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Strong conviction: Dutch logistics
Brexit creates significant opportunities

- **The trade and cooperation agreement between the EU and UK brings into force new barriers in the form of customs procedures and rules-of-origin conditions.**
- **VAT charges, customs duties, increased red tape and longer waiting times at the border raise the cost of doing business.**
- **Some 500 British companies are currently looking into a potential move to the Netherlands, according to the Foreign Investment Agency (NFIA).**
- **Brexit-induced relocations could provide a boost to demand for Dutch logistics space. We continue to think that larger e-commerce–related sheds as well as urban logistics look attractive.**

Brexit reality is sinking in

- The trade and cooperation agreement between the UK and EU came into force on 1 January 2021. The deal maintains tariff- and quota-free access for goods traded between the UK and EU. However, it also brings into force new barriers in the form of customs procedures and rules-of-origin conditions.
- For now, the EU remains the UK's largest trading partner. In 2019, the EU accounted for 43% of all UK exports, according to Statista, and an average of 1.6 million trucks transported goods between the UK and Continental Europe.
- However, more than one month after the UK left the European single market and EU Customs Union, the reality is starting to sink in for UK companies exporting to the EU. VAT charges, customs duties, increased red tape and longer waiting times at the border raise the cost of doing business.
- The volume of exports going through British ports to the EU dropped by 68% in January 2021 compared to the same month the previous year, the Observer reports. Moreover, around 65%–75% of vehicles arriving from the EU were returning empty, according to the Road Haulage Association, due to a lack of goods, delays in the UK and British companies having stopped exporting to the Continent.
- Small businesses with up to 50 employees – of which there are nearly 6 million in the UK, accounting for half of turnover in the private sector, according to the FSB – are disproportionally hit by the additional fees. Every consignment to the EU attracts a charge and squeezes already stretched profit margins. Moreover, the disruption caused by the COVID-19 pandemic meant that smaller businesses often had no or little capacity to prepare for Brexit.
- Government trade advisers working for the UK Department for International Trade are encouraging British businesses that export to Continental Europe to set up companies within the EU to circumvent the extra charges and red tape, the Observer reports.

British businesses are looking to the Netherlands

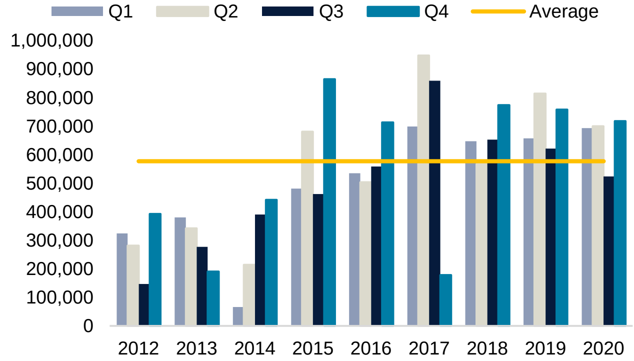
- By early 2020, 140 British firms had already moved to the Netherlands as a result of the Brexit referendum. They created 4,200 jobs and invested EUR 375 million in the Dutch economy, according to the NFIA. Financial services companies moved relatively early after the referendum in order to maintain market access and licenses for the EU. A second wave of British companies moved from 2018 onwards for continued access to talent and EU funding, the NFIA finds.
- Good infrastructure, a major port of entry, fast digital connectivity and a highly educated workforce with good English language skills make the Netherlands a preferred location for UK businesses settling in the EU. Dutch tax and employment laws are closely aligned with the UK, and combined with an overall stable political and economic environment, these factors contribute to a positive climate for businesses.
- Currently, some 500 British companies are looking into a potential move to the Netherlands, according to the NFIA. These are largely firms in industries that are reliant on functioning supply chains, with many of them looking for a practical solution to overcome the trade barriers in the short-term, according to the NFIA. They waited until they had more clarity on the outcome of the Brexit deal, as supply chain investments are usually more capital intensive and require long-term decision making.

