

The Netherlands - Autumn 2019

Q
SPOTLIGHT
Savills Research

The quest for the next logistics hotspots



Based on markets leading the way into e-commerce - such as the UK - we believe that the Netherlands will follow a similar trajectory and see the share of internet sales in the total retail sales double to 20-25% the coming years

Thijs de Vries



Bleiswijk Artist impression Zalando

Introduction In our last Logistics Market Update report, Savills signalled a breaking trend towards rental growth in the Dutch logistics property market after a prolonged period of exceptionally stable rent levels. On the demand side, this is the result of an ongoing rise in occupier demand for space in the Dutch logistics property market, which is strongly related to e-commerce growth. On the supply side, the decreasing availability of land for new developments in the main logistics hotspots, among other influential factors, limits new developments. For the first time in history, the result is a scarcity of product in both the logistics occupier market as well as the investment market.

Recently, this pressure on the logistics occupier markets in the main hotspots has already boosted the popularity of other regions. What's next?

In which direction can we expect the logistics occupier and investment market to develop, and which areas can be expected to become the future logistics hotspots in the Netherlands?

Eurozone heading for two-speed economy.

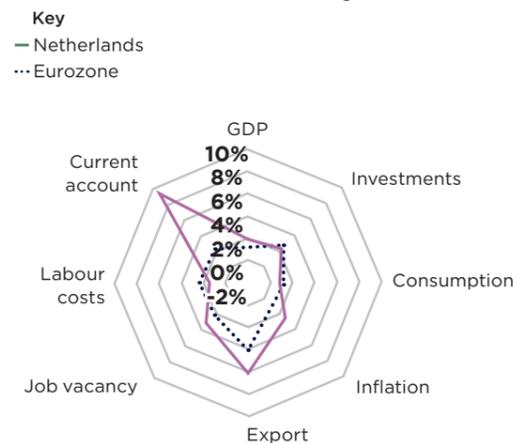
Currently, eurozone economic performance suggests we are on the verge of ushering in a two-speed economy.

Macro-economic developments form the basis for the direction in which the logistics occupier and investment market can be expected to develop. Although the eurozone economy still performs well and is forecasted to reach 1.1% GDP growth in 2019 (according to Focus Economics), the effects of international protectionism and Brexit are resulting in decreasing sentiment in the manufacturing sector

In contrast to the lingering weakness in the manufacturing sector (-1.75% YoY*), the services sector (+1.5% YoY*) and retail sector (+1.6% YoY*) are performing notably well. Regarding retail, the low interest rates currently provide a strong incentive for increased consumer spending in the Netherlands (+1.7% YoY 19Q2), which is currently mainly fuelling home improvement retail sales. Furniture and kitchen retailers are witnessing a decent turnover growth. As in previous quarters, e-commerce in particular (+16.8% YoY turnover growth 19Q2) continues to perform exceptionally well.

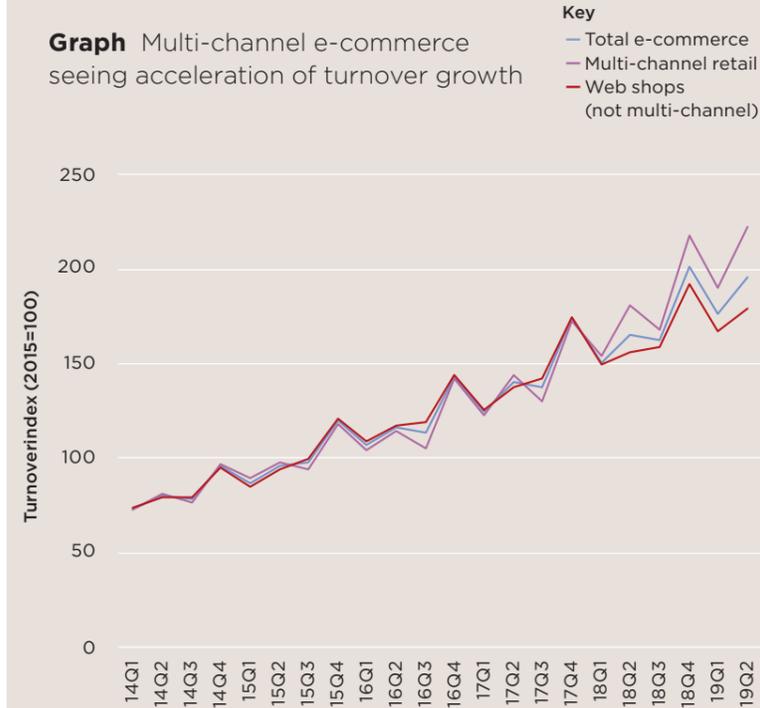
* Gross value added 19Q2 YoY growth

Performance on key economic indicators 19Q2 annual YoY growth



Source Eurostat

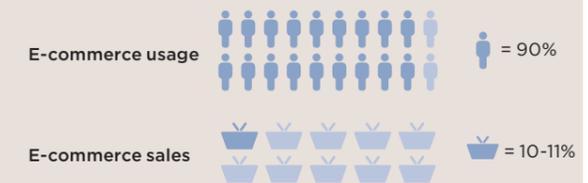
Graph Multi-channel e-commerce seeing acceleration of turnover growth



