succession of cycles that caused the rent delta to widen again before long. Accordingly, the concept of office-dominated business parks continued to work (Phase 2).

By the time the recession hitting the New Economy bubble, at the latest, the shortcomings of the concepts had come fully to light. Office-only tenants began to shift their focus back to downtown locations, whereas commercial businesses lacked the warehouse areas they needed for non-office use. The basic idea of providing a versatile floor space mix with variable shares of different units was abandoned in favour of an oversupply of office accommodation. The resulting voids persist to this day, especially in very peripheral locations where the dilemma is compounded by an growing investment backlog. Downtown business parks of high architectonic appeal, by contrast, rarely have trouble marketing their office accommodation (Phase 3).<sup>1,4</sup>

Clearly, business parks constitute a property type that calls for a differentiated approach. But only recently have they come to be considered principally sound assets. Their rehabilitation is owing to the business parks of certain corporate real estate developers who returned to the original concept and put an extensive professional asset management in place to manage these parks in sustainable ways.

At the moment, the total stock of business parks (not including transformation property) is estimated to come to 336 estates with an aggregate usable area of about 7.64 million sqm.

## SHIFTING PARAMETERS

A shift in parameters will always also impact the economy, and subsequently the real estate that companies use. Over time, business parks have been reconceptualised more than once. In order to steer clear of past mistakes, the key emphasis should be on a flexible, reversible, and open concept that is not narrowly limited to specific user requirements of the day. Rather, new concepts should take a wider variety of parameters into account, and implement them through development and active asset management.

### *Locations and Regions*

The regions best suited for setting up new business parks are those with a high centrality rating, ideally in the metro areas of Germany's so-called "Big Seven," and moreover in regions characterised by fast job growth and a certain corporate mobility. Germany's ongoing demographic change, and the intensifying competition for skilled labour that comes with it, will play an increasingly important role in the site selection of companies.<sup>5</sup>

At the same time, the (re)urbanisation process generates a rising demand for space inside the urban agglomeration areas. Decisive aspects in this context include the zoning of new commercial areas, and the availability of downtown locations for commercial

and manufacturing operations with convenient public transportation access. After all, as modern commercial businesses produce few pollutants anymore they may operate in closer proximity to residential areas than before.<sup>5</sup>

The central locations with their high land value potential represent a key difference to the logistics hubs in remote locations still preferred by many investors today.

#### *Technology*

Technological progress is one of the most elemental influencing factors defining the business world of tomorrow. The increasing automation of production is advancing along the lines of “Industry 4.0,” and future innovations in manufacturing and transportation will definitively influence tomorrow’s demand for floor space. Another consequence is the noticeably reduced need for manual production steps. Conversely, the floor space demand in the service sector is rising.<sup>4</sup>

New technology (e.g. 3D printing, additive manufacturing) permit small-scale and custom production runs, using compact and mobile machinery. Going forward, the long-term tendency points toward a downsizing of manufacturing plants. Smaller warehouse areas are better suited to the requirements of local production close to the customer. Sometimes the manufacturing use of a warehouse is completely revamped for a new product series and reassembled from modules.

Business parks with their floor space mix, their infrastructure, and their convenient accessibility also provide ideal conditions for eFulfillment centres.

#### *Ecology*

Environmental aspects play an important role in Germany. Greenfield developments are subjected to diligent reviews that address issues like traffic volume and soil sealing. The political objective is to minimise the consumption of land. In many regions, the reduced zoning of development land has already caused shortages in, and price hikes for, development land. Resource-conserving processes and short transport distances are becoming increasingly important, and influence the site selection of companies. This is why business parks have been moving back to town, closer to the centre of things. In this as in other property segments, there is a manifest

trend away from greenfield development and toward integrated inner-city locations. Plausible sites for development are mainly industrial and other brown-field locations.<sup>4,5,6</sup>

Gone are the days when decommissioned industrial areas were automatically razed. Instead, it has become common practice to combine vintage building stock of reversible layout and new business park units, giving occupiers a range of rent levels to choose from.

#### *Economy*

Increasing cost pressure and ever more specific client requests require an accelerated capacity to respond on the part of the companies in order to maintain their competitive edge. Hanging on to a high percentage of company-owned property, for instance, can hamper competitiveness. Business parks with their diversified floor space supply and their flexible floor plans, by contrast, offer great options for responding to changed floor area needs. They permit resident companies to concentrate on their core business while leaving the property management to professional service providers.

## **A RENAISSANCE OF THE BUSINESS PARK CONCEPT**

The changes discussed above open onto new opportunities for the asset class of business parks. Especially for small and medium-sized enterprises (SME), the business park environment offers need-based rental options. But many national and international companies also opt for business parks to set up regional branch offices and support points because they deliver a relatively homogeneous and affordable floor space standard everywhere they go.

