Netherlands Industrial, H1 2016

New construction is picking up the pace

Logistics take-up -19% y-o-y

Logistics vacancy -21% y-o-y

Prime rent € 55

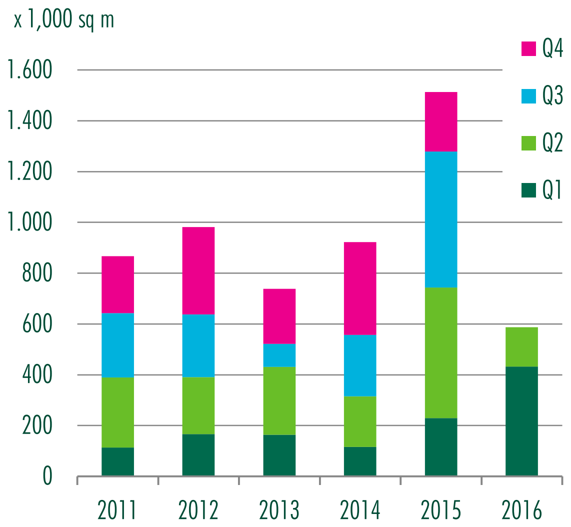
Investment volume +4% y-o-y

Prime yield -55bps y-o-y

HEADLINES

- Occupier demand for logistics space produced a record high Q1 and a surprisingly low Q2
- Net absorption remained positive and logistics vacancy has dropped below 5% for the first time on record
- New logistics development has picked up strongly
- Investment turnover remained stable on an annual basis, reflecting continued investor appetite
- Multi-let light industrial is especially sought after in a strategic bid for city delivery sites
- Prime yields have declined further but appear to be bottoming out

Figure 1. Logistics Take-Up

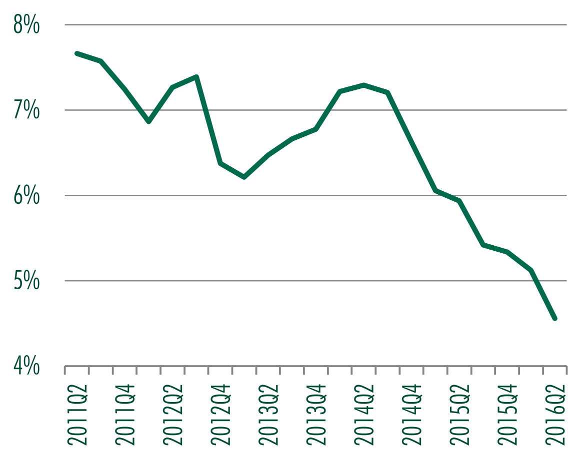


Source: CBRE Research, Q2 2016

The first half of the year delivered two contrasting quarters for logistics take-up with Q1 seeing an absolute record, while Q2 noted a marked drop. Net absorption has been positive for nine consecutive quarters nonetheless, pushing the vacancy rate down to about 4.5%. For modern XXL warehouses or city depots there is basically no current availability, explaining the rapid growth of the development pipeline, which is also seeing a growing share of speculative development (currently some 17%).

Growth in private consumption and the residential markets has also fuelled occupier demand for light industrial assets, but the intricate nature of this sector provides a bigger supply buffer and vacancy rates in the main Dutch multi-let portfolios have remained stable at between 15 and 20%.

Figure 2. Logistics Vacancy Rate



Source: CBRE Research, Q2 2016

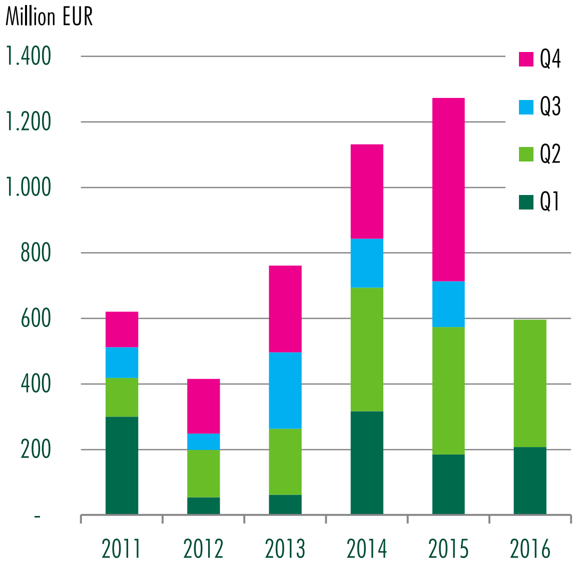
Development activity in combination with declining yields is preventing a rise in market rents in an otherwise tightening market. However, yields appear to be bottoming out, showing only a 10 bps downtick in H1 after strong drops in 2014 and 2015.

The investment market kicked off strongly in H1, producing an even slightly higher figure y-on-y after a very strong second quarter. As usual, logistics assets absorbed 65% of the total turnover, but a surge in multi-let light industrial portfolios traded is worth mentioning. They were acquired by specialised investment managers, mostly with a focus on city operations.

Retail supply chain restructuring and the push for economies of scale are structural foundations for the market, independent of economic sentiment. Retail sales, supported by a solid consumer confidence, are another strong market driver. The political turmoil in Europe poses a risk for the latter element of occupier demand, if it would start to impact consumer confidence negatively.

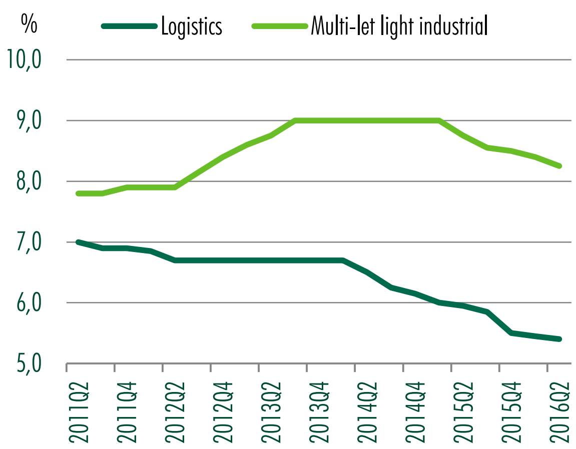
New development is providing a welcome replenishment for a very tight logistics market, although large-scale speculative projects might cause oversupply at a micro level and occupier demand has to be monitored cautiously. As the yield decline is losing speed, prospects for rental growth might reappear, although not likely on the short term.

Figure 3. Industrial Investment



Source: CBRE Research, Q2 2016

Figure 4. Prime Industrial Yields (Net Initial)



Source: CBRE Research, Q2 2016

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