Source CBS

THE POTENTIAL OF E-COMMERCE IN THE NETHERLANDS: AN UPDATE

As a result of continued economic growth and increased consumer spending in the Netherlands, internet sales at Dutch web shops increased again in the 2nd quarter of 2019 (+18.2% YoY). The Dutch e-commerce turnover index shows that online sales via multi/omni-channel retailers in particular has taken off (+23.2% YoY 19Q2). These retailers are currently experiencing acceleration of turnover growth.



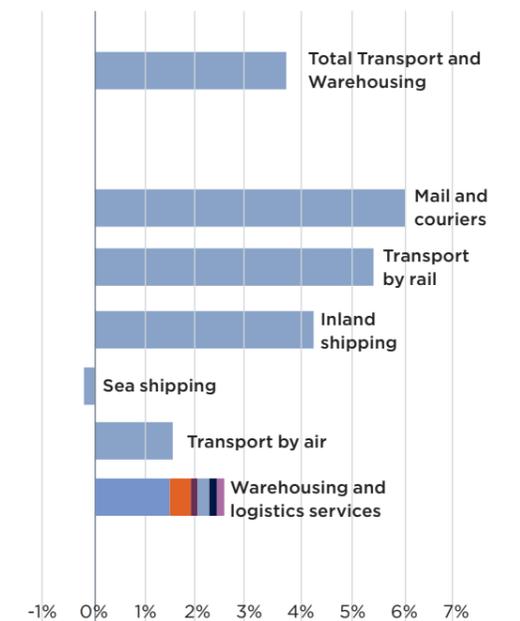
Although total e-commerce usage in the Netherlands is the highest in the EU (circa 90% in Q4, compared to 84% in Q1), internet sales currently 'only' account for approximately 10-11% (10.2% in Q1 2019) of the total Dutch retail sales. So Dutch consumers are finding their way to online shops better than any other European population, but the total online sales volume has lagged behind.

The prospects for the logistics and transport service providers' market in this two-speed economy vary considerably. In the Netherlands this translates into increasing uncertainty and risks for European distribution, whereas robust domestic growth of e-commerce positively influences growth prospects for national distribution and last-mile distribution. Overall, we continue to observe solid turnover growth among transport and logistics service providers in the Netherlands (+3.7% YoY in 19Q2), currently marking the 10th consecutive quarter of turnover growth in the sector.

Although turnover growth suggests improving business conditions for transport and logistics service providers, margins in the sector continue to compress as a result of increasing inflation. Expenses in the sector have risen faster than turnover growth. Drivers for these increasing expenses mainly include fuel prices and shortage of labour. In addition, factors including additional requirements of clients, automation and measures to improve sustainability all require substantial investments.

Increasing costs in combination with slowing eurozone economic growth mainly affect smaller providers. These companies are having a hard time as they lack the financial and professional capacity to invest in becoming ever more efficient. These parties are therefore increasingly looking for possibilities to scale up or forge partnerships. The trend has recently contributed to a sharp increase of mergers and acquisitions within the market of logistics and transport service providers (123 in H1 2019 internationally +20% YoY, of which approximately 20 in the Netherlands alone). The trend of consolidation to employ economies of scale and become more efficient also imposes different requirements on logistics real estate, including larger and higher warehouses.

Graph Improving turnover of transport and logistics service providers



Key: Shipping agents, Road freight services, Shipping services, Warehousing, Transshipment services, Air transport service

