The Netherlands Industrial, H1 2015

Upturn in occupier demand gaining traction

Logistics take-up
+124% y-o-y

Logistics vacancy
-9% y-o-y

Prime rent
€ 55

Investment volume
-11% y-o-y

Prime yield
-55bps y-o-y

HEADLINES

- Domestic consumption is rising while momentum for further export growth continues
- Demand for logistics space is surging, now more evenly spread across The Netherlands
- Occupier requirements drive take-up of build-to-suit properties
- Lack of product is limiting investment growth, but strong demand is fuelling further yield compression
- New completions providing market relief, but affecting vacancy

EMBEDDED GROWTH

Relatively strong economic figures in the first quarter of 2015 (+2.4% y-o-y) suggest that the upturn in The Netherlands is increasingly embedded. Following an initial export-led recovery, economic growth is now carried more broadly across the board. Low oil prices and consumer confidence have materialised into actual private consumption growth for the first time since 2011. Meanwhile, the low euro continues to support the momentum for further export growth. Favourable fundamentals for both domestic and foreign distribution are also reflected by logistics operations throughout The Netherlands. Whereas occupier activity was first primarily driven by international transport along the southern transport corridor, the demand for logistics space for national distribution is now increasing.

DOMESTIC DELIVERIES DIVERSIFY DEMAND

In the first half of 2015, the demand for logistics space flourished as take-up reached a total volume of 705,000 sq m – among the highest semi-annual totals witnessed in The Netherlands. Take-up remained strong in major logistics hubs such as West Brabant (104,000 sq m; +122% y-o-y), Venlo-Venray (161,000 sq m; +307% y-o-y), and Rotterdam (112,000 sq m; +593% y-o-y). However, contrary to the early recovery of logistics demand in the southeast of the country, take-up is now more evenly spread across the country. The upturn in domestic consumption has triggered the demand for distribution space in centrally located areas, but also locations along the A15 motorway perform rather well in terms of take-up.

A more in-depth look at the take-up volume reveals a strong bias towards pre-let and build-to-suit properties. Take-up of pre-let logistics space reached an all-time high in H1 and, for the first time, has actually exceeded the take-up of existing property – a sign of strong occupier preferences for modern facilities. In line with overall take-up, most pre-let activity is to be found in established logistics hotspots in the Limburg and North-Brabant province. Additionally, building activity is increasing in mainports Rotterdam and Amsterdam. It should be noted however, that new-to-build properties may be not fully let when completed, which may eventually result in a rise in vacancy in case the residual logistics space does not meet contemporary demand.

THE IMPACT OF NEW DEVELOPMENTS

Whereas market conditions remain tight with vacancy rates around 6.3%, new completions are slowly driving up vacancy levels as more logistics space is coming to the market. Rising vacancy rates illustrate the risk of speculative (over-) development, as upgrading is still an important objective for new leases. As such, in addition to expansion of operations, take-up levels partly reflect relocations. Although the current development pipeline of logistics space is substantial – ca. 3% of the total stock – vacancy levels in new properties are still well below average levels in existing properties.

Vacancy in multi-let / light industrial properties is traditionally higher than for logistics space, although availability remained largely stable in recent quarters. The G4 average currently moves around 11.6%, with notable declines in Amsterdam and The Hague. Vacancy remains lowest in Rotterdam, at 6.4% - even slightly below the logistics vacancy of 7.1%.

High construction activity and rising capital values continue to refrain logistics rents from climbing. With further yield compression witnessed in recent quarters, strong occupier demand is easily absorbed by developers who are eager to play the market by aggressively lowering asking rents while keeping their target yield intact.

