

savills



Rebalancing
between **logistics**
and **retail**

spotlight

logistics property market

Introduction

The growth of e-commerce is changing the landscape in logistics real estate markets around the world.

In countries like the UK and the US, retail space is now increasingly being used to accommodate showrooms for online retailers. In their quest for wider audiences, retailers are joining forces with logistics providers to incorporate online sales into their business models. As a result, the demand for logistics facilities is growing significantly. The rising demand for logistics real estate and the rapid delivery times now promised for online purchases have led to the introduction of smaller urban distribution centres (DCs). Urban DCs are located closer to cities in order to reduce delivery times in heavily congested areas such as London. These are an integral part of same-day delivery concepts like Amazon Prime, whereby products are delivered within an hour. Although these urban DCs are a relatively new concept, major real estate investors have backed them early, expecting major growth in this market due to the continuing rise of e-commerce.

The rise of e-commerce is also having a major effect on real estate markets. For example, in the Netherlands, the growth of the e-commerce sector has led to an increase in the demand for logistics space. With no sign whatsoever of any reversal in this trend, e-commerce is set to continue to gain market share.

What is the outlook for the e-commerce sector? How large could logistics real estate get in the Netherlands? And what does the future hold, given the specific spatial characteristics of the Netherlands and developments in other countries?



A short update

Potential of Dutch e-commerce

The share of e-commerce in relation to total consumption in the Netherlands has almost doubled since 2013 and currently stands at 9.7%. In international terms, this share remains relatively low. In countries like the UK and Germany, it stands at approximately 15%. This indicates that there is still a lot of potential for the online consumption market in the Netherlands to continue growing rapidly, resulting in increased demand for logistics real estate.

Logistics is overtaking retail

The retail real estate market has only grown slightly in the past few years, while logistics has grown very strongly. This is largely due to the increased share of e-commerce, which drives the demand for new DCs. As a response, many brick and mortar retailers are now trying to adapt and enhance their ability to sell their products online instead of investing in (new) physical retail locations.

'Agglo-logistics'

New hotspots for e-commerce retailers which are located within reach of several larger cities. Since the need for urban DCs in the Netherlands is limited due to the relatively small distances between the country's major cities, 'agglo-logistics' is more likely to be the future of Dutch logistics real estate. This type of logistics facility is located outside current logistics hotspots, but can serve many major cities and provide short delivery times.

Economy

The Netherlands is highly dependent on the economies of its main trading partners.

Many of these have been experiencing a period of sustained growth and the Netherlands, too, is enjoying the benefits of the economic upswing. The Netherlands' GDP has grown steadily over the previous 17 consecutive quarters (up to 18Q2). GDP growth of 17 (or more) consecutive quarters has only occurred twice before in the history of the Netherlands.

GDP growth has mainly been export-led, with exports making up 32% of Dutch GDP. The growth in exports led to significantly higher turnover and profits for logistics companies in 2017. Despite this, these companies are finding it increasingly difficult to attract workers. This is being caused in part by the Netherlands' current low unemployment rate of 3.5%.

Attracting workers is becoming more and more important for logistics companies in order to enable expansion, as they seek to fulfil demand, not only from exports but also from domestic online consumption in the Netherlands. Household consumption has been rising due to the economic upswing, and online consumption has played an important role in this.



