savills

From **boring** warehouse to **sexy** product

Artists impression - Heembouw
Rhenus Contract Logistics Tilburg

spotlight

Logistics property market
The Netherlands

Savills World Research
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logistics property market

a short update

Logistics Real Estate Trends

Continued speculative development While many of the new developments concern built-to-suit aimed at occupiers with specific housing needs, there are also speculative developments, aimed at the fast growing need for logistics space by e-commerce related retailers or logistics service providers. E-commerce sales in the Netherlands grew by 22% in 2016 to €20.1 billion[3];

Size matters The trend of increasing size of logistics developments continues. In 2017 over 25% of the delivered properties have been over 40,000 sq m;

Ownership shift Savills sees the market shift from owner-occupier to leasing: currently, over 70% of the logistics developments are being leased. Historically, this percentage was approximately 50%.

Economy

The transport and logistics sector in the Netherlands plays an important role within the Dutch economy.

Over 23.5% of all employees work in the trade and transport sector[1]. Every year this sector exports over €35 billion of services and knowledge. The transport sector as a whole has been profiting from the economic upswing over the last years. This is reflected in increasing occupier demand for logistics properties over the past years, as well as growing investor interest.

The logistics sector is closely linked to the economic environment. Economic growth in the Netherlands and surrounding countries has resulted in increased consumer spending and growing international trade. The transport and logistics

sector in the Netherlands concluded an excellent 2016 and start to 2017. Business sentiment among entrepreneurs remains very positive. The satisfaction figures of the sentiment of turnover and profit have never been so positively rated and 75% of entrepreneurs in the logistics industry are positive about the future[2].

Demand for logistics services have also increased due to the ongoing strong growth of e-commerce. As more and more consumers order their goods online, producers, retailers and logistics service providers have to accommodate this growing demand.

Take-up

Investment Volume

Stock

Rents

Vacancy

Yields

Stock

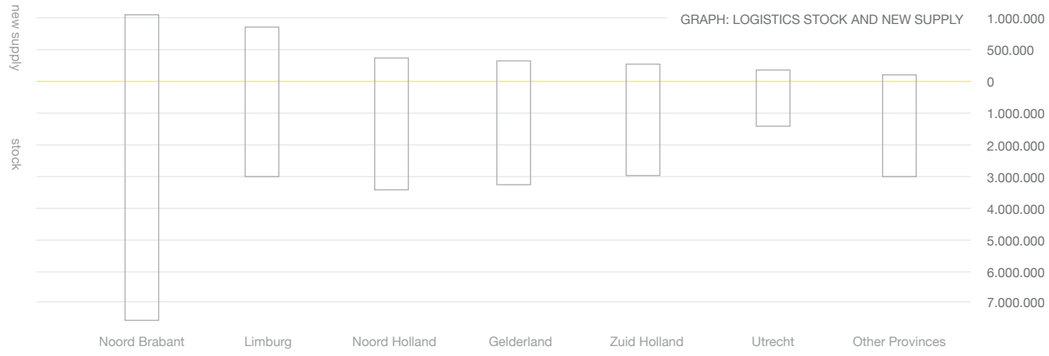
The total logistics stock has grown substantially over the past 20 years.

While the stock stood just below 10 million sq m in 1996, it has reached 28.8 million sq m over the course of 2017. Of this almost 45% is located in two southern provinces of the Netherlands (Noord-Brabant and Limburg). The south of the Netherlands can be characterised as the major logistic destination. This strong position is supported by the proximity to both the Rotterdam and Antwerp harbours, the excellent multimodal infrastructure, the available labour force and the availability of land.

Other provinces with substantial logistics stock include Zuid-Holland (14.7%), Noord-Holland (13.1%) and Gelderland (12.2%). Together with Noord-Brabant and Limburg these five provinces account for 83.7% of the total logistic stock in the Netherlands.

The focus on Noord-Brabant and Limburg has become even stronger in recent years. Almost 60% of all new logistics stock is being developed within these provinces. The logistics stock in Noord-Brabant and Limburg has not only expanded, but has also been extensively renewed since 2015. A substantial part of the current stock was built over the last 2.5 years.

The popularity of Limburg as a logistics destination has rapidly increased. Almost 25% of the new developments is located in Limburg, while the total stock amounts to only 13% of the total Dutch logistics stock. The current market demands large scale logistics centres, and due to the large amount of available land and relatively low land prices, Limburg is an attractive area for these logistics developments.

