

Quick Stats

	Change from	
	JUN 09	DEC 08
Take-up	↓	↓
Prime Rent	↓	↓
Prime Yield	↔	↑

Hot Topics

- Sharp rise in supply, but strong regional differences
- Vacancy-ridden hubs also show highest take-up
- Investment market remains largely deprived of loan capital
- Logistics property market likely the first to recover

OVERVIEW

• Hesitant recovery of world trade and cargo throughput

The second half of the year saw a recovery in world trade and cargo throughput, which, however, lost pace in the last quarter. This reflects the fact that much of the initial growth in cargo flows is caused by the depletion of empty stocks.

• Regionalized markets which are either tenant- or landlord-dominated

Availability has risen strongly in 2009, particularly in those locations where speculative schemes were completed since the crisis. This mainly concerns hubs in the south of the country. Here, landlords are forced to make concessions and lower their rents in order to attract tenants. Other locations, however, are still facing a relatively tight market, obstructing operations seeking a suitable warehouse.

• Thin investment market focusing on long leases

Prime yields rose slightly further in the first half of the year and appear to have bottomed out in the second. Investment activity is, however, mainly concerning prime distribution space with long leases. This is also the only category for which loan capital is available.

CARGO FLOWS

After having bottomed out in the second quarter, global trade flows started to recover in the second half of the year. The third quarter saw a quarter-on-quarter growth of 4.3% in world trade, during which particularly the month of September witnessed an unprecedented rise of 5.4%. Trade growth waned again in October and November, though, reflecting the fact that much of the initial recovery has been caused by the depletion of empty stocks and less to a general demand boost. All in all, trade levels are still 12% below their peak in April 2008, resulting in subdued demand for distribution space.

In the Netherlands, the airfreight sector was hit hardest, which is no surprise as 2009 was recently coined as 'worst year ever' for the aviation industry. Schiphol Airport saw air cargo transshipment decline by no less than 18% last year, to which should be added that the decline already started in 2008. In this case too, recovery started in the summer and monthly volumes gradually crept up, particularly in the last months of the year. November saw about 129,000 tonnes handled compared to only 90,800 tonnes in January; but in December throughput dipped again to 118,500 tonnes. The impact for the Port of Rotterdam, Europe's main gateway, was marked but less severe. Total throughput in 2009 fell by 8.5%, of which general cargo took a blow of 8% and container throughput of 6%. Strikingly, though, the handling of mineral oil products witnessed a sharp increase of a stunning 23%.

Dutch retail turnover, the prime trigger for national distribution flows, declined by 5.1% from January until December. As prices virtually stabilized, the turnover volume was mainly responsible for the decline. It should be noted that since the end of 2007 a strong dichotomy is visible between the food and non-food sectors. Turnover in the food sector actually increased by 0.7% in the first eleven months; for supermarkets this was even 1.5%. This growth was completely due to price increase,

however, as the goods volume also fell in the food sector. Moreover, the decline accelerated in the last months of the year, indicating that most of the retail sector is still in decline and cargo demand from retailers will remain subdued well into 2010.

TAKE-UP

Take-up of logistics space fell by approximately 15% in 2009 to a total of some 615,000 sq m. This is roughly the same level as recorded in the pre-boom years of 2004 and 2005. A rather alarming feature of 2009 was the fact that the first half showed significantly more activity than the second, and the last quarter was actually the most quiet one. The higher take-up level of the first months was mainly due to demand for commodity storage in the port of Rotterdam, a demand wave that already started late 2008. It was caused by a lower end-user need for commodities and a subsequent demand for storage facilities in the port. In the second half of the year, the wave abated and total take-up figures declined correspondingly.