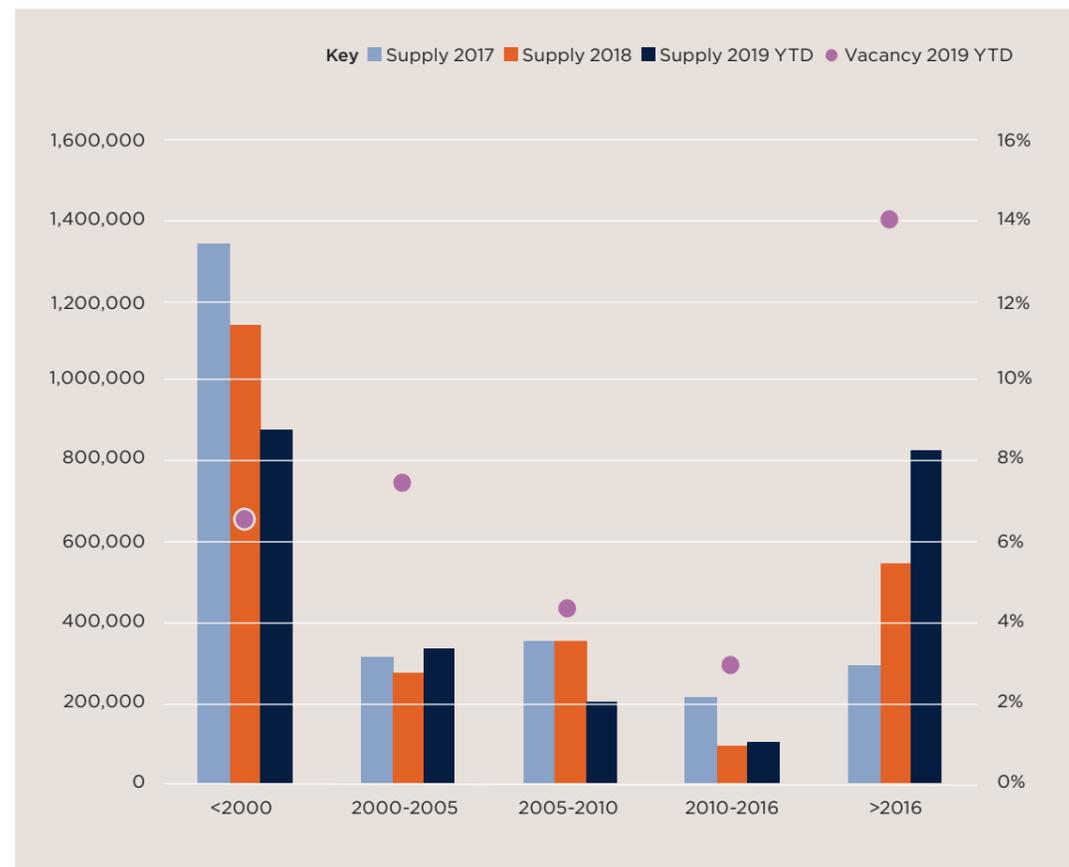
Source CBS

Logistics occupier market

Logistics occupiers are increasingly looking for alternative locations beyond the main logistics hotspots. Although the economic growth in the eurozone is levelling off slightly and is increasingly performing at two speeds, demand for logistics real estate in the Netherlands remains high.

The vacancy in Dutch logistics properties

Supply and vacancy reflect demand for new logistics product



Source Savills Research

The continuing high demand for logistics real estate is reflected in the H1 2019 take-up figures. At 1.1 million sq m, take-up remained above average in the first half of 2019, comparable to last year. The existing stock is unable to meet the qualitative demand from occupiers at an increasing rate as developments in the logistics sector impose different requirements on logistics real estate. Requirements include larger and higher warehouses. Therefore many occupiers look to new developments that meet their requirements.

From the vacancy in Dutch logistics properties it can be observed that the older logistics stock is increasingly considered inadequate to meet the qualitative demand of occupiers. Therefore many occupiers have their requirements met in new developments. This results in a significant supply of speculative logistics developments with a relatively high initial vacancy rate. Nonetheless, the majority of new (speculative) developments are fully let within 3-6 months after completion.

DEMAND FOR LARGER FLOORS

The demand for ever larger floor areas is reflected in the increasing average size of leases

10,400 sq m

2014

11,800 sq m

2015

16,900 sq m

2016

17,000 sq m

2017

17,100 sq m

2018

18,200 sq m

2019 YTD

Average size of lease 2014 - 2019 YTD

Source Savills Research

👉 We expect that logistics occupiers will increasingly look beyond the current prime logistics hotspots in the years to come, not only driven by the increasing pressure on the occupier market in the traditional hotspots, but also because of domestic e-commerce growth and the increasing demand for same day delivery 👉

Niek Poppelaars

Table Availability of land and decreasing vacancy is resulting in prime rental growth