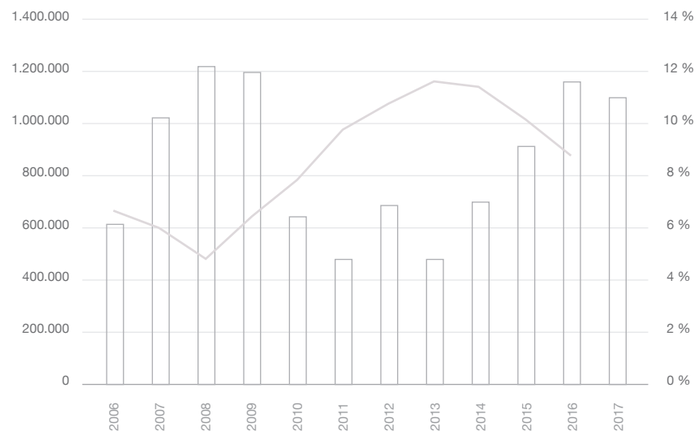


[1] CBS
[2] TLN

[3] Thuiswinkel Market Monitor

GRAPH: LOGISTICS VACANCY VS NEW DELIVERIES

Vacancy drops, new deliveries rise



GRAPH: VACANCY RATE PER CATEGORY

Vacancy concentrated in older stock

Supply and Development

Despite the increase of new developments, vacancy of the total logistics stock has dropped considerably over the past years and currently stands at approximately 8%.

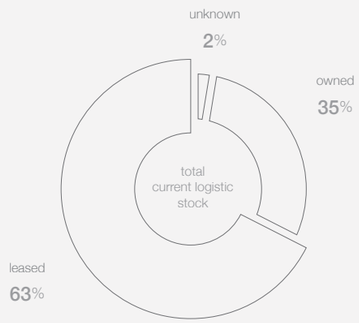
Two ways to break down the total vacancy is by looking at year of construction and location. Looking at year of construction we see that in the modern logistics stock in prime locations the vacancy is only 1.6%, which means that vacancy is very much concentrated in the older stock. The vacancy rate in the category 2015-2017 is relative high because of the speculative developments.

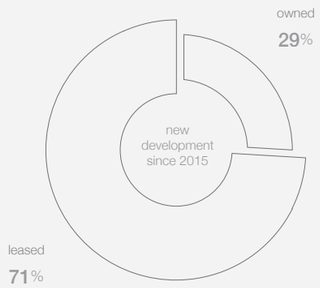
When we look at locations, vacancy in prime locations stands at around 5%, which means the vacancy is also concentrated in secondary locations. However, the high occupier demand for new logistics, together with the lack of large plots in many of the logistics hotspots, is creating new opportunities for these older buildings in secondary locations.

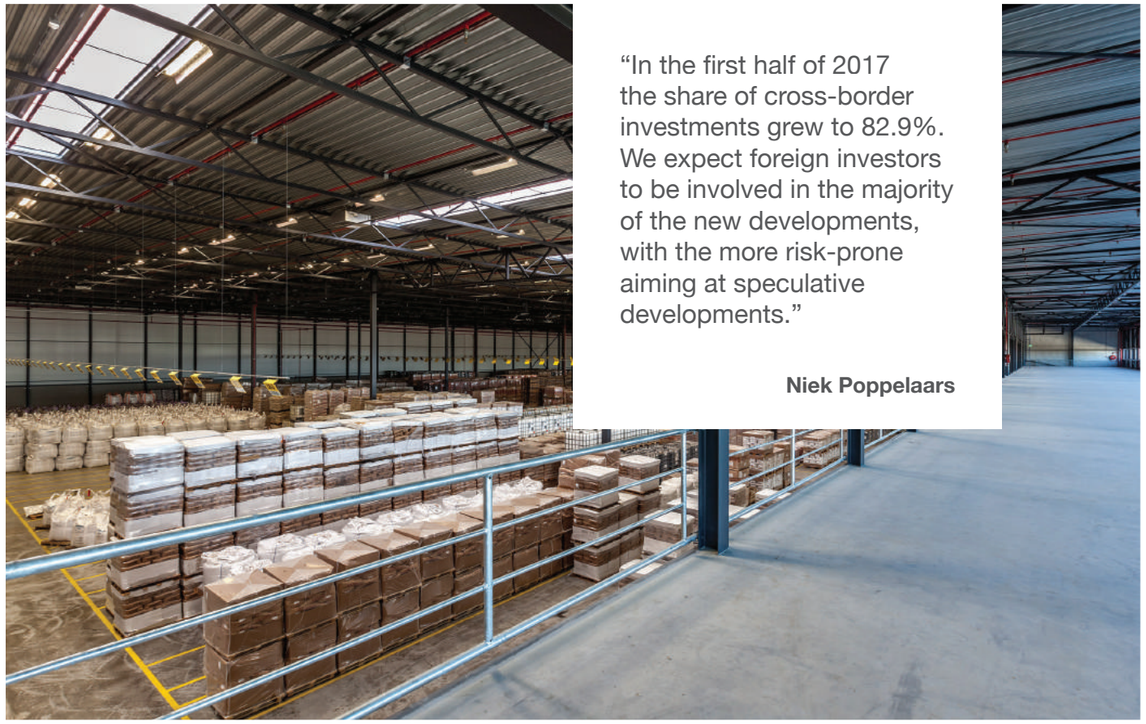
Savills expects these locations to become increasingly attractive for developers to acquire, combine multiple locations and redevelop them to a large logistics site.

