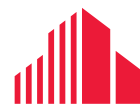


# OUTLOOK 2021

LOGISTICS

FAST FORWARD



CUSHMAN &  
WAKEFIELD



## LOGISTICS OUTLOOK 2021 - FAST FORWARD

It was on Black Friday, last November, when the online retail sector in the Netherlands was pushed to new heights. Although physical shops were still open, the consumer working and shopping from home found it easier than ever to visit the web shops, as 134 million payment orders processed by the IDEAL online payment platform showed. Never before had the number of transactions been so high. Although logistics service providers and parcel delivery firms had prepared themselves for a peak demand in December, there were only some delays with deliveries. The supply chains operated at the limit of their ability, entirely invisible to the impatient consumer

### TOWARDS A NEW RELATIONSHIP BETWEEN INTERMEDIARY SHIPPER AND END CONSUMER

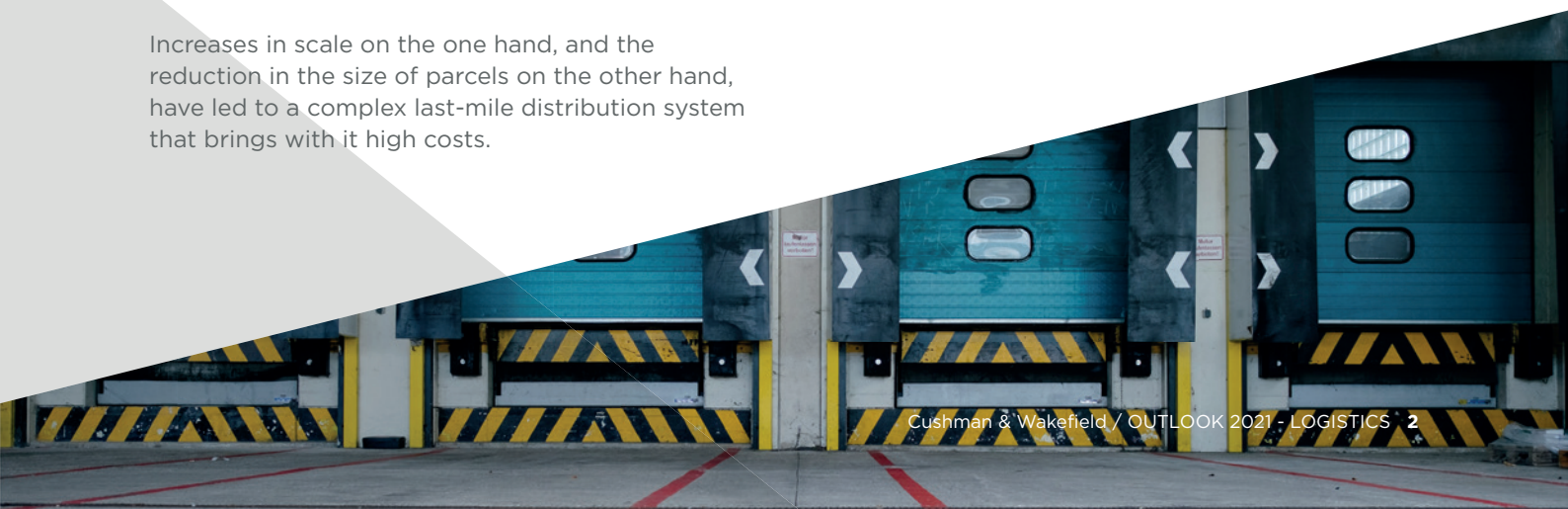
Thanks to the unique combination of a favourable position in Europe, good connections with the hinterland, the presence of two major mainports, knowledge institutions and the expertise widely available in the area of planning and chain management, the Netherlands has developed over the past decades to become the Gateway to Europe. Within the Netherlands, two segments can in fact be distinguished: general cargo from around the world reaches its final destination elsewhere in Europe through the large-scale XXL logistics sector in the Netherlands, while the dense network of smaller scale deliveries to consumers in Northwest Europe is usually managed at a national and regional level. In 2020, 80% of the demand for logistics space was generated by these retailers, particularly for specific products.

New delivery concepts such as Budbee or online suppliers of fresh goods such as Crisp, focusing on the delivery of fresh products direct to the end consumer, demand a much denser distribution network than the XXL logistics sector targeting European shopping centres.