- Brexit-induced relocations could provide a boost to demand for Dutch logistics assets. Due to Brexit, 40% of European online retailers think they will need additional space in the EU, according to a recent survey by CBRE. 41% of third-party logistics providers think that they will need less logistics space in the UK because of Brexit, the same survey finds. Clothing retailer JD Sports is already considering warehousing in the Netherlands, the Guardian reports.
- A new shipping route between Dublin and Amsterdam was only launched at the end of January 2021 to bypass customs and other checks brought about by Brexit. There could be a need for more industrial space around ports, which could boost demand in the short-term, according to Capital Economics. This could also increase subleasing activity to fulfill the need for logistics space.
- It is probably too early to say how much of this constitutes more permanent demand. However, the increased trade barriers are unlikely to be resolved any time soon, and customers will not bear the additional cost.
- Anecdotal evidence from Monster Group, a British company for catering, storage, home and business supplies which already moved to Venlo in 2019, now shows the benefits of a Brexit-induced move to the continent. In 2020, the company made 50% of their sales in the EU for the first time ever making up for the slower UK growth and can guarantee next-day deliveries to many of their European customers from Venlo.*

Positive outlook for Dutch logistics

- Logistics sector fundamentals are good, and 2020 proved to be another solid year for the Dutch logistics market. Total logistics investment volume was EUR 3.2 billion in 2020, according to Savills Research, in line with the 2019 volume.
- Total logistics take-up reached 2.6 million sq m, (figure 1), of which e-commerce parties took up 230,000 sq m, according to Savills. Take-up of industrial space accounted for 6.4 million, Savills Research reports, slightly above the 2019 level.

Figure 1: Dutch logistics take-up (sq m)

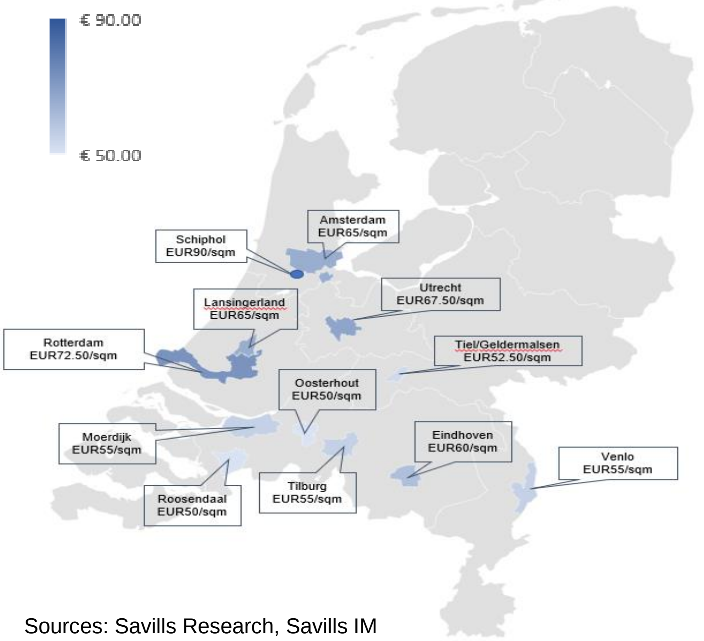


Sources: Savills Research, Savills IM

*https://investinholland.com/success-stories/monster-group/

- The sector was supported by the strong rise in e-commerce, with online supermarkets increasingly gaining share. Online shopping has become more established in Dutch society and is here to stay. In fact, the share of online spending jumped from 12.5% in 2019 to 20.5% in 2020, according to PMA, and is expected to rise further to nearly 25% by 2025.
- As a result, more and larger online players are entering the Dutch market, including Amazon last year, which is also reflected in new build-to-suit logistics developments in the Netherlands.
- The second factor that boosted logistics take-up was increased stockpiling to avoid supply chain disruptions. The accelerated re-shoring trend is boosting demand for logistics in general and for facilities near cities in particular, Real Asset Insight reports.
- There is no threat of oversupply – the overall vacancy rate stood at well below 5% at the end of Q3 2020, according to CBRE which should support rents (figure 2).

Figure 2: Prime logistics rents in the major logistics hotspots



Sources: Savills Research, Savills IM

- Finally, economic activity in the Netherlands is expected to return to pre-pandemic levels comparatively sooner, having seen a less severe drop than other Eurozone countries. Dutch GDP will likely grow by 2.7% in 2021, according to Oxford Economics forecasts, which should also support occupier activity.
- **Bringing all this together, due to the potential for a post-Brexit boost, accelerated e-commerce growth, a healthy economic backdrop and favourable supply conditions, we maintain our view that the Netherlands is an attractive location for logistics investments.**
- **There is a strong conviction buy for larger e-commerce–related sheds as well as urban logistics. Strong demand from cross-border investors is reflected in continued downwards pressure on prime yields.**

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