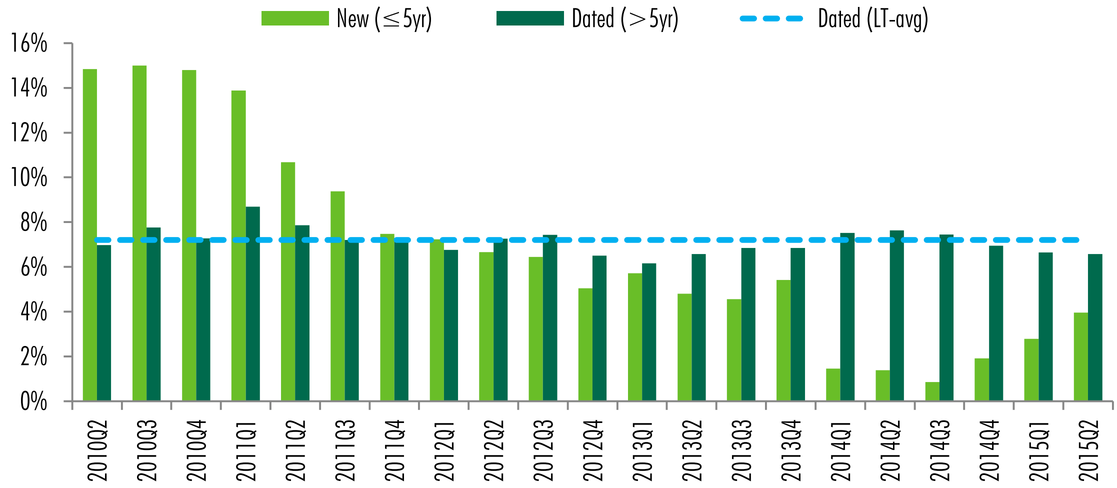
SUPPLY AND DEMAND

One of the most striking aspects of the current industrial investment market is in fact the imbalance between supply and demand. Volumes traded in the first half of 2015 fell back slightly compared to H1 2014: total investment turnover reached € 618 million – a decline of 11% y-o-y. It should be noted however, that investment activity is largely delimited by the lack of adequate product. Since demand remains strong, logistics yields have sharpened further in the course of 2015. Indicative prime net initial yields are currently quoting 5.95% for logistics space and 8.75% for multi-let / light industrial.

The investor base remains largely unaltered with respect to previous years. Most high-profile logistics assets were traded on the likes of established parties such as LogiCor, Prologis, WDP and WP Carey. A notable new entrant in the Dutch logistics market was Logistis – an AEW fund – through the acquisition of three adjacent DCs in Helmond, Noord-Brabant.

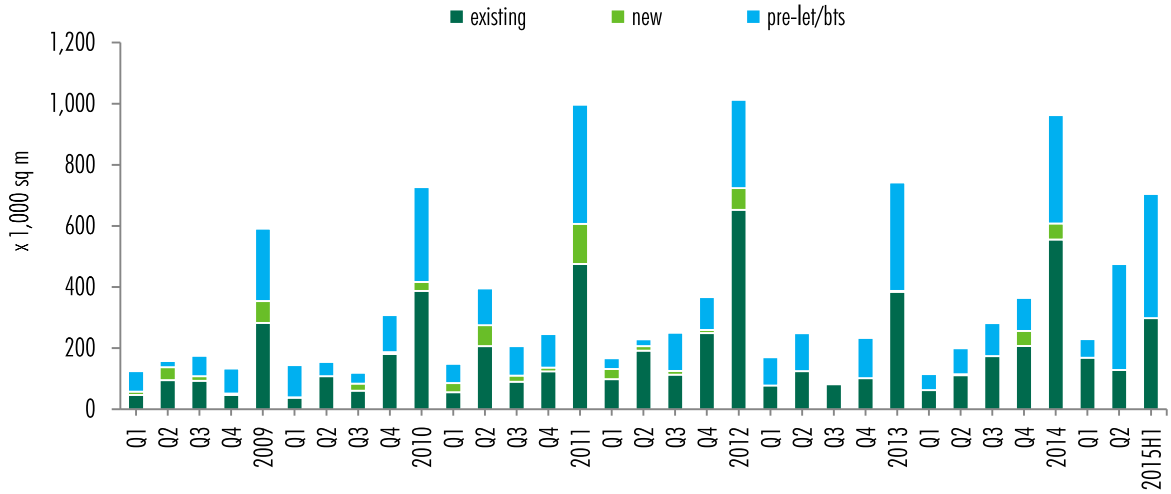
Throughout H1 2015, M7 Real Estate expanded its presence in the Dutch multi-let / light industrial market. Recent acquisitions include three small- to medium-sized portfolios and one single-asset deal for a combined value of € 102 million, covering almost 300,000 sq m of industrial space in total.