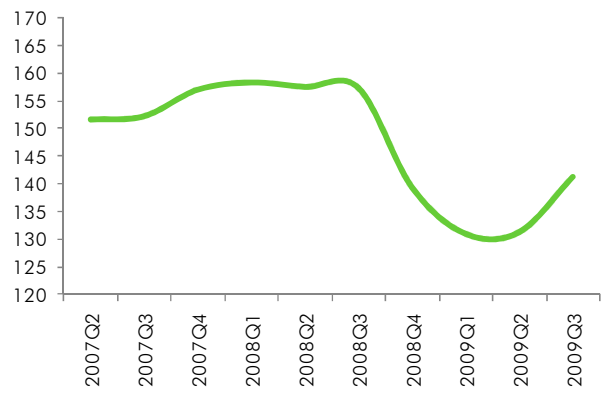
In general, most 2009 demand for distribution space resulted from the relocation and consolidation of existing logistics operations into a new, modern warehouse. It was particularly the province of Noord-Brabant that saw a number of such deals, often large in scale. The most prominent was the announced consolidation of the European operations of Hi Logistics (the distributor of LG Electronics) into a new distribution scheme in the West-Brabant hub of Oosterhout. ProLogis is currently developing a distribution campus here, of which the first 51,500-sq m phase is allocated to Hi Logistics. Another prominent example was the lease of 34,500 sq m by Rhenus Logistics in a speculatively developed distribution warehouse in Tilburg. As a consequence, Oosterhout and Tilburg were the hubs with last year's largest take-up volumes, followed by the seaports of Rotterdam and Amsterdam. In the latter, it was mainly the new Districenter Afrikahaven in Atlaspark that welcomed new tenants.

A striking feature of the market last year was that those hubs where large-scale, speculative schemes were recently completed or commenced have also shown most market activity. A price has been paid for this mobility, however, as will be pointed out in the following section.

SUPPLY

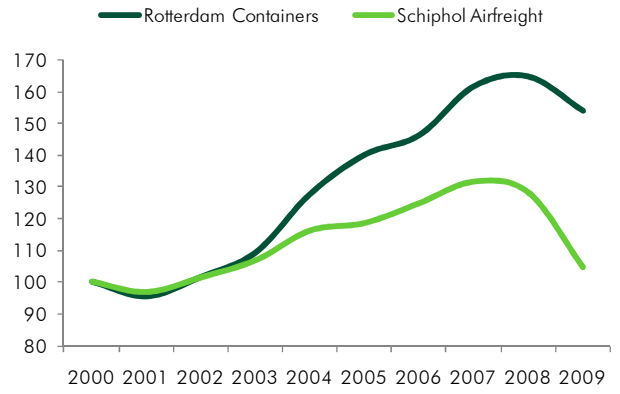
The availability of distribution space in the Netherlands has surged in 2009 to a total volume at year end of 1.5 million sq m. This is a year-on-year increase of nearly 30%.

World Trade Index (2001=100)



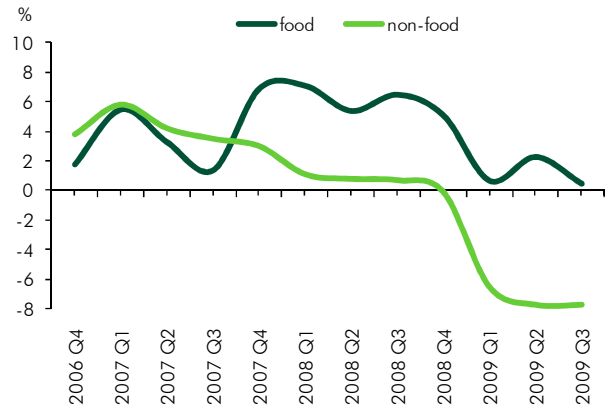
Source: Statistics Netherlands

Throughput Index Dutch Mainports (2000=100)



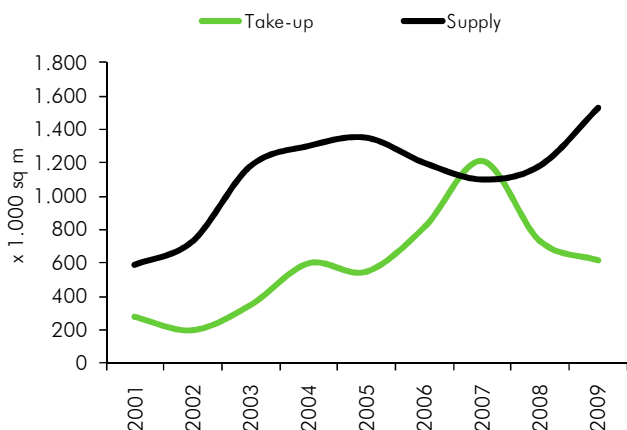
Source: Port of Rotterdam & Schiphol Group

