

Quick Stats

	Change from	
	H2 08	H1 08
Take-up	↓	↓
Rent	↔	↑
Yield	↑	↑

Hot Topics

- Continuing strong demand for bulk storage space
- Regional supply differences
- Split rental development
- Widening gap between prime and secondary yields

OVERVIEW

• Persistently strong demand for commodity storage space

With most commodity markets in contango, traders continue to look for space to store the goods that have been hedged with higher futures and have to be delivered in a later stage. Increasingly, standard logistics space is used for this purpose. The phenomenon mostly occurs in the large seaports, most notably Rotterdam.

• Increasing regional differences in supply

Although general vacancy of prime logistics space is still low, the recent completion of speculative projects started before crisis outbreak has led to oversupply in some areas, most notably in North Limburg and West Brabant.

• Split rental development

Whereas developers of new schemes, which are currently all prelet or built-to-suit, are forced to ask higher rents in order to maintain a profit margin, pressure is bearing down on rents of existing property. This also applies to recently delivered projects, for which the signing of a tenant is the most urgent need.

• Widening gap between prime and secondary yields

Prime yields slightly rose further in the first six months and appear to be bottoming out. However, yields of subprime distribution space are moving out further and have meanwhile reached double digits in many cases.

CARGO FLOWS

Global cargo rates, which are a prime indicator for the volume of goods entering the Dutch mainports and thus for the demand for distribution space in the Netherlands, are showing a mixed picture. The rates for bulk seafreight hit the bottom at the end of 2008, and have slowly been recovering since then, indicating a rising demand for commodities, although it should be noted that a large volume is still stored afterwards. However, rates for container freight are still falling, which means the flow of finished or semi-finished products is still suffering from lower consumer and investor demand.

Dutch retail turnover, the prime trigger for national distribution flows, declined by 4% in the first four months of the year. There was, however, still a strong dichotomy visible between the food and non-food sectors. Turnover in the food sector increased by 2.2%; for supermarkets this was even 3.4%. It should be noted, though, that this growth was completely due to price increase, as the turnover volume also fell in the food sector. The turnover change in the non-food sector showed a strong decline in the first four months at -6.1% year-on-year.

The lower demand for goods caused transport activity to decline considerably in the first months of the year. The airfreight sector has doubtlessly suffered hardest: according to recent figures, turnover in the first quarter saw a year-on-year decline of no less than 24%. Although less severe, water transport witnessed a strong decline as well: turnover for inland waterway transport fell by 15%, sea transport turnover fell by 14%. This corresponds with the latest figures of the Port of Rotterdam, that saw transshipment decline by 13% in the first half of the year.

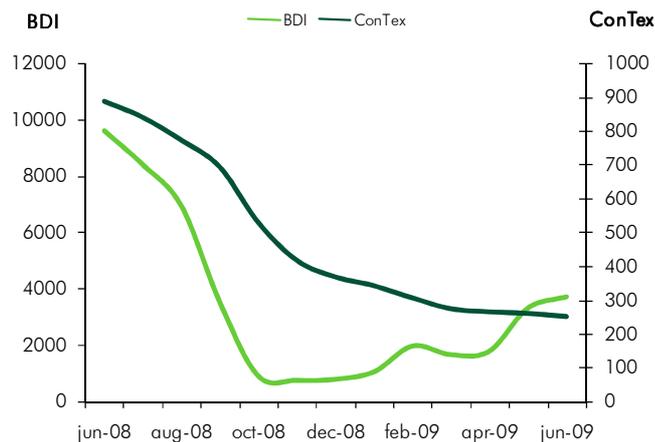
TAKE-UP

As expected, take-up of logistics space fell in the first six months of the year, although the decline remained limited and figures were better than expected. In total, some 300,000 sq m of distribution space found a new user, which is about 30% less than in the first half of 2008. Demand was highest in Rotterdam, where take-up was again fuelled by demand for bulk storage space. This type of demand has supported the market in the Dutch seaports for some months now. As most commodity markets are in contango, i.e. future prices are higher than the current spot price, it is profitable to buy commodities, sell futures and store the goods for future delivery. As a result, demand for storage capacity is buoyant. After the new Commodity Park in Rotterdam Europoort was filled up rapidly at the end of 2008, companies such as Pacorini, Henry Bath and Steinweg Handelsveem were again active in the first half of this year, leasing a total of 37,500 sq m of logistics space in the port, to be used as commodity storage.

