REPORT
Savills Research

The Netherlands – Spring 2020

Rewind & Reflect

on **the** decade of logistics

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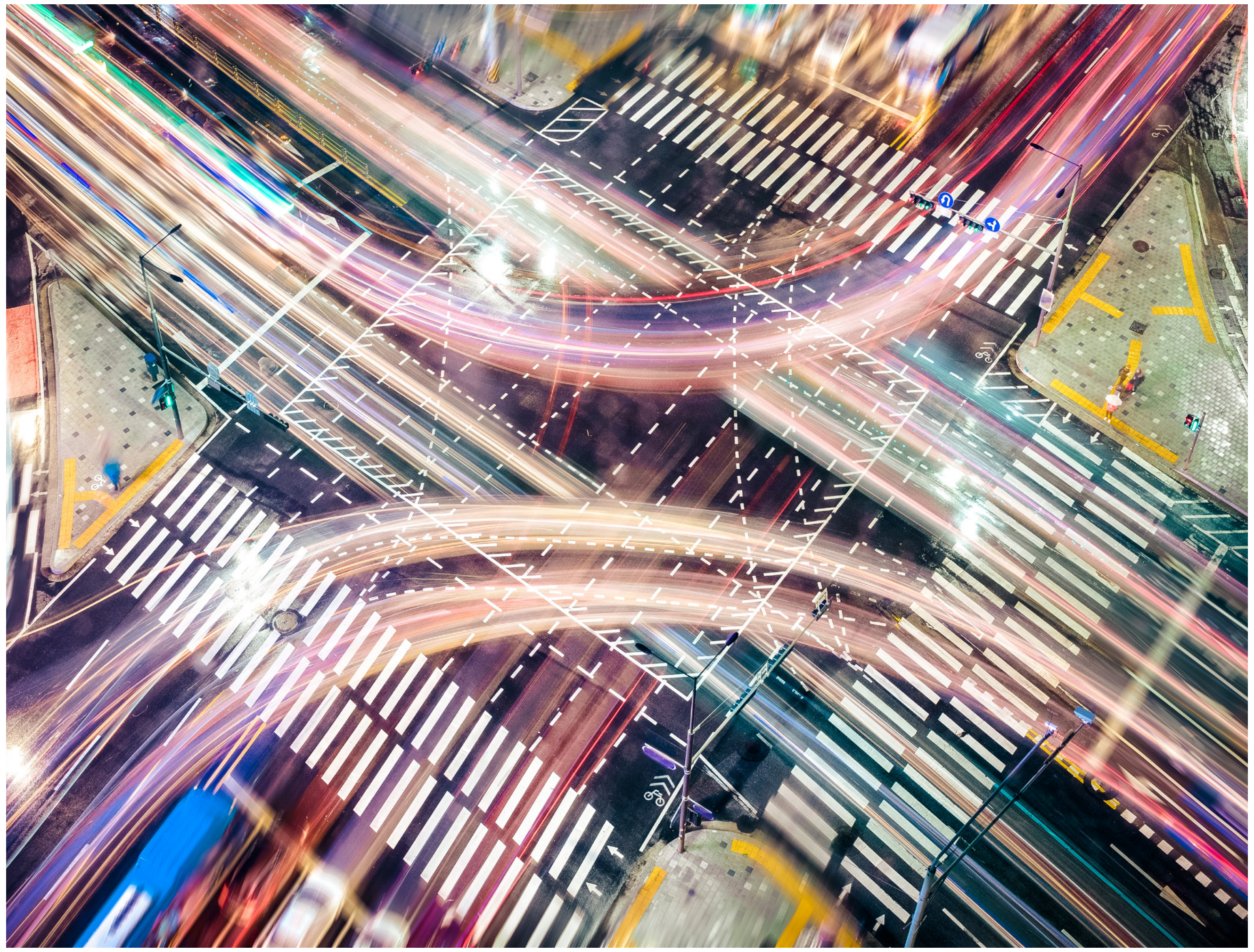
The past ten years Dutch logistics properties became a mature investment market.