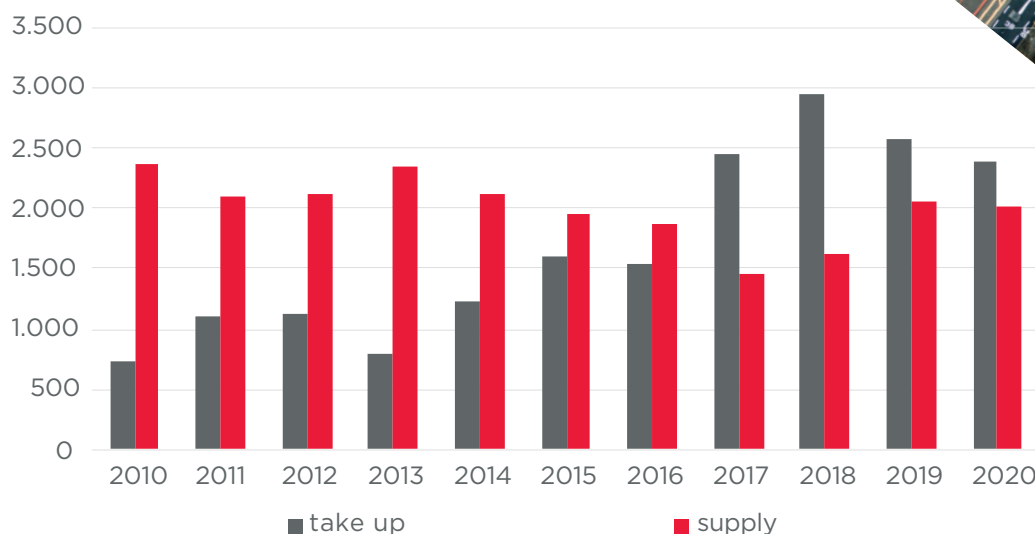
Increases in scale on the one hand, and the reduction in the size of parcels on the other hand, have led to a complex last-mile distribution system that brings with it high costs.

According to [research](#) by Cushman & Wakefield, the share of the shortest section of the total supply chain to the end consumer is roughly 50%, so it is not surprising that logistic service providers have focused or shifted their attention to solutions for more efficient urban logistics. Strategically placed locations in particular in the larger urban regions of the Netherlands are attracting considerable attention as a means of reducing the economic and social costs of the last mile using cross-dock centres. Due to the combination of rising land prices in and around the metropolitan regions and users' ongoing quest for these strategic locations, solutions that were unthinkable in the Netherlands are now clearly coming to the fore. Concepts such as multi-layer warehousing are gradually becoming a new reality in this specific logistics market.

A wide range of solutions is being explored to deal with this new reality. We see alternative solutions being developed in our neighbouring countries. Amazon, for example, serves its customers in Germany through an extensive network of smaller regional distribution centres. So not only do stakeholders seek to establish a new relationship with the consumer, but the route to that consumer offers a variety of scenarios.



## Supply and demand on the market for logistics space larger than 10,000 m<sup>2</sup>



The greater focus on delivering to the end consumer has consequences for the way in which goods are handled. Increasingly complex and faster throughput has made the handling process much more labour-intensive. Even before the COVID pandemic took hold, the emergence of e-commerce was already generating a more complex flow of goods, characterized on the one hand by high-frequency deliveries of small consignments, and on the other hand by a bi-directional character caused by the logistics of returning goods. As a result, distribution centres have grown to become the nerve centres of the supply chain.

These activities have led to all kinds of logistics activity across a broad zone in the west and south of the Netherlands, where the development of new centres would seem not to be confined to the traditional logistics clusters. Shippers in particular want to keep a firm grip on the new reality, where they look for new, alternative solutions.

### OUTLOOK OCCUPIER MARKET

The past two years have been exceptionally strong for logistics property. Before the virus outbreak, the logistics market in 2020 was expected to lag behind previous years due to the PFAS and nitrogen problems and the worldwide trade wars. However, the underlying basis for logistics property in the Netherlands continue to be positive.

The years 2017 and 2018 were particularly strong, while from 2019 onwards a growing scarcity of

supply put a brake on logistics transaction activity in the Netherlands. With a take-up of 2.4 million m<sup>2</sup> in 2020, viewed over the long term this is still a very large volume of transactions. Since virtually no more plots of land are available in the traditional logistics clusters, there is little speculative development at present. More distribution centres will come on the market, though, during the course of 2021. The consequence of these additions is that distribution centres must fulfil ever higher requirements in order to be let successfully. New buildings yet to be completed will be quickly let, while adjacent existing units will remain on the market longer. The general scarcity, however, will mean that these units too will eventually be let.

