

OUTLOOK

LOGISTICS & INDUSTRIAL 2023



CUSHMAN &
WAKEFIELD

OUTLOOK





BALANCING FUNDAMENTALS AND LIQUIDITY



THE LOGISTICS & INDUSTRIAL MARKET

The continuing popularity of logistics real estate is shown by its large share of total investment volume (33%). As expected, 2022 ended with another historically high volume of investment of EUR 4.6 billion. Demand for logistics real estate is as strong as ever, despite the current tightness in the market and the limitations for new project developments due to the lack shortage of plots, construction materials and lack of administrative support.

Nonetheless, events such as the pandemic, the nitrogen crisis and war on the European continent are bringing about changes in the market for logistics real estate. Whereas this segment initially benefited from the effects of the pandemic, the war in Ukraine has brought new challenges. The fight against inflation using interest-rate hikes is putting upward pressure on the desired initial yields for logistics real estate.

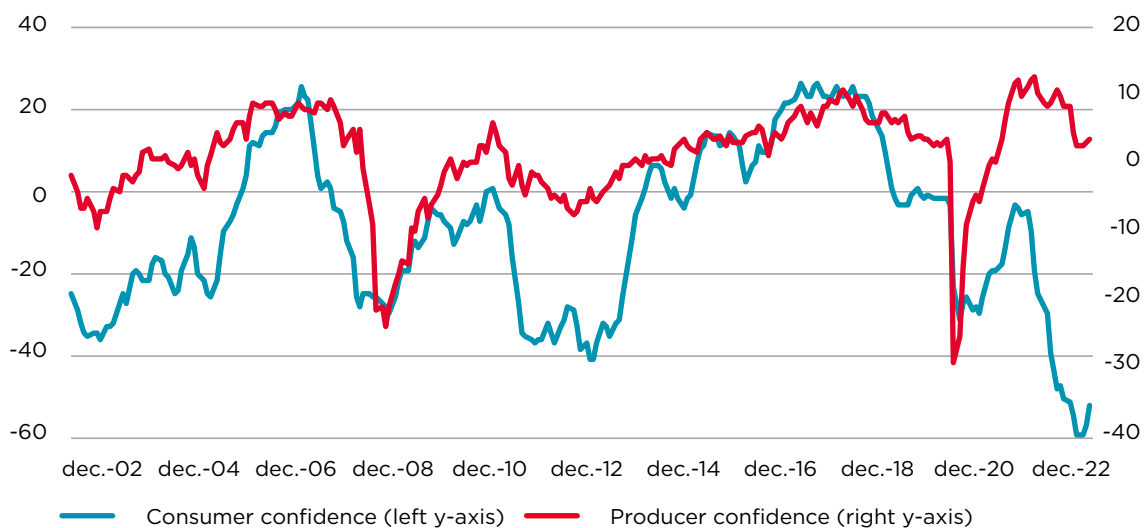
The market for commercial logistics space in the Netherlands is attractive from an international point of view due to its strong fundamentals. High occupancy rates and continuing strong demand for distribution hubs are ensuring robust rental growth. Furthermore, these distribution hubs are located close to high quality infrastructure towards the hinterland. Together with the Netherlands' unique geographical position as the 'Gateway to Europe', this means that the Netherlands can continue to rely on interest from investors and users of logistics real estate.

