Sale and Leaseback of Light Industrial Real Estate in Germany

White Paper

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The sale and leaseback (SLB) model has become an effective tool in the real estate market for generating liquidity for companies and providing attractive investment opportunities for investors. With the ability to free up capital tied up in real estate while providing investors with stable and long-term income streams, the SLB model has proven to be a mutually beneficial strategy and is used particularly for light industrial properties.

This white paper outlines the advantages of the SLB model in today's context, focusing on the German market while incorporating broader European considerations.

1. Definitions and underlying property

1.1. What is the standard market definition of light industrial from the perspective of investors and financiers?

Light industrial property refers to a category of commercial property that is used for light industrial activities. These activities usually include production, assembly, storage and distribution of goods that do not require heavy machinery or extensive production facilities.

Typical characteristics of light industrial properties are:

- Size: often smaller than heavy industrial facilities.
- Location: frequently located in urban or suburban areas.
- Use: flexible and versatile, suitable for different types of businesses.
- Equipment: usually equipped with office space, storage areas and production rooms.

1.2. General advantages of light industrial properties

Light industrial properties offer several advantages that make them attractive to many companies:

- Flexibility: These properties are often versatile and easily adaptable to different business needs, whether for manufacturing, storage or office space.
- Cost efficiency: Compared to heavy industrial facilities, operating costs are generally lower, making them particularly attractive to small and medium-sized businesses.
- Location advantages: Light industrial properties are often located in urban or suburban areas, providing easy access to employees and customers, as well as better access to transportation infrastructure.
- Quick adaptability: Because of their smaller size and flexible use options, companies can respond more quickly to market changes and adapt their business processes.

- Greener: These properties often have a better environmental footprint than heavy industrial facilities because they use less energy and resources.
- Value enhancement: With the increasing demand for flexible and well-located commercial real estate, light industrial properties can be a good investment and can appreciate in value.

1.3. Structural facts about the sale and leaseback market

The timing for SLB transactions is particularly opportune due to several converging factors. Germany, as Europe's largest economy and a global industrial powerhouse, presents a compelling environment for SLB investments:

- Investment needs for SMEs,
- Business succession in many companies in Germany,
- Economic stability, supported by a low debt-to-GDP ratio,
- The euro as a stable currency, and macroeconomic trends such as increasing protectionism.

Along with logistics properties, light industrial properties play a central role in the industrial ecosystem. As light industrial real estate continues to grow as an asset class, SLB transactions are an appropriate way to acquire such properties, and thanks to industrial modernization, the SLB model offers a strategic opportunity for investors seeking stability and value appreciation.

1.4. Market environment

1.4.1. Case study

The successful implementation of sale and leaseback (SLB) strategies is demonstrated by several established market participants who have been using this strategy for over 50 years. These investors have built diversified portfolios of industrial, office and retail properties using the SLB model. In Germany, SLB structures have been used by companies in industries such as automotive, precision manufacturing and renewable energy to free up capital tied up in real estate. These transactions allow tenants to reinvest in core areas such as research and development, while providing investors with long-term, inflation-indexed leases. In addition, SLBs are often structured with triple net lease structures, which shift maintenance and operating costs to the tenant, reducing risk for the investor.

2. The market and its mechanisms

2.1. Why now? The current appeal of sale & leaseback transactions

2.1.1. Light industrial real estate: a rising star

While logistics properties have long been a cornerstone of the investment market, light industrial real estate is emerging as a complementary asset class with significant growth potential. Offering a cost-effective entry point for investors, these properties are often priced favourably and serve a diverse range of uses, including manufacturing, assembly, and storage. Rather than competing with logistics assets, light industrial properties enhance and support supply chains by catering to key stages of tenants' operations, such as last-mile distribution, production hubs, and value-added services. This synergy strengthens their role within the broader industrial real estate landscape, making them an essential component of resilient and adaptive supply networks.