GRAPH: CHANGE OF RATIO LEASE & OWNED BY USER

Leasing is hot







"In the first half of 2017 the share of cross-border investments grew to 82.9%. We expect foreign investors to be involved in the majority of the new developments, with the more risk-prone aiming at speculative developments."

Niek Poppelaars

In new developments we see a shift from ownership to leasing. Since 2015 construction of around 3.2 million sq m of new logistics space has been completed, of which 71% is leased by occupiers. This is a substantial change compared to a ratio of 63% of the total current stock (28.8 million sq m).

This is a result of the (ongoing) compressing yields for logistics investment product over the last two years. These historic low yields have been convincing owner-occupiers to take part in so called sale-and-lease-back transactions on both their existing buildings as well as their new built-to-suit developments. The financial gain generated by these transactions offers occupiers the liquidity to invest in operations, which in turn drives further (client) growth.

While many of the new developments still concern built-to-suit developments, there are more and more speculative developments aimed at the fast growing immediate need for logistics space by e-commerce related retailers or logistics service providers.

In 2017 approximately 0.5 million sq m of new logistics space will be constructed on a speculative basis. In 2018 and 2019 another 0.4 million sq m is already planned.

According to current research, every extra € 1 billion of online sales results in an additional warehouse need of approximately 77,000 sq m.

Projecting this to the current growth of e-commerce in the Netherlands, it suggests a net e-sales driven growth in sq m of approximately 300,000 sq m. Therefore it is expected that a substantial part of the planned developments over the next years will be absorbed by the e-commerce sector. Savills expects the actual need for the coming years of sq m driven by the e-commerce sector to be considerably higher.

The major role of Noord-Brabant and Limburg is reaffirmed when we look at the total new developments in 2017. These 2 provinces were jointly responsible for almost 0.7 million sq m of the 1.1 million sq m of new developments in 2017. Venlo (Limburg) is leading the pack with 174,000 sq m of newly constructed logistics property in total, followed by Tilburg (Noord-Brabant, 97,000 sq m).

worth noting

Highlights

Large sale-and-lease-back transaction

VIDA XL	*103,000 sq m, Venlo*
DHL	*40,000 sq m, Wijchen*
Scherpenhuizen	*40,0000 sq m, Eindhoven*

Recent built-to-suit developments

Delin Capital/ Lidl	*60,000 sq m, Roosendaal*
Prologis / XPO Logistics	*60,000 sq m, Venlo*
Dudok Logistiek/ Lidl	*60,000 sq m, Moerdijk*

Current and future e-commerce related developments

Inditex	*developing a DC of 170,000 sq m in Lelystad*
Plus	*developing a DC on a 170,000 sq m plot in Tiel*
Lidl	*developing a DC of 70,000 sq m in Venlo.*

TABLE: KEY FIGURES MAJOR LOGISTICS HOTSPOTS H1 2017

PROVINCE	MUNICIPALITY	TAKE-UP LAST 18 MONTHS	VACANCY RATE	YEAR OF CONSTRUCTION < 2010	YEAR OF CONSTRUCTION > 2010	STOCK
NOORD HOLLAND	AMSTERDAM	54.500	7.2%	7.1%	7.4%	1.107.65
NOORD HOLLAND	HAARLEMMERMEER SCHIPHOL	72.000	9.1%	5.6%	23.3%	1.201.620
UTRECHT	UTRECHT & NIEUWEGEIN	150.000	11.7%	14.1%	7.6%	745.045
GELDERLAND	TIEL & GELDERMALSEN	170.000	2.0%	2.4%	0.0%	678.335
ZUID HOLLAND	ROTTERDAM	100.000	6.3%	7.3%	0.7%	1.440.955
NOORD BRABANT	ROOSENDAAL	173.000	9.9%	15.2%	0.0%	723.270
NOORD BRABANT	MOERDIJK	283.000	7.4%	5.8%	11.9%	838.765
NOORD BRABANT	TILBURG	160.000	11.7%	13.7%	6.6%	1.694.420
NOORD BRABANT	EINDHOVEN	252.000	5.9%	7.9%	1.0%	678.385
LIMBURG	VENLO	340.000	6.6%	2.9%	12.1%	1.566.330