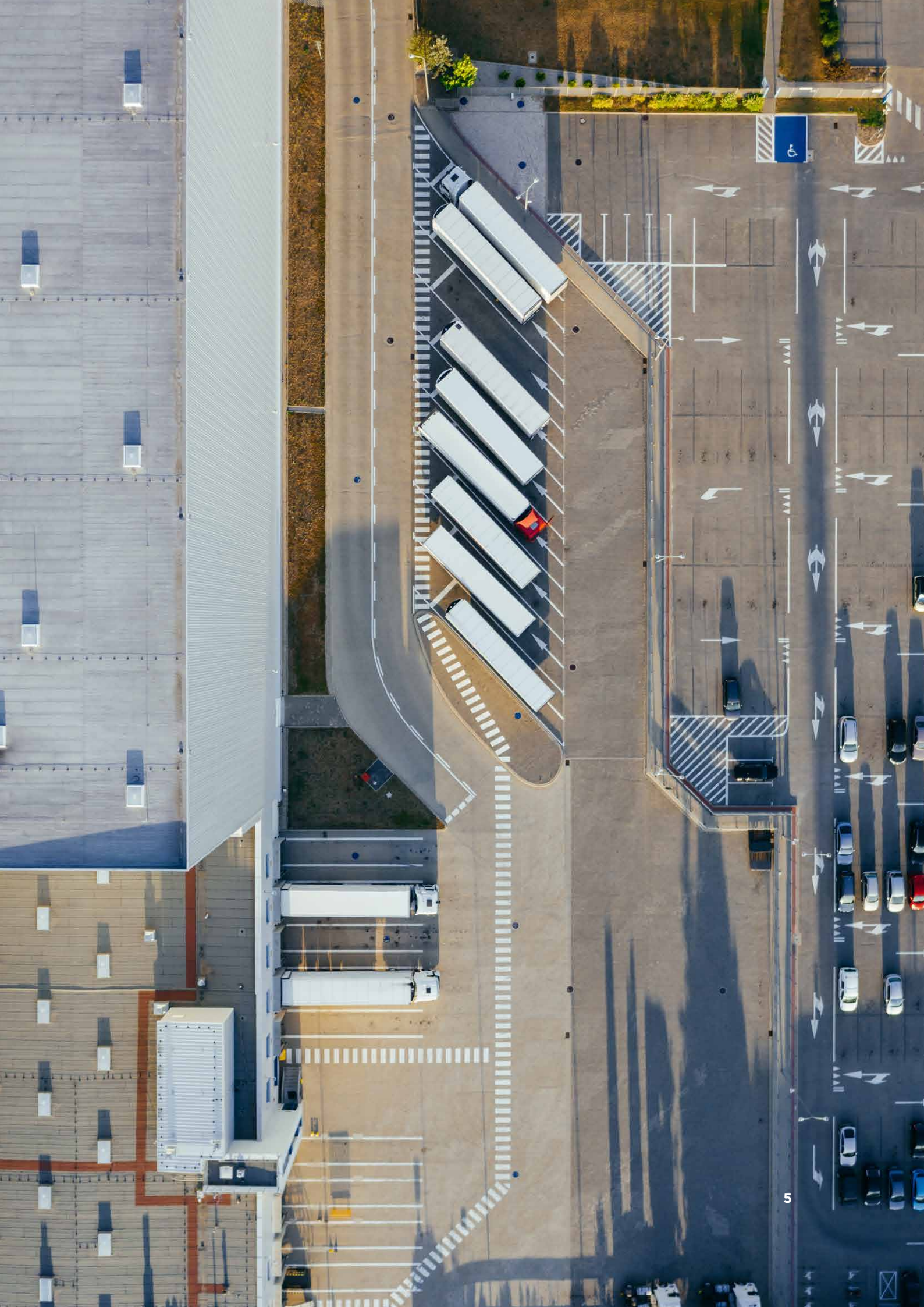
As a result of the continued strong demand for high quality distribution space, investors have been prepared to accept ever lower initial yields in recent years. This has led to gross initial yields for core investments at logistics hot spots of around 3.25% with costs paid by the vendor being registered in 2022. This trend has reversed in recent months due to changes in the economy, with core investments at logistics hot spots currently being registered at gross initial yields of between 4.25% and 4.75% with costs paid by the vendor. While demand for logistics real estate has not declined and there is sufficient capital in the market, investors currently prefer certainty to uncertainty.

Consumer confidence, as measured monthly by Statistics Netherlands, stood at -59 in October and -57 in November. The continuing high confidence in the economic outlook among producers in the Netherlands is thus all the more remarkable. While this is lower than in previous months, its level of +3 in November is still above the long-term average of 1.1. Producers are more positive regarding expected production in the first months of 2023. A majority expect production to be higher, partly due to relatively strong order books. But at the same time, a majority of producers are seeing an increase in inventory of finished product.