Logistics Hotspot	Availability of zoned land (including construction ready improved land)	Vacancy logistics local occupier market	Prime gross Rent 2019 Q2	Net effective rents 2019 Q2
Schiphol	213.60 ha (-5.5% YoY)	9.40%	€92.50 sq m (-2% YoY)	€ 87 / sq m (-2% YoY)
Amsterdam	292.72 ha (-31% YoY)	6.20%	€65.00 sq m (Stable)	€ 60 / sq m (+3% YoY)
Rotterdam	130.90 ha (-87% YoY)	7.30%	€70.00 sq m (3% YoY)	€ 66.50 / sq m (+5% YoY)
Utrecht	53.60 ha (-1.5% YoY)	6.50%	€67.50 sq m (+6% YoY)	€ 64.50 / sq m (+6% YoY)
Eindhoven	172.26 ha (-2% YoY)	0.00%	€55.00 sq m (Stable)	€ 53 / sq m (+5.5% YoY)
Tiel/Geldermalsen	24.24 ha (Stable)	12.90%	€52.50 sq m (Stable)	€ 50.50 / sq m (+5.5% YoY)
Moerdijk	257.68 ha (-4% YoY)	3.60%	€52.50 sq m (Stable)	€ 49.50 / sq m (Stable)
Tilburg	160.26 ha (-24.5% YoY)	2.90%	€52.50 sq m (Stable)	€ 50.50 / sq m (Stable)
Roosendaal	36.42 ha (-11% YoY)	0.00%*	€50.00 sq m (Stable)	€ 47.50 / sq m (Stable)
Venlo	182.77 ha (-56% YoY)	3.10%	€50.00 sq m (+9% YoY)	€ 47.50 / sq m (+15% YoY)

* Please note three large developments in the pipeline

Source Savills Research

Up to 2017, the slight oversupply of logistics space and the volume of speculative new developments relieved pressure on the logistics occupier market in most locations. However, the situation has changed and pressure on product which meets today's occupier requirements has increased considerably within the prime logistics hotspots.

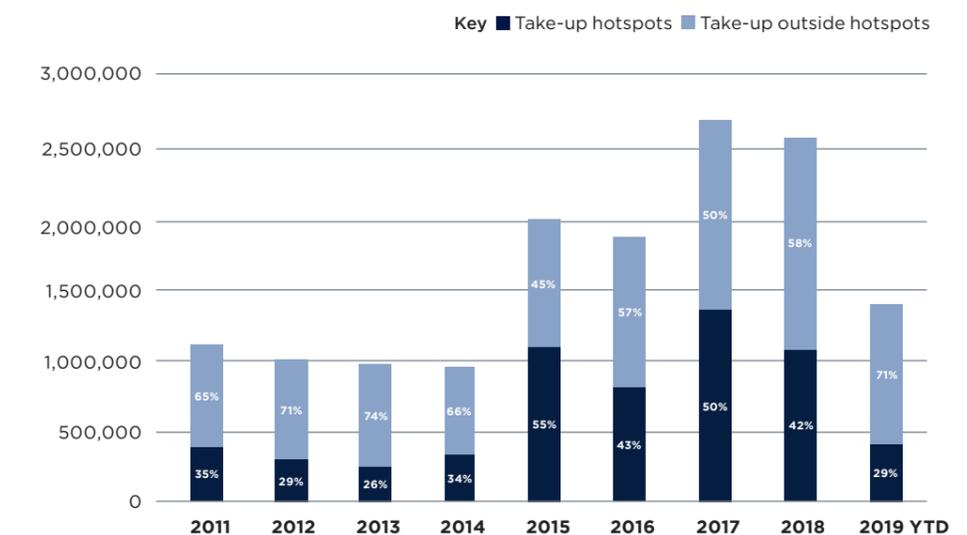
Although new developments became available and led to further growth of the stock to 33.2 million sq m (+6.8% YoY) last year, the vacancy rate in the Dutch logistics market meanwhile dropped to 7.7% (-11.9% YoY). That rate was even lower in the main hotspots (5.5%). The combination of stock growth and decreasing vacancy rates indicates that occupier demand cannot be fully met, which is leading to rising pressure on the logistics occupier market.

Developable land in prime locations is becoming increasingly scarce at the current pace of new developments (the availability of large plots in particular), challenging the pipeline of new developments. The recent ruling by the Council of State regarding the Dutch Nitrogen Action Programme (Dutch abbreviation "PAS" - the Dutch implementation of the EU Nitrates Directive) has resulted in a planning crisis. This impasse can be expected to seriously delay the pipeline of new logistics developments, which will further increase pressure on the logistics occupier market.