Figure 1. Logistics vacancy rate



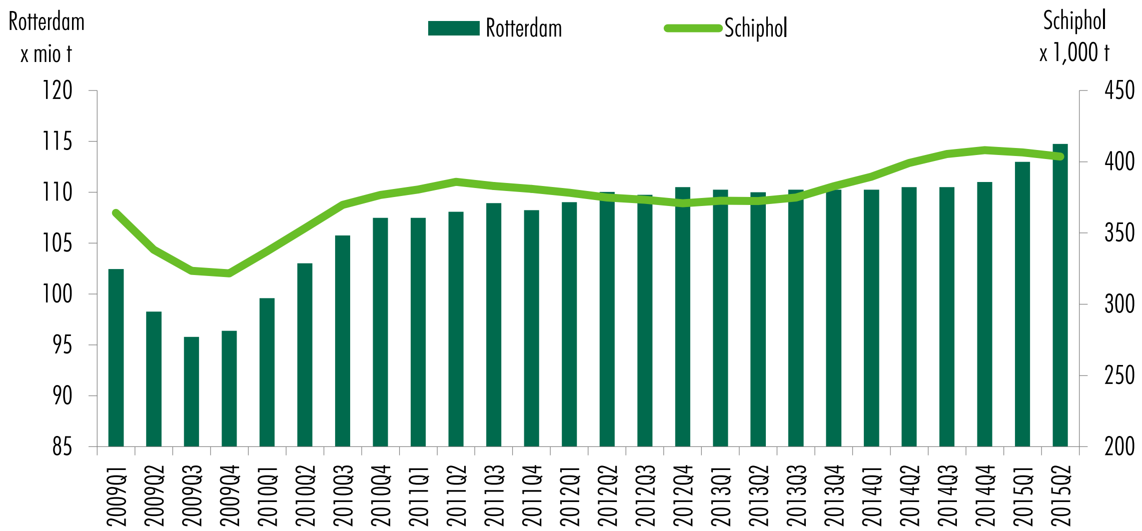
Source: CBRE Research

Figure 2. Logistics take-up



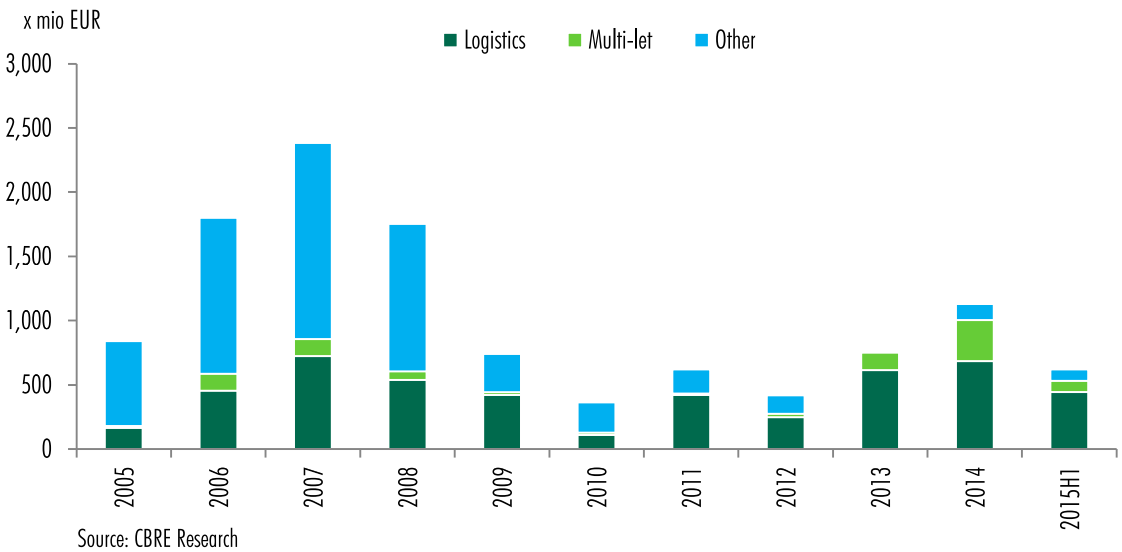
Source: CBRE Research

Figure 3. "Mainport" cargo transhipment, rolling 4Q



Source: Port of Rotterdam & Schiphol Group

Figure 4. Industrial investment



Source: CBRE Research

Table 1. Key occupier transactions H1 2015

Location	Type	Quarter	Status	Tenant	Size (sq m)
Venlo, Trade Port Noord	Logistics	Q2	Pre-let	Michael Kors	93,000
Moerdijk, Seaport	Logistics	Q2	Pre-let	*Undisclosed*	50,000
Roermond, Roerstreek	Logistics	Q1	Pre-let	Rockwool	45,000
Wijchen, Bijsterhuizen	Logistics	Q2	Existing	Nabuurs	45,000
Barendrecht, Dierenstein	Logistics	Q2	Pre-let	Hagé / The Greenery	40,000
Rotterdam, Distripark Botlek	Logistics	Q1	Existing	Pacorini Metals	36,000
Venlo, Trade Port Noord	Logistics	Q2	Pre-let	DSV Logistics	30,000
Roermond, Roerstreek	Logistics	Q2	Pre-let	UPS	28,000
Tiel, Medel	Logistics	Q1	Existing	H&M	21,000
Breda, IABC	Logistics	Q2	Pre-let	The Greenery / Soft Fruit	20,000

Source: CBRE Research

Table 2. Key investment transactions H1 2015

Location / portfolio	Type	Quarter	Purchaser	Price (€ M)	Size (sq m)
Viking portfolio (NL: 1 asset, Tilburg)	Logistics	Q2	CBRE GI	54.2	82,000
Nationwide portfolio	Multi-let	Q2	M7 Real Estate	48.0	139,000
Breda & Barendrecht, Greenery DC	Logistics	Q2	WDP	46.0	38,000
Oud Gastel & Rijnsburg (2 assets)	Logistics	Q2	LogiCor	42.9	65,000
Zoetermeer, Siemens building	Other	Q1	PingProperties	**40.0*	41,000
Nieuwegein, Het Klooster DC	Logistics	Q1	Prologis	39.1	41,000