2.1.2. Germany: economic resilience amidst challenges

Despite modest economic growth of 0.2%, Germany remains the third-largest economy in the world and the largest in Europe. Its industrial base, underpinned by globally renowned Mittelstand (alternative medium sized business) companies, provides a stable foundation for investment. Germany's public debt-to-GDP ratio is approximately 60%, significantly lower than the U.S. ratio exceeding 120%, making the country a beacon of fiscal prudence. Additionally, the German government's focus on renewable energy and digitalization initiatives is likely to spur industrial growth, further enhancing the attractiveness of SLB investments in the country.

2.1.3. Shifting global dynamics: the euro and protectionism

The euro's role in the global economy may strengthen as increasing U.S. debt levels and rising protectionist policies shift focus on the Eurozone. For international investors, euro-denominated SLB transactions offer a hedge against dollar volatility and provide access to one of the world's most stable currencies. Germany's leadership within the EU further amplifies its appeal as a safe investment destination.

2.1.4. Business succession and private equity trends

Germany's Mittelstand is currently undergoing a wave of business successions as older generations of owners retire. Private equity funds acquiring these companies often divest real estate assets through SLB transactions, preferring to allocate capital toward business growth and operational improvements.

2.1.5. Potential policy shifts

The possibility of a government shift in Germany, accompanied by increased economic focus, could create a more favourable investment climate. Pro-growth policies, such as tax incentives for industrial investments and increased support for infrastructure development, could boost demand for industrial real estate and make SLB transactions even more attractive to investors.

2.1.6. Favourable pricing environment

Prices for light industrial properties remain attractive compared to logistics properties. In recent years, yields on light industrial properties have ranged from 7.0% to 9.0%, offering a compelling risk/reward profile. The relative affordability of these properties allows investors to acquire quality assets with significant potential for high distribution yields and capital appreciation.

2.2. Advantages of SLB transactions

In the following figure, we outline the structural advantages that speak in favour of investing in this market segment:

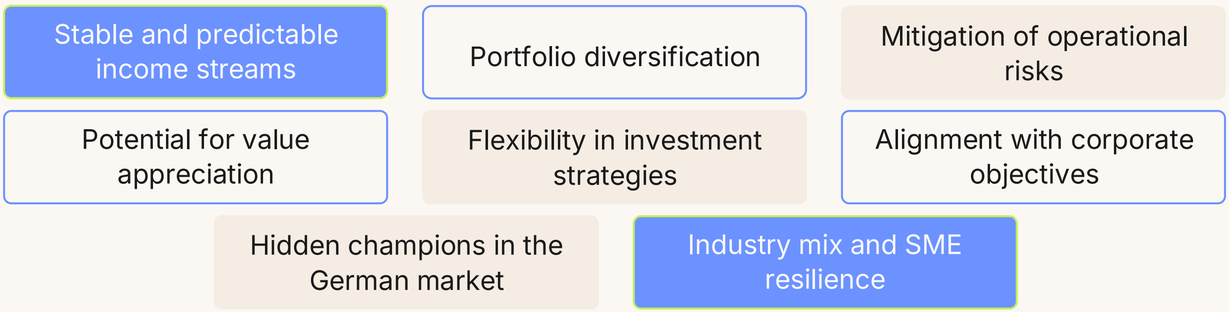


Fig. 1

Source: HBC 2025

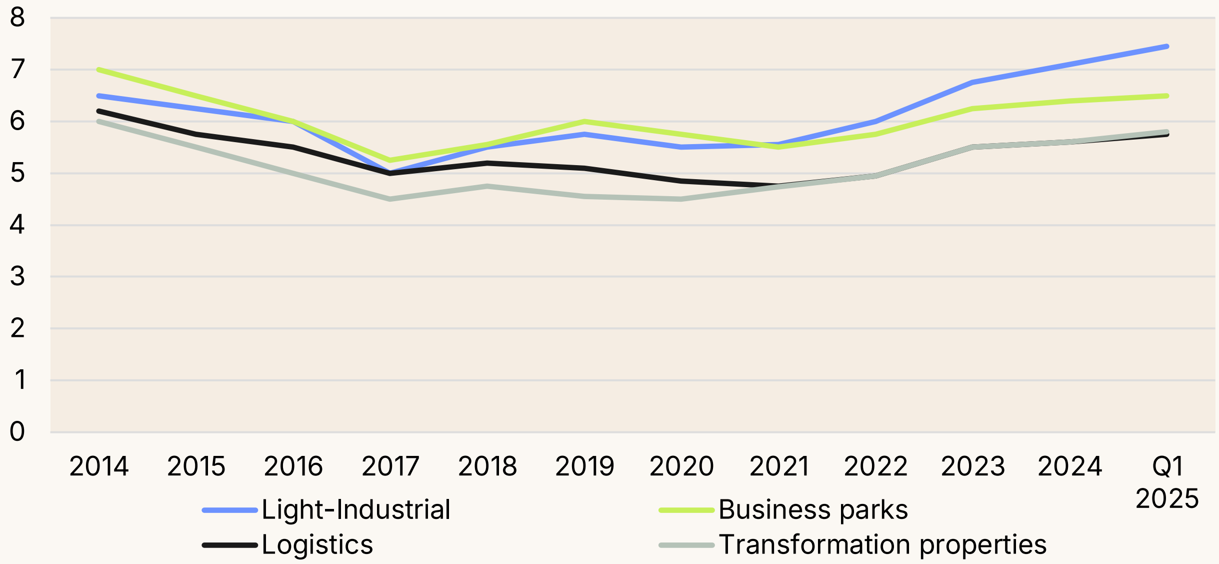
2.3. Yield development: gross initial yields 2014 – Q1/2025

After a significant rise in interest rates in recent years and increasingly challenging financing conditions, real estate market investments have been directly impacted. Alternative investments, such as government bonds, often offered a significantly more attractive risk-return profile in comparison. As a result, pressure on yields across all types of real estate, including corporate real estate, has continued to increase. The last interest rate cut in March 2025 - now at a level of 2.5% - significantly weakened the pressure on yields on SLB investments and positioned this asset class as an attractive form of investment.

In numerical terms, the development in the second half of 2024 is as follows: The minimum yields for business parks in the first quarter of 2025 stood at a gross initial yield of 5.5%, representing an increase of only 40 basis points. However, this applies only to a select few properties. The broader segment of top-tier properties, categorized under the prime yield label, achieved an average gross yield of 6.5% in Q1/2025. Due to the ongoing economic uncertainties in the manufacturing sectors, yields for production properties experienced comparatively larger increases by end of 2024, with a minimum yield of 6.1%, reflecting a 45-basis point rise. As a result, yields for light industrial properties have recently exceeded their 2014 levels, highlighting a renewed investor interest in this asset class.

Because of their specific usage requirements, production properties are generally valued with a higher risk premium compared to business parks. Prime production properties reached a gross initial yield of up to 7.5%. As a result of stabilized interest rates, yield levels across all property types are expected to remain largely stable throughout 2025. Despite continued uncertainties and economic slowdowns, the corporate real estate sector has shown resilience. While economic uncertainty influence's location decisions—leading to postponed expansions or relocations—an above-average take-up of over 1.92 million m² was recorded in 2024. This marks the highest demand level since the 2019.

Fig. 2 Gross initial yield development over a 10-year period (in %) – 2014-Q1/2025