Take-up



Investment Volume



Stock



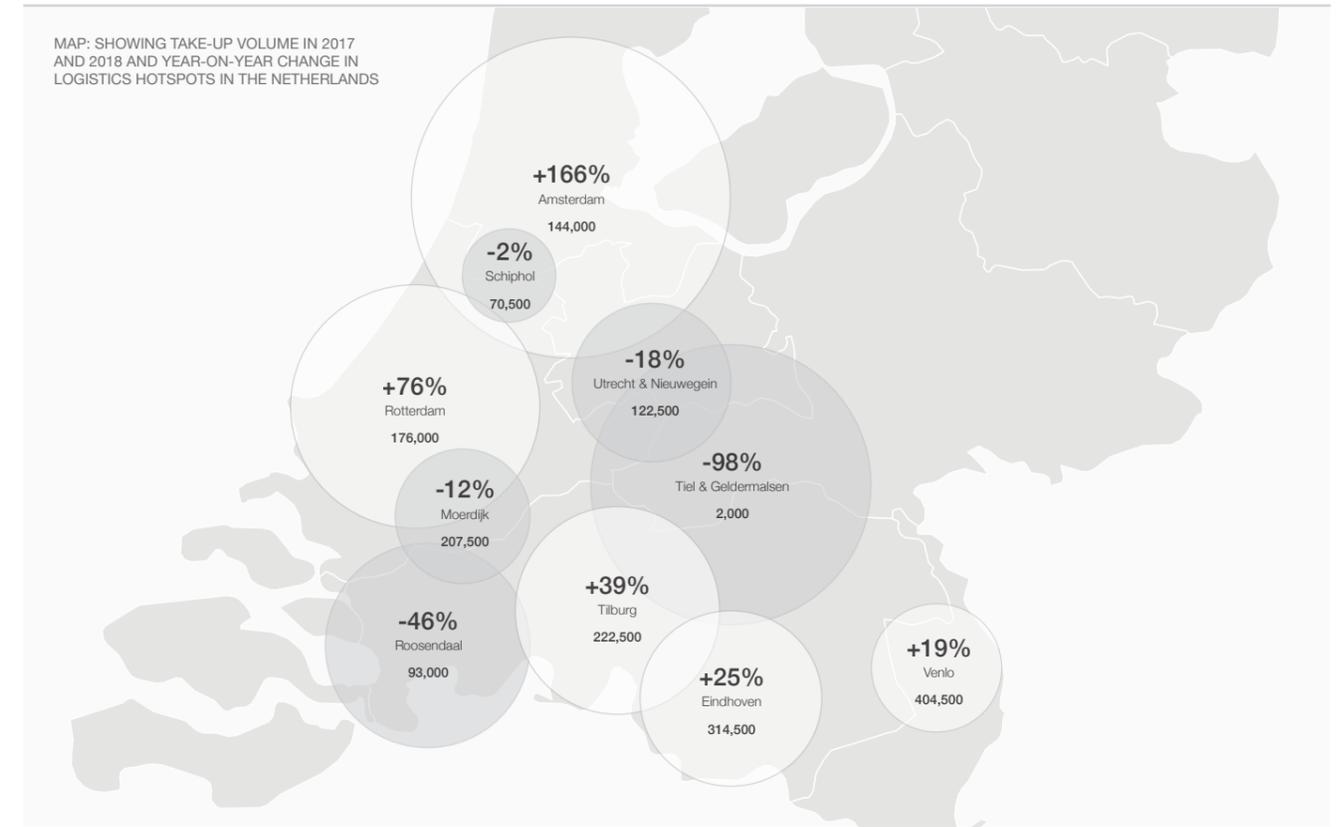
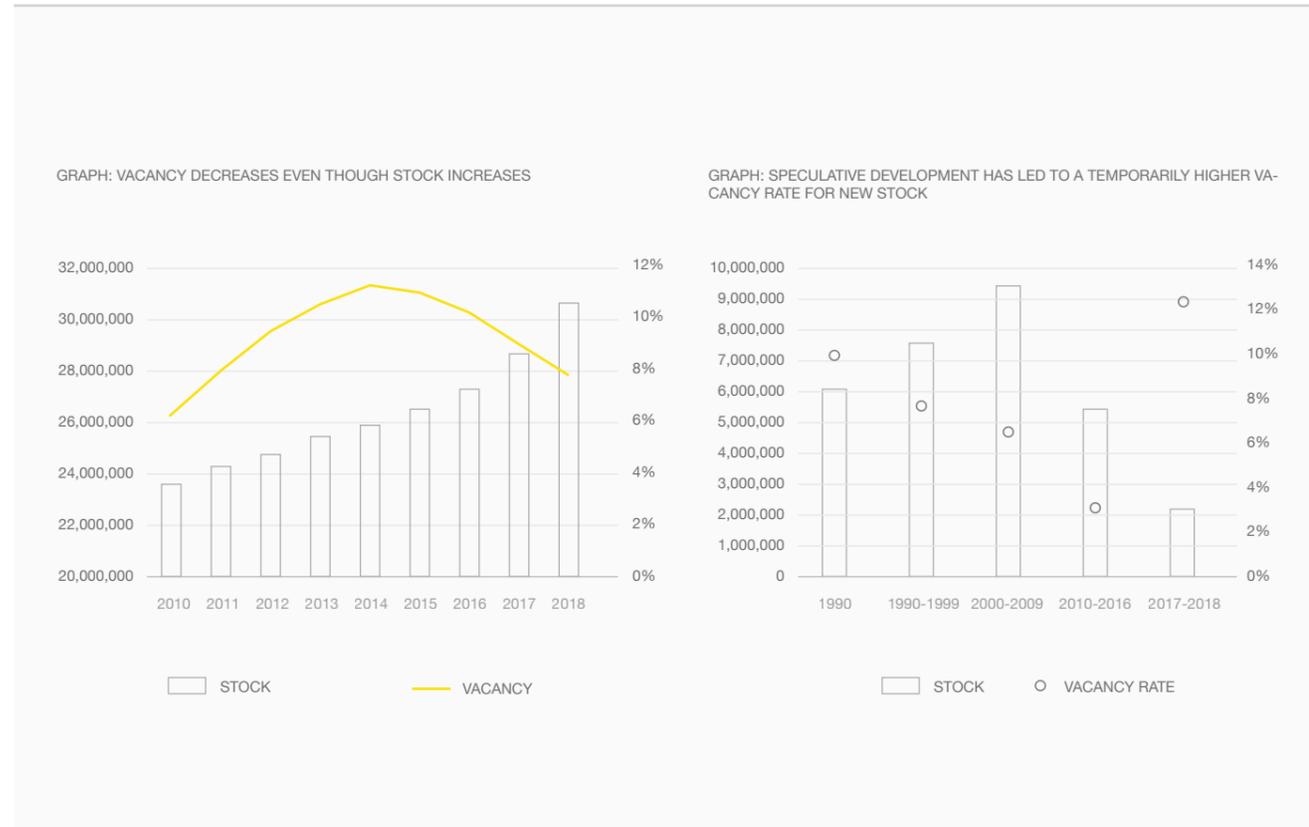
Rents



Vacancy



Yields



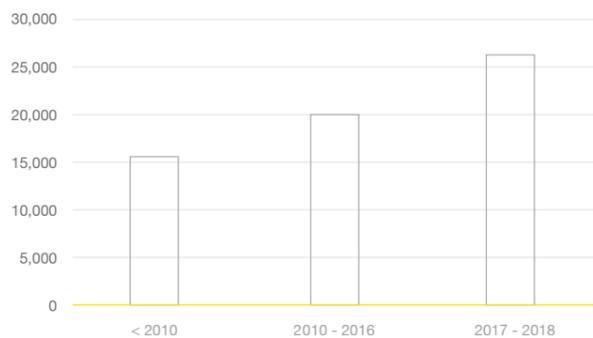
Stock & supply

The increased demand from logistics companies is evident from changes in stock and vacancy over recent years.