#### *Examples of Modern Business Park Concepts*

Developers are well aware of these market trends, and have stepped up the redevelopment of classic business parks. Key players include, aside from BEOS, companies like Aurelis, SEGRO, Sirius, among others. At the same time, some developers have doubled as investors in recent years, keeping assets in their proprietary portfolios long-term, and placing a premium on sustainable concepts and active asset management. The two examples below showcase two recent developments of this sort:

*SEGRO Service Park Berlin Airport*

The SEGRO Service Park Berlin is located in a new trading estate directly at the future airport in Berlin-Schönefeld. Here, well over 20,000 sqm of usable area for commercial occupiers are under development. Warehouse, service and office areas can be rented in connected modules of 400 sqm to 4,000 sqm in size.

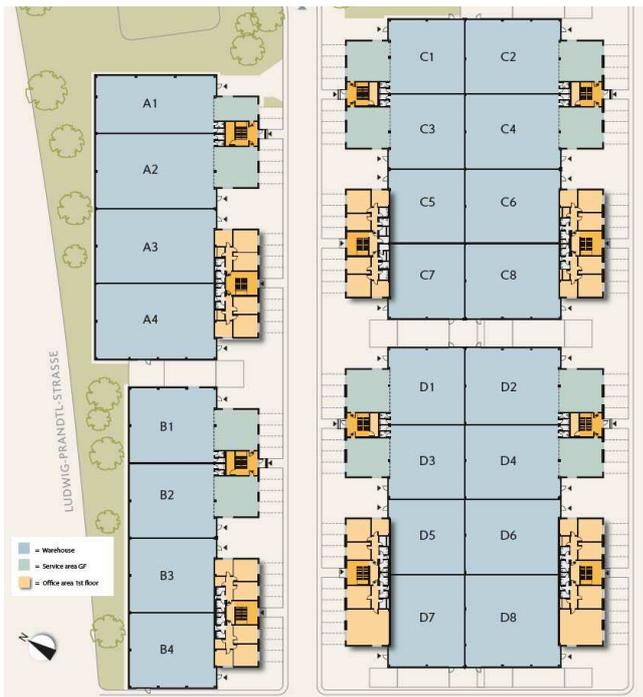


Fig. 02: Floor plan of the SEGRO Service Park Berlin Airport, 1st construction stage (Source: SEGRO)

The percentage of any given use type is relatively easy to vary. The module-like arrangement of the lettable areas permits a high level of flexibility as well as changes to the floor-space requirements on short notice. In addition, SEGRO acquired adjacent plots with an eye to a possible expansion. It would thus be able to accommodate even rental requests for large-scale units.

*BEOS Business Park "In de Tarpen" in Norderstedt*

BEOS AG conceptualised an annex for an incumbent tenant at the 23,000 square metre business park "In de Tarpen" to facilitate the company's expansion. A spare plot of land next to the existing buildings was used to considerably enlarge the available floor area. In close cooperation with the tenant company and its staff, a multifunctional property with a floor area of around 4,000 sqm was developed. The partner-like collaboration enhanced the identification of the ten-

ant with the rented property. From the start, the blue prints included options for future adjustments as individual units may be converted for different use, expanded, partitioned, or re-let.



Fig. 03: New building at the business park "In de Tarpen" (source: BEOS AG)

**CONCLUSION**

Business parks offer flexible units to corporate tenants. Contrary to widespread opinion, this property category will principally develop structural issues only if the office share is too high, or if the asset management is doing a bad job. The majority of issues tend to be symptomatic of the respective market cycle, and to be limited to individual properties. Indeed, it is safe to say that most business parks today are facing a functioning and growing market because of the changing parameters. When properly managed, they will deliver a sustainable, stable cash flow for operators and investors.

- 1) Vielberth, J., 1999. "Das große Handbuch Gewerbeparks," Landsberg/Lech.
- 2) Falk, B., 1994. "Gewerbeimmobilien," Landsberg/Lech.
- 3) bulwiengesa AG 2014: property database excerpt from 08/08/2014. The market remains comparatively non-transparent. Figures may deviate due to ongoing market research.
- 4) Bobka, G., 2014. "Synergiepotenzial für Gewerbe." in: "Immobilienmanager," issue 4, pp. 38-40, 2014, Cologne.
- 5) Fleischer, A., 2014. "Gewerbeparks und City-Logistik." in: "LogReal.direkt" issue 2, pp. 8-10, 2014, Dortmund.
- 6) stiftung neue verantwortung, 2012. "'Grüne Fabrik' statt grüne Wiese - warum die Industrie wieder näher an die Stadt rücken sollte." in: "Policy Brief" 02/2012, Berlin.

CREDITS	
<b>BEOS AG</b> Kurfürstendamm 188 D-10707 Berlin +49 30 280099-0	<b>bulwiengesa AG</b> Wallstrasse 61 D-10179 Berlin +49 30 278768-0