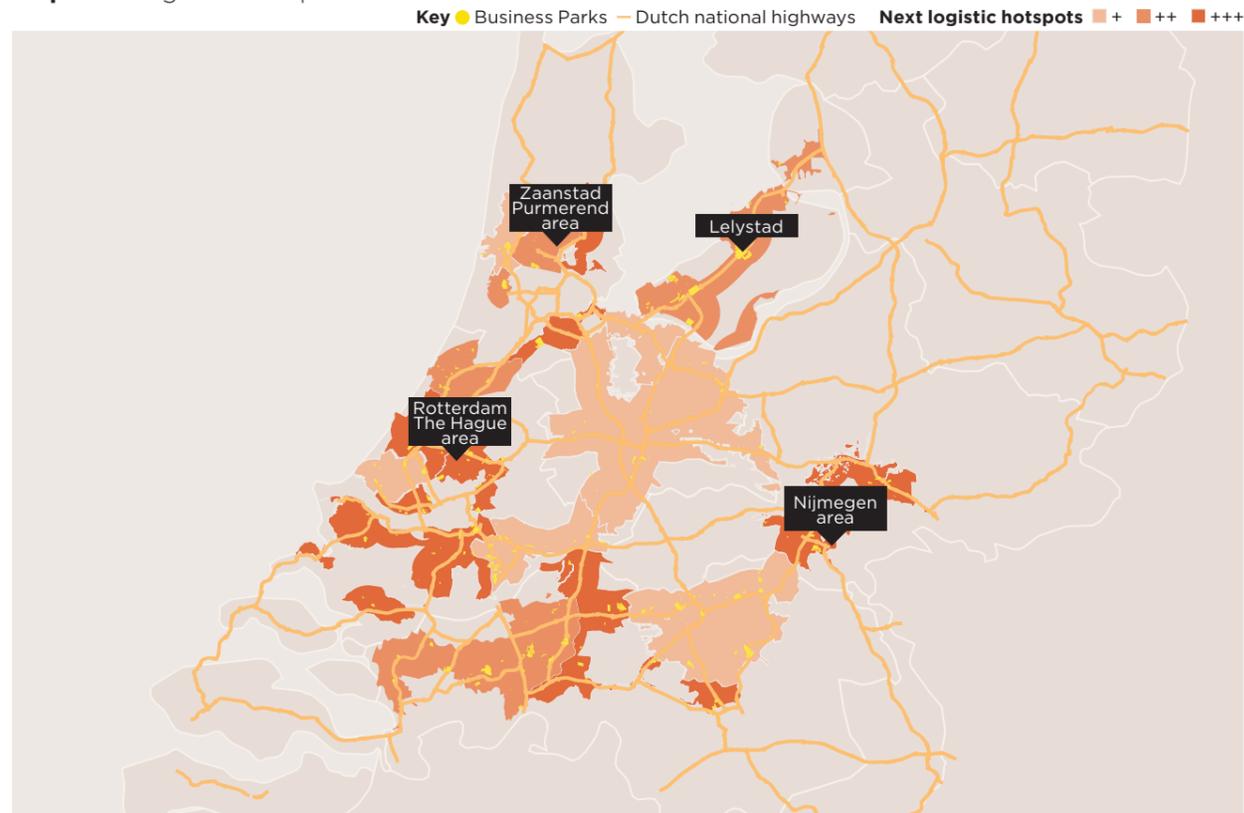
With ongoing high demand and increasing scarcity, vacancy rates will continue to decrease. The pressure on suitable product - especially new developments - therefore becomes increasingly tight in the logistics hotspots. With increasing pressure on the logistics occupier market, a breaking trend towards rental growth in the logistics hotspots can be observed.

Motivated by these developments, logistics occupiers will increasingly look for alternative locations outside the prime logistics hotspots. This is supported by the growth of the 2019 take-up figures in these locations.

Graph This year, logistics occupiers are taking up much more space (in relative terms) in alternative locations



Map Next logistics hotspots



Source Savills Research

The next logistics hotspots

The quest for promising locations for national distribution and Randstad distribution in locations outside the current main logistics hotspots promising locations

Increasing occupier interest in locations outside the main logistic hotspots not only follows from the increasing pressure on the occupier market in the main hotspots, but also from the domestic growth of e-commerce and increasing demand for same-day delivery. These developments underlie the ongoing diversification of the qualitative demand from logistics occupiers.

and cost of labour and land (including availability of land for future expansion) as well as proximity to infrastructure and proximity to main markets will be key considerations in real estate decision-making among logistics occupiers when they consider relocating to or settling in alternative locations. We took all of these fundamentals,

among other, as inputs in a geospatial analysis and computed promising locations for national distribution or Randstad distribution outside the traditional hotspots. Areas protected by various national and international nature protection regulations (Natura 2000, National Parks and so called Nature Monuments) were excluded.

Alternatives and Opportunities

To be able to compare the alternatives for occupiers and opportunities for logistics investment, Savills identified promising locations for national distribution and Randstad distribution, for occupiers and investors who want to look beyond the current prime logistics hotspots.

