OUTLOOK

LOGISTICS & INDUSTRIAL
2023 MID-YEAR UPDATE

CUSHMAN & WAKEFIELD

OUTLOOK

TO BALANCE BETWEEN FOUNDATION AND LIQUIDITY

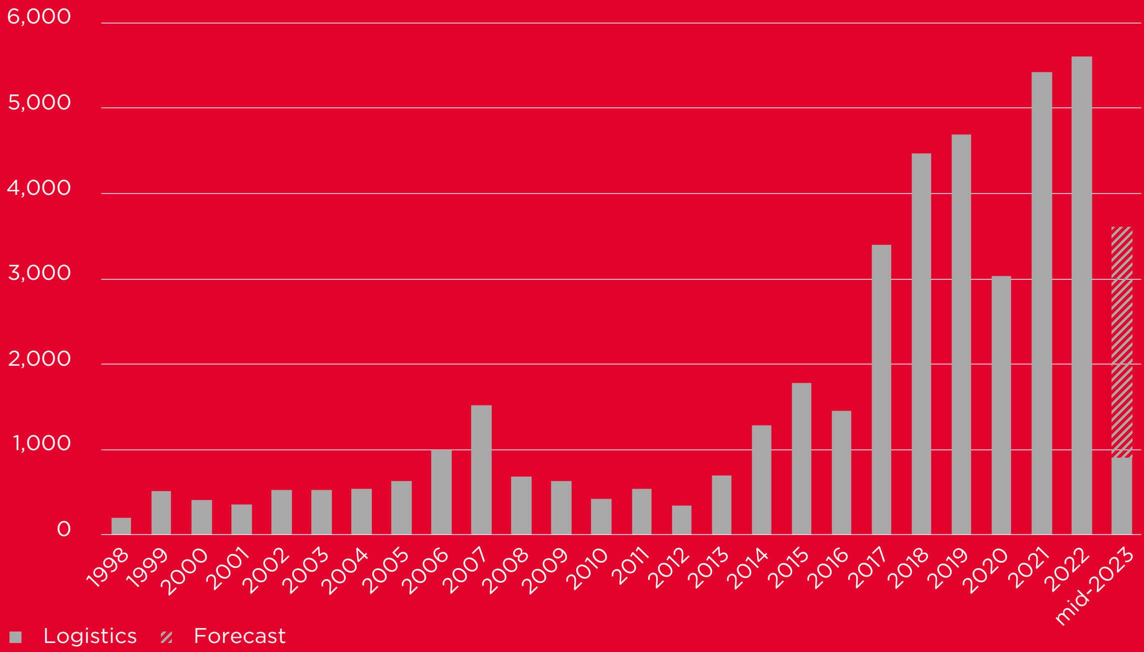
CUSHMAN & WAKEFIELD

INVESTMENT MARKET

The first half of 2023 saw around EUR 800 million invested in commercial real estate, accounting for roughly 30% of total investment volume. Investment volume was thus around 65% lower than in the same period in 2022, when EUR 2.24 billion was invested in this segment. In the first quarter, 67% was invested in logistics real estate and 33% was invested in industrial space. In recent years, the majority of the volume invested in commercial real estate has focused on logistics, with 86% and 87% of total invested volume placed in this segment in 2021 and 2022 respectively.

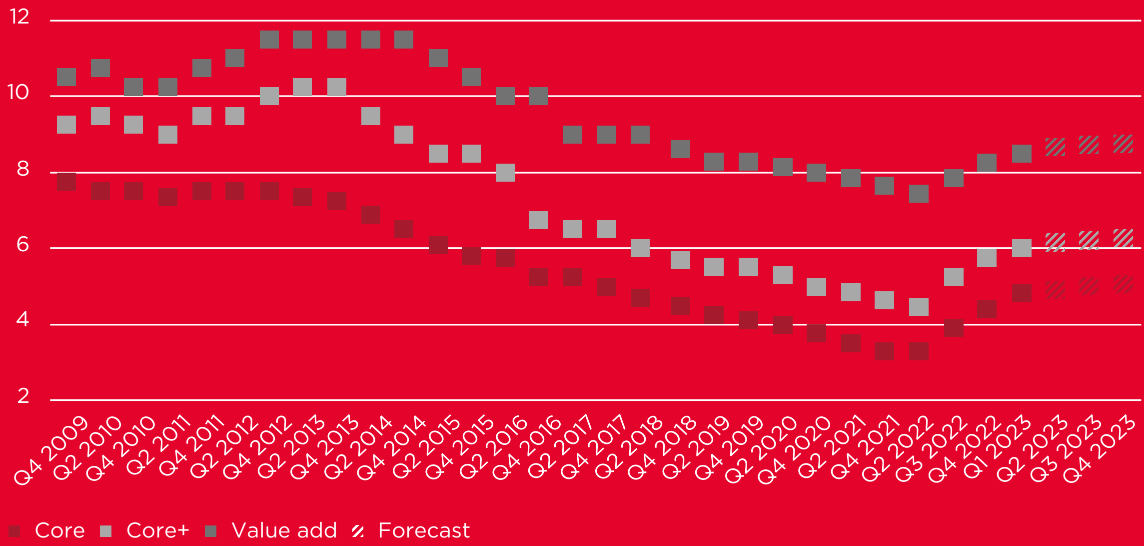
The limited number of transactions in the first half of 2023 points to a continuing imbalance between what sellers are hoping to achieve and what buyers are willing to pay for industrial and logistics real estate. We expect a new balance to emerge in the second half of this year if the uncertainties surrounding the development of interest rates and other factors subside. The popularity of logistics real estate meant that gross initial yields for core investments at logistics hotspots were still at 3.3% in early 2022. The return required has risen proportionally in recent months, mainly due to higher interest rates, so that core investments at logistics hotspots now stand at 4.8%. Compared to last year, demand for logistics real estate has however certainly not declined, and there is still sufficient capital in this market. This demand nonetheless led to fewer transactions, as investors appear to be taking a more cautious stance with respect to the core segment than previously was the case. The core+ and the value-add segments can on the other hand still count on substantial demand as a result of the increase in returns.