Take-up

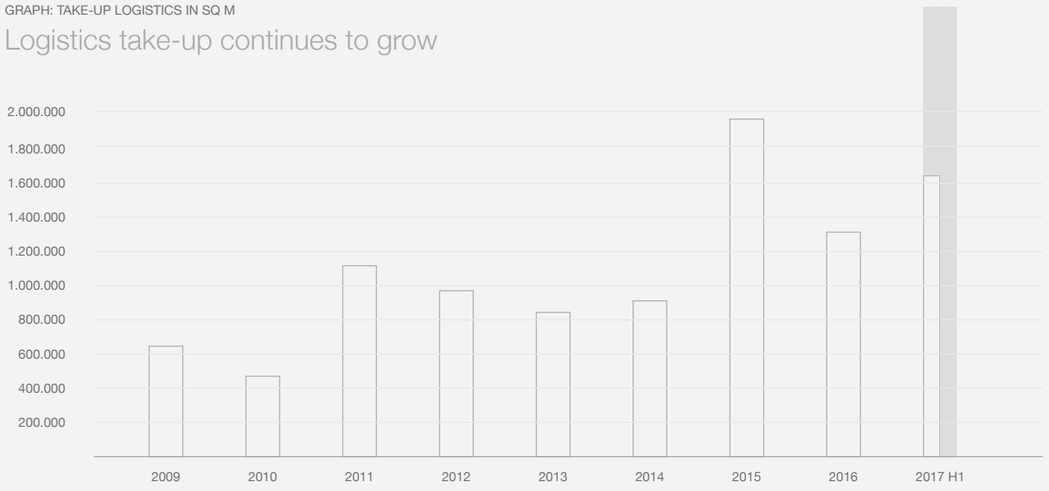
In recent years we've seen occupier demand for logistics properties in the Netherlands increase rapidly.

Logistics take-up reached new records of over 1.9 million sq m in 2015 and 1.3 million sq m in 2016. This trend continued in the first half of 2017, with take-up reaching a total of 1.7 million sq m of logistics space. It is therefore highly likely that 2017 will become a new record year.

The dominance of Noord-Brabant is not only confirmed by the largest stock and the highest number of new developments, but is – not surprisingly - also the main occupier destination. This province was able to attract almost 50% of the total national take-up.

GRAPH: TAKE-UP LOGISTICS IN SQ M

Logistics take-up continues to grow



The dominance of Noord-Brabant and Limburg is also reflected in the fact that six of the nine most dominant logistics hotspots are located here.

Venlo accounted for the largest share in total take-up in from 2016-2017 H1 and reached 340,000 sq m. These nine clusters together take-up 57% of the total market. An overview of these markets is shown below.

We also see some remarkable differences at city level. The table below shows the major logistics hubs in the Netherlands. One of the key observations is Tilburg having the largest stock and Tiel/Geldermalsen has by far the lowest vacancy rate.