The stock of logistics real estate increased by 25.7% in the period between 2010 and 2018, and currently stands at approximately 30.6 million sq m. The vacancy rate has been falling steadily since 2014 (11.3%) and currently stands at 7.4%. This, in combination with the many new developments, indicates strong demand for this type of real estate. The rapid development of the logistics sector has in addition caused a substantial increase in the average size of logistics properties. The total number of office buildings.

An analysis of stock-based-on-age reveals a lower vacancy rate for younger stock, however there is one exception: the 2017-2018 period. In 2017 and 2018, nearly 2.2 million sq m of logistics real estate was developed, partly on a speculative basis. The vacancy rate is therefore relatively high for stock added in this period, because not all the speculative developments have yet been occupied. Savills however expects that due to high demand, these properties will be leased within 12 months.

GRAPH: AVERAGE SIZE OF LOGISTICS PROPERTY HAS INCREASED SIGNIFICANTLY



“We have no doubt that about 80% of the current vacancy in the 2017 and 2018 developed stock, will be leased out within six to nine months”

Niek Poppelaars

Take-up

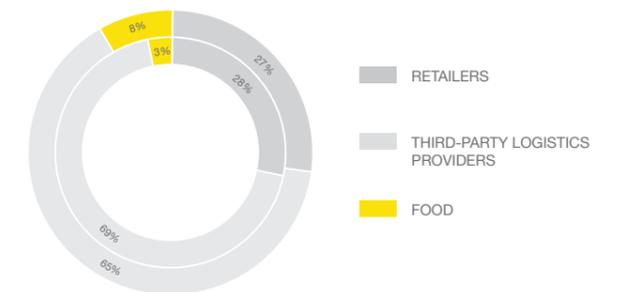
Take-up for logistics real estate remains as high as it has been in previous years.

Although down on the record-breaking year of 2017, the logistics market has seen take-up of 1.1 million sq m so far in 2018. This is a similar take-up volume compared to the same period in 2015 and 2016.

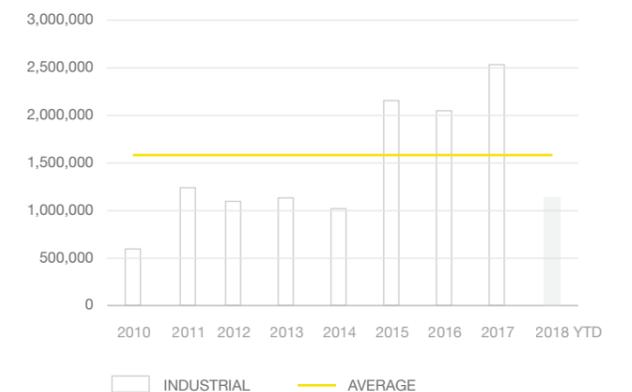
About 27% was taken up by retailers for their own logistics services, 65% by third-party logistics providers and 8% by food-related logistics. Just five years ago, food-related logistics was still a fairly small sector but in the past five years it has more than doubled its take-up volume. Looking at the development of this sector, Savills expects this sector to continue to grow.

Demand was the highest in the three provinces with the largest stock: Noord-Brabant, Zuid-Holland and Limburg. These three provinces have accounted for 63% of the total take-up so far in 2018. In terms of take-up in relation to total stock, Zuid-Holland has seen approximately 6% of its total stock being taken up in 2018 so far, making it the province with the highest ratio. Noord-Holland has also seen a high share of take-up (17%), having already nearly reached the take-up volume of 2016 (213,000 sq m), which was a record high for this province.

GRAPH: TAKE-UP OF FOOD LOGISTICS MORE THAN DOUBLED IN THE PAST FIVE YEARS (2018 OUTER CIRCLE, 2013 INNER CIRCLE)



GRAPH 1: TAKE-UP HAS REMAINED STABLE OVER THE PAST THREE YEARS





Rents & incentives

As the spate of new logistics developments continues, rental price growth is very limited in the Netherlands.

Despite high demand, there is not much pressure on the occupiers market due to new developments, and the slight oversupply of newer stock (built in 2017-2018) in particular is preventing any increase in rent levels. Venlo is a good example of a logistics hotspot where land is still available for new developments. However, as the logistics market continues to grow very rapidly, even a hotspot like Venlo will eventually become full and rents will rise due to increasing scarcity.

The first signs of potential growth in rent levels are decreasing incentives. Although gross rents remain stable (with the exception of Utrecht and Roosendaal) net effective rents are rising. With ongoing high demand and increasing scarcity, rents in other hotspots are also likely to rise.