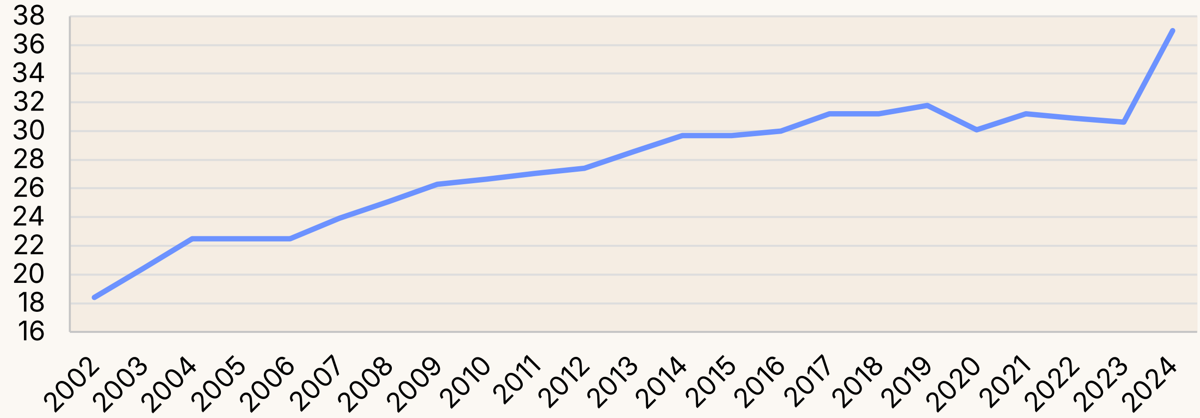


Source: RCA 2025, Thomas Daily 2025, PMA 2025

3. German SME's

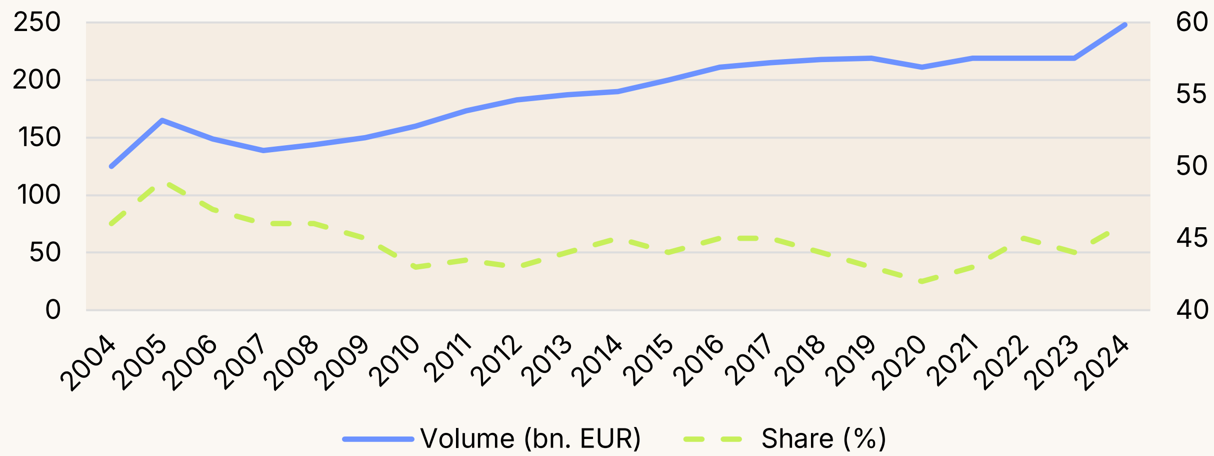
Since the turn of the millennium, the SME (small and medium-sized enterprises) sector has successfully established a robust equity base across a broad spectrum. This development has significantly enhanced the sector's resilience to unforeseen challenges. A strong equity foundation not only enables businesses to absorb losses over extended periods during economic downturns but also bolsters their creditworthiness and ensures continued access to external financing. The importance of these advantages was clearly demonstrated during the past years, which were characterized by two successive crises.

Fig. 3 German SME's – overall development
(Basic key figures on the equity ratio in SMEs (figures in percent))



Source: KfW-Mittelstandspanel, 2024, Destatis 2024

Fig. 4 New investments in the SME sector
Solid line: volume in € billion (nominal); dashed line: share of SMEs in total corporate investments)