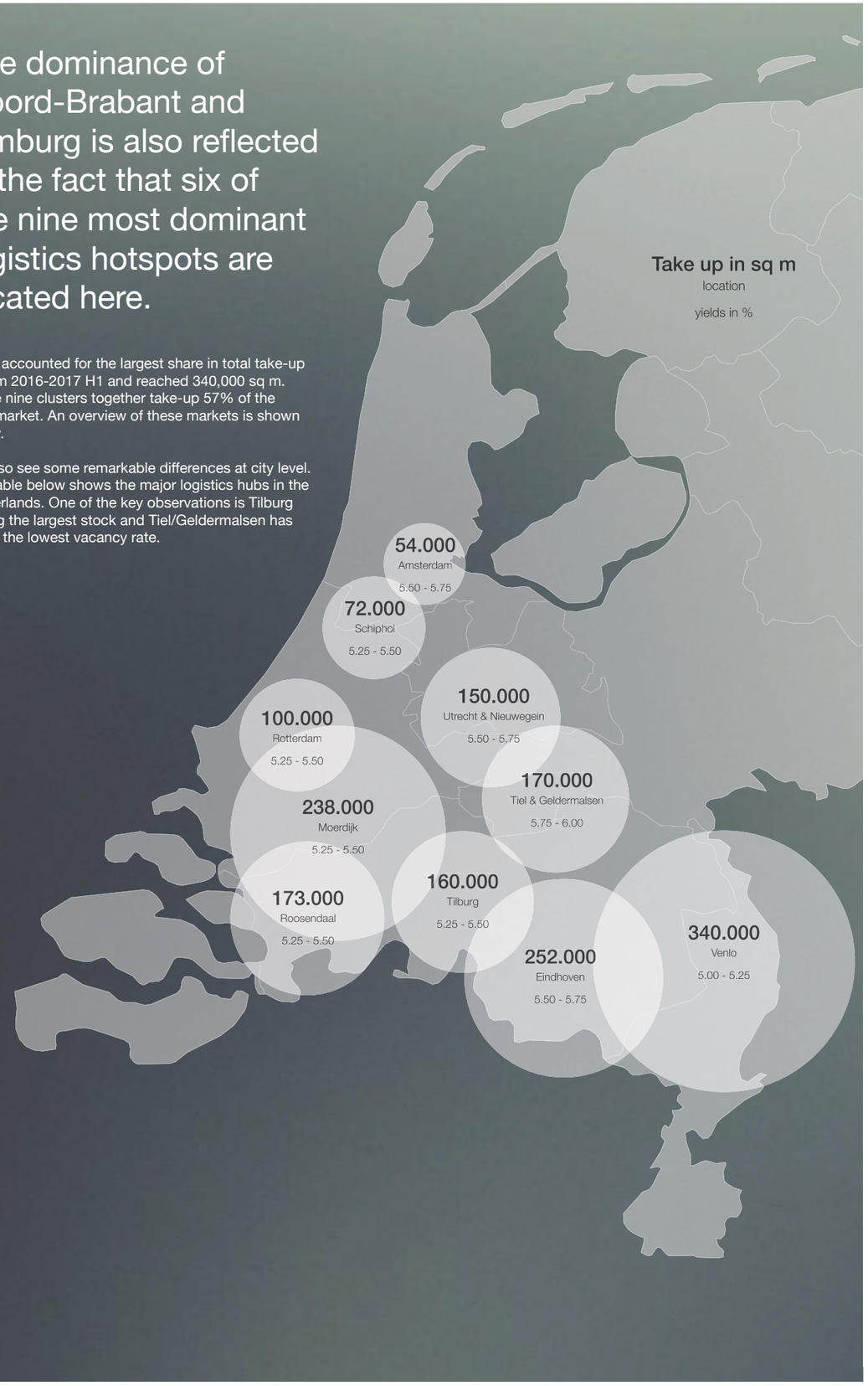
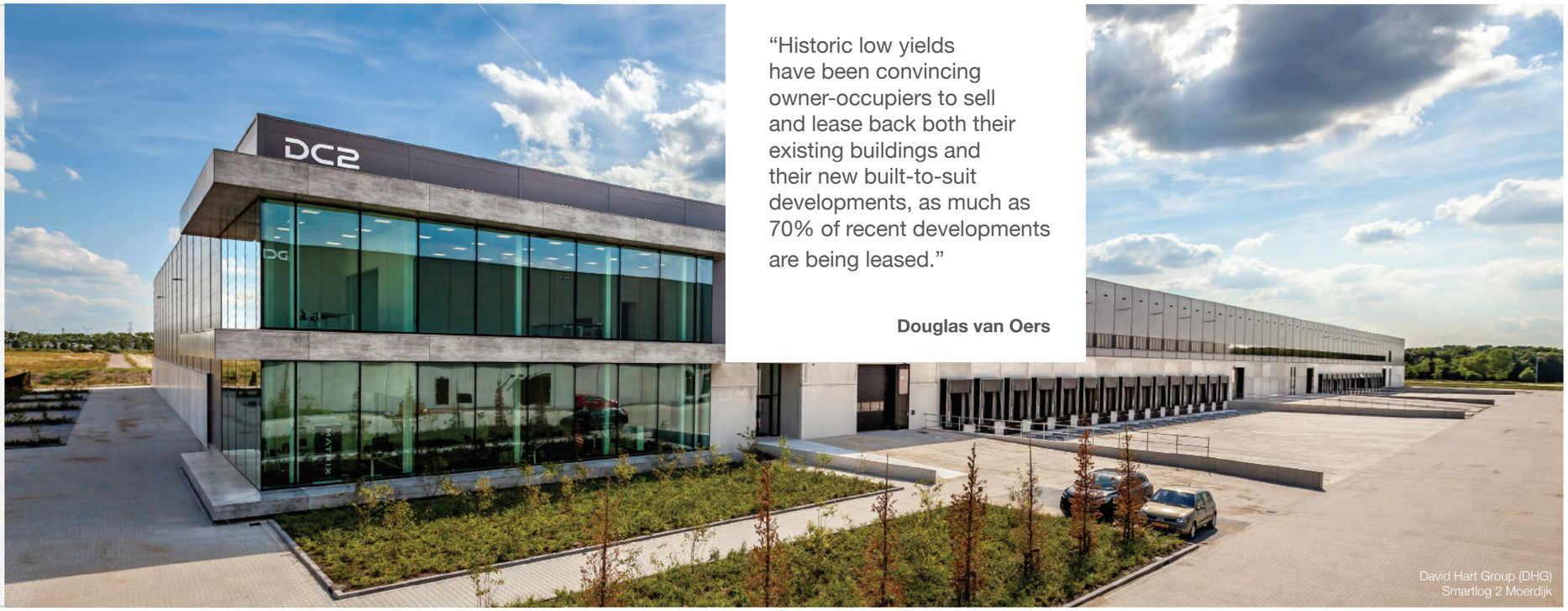