TABLE: SHOWING PRIME RENT IN EACH LOGISTICS HOTSPOT

LOGISTICS HOTSPOT	PRIME RENT
SCHIPHOL	€ 95 ⁰⁰ SQ M
AMSTERDAM	€ 65 ⁰⁰ SQ M
ROTTERDAM	€ 65 ⁰⁰ SQ M
UTRECHT	€ 62 ⁰⁰ SQ M
EINDHOVEN	€ 55 ⁰⁰ SQ M
TIEL/GELDERMALSEN	€ 53 ⁰⁰ SQ M
MOERDIJK	€ 52 ⁰⁰ SQ M
TILBURG	€ 52 ⁰⁰ SQ M
ROOSENDAAL	€ 50 ⁰⁰ SQ M
VENLO	€ 45 ⁰⁰ SQ M

Investment market

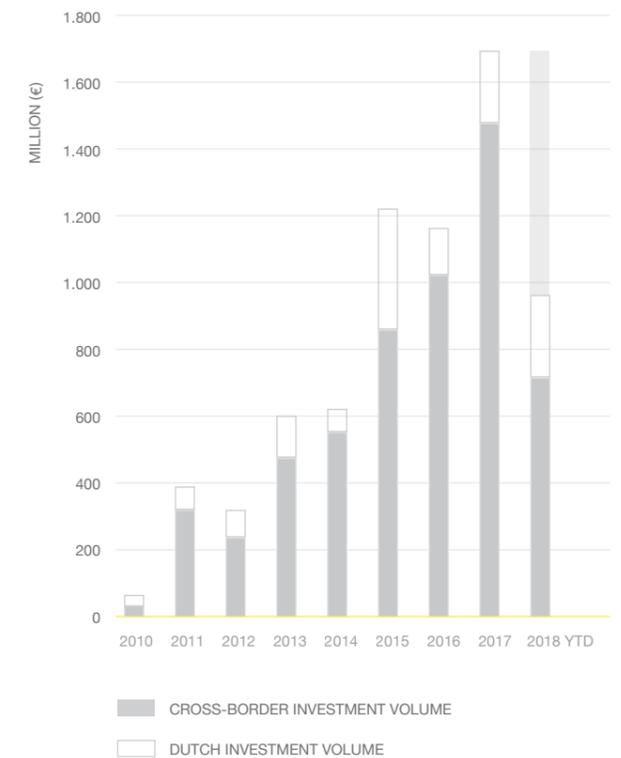
Due to the positive expectations for the occupiers market, logistics real estate is foremost in the investor's mind.

The total investment volume for 2017 reached €1.7 billion and was well above the investment volume in 2015 and 2016. So far in 2018, investment volume has reached €974 million, which is 13% lower than the investment volume for the same period of 2017 but still 28% above 2016. Major purchases in 2018 have included Savills IM's purchase of a DC in Venlo for €86 million from DSV, and TH Real Estate's purchase of LogPort 1, also in Venlo, for €70 million. With many products still on the market, investment volume in 2018 is expected to reach a similar level as 2017.

Approximately 64% of the logistics investment volume in 2018 has been allocated to the major logistics hotspots in the Netherlands. This is relatively high compared to 2016 and 2017, when this share was 47% and 55% respectively. However, investors are also investing outside the current hotspots. Although only 36% of the total investment volume has been allocated outside the major hotspots, the number of transactions was higher here. This can partly be accounted to the DCs being smaller and less expensive than in the hotspots but also shows there is indeed a growing interest from investors for logistics outside the major hotspots.

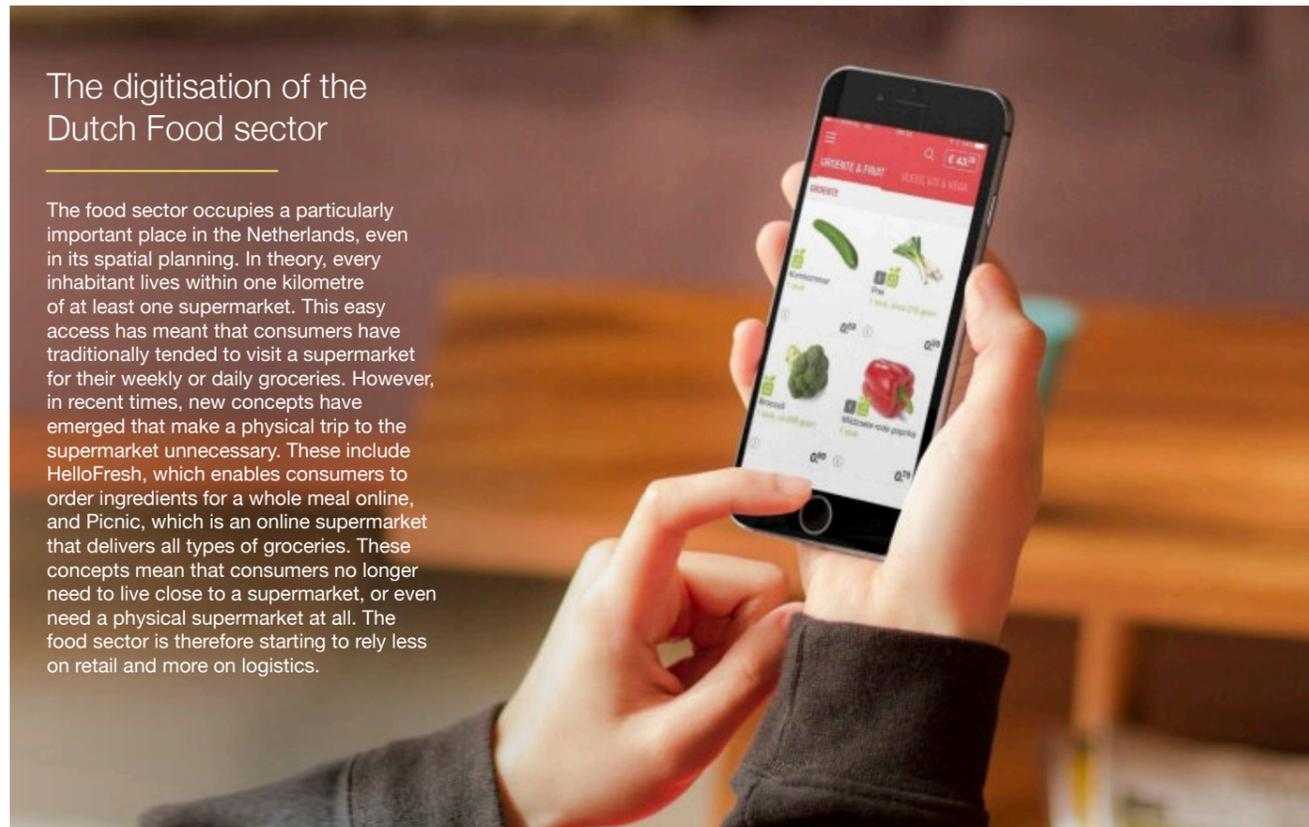
In the last few years, the share of cross-border investment has been over 70%. So far in 2018, this percentage stands at 73%. The presence of foreign capital is one of the reasons for the rise in the volume of investment. The origin of this capital in 2018 is mostly Germany (23%), the United Kingdom (22%) and the United States (13%), followed by South Korea (9%) and Belgium (6%).