Dutch logistics property: enormous growth in recent years

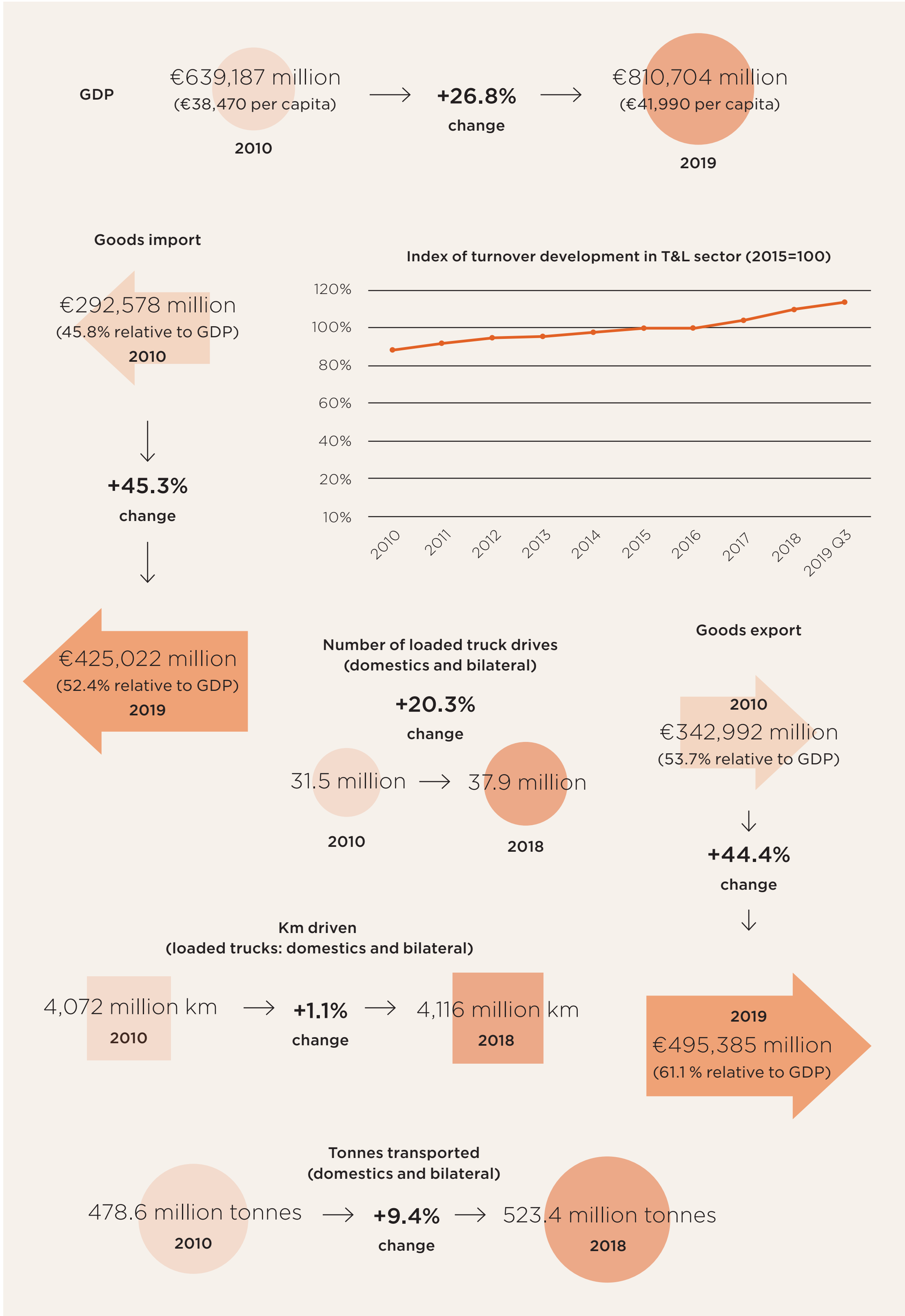
Over the past decade, the Dutch logistics property market has transformed from an atypical owner occupier sub-market as part of the industrial property market to a mature and hot investment market that compares to prime commercial investment asset classes.

It is currently not a sufficiently eye-catching fact that the market is delivering remarkable results. Nevertheless, when comparing the current market to that of ten years ago, progress has been truly remarkable.As we usher in a new decade, it therefore seems intuitive to press the rewind button and reflect on how the key market indicators have changed over the past decade.

This report reflects on the most remarkable developments in the transport & logistics (T&L) sector, and in the logistics occupier- and investments - property markets over the past decade. This also gives some pointers for what the next decade might bring.

Rewind – highlights of the 2010's

Dutch transport and logistics service providers sector



Source Statistics Netherlands

Strong growth in the T&L sector

TRANSPORT AND LOGISTICS

Over the past decade, the global economic upswing has brought increasing consumer spending and industrial investment across the Eurozone. In quantitative terms, this has undeniably benefitted the T&L sector in the Netherlands too.

In particular, the percentual volume changes of goods imports and -exports over the past 10 years show that the T&L sector has grown stronger than GDP economic growth overall.