Source: KfW-Mittelstandspanel, 2024, Destatis 2024

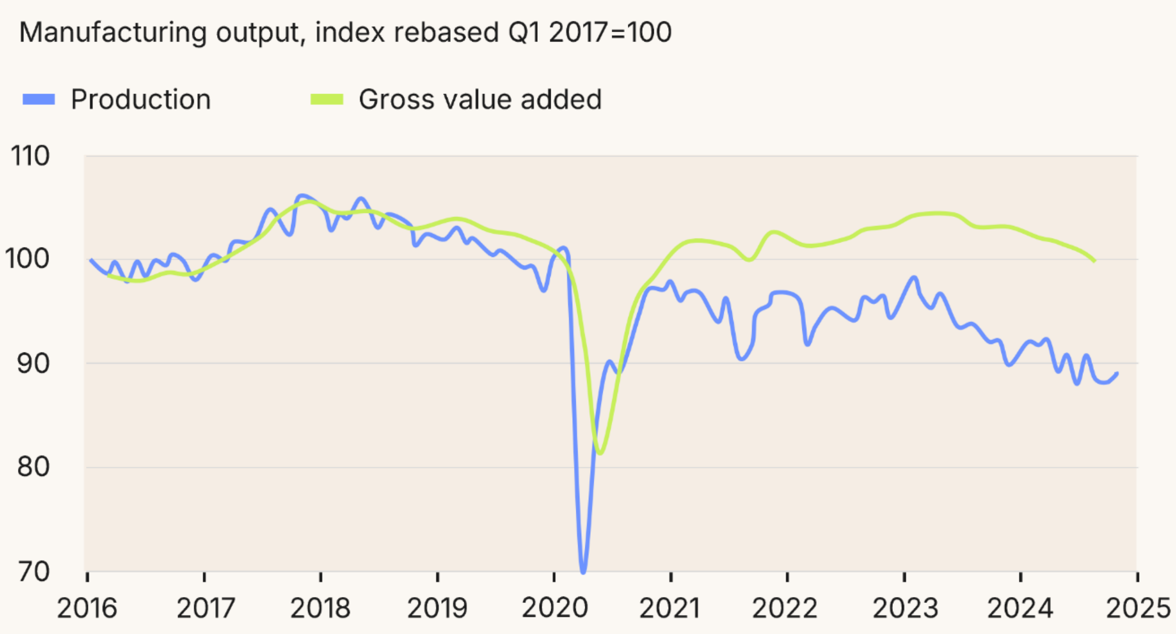
Overall, nominal investments by SMEs in new equipment and construction (gross fixed capital formation or new investments) increased by €9.7 billion, or 6.2%, in the past year (2024). This brought total new investments in the SME sector for 2024 to approximately €219 billion. However, when adjusted for inflation, the investment volume declined by around 3.5% in real terms, amounting to €208 billion. Consequently, the higher investment volume among SMEs in 2022 & 2023 was entirely inflation-driven, with businesses slightly reducing their real investments.

In aggregate, the total investment volume in the SME sector increased nominally by €10.8 billion, or approximately 4.4%, reaching €248 billion. Adjusted for inflation, however, the real investment volume declined by 1.8%, amounting to €235 billion.

4. Germany's weak economy has strong foundations (Financial Times report 2025)

The energy crisis and supply chain disruptions following the Covid-19 pandemic significantly impacted German industry, particularly energy-intensive sectors like chemicals and metals, which experienced contractions. However, the IMF highlights that other sector demonstrated resilience by "shifting into higher value-added products and using fewer intermediate inputs." Notably, electric vehicle exports surged by 60% in 2023, while production in electronics, optical goods, and aircraft machinery also saw strong growth. The chart below shows that, although German manufacturing production has fallen, value added has remained steady.

Fig. 5 Manufacturing production since 2016



Sources: Financial Times 2025, IMF 2025, Haver Analytics 2025

Indeed, Germany's long-standing expertise in engineering can be repurposed towards new growth sectors (at home and abroad). And though exports to the US and China may be affected by rising trade tensions, the nation remains the dominant industrial force in Europe. Demand for defence equipment and green technologies is rising across the continent. Germany is a specialist in both, leading Europe for patents in green tech (and overall). It also ranks top among developed nations, well above the US and China, in the IMF's index of comparative advantage in green goods. This includes highly efficient power plants, intelligent grid design and charging technology.