The Dutch real estate investment market
Investment volume Industrial & Logistics (in EUR x bln)



Source: Cushman & Wakefield, 2023

Development of gross initial yields - Commercial space
GIY with costs for vendor (%) Core, Core+, and Value add



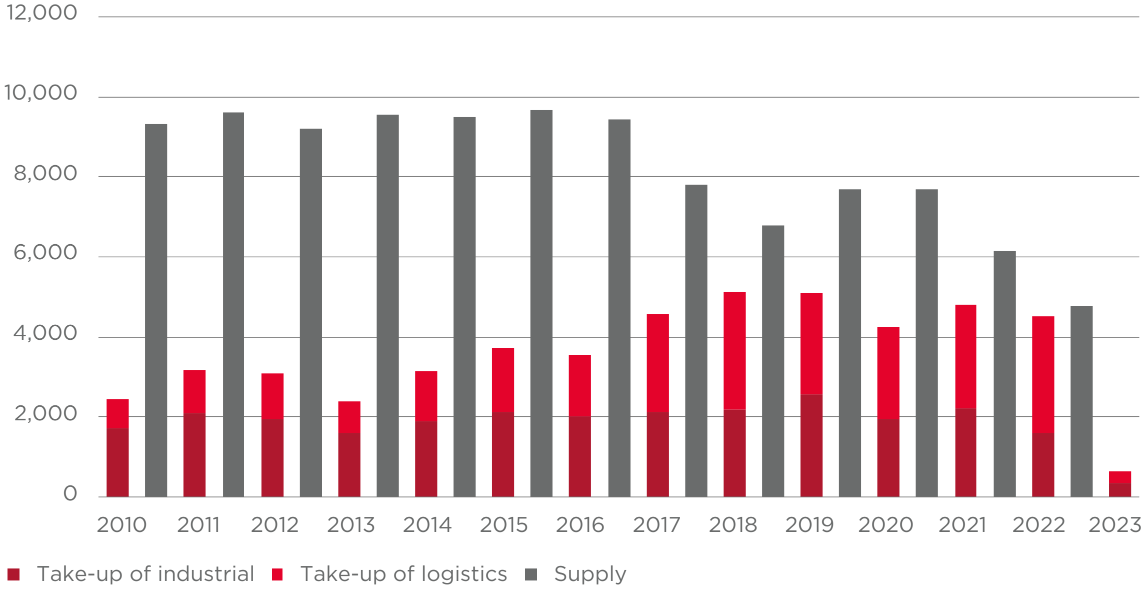
Source: Cushman & Wakefield, 2023

USERS' MARKET

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 demand for distribution space 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.

In the entire market for commercial real estate, both industrial and logistics, approximately 947.000 square metres was taken up in the first half of 2023. Take-up was thus about 14% lower on the same period in 2022, when take-up of commercial space amounted to around 623,600 square metres. There were thus no big changes in total take-up in this market, although small differences are visible. The decrease for logistics premises came to 12%, while within the industrial segment a decrease of 15% was recorded.

Users' market in the Netherlands
Take-up and supply of commercial space by segment (x 1 mln m^2 LFA)



Around 931.000 square metres of logistics real estate was taken into use in the first six months of 2023, compared to 229,500 square metres in the same period in 2022. Although take-up in the market for users of logistics space increased, there are also uncertainties in this segment that could affect the dynamic in the users' market in 2023. Developers are currently in difficult circumstances, so that little new logistics real estate will be added to existing stock. Developers face expensive land holdings, rising construction costs, higher return requirements from investors due to higher funding costs and a heavy political regulatory burden. 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. Partly as a result, only 41% of take-up of logistics in the first three months of 2023 was in new-build. This proportion was 52% and 56% in the whole of 2021 and 2022 respectively.

Besides the fact that development is problematic due to the uncertainties, users are currently facing high rents and rent increases that are rising in line with the CPI at a time when this is not subject to limits. Whether higher rents should be passed on to consumers depends on the users. The question however is how consumers will react to any price increases when they have seen a 2.7% decline in their purchasing power in 2022 and can expect a further 0.2% decline in 2023.

These developments are leading to a new focus on the basic criteria for logistics real estate: the quality of the real estate itself and the location in terms of access and multi-modality must be good. As a result, the logistics hotspots are back from never having been away. These concentration points in the logistics corridor between Rotterdam and Venlo can continue to count on users, while the secondary areas are turning (or returning) to industrial. It is also notable that there is again room in this market for new built-to-suit developments.

With 909.000 square metres in the first half of 2023, less industrial real estate was taken into use than a year earlier (-15%), when 393,600 square metres was taken into use. There was already a decline in take-up visible at the end of 2022. Approximately 1.6 million square metres of industrial real estate was taken into use in the whole of 2022. This was a decline on 2021, when take-up amounted to around 2.2 million square metres. The lower take-up was due to lack of supply (also because of the nitrogen rules) and the resulting sharp increase in rents. Compared to 2021, when there was around 4.38 million square metres of commercial real estate on offer, available space at year-end 2022 amounted to only 3.2 million square metres.