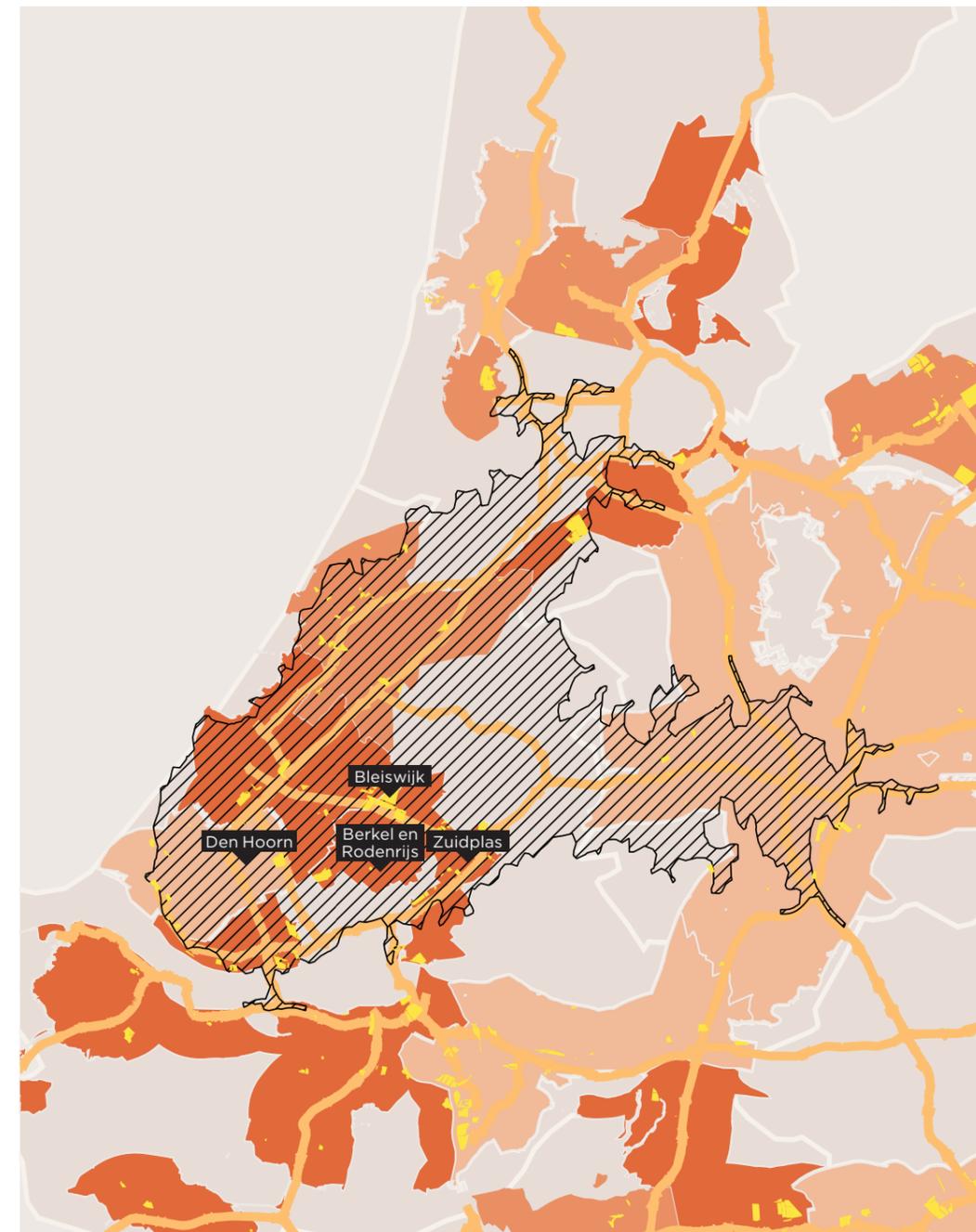
Naturally, different types of occupiers will face different cost pressures, but availability

“ Recently Zalando has announced the development of their first Dutch XXL fulfilment centre in Bleiswijk. To the outside world this location might not seem like an obvious choice, however our research confirms Bleiswijk has huge potential as a logistics hub due to the aforementioned factors, clarifying that Zalando’s choice is in fact – an obvious one ”

Niek Poppelaars

Promising regions for logistics occupiers

For occupiers who want to relocate or settle in areas outside the main logistics hotspots



Next logistic hotspots + ++ +++

Key

- Business Parks
- Dutch national highways
- ▨ Agglo-logistics: Regions within max 1-hour drive from each of the Dutch G4 cities.

Source Savills Research

NATIONAL DISTRIBUTION

If availability and cost of zoned land for logistics are also taken into account, areas of particular interest include, in the first place and unsurprisingly, the suburban areas between Rotterdam and The Hague. These include Bleiswijk, Zuidplas, Waddinxveen and Berkel en Rodenrijs. These are places where developments are already taking place. Other interesting regions identified are the Lelystad area, the areas surrounding Nijmegen such as Overbetuwe, and the region of Zaanstad and Purmerend. These regions score well on availability and cost of labour and zoned land as well as proximity to both infrastructure and main consumer markets.