The port of Amsterdam also profited from a strong demand, although it was more oriented to container transshipment than to bulk storage in the first half of the year. The new Districenter Afrikahaven welcomed two new occupiers, with Ter Haak Group, who is operating its own terminal in the vicinity, and Kintetsu World Express together taking up some 26,500 sq m in the project, which is still under construction.

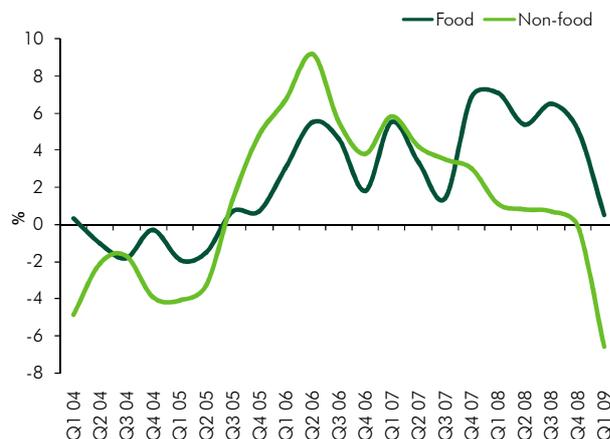
A second trend supporting the Dutch logistics market is logistics service providers (LSPs) consolidating different operations into a new, large-scale distribution centre, leaving behind several smaller and older sites in the process. This trend results in substantial gross take-up figures, although net absorption is in fact zero or negative. It does, however, maintain the scarcity of modern distribution space in the Netherlands. The largest such deal in the first half year was recorded in Tilburg, the largest inland logistics hub in the Netherlands. Here, Rhenus Contract Logistics signed for 34,600 sq m in the new development at Ledebouerstraat on the industrial estate Kraaiven. Worth mentioning was also the take-up of 17,000 sq m by TNT Fashion Logistics in the eastern city of Enschede, which, together with the neighbouring town of Oldenzaal, accommodates a significant fashion logistics cluster.

Baltic Dry (dry bulk) & ConTex (container) Seafreight Rate Indices



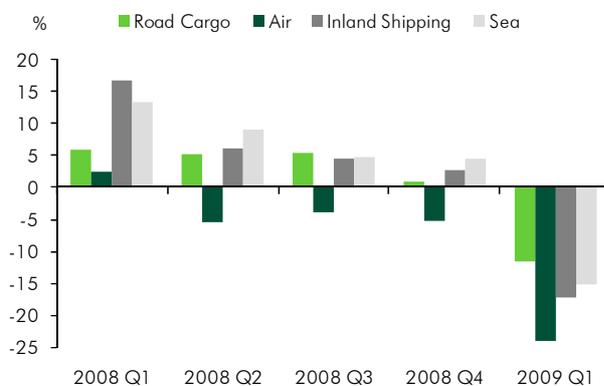
Source: Baltic Exchange & Hamburg Shipbroker's Association