TABLE: PRIME RENTS MAJOR LOGISTICS HOTSPOTS

PROVINCE	MUNICIPALITY	PRIME RENT 17
NOORD HOLLAND	HAARLEMMERMEER SCHIPHOL	€ 95⁰⁰ SQ M
NOORD HOLLAND	AMSTERDAM	€ 65⁰⁰ SQ M
ZUID HOLLAND	ROTTERDAM	€ 65⁰⁰ SQ M
UTRECHT	UTRECHT & NIEUWEGEIN	€ 62⁵⁰ SQ M
NOORD BRABANT	EINDHOVEN	€ 55⁰⁰ SQ M
NOORD BRABANT	MOERDIJK	€ 52⁵⁰ SQ M
NOORD BRABANT	TILBURG	€ 52⁵⁰ SQ M
GELDERLAND	TIEL & GELDERMALSEN	€ 52⁵⁰ SQ M
NOORD BRABANT	ROOSENDAAL	€ 50⁰⁰ SQ M
LIMBURG	VENLO	€ 45⁰⁰ SQ M



David Hart Group (DHG)
Smartlog 2 Moerdijk

"Historic low yields have been convincing owner-occupiers to sell and lease back both their existing buildings and their new built-to-suit developments, as much as 70% of recent developments are being leased."

Douglas van Oers

Rents and Incentives

Headline rents for logistics properties has remained fairly stable over the years.

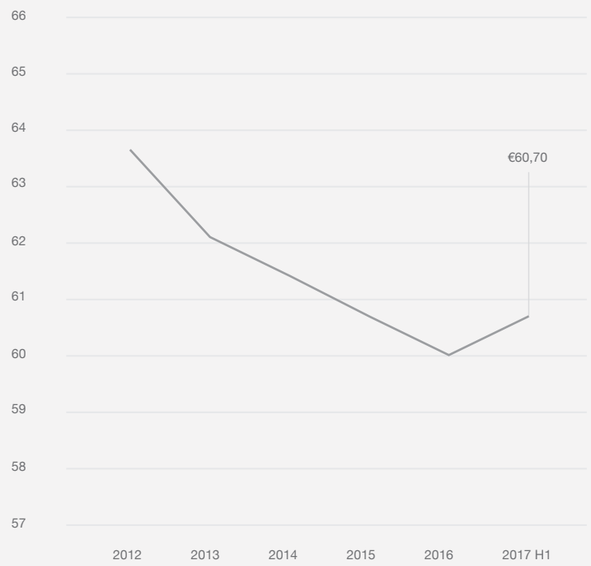
In some prime locations we see a slight rental increase, which is caused by the high demand for prime logistics and the limited availability of this product.

However, because the current investment value for logistics has now risen to historic high levels and the actual costs of developing logistics buildings have not risen to the same extent, developers are able to offer attractive incentives on the leasing of their speculative developments or built-to-suit buildings, without losing their usual amounts of profit.

The highest rent levels can be found in the Schiphol Airport area, reaching €95 per sq m annually for prime properties. At other major logistics destinations prime rents are between €45-€65 per sq m annually. Incentives vary per location but are often between 10% and 15% at the major sites.

GRAPH: PRIME RENTS IN € / SQ M / YEAR

Prime rents stay subdued



Investment Market

Investment volumes in logistics properties have increased substantially.

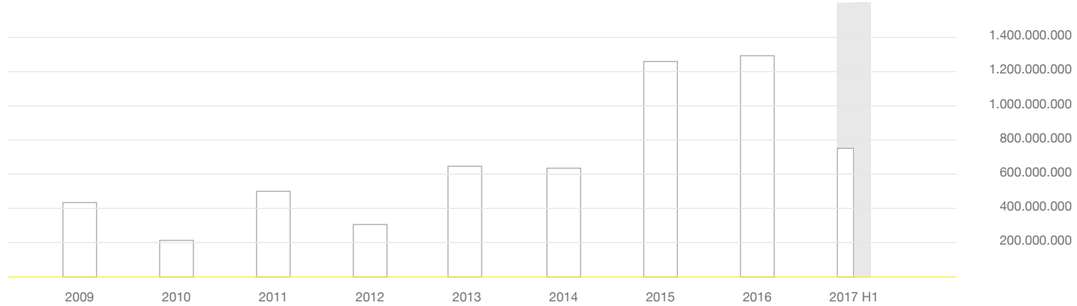
The total investment volume in 2016 was € 1.3 billion, surpassing the previous high of €1.2 billion in 2015. Over €776 million were transacted in the first half of 2017. Demand for logistics real estate remains strong with recent purchases including CBRE GI, buying an eight unit portfolio of 260,000 sq m from Somerset Capital Partners, Savills IM buying a two unit portfolio of approximately 140,000 sq m from Dudok Logistiek Vastgoed and the purchase by Real I.S. of approximately 50,000 sq m in Moerdijk.

Due to these and other recent transactions, the investment volume year to date has increased already by € 400 million to approximately € 1.1 to € 1.2 billion.

By the end of the year Savills forecasts the total volume to reach around €1.6 billion of logistics space alone, which would mean a growth of 20% - 25% compared to last year. Cross-border investments increased from 67.7% in 2015 to 77.6% in 2016 and 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. In the first half of 2017 the share of cross-border investments grew to 82.9%.