GRAPH: CROSS-BORDER INVESTMENT REMAINS DOMINANT



The digitisation of the Dutch Food sector

The food sector occupies a particularly important place in the Netherlands, even in its spatial planning. In theory, every inhabitant lives within one kilometre of at least one supermarket. This easy access has meant that consumers have traditionally tended to visit a supermarket for their weekly or daily groceries. However, in recent times, new concepts have emerged that make a physical trip to the supermarket unnecessary. These include HelloFresh, which enables consumers to order ingredients for a whole meal online, and Picnic, which is an online supermarket that delivers all types of groceries. These concepts mean that consumers no longer need to live close to a supermarket, or even need a physical supermarket at all. The food sector is therefore starting to rely less on retail and more on logistics.



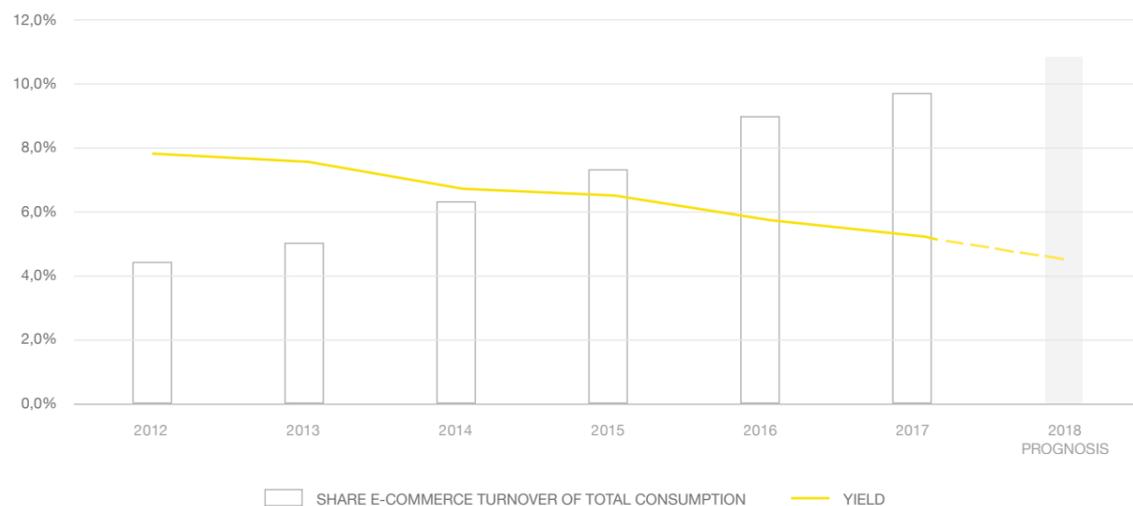
Yields

Yields for logistics real estate have been compressed across the market since 2013.

Now, in 2018, yields are moving towards 4.5% in prime locations. This is 300 basis points lower than the prime yield in 2013. Although this

rate of compression may seem dramatic, it in fact represents a price correction for Dutch logistics real estate, and a reaction to the relatively cheap price of logistics real estate in the Netherlands compared to surrounding countries. The reason this yield compression has occurred later in the Netherlands than in other countries, like the UK and Germany, is that the e-commerce sector is more advanced in those countries. E-commerce reached at least a 10% market share in those countries in 2014, whereas the Netherlands is only today approaching that level.