Dutch Retail Turnover Growth



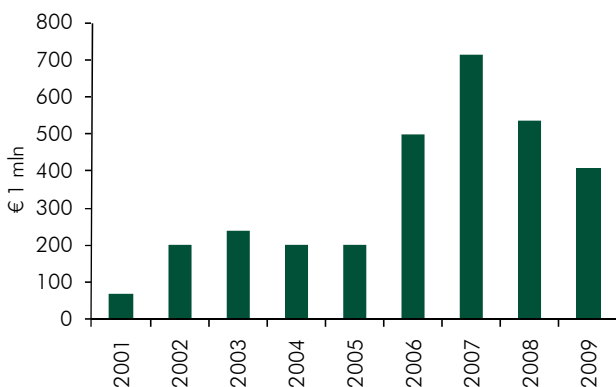
Source: Statistics Netherlands

Logistics Take-up and Supply



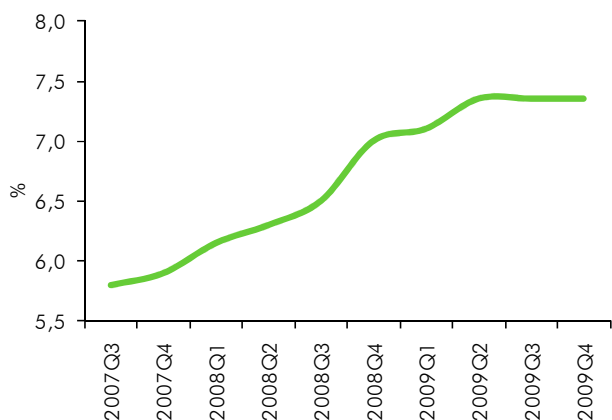
Source: CB Richard Ellis

Logistics Investment Volume



Source: CB Richard Ellis

Prime Net Initial Yield



Source: CB Richard Ellis

The fierce increase in supply is a direct result of the tough times experienced in the logistics sector, which had to cope with strongly reduced throughput figures and a subsequent loss of operations.

It should be noted that strong regional differences have been built up in the course of the year. Vacancy has particularly struck the hubs where speculative construction schemes were set up well into 2008. It is in those hubs, mostly located in the south of the country, where a steady flow of vacant completions continued throughout the crisis. Notable examples include Venlo and the West-Brabant hubs of Bergen op Zoom, Roosendaal and Breda. But also Tilburg, a traditionally strong market, is currently suffering from high supply rates due to a combination of recent completions and the loss of large-scale operations, such as the European distribution centre of Epson. Strikingly, these southern hubs have also seen the highest take-up levels last years. This shows that there is an effective demand for new distribution warehouses, if the choice is made available. The flip side of the coin is, of course, a substantial vacancy, also in non-obsolete buildings.

Hubs where new construction has been modest are still experiencing a tight market with hardly any vacancy and a low mobility. Examples of these are mostly to be found in the centre of the country, as well as along the A2 motorway, with Eindhoven and Utrecht being prominent examples. Vacancy in the mainport of Rotterdam is also still modest. Here, an oversupply of distribution space has been prevented by the high demand for commodity storage space. In a sense, one could speak of "improper use" of distribution space in the port, or even of hidden vacancy. Immediate vacancy is higher in the mainports of Amsterdam and Schiphol Airport. The completion of the first phase of the Fokker Logistics Park coincided with an unprecedented decline in airfreight throughput.

Speculative development has come to a nationwide halt at the moment, implicating that new additions to the stock are all built-to-suit. This puts a break on a further growth in supply. The continuous upgrading and consolidation stream also implicates that vacancy will be more and more concentrated in older, suboptimal distribution warehouses.

RENTS

The split development in the market has had a profound impact on the market rents of distribution warehouses. In hubs with a large availability, landlords are facing stiff competition and tenants usually have the choice out of several options. This is reflected in a higher mobility, as explained in the previous section, but also in lower asking rents.

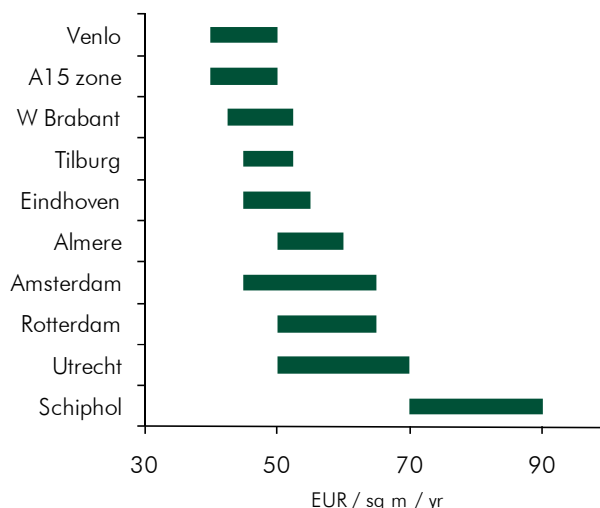
In hubs where tight market conditions prevail, on the other hand, it might well be that a tenant seeking a specific warehouse solution has got hardly any alternatives available, which inevitably results in a higher asking rent.