The chart below shows that German industry is well-placed for value creation, being highly competitive in a number of growth sectors. (Researchers at BCG and the German Economic Institute developed a ranking methodology with sub-indicators for competitiveness and global market attractiveness, such as global market share, number of patents, market growth, intensity of competition and tech maturity.

5. Special state funds as a catalyst for sale and leaseback strategies

As part of its industrial policy strategy, the German government is making various special funds available to support companies in their transformation, decarbonization and digitalization efforts. These publicly provided capital resources - for example, from the Climate and Transformation Fund (KTF) or as part of the Growth Opportunities Act - open up new scope for investment, which can be used particularly effectively in combination with sale and leaseback (SLB) structures.

Companies wishing to take advantage of government incentives are often faced with the goal of strengthening their equity base or liquidating existing real estate portfolios in order to provide the necessary co-financing or equity ratio for subsidized investments. In this context, an SLB model can be a strategic bridge: it enables the release of capital from operating real estate, which can then be used for government-funded innovation or modernization projects.

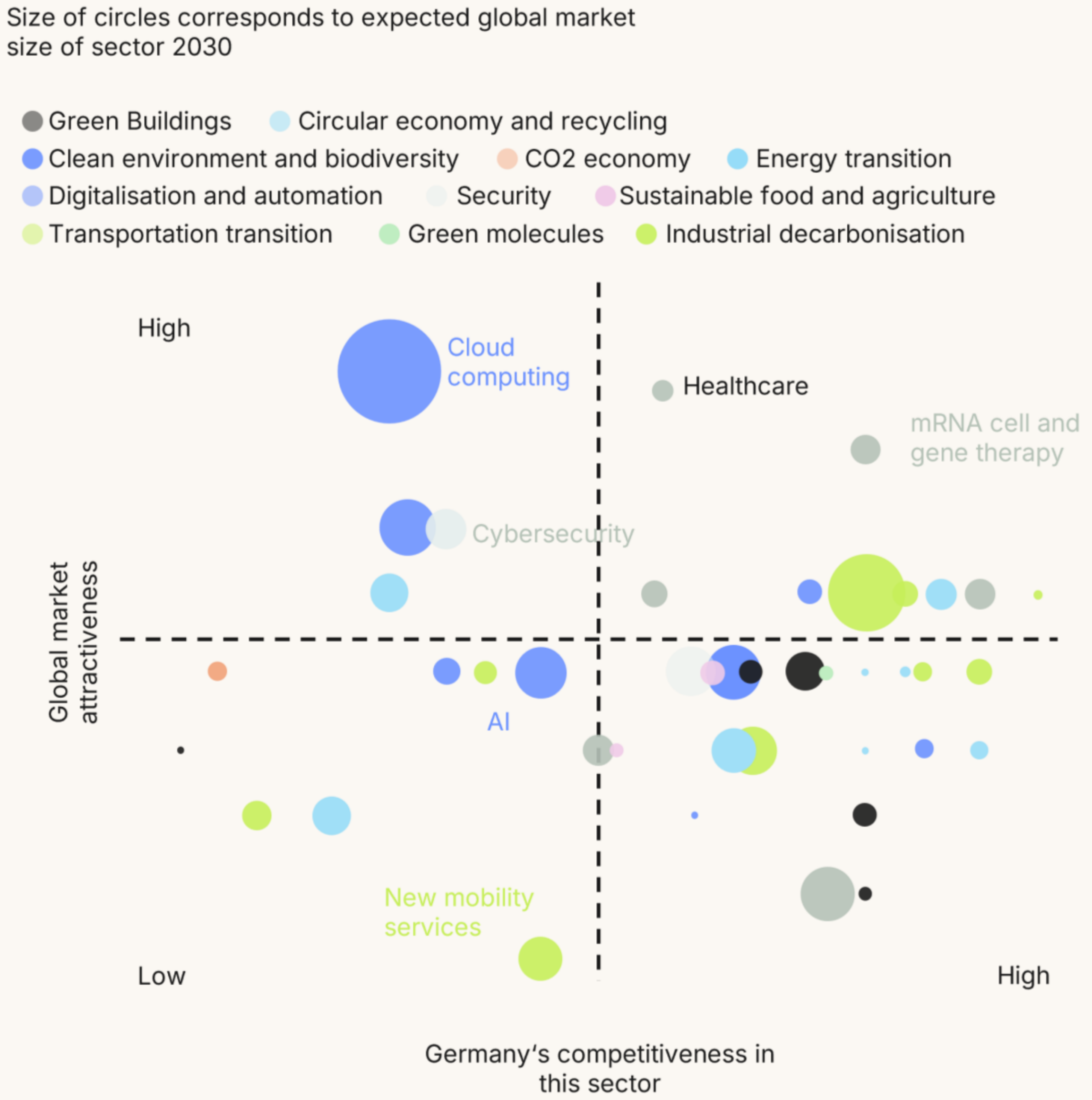
Relevant Programs and Instruments:

- Climate and Transformation Fund (KTF): Supports investments in energy efficiency, sustainable production and green infrastructure.
- Federal Incentives for Efficient Buildings (BEG) and Industrial Efficiency (IEE): Promotes energy-efficient renovation or replacement of production facilities.
- Equity Programs or IPCEI Funds: For key technologies in areas such as batteries, hydrogen or semiconductors.

Strategic advantage: By using SLB transactions, companies can increase their liquidity in the short term while continuing to secure owner-like usage rights. This makes it easier to use government subsidies as additional financing without having to accept operational restrictions or loss of control.

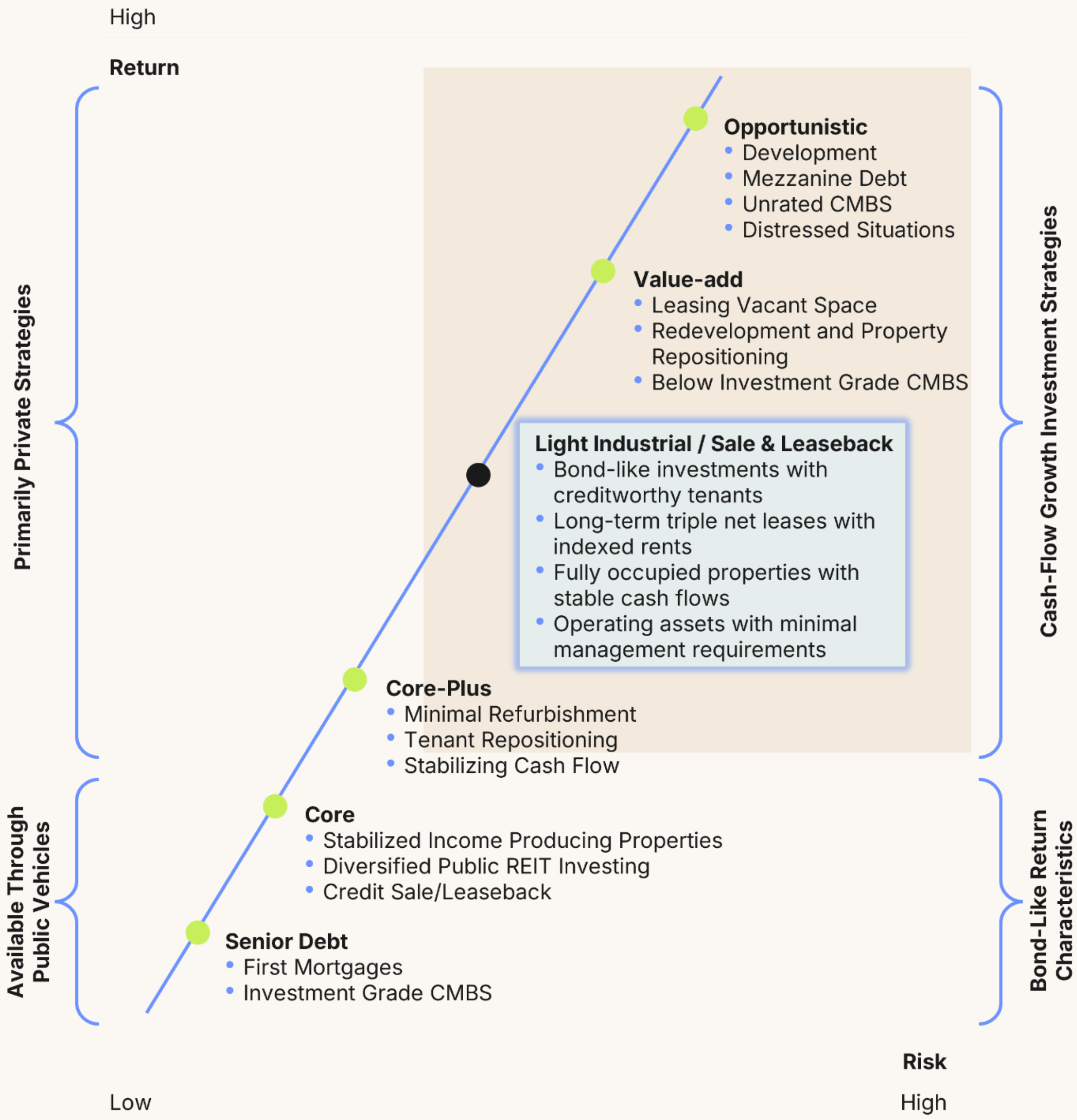
Particularly in the industrial SME sector, which is a key target group for many special funds, this results in a double leverage effect: the state funding triggers investments, while SLB transactions can secure and accelerate implementation as a financing supplement.