GRAPH: SIGNIFICANT COMPRESSION OF PRIME YIELDS AS E-COMMERCE HAS GAINED MARKET SHARE

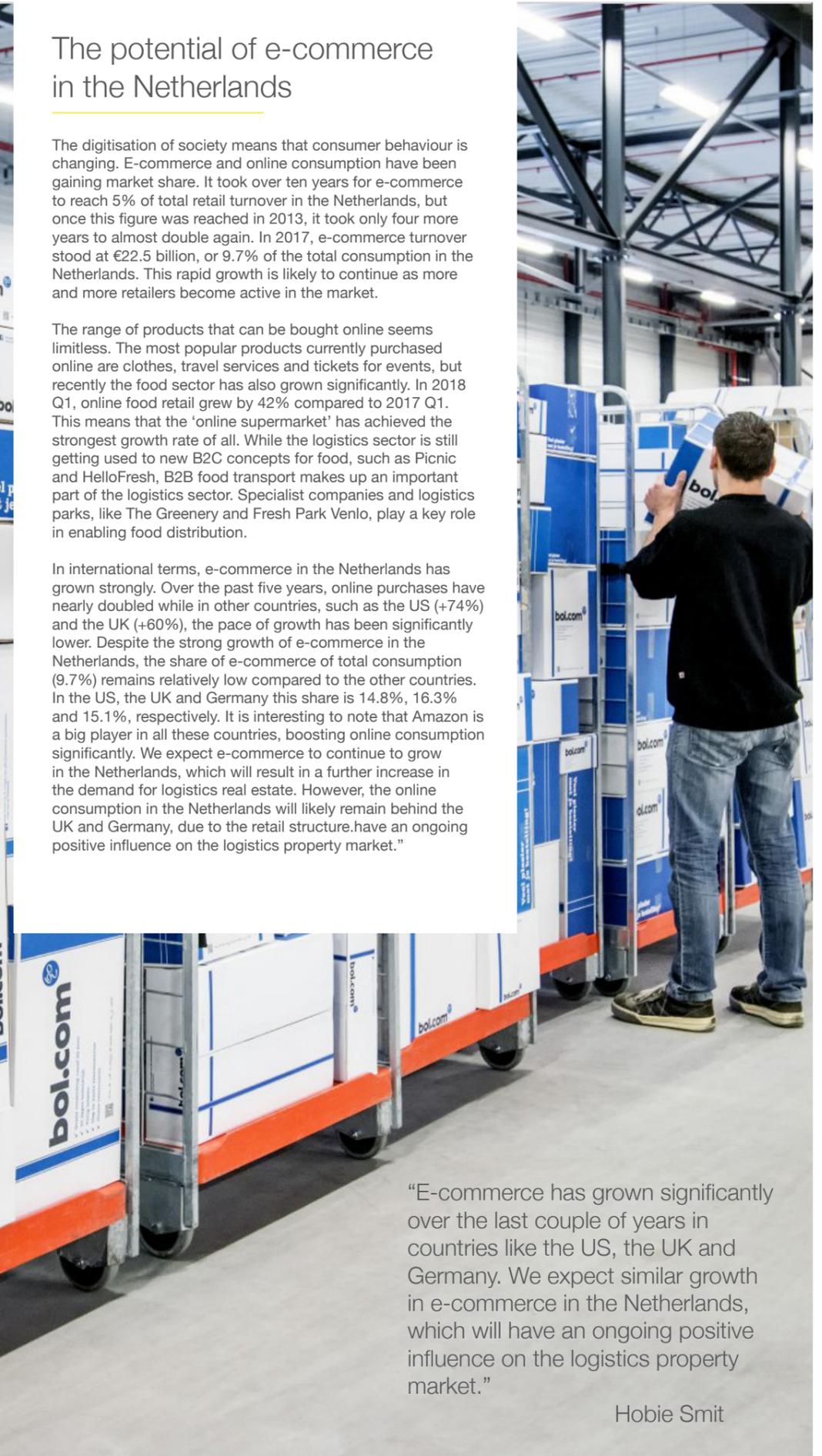


The potential of e-commerce in the Netherlands

The digitisation of society means that consumer behaviour is changing. E-commerce and online consumption have been gaining market share. It took over ten years for e-commerce to reach 5% of total retail turnover in the Netherlands, but once this figure was reached in 2013, it took only four more years to almost double again. In 2017, e-commerce turnover stood at €22.5 billion, or 9.7% of the total consumption in the Netherlands. This rapid growth is likely to continue as more and more retailers become active in the market.

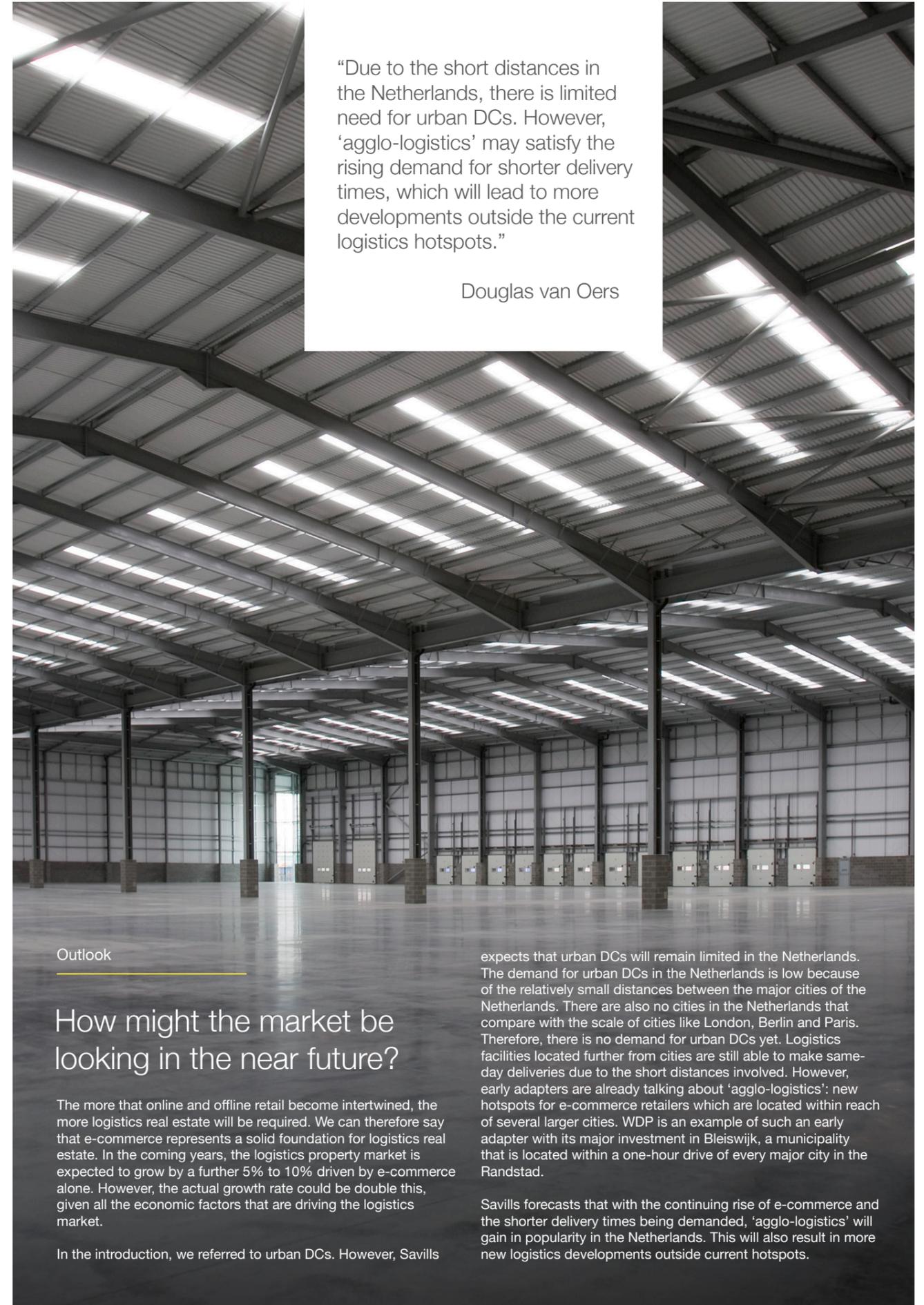
The range of products that can be bought online seems limitless. The most popular products currently purchased online are clothes, travel services and tickets for events, but recently the food sector has also grown significantly. In 2018 Q1, online food retail grew by 42% compared to 2017 Q1. This means that the 'online supermarket' has achieved the strongest growth rate of all. While the logistics sector is still getting used to new B2C concepts for food, such as Picnic and HelloFresh, B2B food transport makes up an important part of the logistics sector. Specialist companies and logistics parks, like The Greenery and Fresh Park Venlo, play a key role in enabling food distribution.