Turnover Growth Retail Sector



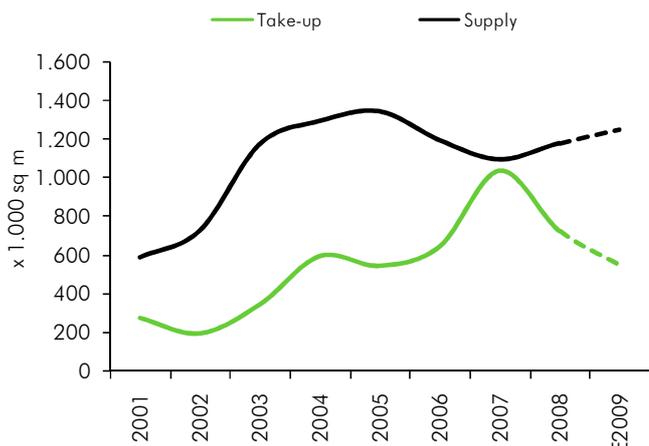
Source: Statistics Netherlands

Dutch Transport Turnover Growth



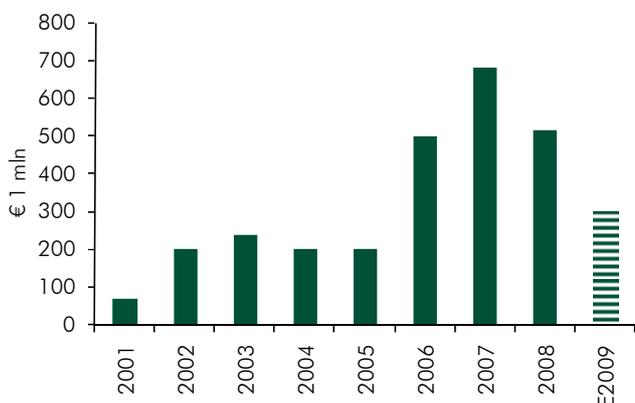
Source: Statistics Netherlands

Logistics Take-up and Supply



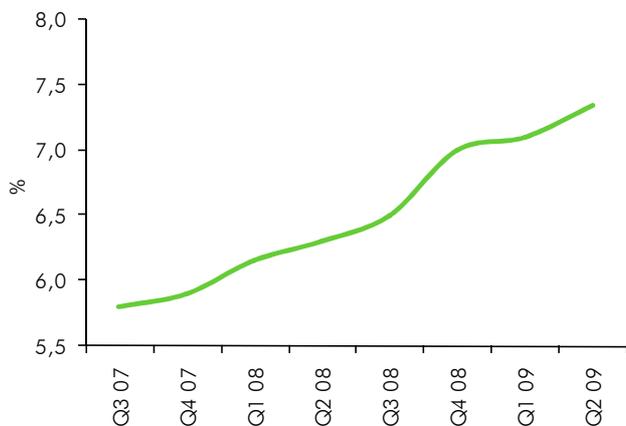
Source: CB Richard Ellis

Logistics Investment Volume



Source: CB Richard Ellis

Prime Net Initial Yield



Source: CB Richard Ellis

SUPPLY

As demand stagnated, the total supply of distribution space increased further in the first half of the year. However, as the development of new, speculative schemes has come to a virtual standstill, empty additions to the stock are minimal, which puts a break on rapid vacancy increases. The Dutch logistics market in general is thus not suffering from oversupply. However, regional differences do occur and are becoming stronger. Areas where a significant volume of speculative development was started just before crisis outbreak are now coping with an oversupply of modern logistics property. This is most clearly visible in Venlo, which has seen abundant development activity and now has to deal with a supply of modern distribution space of about 90,000 sq m, resulting in a vacancy rate that has exceeded the 10% mark. West-Brabant is another region with a number of recently delivered speculative projects, although they are more spread over the different hubs in the region. Nonetheless, recent completions in Breda, Roosendaal and Bergen op Zoom have pushed up availability in this region too.

It should be noted that the pipeline of logistics projects has dried up rapidly, and new construction is only started once a tenant is signed. The most prominent development plan is designed for the town of Oosterhout in West-Brabant, where Prologis is about to start with the first 51,500-sq m phase of a new distribution park.

RENTS

A striking feature of the market in 2008 was the fact that prime rents rose, while demand was declining. With rapidly falling property values, developers were forced to increase their asking rents in order to maintain a profit margin. Although the flow of speculative projects has dried up in the first months of 2009, the mechanism is still working.