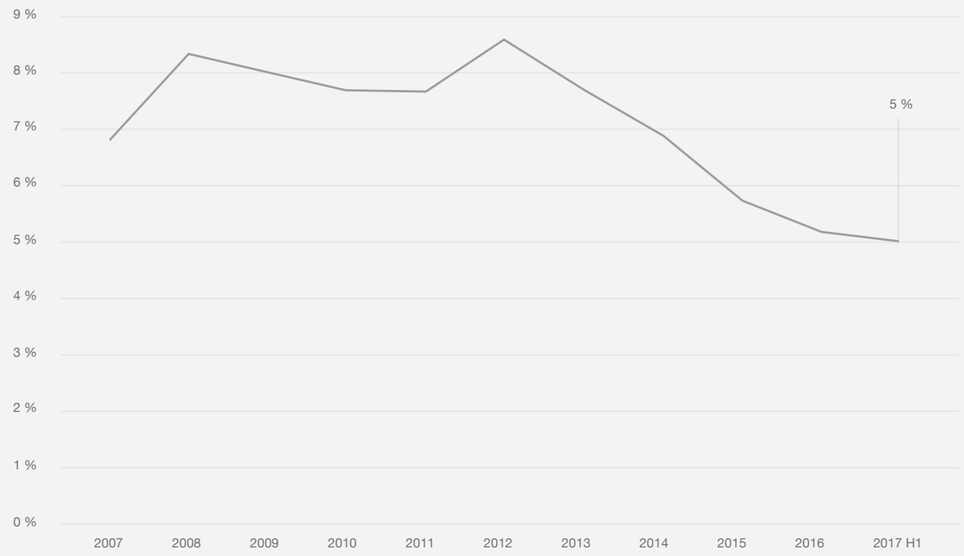
Venlo is the investment hotspot with € 182 million of investment transactions recorded in 2017. The deal of VidaXL setting a new yield benchmark. Webshop VidaXL will move operations from Venray to Venlo where their new DC at Trade Port Noord of over 100,000 sq m is well underway and delivery is expected by the end of this year.

GRAPH: LOGISTICS INVESTMENTS IN THE NETHERLANDS



GRAPH: GROSS YIELDS MAJOR LOGISTICS HOTSPOTS

Prime yields major logistics hotspots contracting



Yields

As demand for logistics remains high and quality of supply remains fairly limited, yields for high quality logistics have been compressing substantially.

Gross prime yields dropped from 5.75% to 5.25% by the end of 2016. This trend continued in the first half of 2017. While room for further yield contraction is limited, scarcity of prime investment product will continue to keep downward pressure on yields. For secondary properties, yields vary between 6.75%-9.0%.

The table shows the lowest yields are seen in the Schiphol area and in Venlo. For Schiphol this can be explained due to the unique character of this location and scarcity of supply. These two factors provide investors with the comfort to pay these kind of yields. For Venlo this can be contributed to the excellent logistics spot that it is (multimodal, hinterland connections, availability of land), but another important factor is that Venlo houses the most of the XXL warehouses and the institutional investors looking for large investment volumes are willing to pay a premium for these large tickets.

TABLE: GROSS YIELD MAJOR LOGISTICS HOTSPOTS

Lowest yields in Schiphol and Venlo

PROVINCE	MUNICIPALITY	PRIME YIELDS 17
LIMBURG	VENLO	5.00 - 5.25 %
NOORD HOLLAND	HAARLEMMERMEER SCHIPHOL	5.25 - 5.50 %
NOORD HOLLAND	AMSTERDAM	5.25 - 5.50 %
NOORD BRABANT	ROOSENDAAL	5.25 - 5.50 %
NOORD BRABANT	TILBURG	5.25 - 5.50 %
ZUID HOLLAND	ROTTERDAM	5.25 - 5.50 %
NOORD BRABANT	MOERDIJK	5.25 - 5.50 %
UTRECHT	UTRECHT & NIEUWEGEIN	5.50 - 5.75 %
NOORD BRABANT	EINDHOVEN	5.50 - 5.75 %
GELDERLAND	TIEL & GELDERMALSEN	5.75 - 6.00 %