In international terms, e-commerce in the Netherlands has grown strongly. Over the past five years, online purchases have nearly doubled while in other countries, such as the US (+74%) and the UK (+60%), the pace of growth has been significantly lower. Despite the strong growth of e-commerce in the Netherlands, the share of e-commerce of total consumption (9.7%) remains relatively low compared to the other countries. In the US, the UK and Germany this share is 14.8%, 16.3% and 15.1%, respectively. It is interesting to note that Amazon is a big player in all these countries, boosting online consumption significantly. We expect e-commerce to continue to grow in the Netherlands, which will result in a further increase in the demand for logistics real estate. However, the online consumption in the Netherlands will likely remain behind the UK and Germany, due to the retail structure. have an ongoing positive influence on the logistics property market."



"E-commerce has grown significantly over the last couple of years in countries like the US, the UK and Germany. We expect similar growth in e-commerce in the Netherlands, which will have an ongoing positive influence on the logistics property market."

Hobie Smit



“Due to the short distances in the Netherlands, there is limited need for urban DCs. However, ‘aggl-logistics’ may satisfy the rising demand for shorter delivery times, which will lead to more developments outside the current logistics hotspots.”

Douglas van Oers

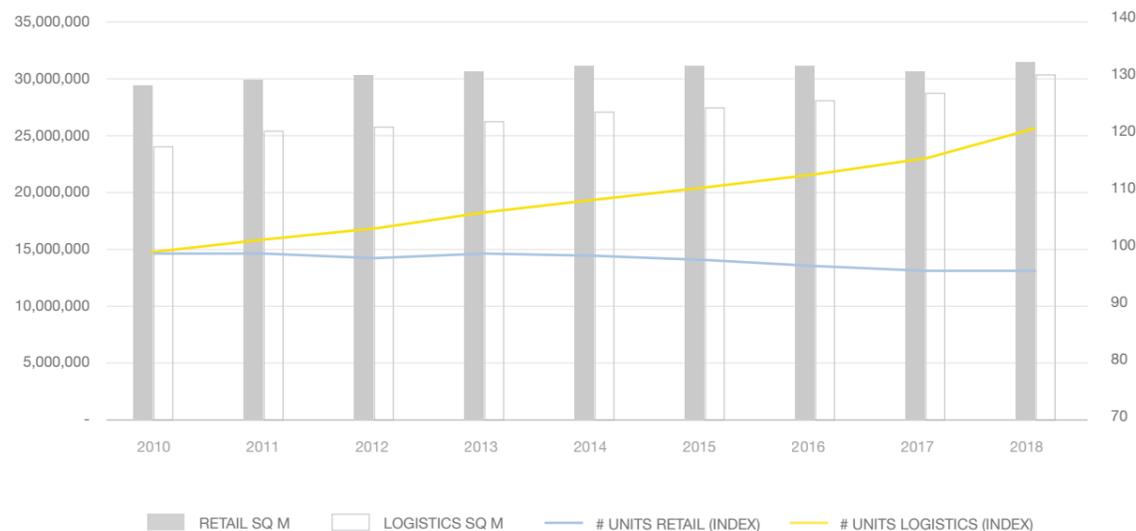
Logistics may overtake retail in terms of total surface area

The retail market in the Netherlands has been through some difficult years in recent times, with rising vacancy rates. A recovery in the retail market has now kicked in but it has been relatively slow. This slow recovery is being caused partly by an increasing reorientation towards e-commerce. Shopping centres have been scaled back and new shopping centres have been rejected in most municipalities in order to optimise existing retail facilities. This has led to a tapering off of growth in the retail stock, while in the same period growth in the logistics

market has been strong. Assuming a similar trend in the years to come, the logistics property market will overtake the retail market in terms of total surface area within three years.