Although quantitively the sector has benefitted from the economic upswing as transported volumes have increased and turnover in the sector has increased, the T&L sector is a low-margin industry and ever decreasing margins have resulted in a race for efficiency. In effect this has meant widespread consolidation across the sector and eager investment in (new) technology.

Logistics Occupier Market

To support modern efficient operational processes, the requirements for logistics real estate have increased considerably too. The demand for, and development of, modern and increasingly large properties has taken flight in recent years.

Ten-year review The demand for, and development of logistics real estate

	2010	2019	% change
Stock	25,000,000 sq m	35,000,000 sq m	**+40%**
Development completions	720,000 sq m	2,900,000 sq m	**+302.8%**
Average GFA new construction	17,000+ sq m	26,000+ sq m	**+52.9%**
Take-up volume	0.5 million sq m	2.9 million sq m	**+480%**
Vacancy	6%	5%	**-20%**

Source Savills Research; BAK

Reflective of the strong occupier demand and decreasing vacancy over the past few years, even as stock grew considerably, rental growth in the logistics sector consistently performed above inflation level (CPI based +14.57% over the last 10 years).

This was mainly due to decreasing incentives and, as a result, increasing net effective rents. Over the last year, this has now also translated into increasing prime gross rents in some of the key logistics hotspots.

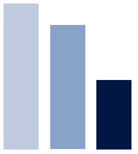
More recently, the increasing pressure on the occupier market in the main hotspots, the domestic growth of e-commerce and expected increasing demand for same-day delivery underlie an ongoing diversification of the qualitative demand from logistics occupiers and a shift towards greater demand for secondary properties within the logistics hotspots and promising secondary markets outside the logistics hotspots.

This diversification involves three main types of occupiers.

1. Occupiers focusing on European distribution: particularly based in locations such as Venlo, Moerdijk and Tilburg (southern part of the Netherlands);
2. Occupiers focusing on national distribution: mainly based in central locations such as Utrecht, Nieuwegein, Zaltbommel, Tiel; and
3. Occupiers focusing on agglo-logistics: based in locations such as Bleiswijk/Waddinxveen and Berkel en Rodenrijs, which are locations within a maximum of one hour's drive of the four major Dutch cities.

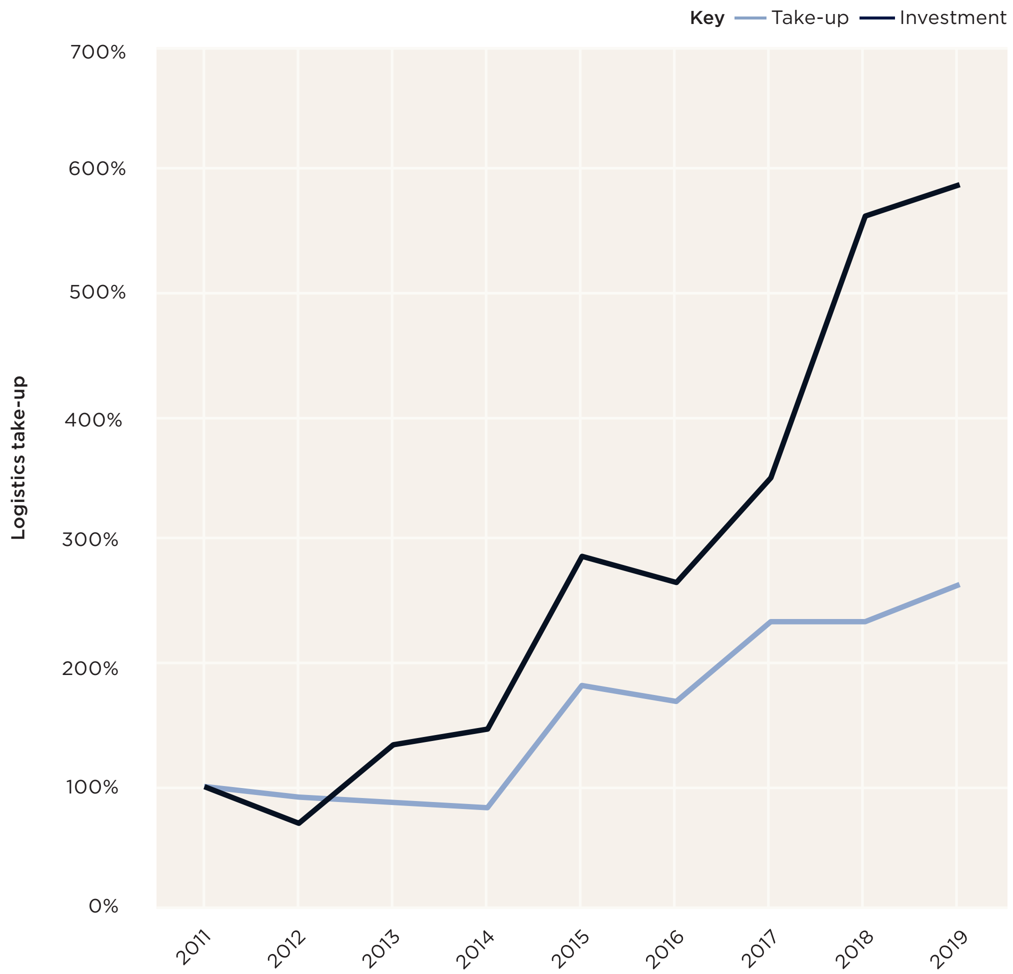
In contrast to the growth figures, we have also recently witnessed slightly declining rents in Schiphol over the past year, and prime rents remain stable in the hotspots which are less in scope for e-commerce related occupiers, such as Tiel, Roosendaal and Zaltbommel.