Helmond, Helmond DC I & II	Logistics	Q2	Logistis (AEW)	38.6	50,000
Rotterdam, Nippon Express DC	Logistics	Q1	WP Carey	37.5	70,000
Tilburg, Fujifilm DC	Logistics	Q2	WDP	36.0	45,000
Moerdijk, DSV DC	Logistics	Q2	Prologis	28.9	57,000

Source: CBRE Research

*: Estimate, purchase price undisclosed

OUTLOOK

In terms of economic fundamentals, the outlook for the logistics market looks promising. Even though economic output is likely to be temporarily subdued by a drop in consumer confidence following the recent Greek debt crisis, trade growth is set to continue supported by the low euro environment. In a broader sense however, recent developments in Chinese financial markets should be handled with care as they may affect international trade in the medium run.

The demand for logistics space is expected to remain strong throughout 2015, driving further new build activity across the country. On a local level, recent new completions may have a strong impact on vacancy rates. On aggregate however, the impact on vacancy is expected to be fairly limited, mostly thanks to the modest share of speculative developments.

Following the substantial supply of new logistics space, market rents are expected to remain stable over the coming months, despite upward pressure from occupier demand. New build property is already eagerly targeted by investors, while attention is likely to shift towards secondary portfolios given the lack of prime product. The imbalance between investor demand and available product is putting yields under further downward pressure.

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