Logistics Market Update
Further yield compression driving (speculative) developments

March 2017

In this logistics update Savills briefly turns to 2016 before setting out the major logistics themes impacting the market this year.

Looking back at 2016

Over the course of 2016 the economy continued to perform well, resulting among others in a 1.9% yoy growth in retail turnover and a 3.7% yoy increase of exports.

Combined with the positive economic outlook, forecasting a 2.1% growth in GDP in 2017, this reflected in high occupier activity in all sectors. Take-up in the logistics market reached 1.4 million sq m in 2016, the second highest post GFC take-up figure.

In 2016 around 1.1 million sq m of new logistics developments were realised, slightly higher than the 1.0 million sq m the previous year. The largest occupier transactions concerned DB Schenker leasing 50,000 sq m at Trade Poort Noord in Venlo, XPO Logistics leasing 60,000 sq m at Trade Poort Noord in Venlo and Nabuurs (60,000 sq m) and Lidl (50,000 sq m) leasing at Park 15 in Oosterhout.

The total investment volume increased by 26.9% to €1.25 billion in 2016. The largest investment transactions concerned Dietz Group/Logistics Capital Partners purchasing 210,000 sq m of land for a 100,000 sq m logistics development in Roosendaal, Savills IM purchasing a 108,000 sq m logistics centre in Deurne for € 91.0 million and Standard Life purchasing 38,000 sq m buildings Fokker 7 and 8 at Schiphol for a total of € 51.0 million.

Over the course of 2016 yields contracted substantially and prime yields at all major destinations converged between 5.25%-5.5% gross.

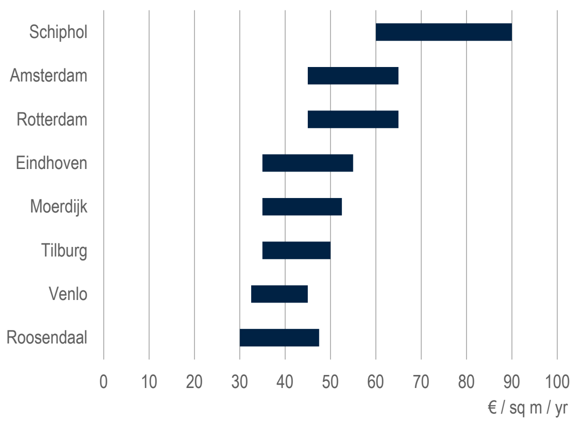
Major themes for 2017

Savills has defined three major trends shaping the 2017 logistics property landscape:

Political and economic uncertainty
In 2016 the choices for Brexit in the UK and Trump in the USA increased political and economic uncertainty. In mainland Europe, major elections are upcoming and the Greek bailout has returned to the agenda. It has to be seen how these will affect consumer confidence, the overall eurozone economy, the resulting international trade and thus the logistics sector.

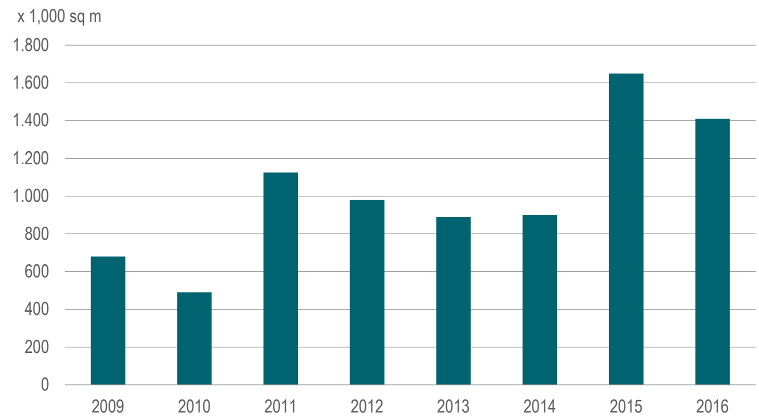
Large, larger, largest
The size of new developments has increased substantially over the years. The average size of distribution centres for which construction has started in 2016/2017 is 28,850 sq m, 15 (well) above 40,000 sq m. In comparison, the average size of new developments ten years ago was just 16,900 sq m. Distribution centres at international hubs in Noord-Brabant and Limburg are even larger in size: 36,400 sq m on average, with the 105,000 sq m Vida XL development in Venlo being the largest occupier transaction.

GRAPH 1
Rents at major logistics destinations



Source: Savills Research

GRAPH 2
Logistics take-up



Source: Savills Research

Strong increase in e-commerce
Online retailers recorded the largest sales growth in 2016: +18.7% yoy. While the overall online market share is still limited to around 8%, the growth of e-commerce is the driving factor behind many of the aforementioned new developments. In order to further increase online sales, the supply chain needs further modernisation and reconfiguration.

2017 occupier market

Occupier demand will thrive in 2017 and will be driven by increasing (online) retail turnover and increasing exports on one hand, and by supply chain optimisation on the other. This will lead to new, large scale developments and logistics centres located substantially closer to (or within) urban agglomerations.

Rents for prime logistics properties are supported by the substantial occupier demand and will be under upwards pressure in all markets coping with limited supply.

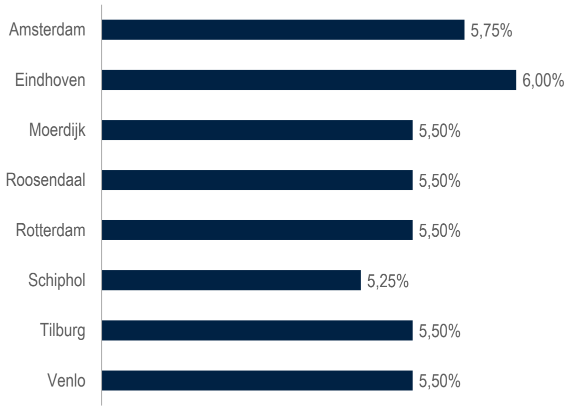
2017 investment market

The large logistics occupier demand, the limited supply within the modern stock and the substantial number of new developments will continue to attract investors.

Cross-border investments increased from 67.7% in 2015 to 77.6% in 2016 and included CBRE GI, Delin Capital, M7, Montea, Patrizia, Savills IM, Standard Life and WDP. Interest from foreign investors is expected to remain high. Continuing a trend seen in 2016, foreign investors will be involved in many of the new developments, with the more risk-prone aiming at speculative developments.

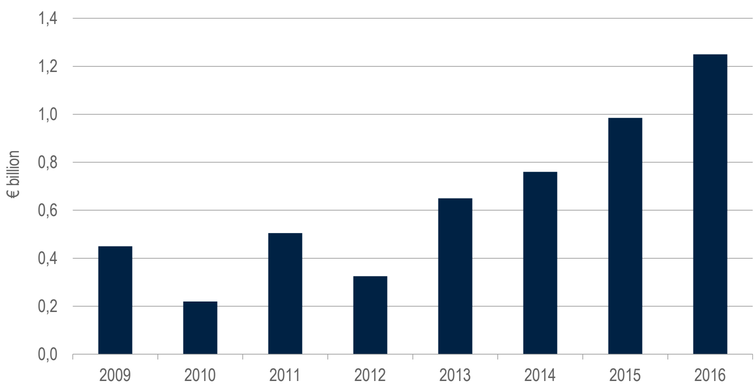
While the 2016 yield contraction from 5.75% to 5.25% gross limits room for further contraction, the scarcity of prime investment product will continue to keep a downward pressure on yields at all major logistic sites.

GRAPH 3
Gross yields logistics destinations



Source: Savills Research

GRAPH 4
Investment volumes logistics



Source: Savills Research

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