14.57% Rental growth in the logistics sector consistently performed above inflation level, +14.57% over the last 10 years



4%
Yields have compressed to levels traditionally only achieved in prime commercial asset classes, from 7.35% GIY in 2010, moving towards 4% today.

Graph Index of Dutch logistics take-up and investment relative to 2011 (2011=100)



Source Savills Research

Investment market

Over the past decade, the logistics investment market largely followed the occupier market, which is confirmed by the index of logistics take-up and -investment. However, since 2017, investment volumes, in relative terms, have grown considerably stronger than take-up volumes.

A key driver that has encouraged this development has simply been the previously comparably 'cheap' Dutch logistics properties, given that the market was once considered a less mature investment market. However, as the market has professionalised over the past decade, it has shifted from a largely owner occupier sub-market within the industrial property market to a mature investment market: currently, over 70% of the logistics assets are being leased. Historically, this percentage was only approximately 50%. Given that in the past the yield spread between the Netherlands and more mature logistics property markets such as the UK and Germany was over 1%, and yields are now on similar level, one could say that the Dutch market has played catch up.

In effect, the (international) capital directed towards the Dutch logistics market has accelerated in recent years as this market has matured and professionalised, and as investor confidence has grown.

"Currently, over 70% of the logistics assets are being leased. Historically, this percentage was only approximately 50%"

INVESTMENT VOLUMES

2010
< 100 million
(1% of total investment volume)

2019
2.6 billion
(13% of total investment volume)

SHARPEST PRIME YIELDS (GIY)

2010	2019
7.25%	4.1% 2020 YTD and moving towards 4.00%.

SHARE CROSS BORDER INVESTMENT

2010	2019
25%	> 80%

As the availability of prime logistics investment product has therefore steadily decreased, and as increasing pressure on the occupier market has resulted in rental growth (prospects) in some locations, yield levels have compressed to levels traditionally only achieved in prime commercial asset classes such as offices and retail. Confirming that logistics assets as an investment class have become increasingly of interest as an alternative to investment in offices and retail. Although the investor focus has largely been on prime logistics assets over the last 10 years, now that it is becoming increasingly difficult to acquire prime assets or to participate in new developments, either because of lack of land or regulatory hurdles such as the nitrogen issues, we also see increasing investment dynamics in the secondary (upcoming) market. This is another area where the investment market is following the developments in the occupier market.

Source Savills Research

Map Current prime yields and rents Netherlands logistics hotspots

Source Savills Research

"We're experiencing an ongoing diversification of the qualitative demand from logistics occupiers and a shift towards greater demand for secondary properties within the logistics hotspots and promising secondary markets outside the logistics hotspots"

OUTLOOK

If we project the past decade's developments forward over the next 10 years and assume that these trends continue unaffected, the developments in the logistics property market over the past 10 years and the potential of e-commerce and continuing consolidation in the T&L sector suggests similar remarkable growth figures for the next decade.

However, that would be an unlikely scenario given that the market has become more mature and there are several disruptors on the road ahead. The spread of the Covid-19 Corona virus is a very recent development of which its disruption to the real estate markets is likely to be a near term delay or a short shock rather than a fundamental downturn over the long term. However, the exact impacts are unclear at this time, and there may also be positive outtakes such as accelerating trends within flexible working, online retail spending and improving supply chains.

Sources Netherlands Statistics (CBS), BAK, Savills Research

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