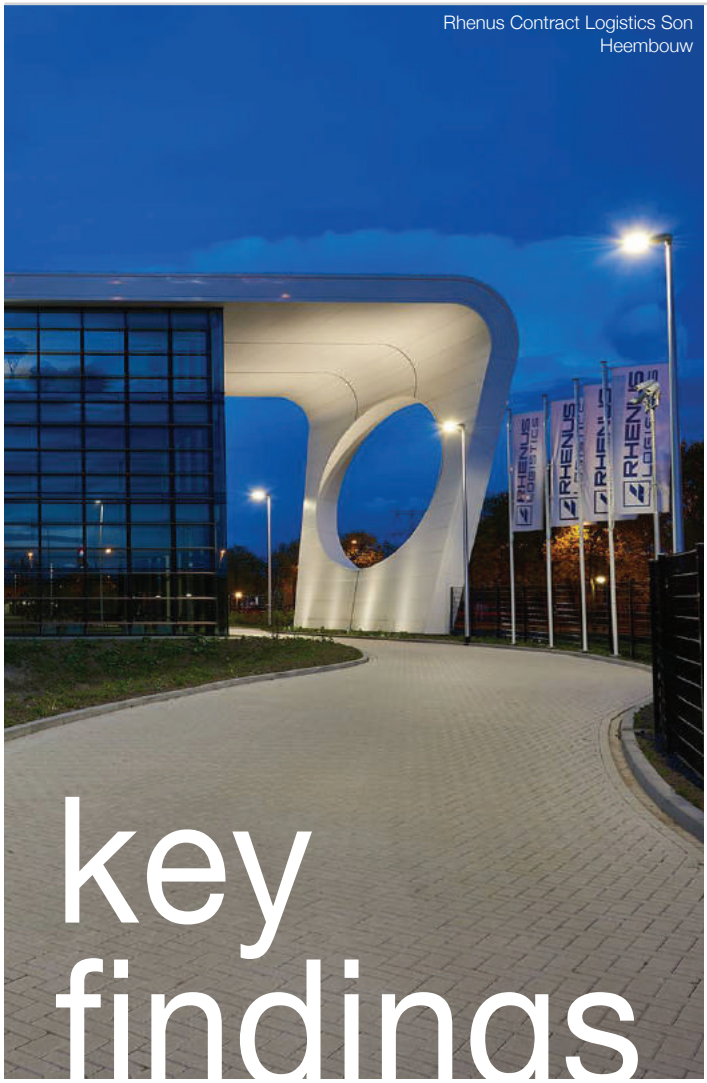
visual impact

Shaping the Dutch logistic landscape

Location
The focus on provinces Noord-Brabant and Limburg is increasing. Almost 60% of all new logistics developments are located in these provinces. Due to the increasing online sales, large scale development opportunities are necessary. Noord-Brabant and Limburg are able to facilitate large lots for relative low land prices. Savills expects Limburg and Brabant to continue to perform well. Not only due to the location and low land prices, but also because they are much more active promoting themselves through international marketing. Although other provinces and countries are starting to follow this trend of active marketing, Noord-Brabant and Limburg remain one step ahead of competition.

Sexy product
Savills expects a changing shape of distribution centres. In the UK we have seen the first examples of multi-layer and underground centres, such as the recently announced development near Heathrow. It will not be long before this trend reaches the European continent. Currently, we see the appearance of distribution centres becoming more and more attractive. This is due to investors' demand, which would rather add a 'sexy' product to their portfolio than a 'boring' warehouse, but above all because of occupier demand. E-commerce distribution centres are changing from mainly storage facility, to value add logistics. The changing activities and labour market competition make it increasingly important to create an attractive work environment.

Robotisation
When talking about trends within the logistics sector, robotisation and automation are mentioned frequently. Indeed we see an increasing level of automation within logistics processes. However, the effects on logistics stock remains limited. For example, you would expect robotisation to lead to increasing floor heights. However, building distribution centres to suit fully automated occupiers is expensive and increases risk of obsolescence. As investors prefer well marketable products, which can be sold and leased to a wide audience, occupiers themselves are currently investing in built-in robotisation facilities for standard size distribution centers.



Rhenus Contract Logistics Son
Heembouw

key findings

Rents in prime locations have increased slightly

Stock The number of speculative developments will increase, aimed at the fast growing need for logistics space by e-commerce related retailers or logistics service providers. Due to these new developments, rents of older stock will decrease.

Supply and development Despite the increase of new speculative developments, vacancy in the logistics stock has dropped considerably over the past years and is now around 8%. Vacancy is very much concentrated in the older stock. In modern logistics stock (2010 onwards), the vacancy is just 1.6%. New developments are being undertaken in Noord-Brabant and Limburg and because of the low yields, more logistic providers choose to lease properties instead of purchasing.

Take-up This has resulted in ongoing strong occupier demand, with take-up reaching over 1,700,000 sq m in the first half of 2017. *Savills expects a record take-up level in the logistics sector this year.*

Rent & incentives On average, rents are very stable. Rents in prime locations have increased slightly while rents in secondary locations are stabilising or slightly decreasing due to the vast pipeline of new developments.

Investment market Investor interest remains active and by the end of the year. *Savills forecasts a new peak of the total investment volume of €1.6 billion. Cross-border investment gained dominance in H1 2017 to 82.9%.*

Yields Increasing investor interest keeps a downward pressure on yields. *Savills expects the first transaction at a yield level below 5% before year end.*

Want to know more?

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Meet our team at Savills

Property starts with people.