The pandemic has led to an extraordinary year too for logistics in the Netherlands. More than in other years, growth in the market and associated transport volumes lay in food, electronics and pharma logistics. The trend towards Big, Bigger, Biggest slowed in 2020 and most market activity was to be found in the segment between 20,000 m<sup>2</sup> and 40,000 m<sup>2</sup>, which points to a trend towards a more fine-meshed distribution model.

Activity of large, XXL logistics in the Netherlands is also determined by major, generally Anglo-Saxon, retailers which manage their European retail activities from the Netherlands. Since the pandemic has had such a huge impact precisely in countries such as the United States, new interest was absent last year, since all the attention was focused on managing the domestic markets.

The expectation is that there will be a recovery in this area once vaccination levels in the USA have led to a normalization of its domestic economy.

From the United Kingdom, providers of distribution space in the Netherlands are being swamped by requests for information from British firms, who because of the hard Brexit are looking for somewhere within the European internal market to serve their customers. Although this has been widely reported in the press, the extra demand compared to the total transaction volumes has turned out to be modest. However, because of the confusing nature of the Brexit agreement, it cannot be ruled out that more unforeseen situations will arise during the course of 2021, which will generate greater demand from British and European shippers for business space available in the Netherlands.

The high levels of transaction activity during recent years have produced a substantial scarcity of high-quality distribution centres. In some markets this has caused sharp rent rises, which has particularly affected users who need high-quality distribution space in the short term. Users with a longer time horizon meanwhile have alternatives.

Partly as a result of the development boom in logistics in the Netherlands in recent years, end users of distribution centres are aware of their significant value for property development. When choosing a new location, they adopt an assertive attitude which is at odds with the limited supply of first-class distribution space. Users who are flexible with regard to the time factor will increasingly examine the options for developing their own, purpose-built distribution centres with the assistance of a professional party, whether or not at alternative locations. The profit this generates from the development will often then be invested in automating the business processes within the distribution centre. This development can potentially have a stabilizing effect on the rent

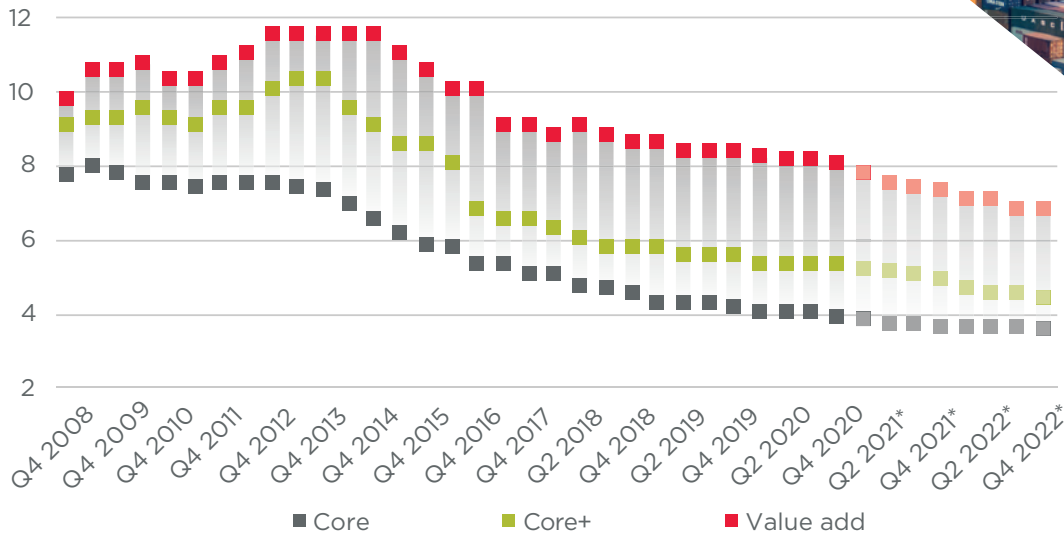
rises in the large logistics centres. The relocation of end users to purpose-built sites may in the longer term have an impact on future demand at the best locations, where it is developers who are now focusing particularly on speculative development of high-quality distribution centres for investors. These developers accept the very low yields because of the attractive fundamentals in the user market of high demand, little supply and a realistic prospect of rising rents.