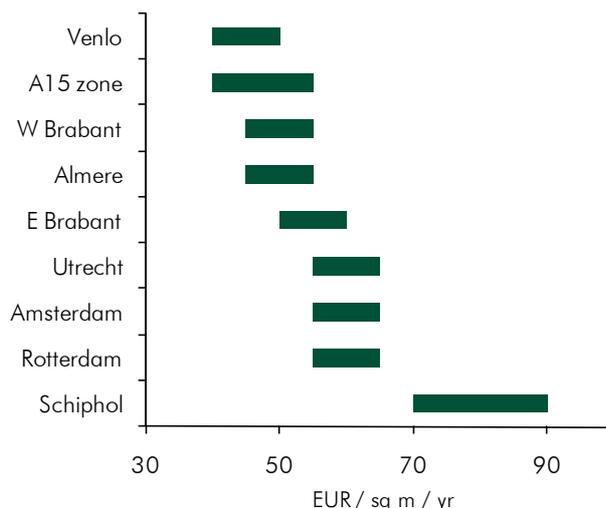
At the same time, however, existing property is facing a tougher competition for tenants. As a result, a split development is visible in the market: developers of new schemes are forced to ask higher rents for their projects, whereas rents for existing property, including recently completed speculative projects, are under downward pressure, because the signing of a tenant is the most urgent need for the owner.

INVESTMENT

Whereas the rental market performed better than expected, investment turnover fell strongly in the first six months of the year. A total sum of merely € 184 million was recorded, consisting of only a limited number of deals. This is less than half of the volume registered in the first six months of 2008. The most important transaction was the sale of seven Prologis sites in Germany and the Netherlands to fund manager AEW Europe. The three Dutch sites are located in Bergen op Zoom (West Brabant), Haafden (A15 zone) and Rotterdam.

In the light of the recent price decrease, many owners prefer to stick to their assets, while buyers are specifically targeting the top of the market. The result of this thin market was a further yield rise in the first six months, albeit less strongly than in 2008. Prime (net) initial yields moved up by approx. 40 bp in the first six months of the year, to reach a level of around 7.35% (approx. 8.5% gross, excl. purchasing costs). However, this is the absolute prime yield level in the market, where a widening gap between prime and secondary property is forming. Distribution sites that are less favourably located, equipped and let not seldom note double-digit gross initial yields of 10 to 11%.

Logistics Market Rents



Source: CB Richard Ellis

MAJOR INVESTMENT DEALS 2009 H1

	PURCHASER	SIZE (sq m)	€ MILLION
Prologis portfolio; 3 sites	AEW Europe	127,000	66.3
Bergen op Zoom, Leeghwaterweg	AXA REIM	44,500	27.8
Veenendaal, Het Arsenaal	ProDelta	45,000	21.0
Born, Born Car Centre (partially)	Neddex	37,000	17.3
Zwolle, Mindenstraat	Eurocommerce	26,000	17.0

MAJOR WAREHOUSE TAKE-UP 2009 H1

	TYPE	STATUS	TENANT/USER	SIZE (sq m)
Tilburg, Kraaiven	Distribution Centre	New	Rhenus	34,625
Tiel, Kellen	Distribution Centre	New	Intergamma	24,500
Amsterdam Atlaspark, Districenter Afrikahaven	Distribution Campus	New	Ter Haak Group	20,000
Venlo, Trade Port West	Addition	New	Geodis	20,000
Rotterdam, Maasvlakte	Distribution Centre	Second hand	<bulk storage>	19,500

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OUTLOOK

The general market picture is not expected to change in the remainder of 2009. Commodity storage – mostly in the seaports – and consolidation into new, large-scale sites on strategic locations will remain the drivers behind take-up of logistics space in the months to come. A genuine market upturn is only to be expected once general goods distribution recovers in the wake of an economic revival on the European continent. The earliest predictions for such a market recovery are mid-2010.

A positive feature of the current market situation is the fact that virtually no new speculative development is started, which means that prime logistics property remains scarce, although local imbalances are likely to persist. Nonetheless, the supply of outdated sites on less accessible locations will gradually rise, and this type of property is increasingly subject to redevelopment plans, which are, sadly enough, difficult to carry out in the current climate.

Rental development will see a continuing split development: higher rents for new projects (prelet or built to suit), while pressure is bearing down on rents for vacant property (both old and new).



The vast Ricoh distribution centre in Bergen op Zoom (West-Brabant) was part of the Prologis portfolio sold to AEW Europe in the first half of 2009.

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