In general, prime rents fell slightly in a number of southern hubs (Venlo, West-Brabant) but largely remained stable otherwise. One should bear in mind, though, that the level of incentives has risen also in the logistics sector. The average transaction rent level of 2009 declined, but this was partly due to reduced take-up in locations with high rent levels, such as Schiphol Airport. Rents for older property have suffered most and in many cases have fallen below the € 40 per sq m per year mark.

INVESTMENT

Whereas the rental market performed better than expected, investment turnover slid away further in 2009. A few large-scale deals in the last quarter of the year prevented a virtual freezing of the investment market, but nonetheless the turnover volume fell by some 20% to a total of nearly € 420 million. The most important transaction of the year was the sale of seven ProLogis European Properties sites in Germany and the Netherlands to fund manager AEW Europe.

Logistics Market Rents



Source: CB Richard Ellis

MAJOR LOGISTICS INVESTMENT DEALS 2009

	PURCHASER	SIZE (sq m)	€ MILLION
ProLogis (PEPR) portfolio; 3 sites	AEW Europe	127,000	66.3
Waalwijk, Haven (Van Hilststraat)	Deka Immobilien	56,550	42.0
Tiel, Medel (Het Eek)	PME Pension Fund	43,650	38.6
Venray, De Blakt (Nobelstraat)	Deka Immobilien	40,000	38.4
Roosendaal, Borchwerf (Klompelhoefke)	Commerz Real Investments	44,000	31.9

MAJOR LOGISTICS TAKE-UP 2009

	TYPE	STATUS	TENANT/USER	SIZE (sq m)
Oosterhout, Weststad	Distribution Campus	New	Hi Logistics	51,500
Tilburg, Kraaiven	Distribution Centre	New	Rhenus	34,625
Oosterhout, Weststad	Distribution Centre	Second Hand	Lidl	33,385
Tiel, Kellen	Distribution Centre	New	Intergamma	24,500
Amsterdam Atlaspark, Districenter Afrikahaven	Distribution Campus	New	Ter Haak Group	20,000

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The three Dutch sites are located in Bergen op Zoom (West Brabant), Haafden (A15 zone) and Rotterdam. Large scale single-asset deals mostly concerned new schemes in the south of the country that were sold to German open- and closed-ended funds. Examples include the new distribution centres of Syncreon in Waalwijk and Flextronics in Venray, both sold to Deka Immobilien, as well as the site of De Rooy Warehousing in Roosendaal which was acquired by Commerz Real.

The logistics market in particular is suffering from the fact that lenders are risk-averse and are basically only willing to finance assets with long remaining lease terms, which is a rarity in the logistics sector. Virtually all current buyers are therefore equity buyers, mostly German open- or closed-ended funds and private investors. As the logistics sector has never been overly financed, not even in the boom years and certainly not when compared to other real estate classes (offices), cases of distressed portfolios are rare. The main sales in 2009 came from developers who secured a tenant for their project, as well as from corporate sales and sale & leasebacks. The net result is a thin market which is focused on the well-let prime segment.

OUTLOOK

The logistics sector was one of the first to receive strong blows from the crisis, but it is also likely to be one of the first to recover. Demand for distribution space will inevitably rise in the wake of a recovering economy and growing trade volumes. Combined with the continuing upgrading and consolidation trend in the Netherlands, the vacancy that has struck several schemes in the south of the country is expected to gradually disappear. As speculative development has come to a halt, this might well result in a slight upward adjustment of the market rents in the southern hubs and a subsequent firming of prime yield levels.

The strong regional differences in the market will only gradually disappear, which means both tenants and landlords will have to be critical and well-informed about local conditions in order to be able to make sound housing decisions. In any case, vacancy in older property will increase further. Increasingly, redevelopment of these old warehouses is the only option left, creating a niche market for obsolete property that is acquired for redevelopment purposes.

General investor demand is expected to pick up as soon as recovery in the logistics sector becomes visible and vacancy starts to drop. Nonetheless, as financing remains risk-averse and the main equity buyers maintain their focus on core investment, it is expected that the market will continue to be centred around prime and well-let property.

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