To summarize, the current development boom is caused by the simultaneous development of property for users and investors, as a result of which the risk of a market bubble is not inconceivable. The persistently high demand among users is exceeding all expectations by far, so that until now every logistics building has found a user. Continual focus on the right combination of location, building and user demand is the best way to anticipate these risks.

The specific trends in the user market in terms of product categories, the development activity outlined above and the general scarcity of distribution centres has led to an expansion of logistics space in the Netherlands. From the traditional hotspots in the west and south of the Netherlands one large logistics zone has been created, from Bleiswijk to 's Heerenberg and from Lelystad to Echt. Driven by the scarcity of land and the tight labour market, both logistics service providers and investors are turning their attention increasingly to emerging distribution locations in the east and north of the country, as trailblazers at locations such as Lelystad, Deventer and Almelo have shown that accessibility at these locations is still very good. It is a direct result of the excellent infrastructure in the Netherlands: barge terminals and roads are of good quality, making it worth considering alternative business locations

## Trends in gross initial yields of distribution centres

in %, top, medium and basic segment  
(purchasing costs payable by the purchaser)



## OUTLOOK INVESTOR MARKET

For some time now, investors in logistics property have been anticipating structural transition processes caused by the emergence of e-commerce. Initial yields that investors are willing to accept for the best logistics property have been falling since 2013, and 2020 was no exception. Around EUR 3 billion was invested in logistics property in 2020, making this asset class of a similar size to the office market. Although coveted by a wide variety of domestic and foreign investors, the investment volume lagged behind that of 2019 by around 25%. Although the segment was broadly in line with the other asset classes, this fall can be largely attributed to the lack of suitable investment property.

The expectation for 2021 is that current activity will be continued, albeit on a smaller scale than previous years. This is the result of an expected decline in the number of new distribution centres, as since 2019 the development pipeline has stalled due to the discussions surrounding the big-box developments in the landscape and obstacles caused by PFAS and nitrogen issues. The COVID pandemic has also been added as an impactful factor since early 2020. From 2021 onwards there will be greater transaction activity, expressed in the number of transactions compared to the expected supply.

The huge scarcity of high-quality logistics property is increasing the willingness of investors to pay for the best Core product. Attention is also shifting to

alternative risk profiles, such as the Core+ and Value Add segment, although in this latter segment the fundamentals regarding the user, or user situation, are being more critically examined, such as the duration of the lease and the solvency of the lessee. The last-mile locations around the major cities can also rely on interest from investors, as these locations are perceived to have great potential for rent growth. Also striking is that if the right conditions are met, very competitive yields can be achieved at secondary locations too.

In combination with persistently high demand, in 2020 the gross initial yield for the best product settled at around 4.0%, which works out at a net initial yield of under 4%. A strong yield compression occurred particularly during the second half of 2020 as the crucial importance of efficient goods distribution became clearly apparent.

For 2021 and beyond, no major changes to this trend of downward pressure on initial yields are expected. In fact, evidence from markets in our neighbouring countries shows that the lower limits for yield compression are difficult to establish, as we can see in Germany where the price level is now around 3.25%. The Core investment products in the Netherlands will also fall to this price level in the coming years. These low yields will occur not only in the traditional cluster areas such as Venlo and Tilburg, but also in less obvious areas in the centre and east of the country.