Consumer and Producer confidence

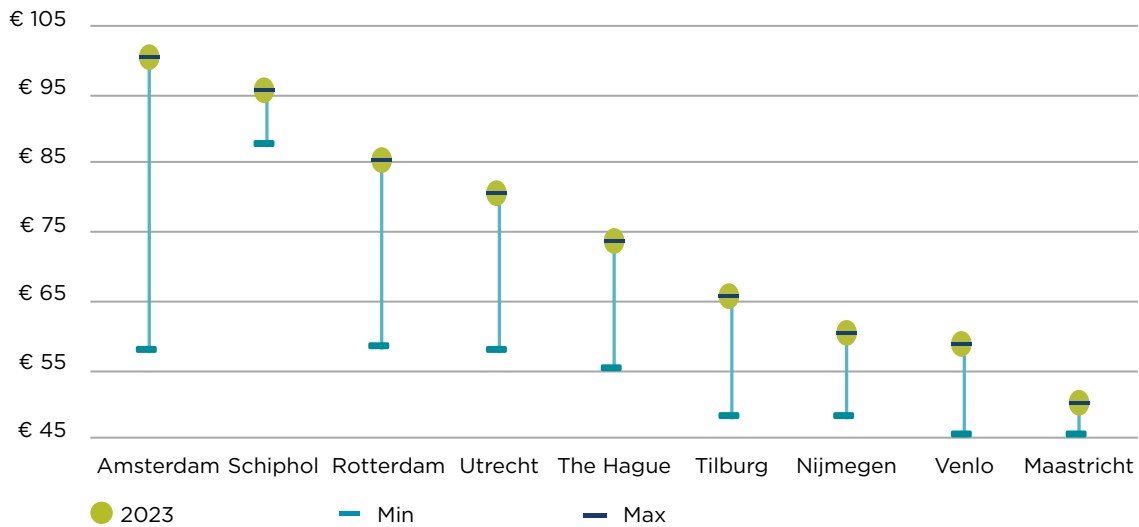
average of component indicators





Prime rental levels logistics - hotspots

in EUR per sq.m per year, min/max past 10-yr.



In 2023 therefore, users will be the central focus for investors. The attitude to purchases of land or new construction projects based on forward funding at risk is becoming increasingly cautious. An additional impediment to new build is also coming from the cancellation of the construction exemption in the Nature Conservation Act as a result of the ruling by the Council of State in November 2022. Since the middle of last year, this exemption meant that obtaining construction permits was relatively straightforward as account no longer had to be taken of nitrogen emissions during the build. Now that the exemption apparently no longer meets the requirements of European environmental protection law, it is again the case that for each new-build project, a survey has to be made of the potential consequences for nitrogen emissions before a permit can be issued. This could lead to less new build and more pressure on existing distribution centres in 2023.

In extension of the nitrogen issue, there is another trend appearing. Sustainability certification, as for instance by means of a BREEAM label, is becoming increasingly important in the market for commercial real estate due to growing interest from the user market. With a sustainability label and other features, investors expect to be able to achieve further increase in rents and discounts on finance rates. And specifically in the value-add segment, other fundamentals such as the lease term are also the subject of critical consideration. Lease terms of 15 or 10 years are still preferred for the long-term cash flow, but investors are increasingly also comfortable with contracts for five years. Tenant solvency, with risks reflected in the price, and location potential are also important. Last-mile locations around cities can rely on continued interest from investors. This market is still actively developing, so that investors can anticipate potential for rent increases, because there is still demand for commercial real estate despite the economic uncertainties. Around 4 million square metres of commercial real estate will have been taken into operation in the entire market for both industrial and commercial space in 2022. This is virtually the same as the volume in 2021.

So there have been no radical changes in take-up in the market for users of logistics and industrial space. The pandemic has accelerated a slow structural trend and has meant that retailers, producers, shippers and logistics services providers have recognized the challenge to ensure supply, maintain inventory and dispatch orders in real time. The war on the European continent has intensified this already existing process. Issues with certainty of delivery, for example for sunflower oil, quickly arose after the invasion. These developments cause businesses to incorporate more storage in their delivery chains to ensure certainty of delivery. In both cases, this led to unprecedented pressure on existing distribution hubs. Now that we have a sharp fall in purchasing power, the pressure on existing distribution hubs will only increase further. Consumers are buying fewer products, meaning that unsold inventory has to be stored in distribution hubs that are already under pressure. In principle, this will lead to increased demand for storage space in 2023. As new-build developments are hindered by higher interest rates and political regulatory pressure, rents will come under further upward pressure.

Dutch property investment markt - Logistics

Gross initial yield on core, core-plus and value add