Fig. 6 Growth Sectors by Global Market Attractiveness and Germany's Competitiveness



Source: FT 2025, IMZ 2025

Fig. 7 The SLB Real Estate Risk-Return Spectrum



Notes: Light Industrial / Sale & Leaseback: Target Net IRR 10-14%, Leverage up to 60%, Initial CoC 7-9%

Source: HBC 2025, Periskpp

Conclusion

The current market environment makes SLB transactions in Germany's light industrial sector particularly attractive.

- Favourable price level,
- potential of a stronger euro and
- the structural advantages of the German economy

create a compelling case for investment. By leveraging the SLB model, investors can secure stable income, mitigate risks, and capitalize on the sector's growth potential. With a proven strategy SLB transactions stand out as a forward-looking investment opportunity in today's dynamic landscape.

The analysis by segment shows some heterogeneity in investment trends. In 2024, the nominal increase in new investments was mainly driven by larger SMEs. Enterprises with ten or more employees recorded a combined nominal increase of EUR 22.6 billion, while SMEs with less than ten employees recorded a decrease of EUR 11.4 billion. This suggests a focus on larger projects.

Quotes from Periskop and HBC

„German sale & leaseback (SLB) investments are particularly attractive at this stage of the economic cycle. A convergence of favourable factors has created an optimal environment for companies to unlock capital tied up in their real estate assets. With compelling day-one income yields, a robust pipeline of potential transactions, and supportive macroeconomic conditions, we believe that German SLBs represent a highly appealing investment opportunity."

- Lars Meininger, CEO, Periskop Partners

"On the capital markets side, the current market situation, which is generally characterized by ongoing political uncertainty, offers investors very good entry opportunities due to stable interest rate trends and forecast positive market growth in the light industrial sector."

- Prof. Dr. Thomas Beyerle, HBC

"Light industrial properties are currently particularly attractive because the cap rates are high, the duration of the triple-net lease contracts are long, and indexation offers protection against inflation. Investors can therefore realize high distribution yields and quickly recover their invested equity. Additional increases in value can be realized if the real estate market picks up and the light industrial property type becomes more institutionalized. The real estate market still has catch-up potential compared to the stock market."

- Dr. Kilian Mahler, Managing Partner, Periskop Logistics

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