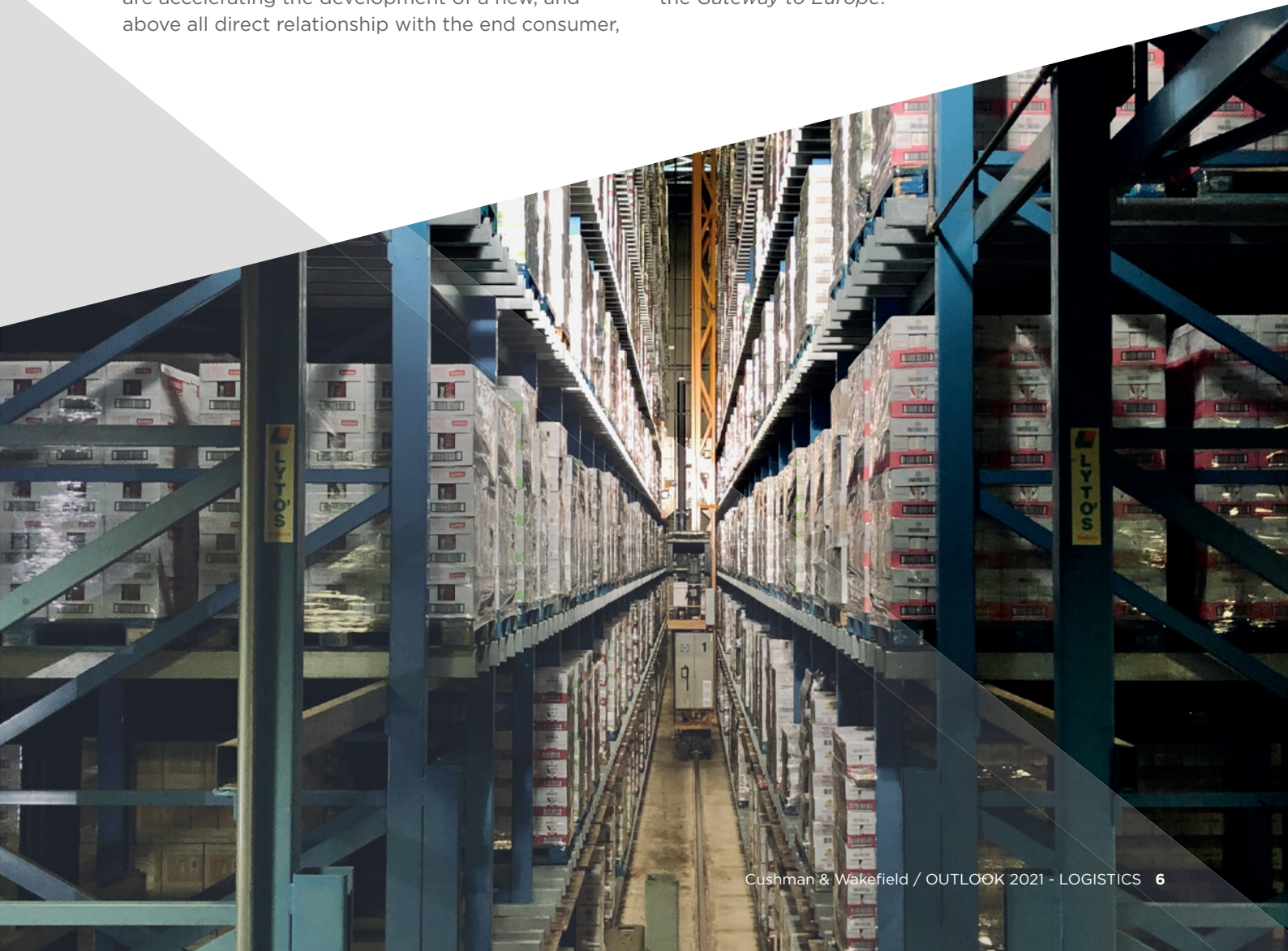
## FAST FORWARD

Unlike earlier recessions, the current crisis cannot be traced back to systematic economic or social flaws. If the virus can be suppressed this year, there is nothing to prevent a rapid economic recovery. It is therefore important to keep an eye on the trends that had already begun before the pandemic. Major structural changes were already underway in the property market, and these have become apparent more rapidly during the COVID period as the Fast Forward button has now been pressed.

Looking behind the scenes, last year was one of extremes for logistics service providers. The COVID outbreak forced major retail markets to shut down for a shorter or longer period, presenting logistics service providers with unprecedented challenges. A number of trends and processes that had been gaining momentum for some time manifested themselves all at the same time. The pandemic meant that shops could not be supplied, while the number of online orders exploded. Shippers are accelerating the development of a new, and above all direct relationship with the end consumer,

because the physical shops have disappeared, albeit temporarily, as a link in the chain. Instead of supplying shops, the accent is shifting towards the end consumer. Although this process had already been underway for some time, the pandemic has pressed the Fast Forward button and drastically accelerated the transition to online shopping.

What's more, the transition is taking place against a background of growing political and economic challenges in the Netherlands. Although the COVID crisis is consuming everyone's attention and the economic consequences for the medium term are yet to crystallize, Dutch producers, traders and consumers are also having to deal with the consequences of Brexit. Although this certainly also offers great opportunities for the logistics market in the short term, the European Commission has calculated that the Dutch economy will experience its adverse effects in the longer term. However, this does not diminish the Dutch proposition as the *Gateway to Europe*.





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