RANDSTAD DISTRIBUTION

However, if the nature of the logistics activity relates to just Randstad distribution and all of the Dutch G4 cities must be within a maximum of a one-hour drive (so-called Agglo-logistics - see map), then Bleiswijk, Zuidplas, Berkel en Rodenrijs and Den Hoorn are locations of particular interest.

Prime yields compression since 2014



Waalwijk Van Hilstraat 23

Investment market

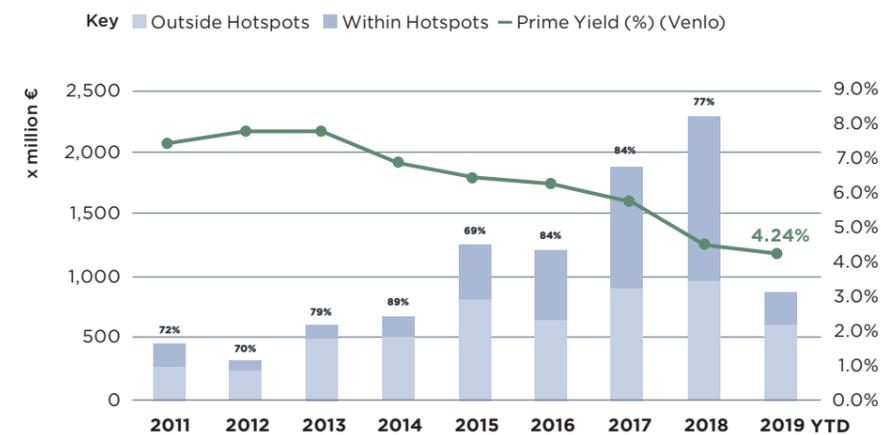
The total investment volume in Dutch logistics real estate reached €800 million in the first half of 2019 (+1.8% YoY).

Increasing pressure on the logistics occupier market in the logistics hotspots, and the diversification of the qualitative demand from logistics occupiers imply that there are also opportunities for investors to look beyond the prime logistics hotspots.

The total investment volume in Dutch logistics real estate reached €800 million in the first half of 2019 (+1.8% YoY). Already, logistics investments are increasingly made in locations not in the traditional hotspots (70% in H1 2019. In the same period last year this was only 40%).

Prime Gross Initial Yield (Venlo)

Dutch logistics investments and yields (plus % share of foreign capital)



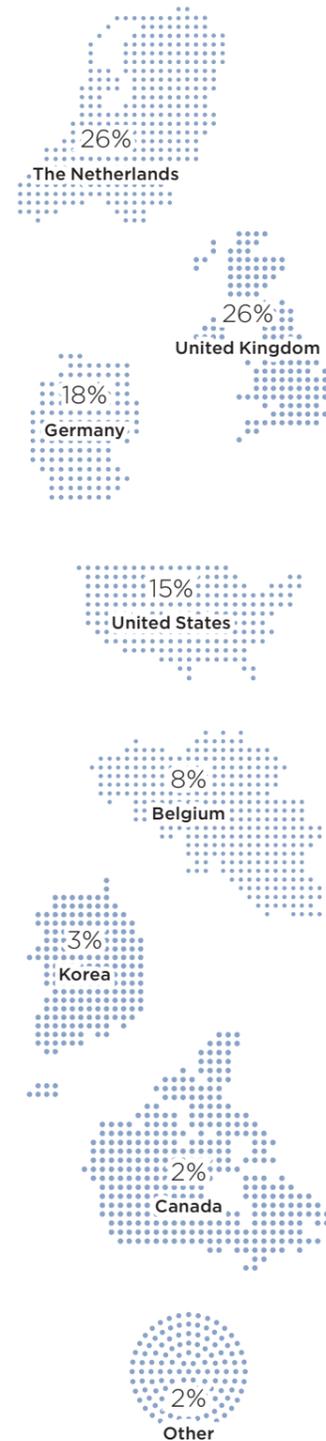
Due to the growing interest of investors, gross initial yields have also seen significant compression. Since 2014, yields have compressed by 250 basis points. At present, the sharpest gross initial yields for logistics real estate are now well below 4.5%. Prime logistics investment yields now reflect the levels achieved in more conventional prime

commercial real estate. To the benefit of sellers, the growing interest of investors and subsequent shortage of product in the logistics investment market has also resulted in an increasing amount of share deals. Due to the current market conditions, buyers are increasingly (unwillingly) forced to participate in such share deals.