In practice, this means that the line between logistics and retail is becoming blurred. The demand for online retail has led many retailers to switch from being solely ‘brick-and-mortar’ retailers to ‘brick-and-click’ retailers in order to target a wider audience and maintain their competitive edge. The use of warehouses is therefore gaining in importance over the use of physical stores. And these changes will not affect the retail sector alone. So how might the logistics market be looking in a couple of years from now?

GRAPH: LOGISTICS ARE OVERTAKING THE RETAIL MARKET



Outlook

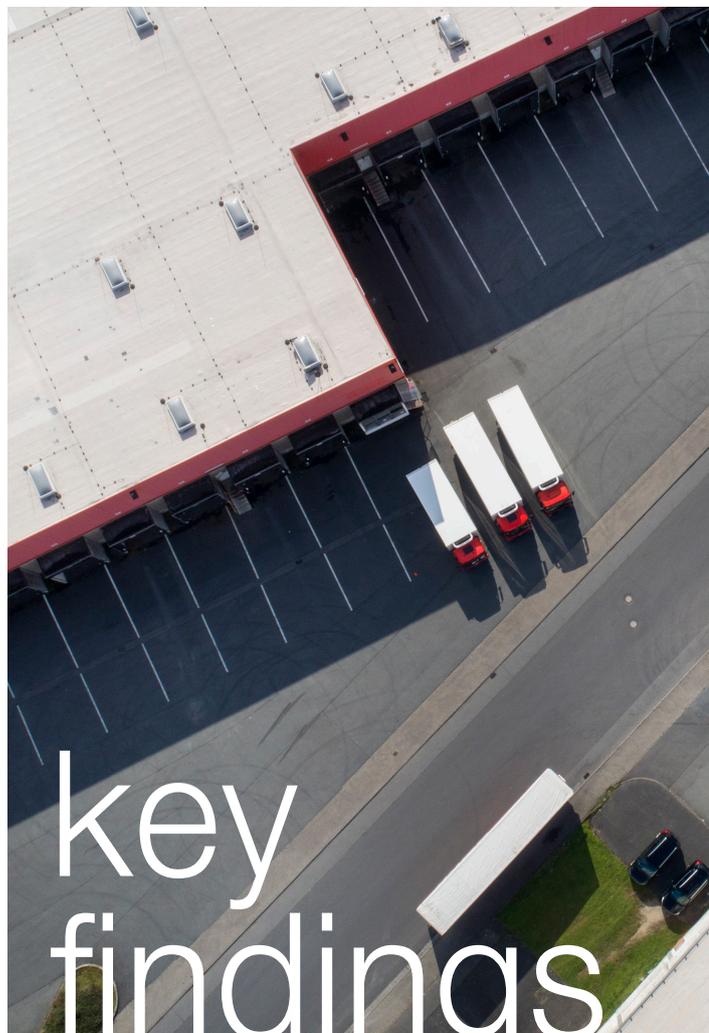
How might the market be looking in the near future?

The more that online and offline retail become intertwined, the more logistics real estate will be required. We can therefore say that e-commerce represents a solid foundation for logistics real estate. In the coming years, the logistics property market is expected to grow by a further 5% to 10% driven by e-commerce alone. However, the actual growth rate could be double this, given all the economic factors that are driving the logistics market.

In the introduction, we referred to urban DCs. However, Savills

expects that urban DCs will remain limited in the Netherlands. The demand for urban DCs in the Netherlands is low because of the relatively small distances between the major cities of the Netherlands. There are also no cities in the Netherlands that compare with the scale of cities like London, Berlin and Paris. Therefore, there is no demand for urban DCs yet. Logistics facilities located further from cities are still able to make same-day deliveries due to the short distances involved. However, early adapters are already talking about ‘aggl-logistics’: new hotspots for e-commerce retailers which are located within reach of several larger cities. WDP is an example of such an early adapter with its major investment in Bleiswijk, a municipality that is located within a one-hour drive of every major city in the Randstad.

Savills forecasts that with the continuing rise of e-commerce and the shorter delivery times being demanded, ‘aggl-logistics’ will gain in popularity in the Netherlands. This will also result in more new logistics developments outside current hotspots.



Stock & supply

With stock continuing to grow and falling vacancy rates, the demand for logistics is clear. New developments that have not been pre-let will likely be rented out within a couple of months, resulting in a further fall in vacancy.

Take-up

Take-up so far in 2018 has reached 1.1 million sq m. The food sector has been accounting for a rising share of logistics real estate in the past five years.

Rents & incentives

Although gross rents remain fairly stable, net effective rents are increasing slightly due to lower incentives. These are the first signs of rising rent levels.

Investment market

In 2018 YTD, €974 million was invested in the Dutch logistics real estate. The share of cross-border investment remains high and now stands at 73%. Major foreign investors include Germany, the UK and the US.

Yields

Prime yields have contracted significantly in recent years. Currently, prime yields are moving towards 4.5%, while in 2013 this was 7.5%.

Savills Outlook

The Dutch e-commerce market looks set to continue its current strong growth, which will stimulate expansion in the logistics stock. This expansion will likely take the form of 'aggl-logistics', which will enable retailers to achieve shorter delivery times in the Netherlands.

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