“ We see that investors are following the occupier market, and are increasingly stepping out of their comfort zone to invest in these ‘new’ logistics hotspots, even in speculative developments. The ongoing, and widening investor appetite in the Dutch logistics real estate market, results in confidence to face the risks of investing in (speculative) developments in relatively uncharted territory ”

Douglas van Oers

ORIGIN LOGISTICS INVESTMENTS 2018 & 2019



KEY FINDINGS

Two-speed economy
Eurozone economic performance suggests that we are about to usher in a two-speed economy. Whereas the manufacturing sector shows lingering weakness, the services sector and retail sector are performing notably well.

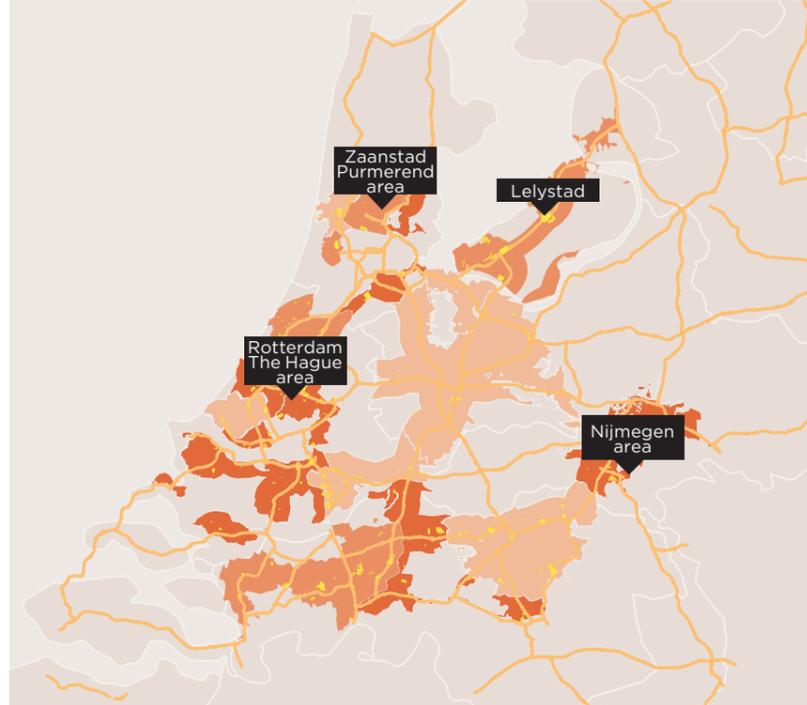
Occupier demand
Overall, occupier demand for logistics real estate in the Netherlands remains strong at the moment, which is mainly driven by e-commerce growth.

Keeping up with demands
Due to the continuing strong demand and changing requirements for Dutch logistics real estate, new developments in the main logistics hotspots are insufficient to keep up with demand, leading to scarcity of product in the occupier market.

Rental growth
The increasing pressure on the logistics occupier markets in the main hotspots have already resulted in rental growth and has boosted the popularity of other regions, which is supported by a growth of the 2019 take-up figures in such alternative locations.

Map Next logistics hotspots in the Netherlands

Next logistic hotspots + ++ +++ Key Business Parks Dutch national highways



Source Savills Research

Outlook

What will be the next logistics hotspots in the Netherlands?

1 Savills expects that logistics occupiers will increasingly look beyond the current prime logistics hotspots in the years to come. This development not only follows from the increasing pressure on the occupier market in the main hotspots, but also from the domestic growth of e-commerce and the increasing demand for same-day delivery.

2 From an analysis using availability and cost of labour and zoned land, as well as proximity

to infrastructure and proximity to main consumer markets, among other, Savills identified promising future hotspots for national distribution and Randstad distribution.

3 The analysis, in the first place and unsurprisingly, confirms the already popular suburban areas between Rotterdam and The Hague. Other, less obvious but also interesting regions identified in the analysis are the Lelystad area, the areas surrounding Nijmegen such as Overbetuwe, and

the region of Zaanstad and Purmerend.

4 Driven by domestic growth of e-commerce and the increasing demand for same-day delivery we also expect that logistics take-up and investments will increasingly involve urban infill locations and so called Agglo-logistics. Among the locations we identified as promising 'next logistics hotspots', Bleiswijk, Zuidplas, Berkel en Rodenrijs and Den Hoorn are of particular interest for occupiers looking to service the G4 cities.

4.24% Today, the sharpest gross initial yields for logistics real estate have gone lower than 4.5%



Sources : Thuiswinkel Markt Monitor from Thuismonitor.org; Logistiek.nl; CBS; Eurostat; Focus Economics; PDOK; BAK; Savills Research



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