Vacancy rates of commercial premises in 2011

Written by Mari van Kuijk

At the end of 2010, a total of 13.5 million square metres of commercial space was available to rent or buy in the Netherlands. According to NVM Business, this represents an increase of 13% since the end of 2009. In order to visualize this space, think of 2,500 football pitches laid end to end, or the centre of an entire city such as Rotterdam; a single block of commercial space measuring 3.5 km by 3.5 km – no car parks, no roads, no greenery, just one huge building. DTZ Zadelhoff lists slightly different statistics, but the trend is the same (see Table 1). These figures also show that the rate of uptake of commercial space is between 2 million and 2.5 million square metres per year. In other words: the existing empty space will easily suffice for the next 5 to 6 years.

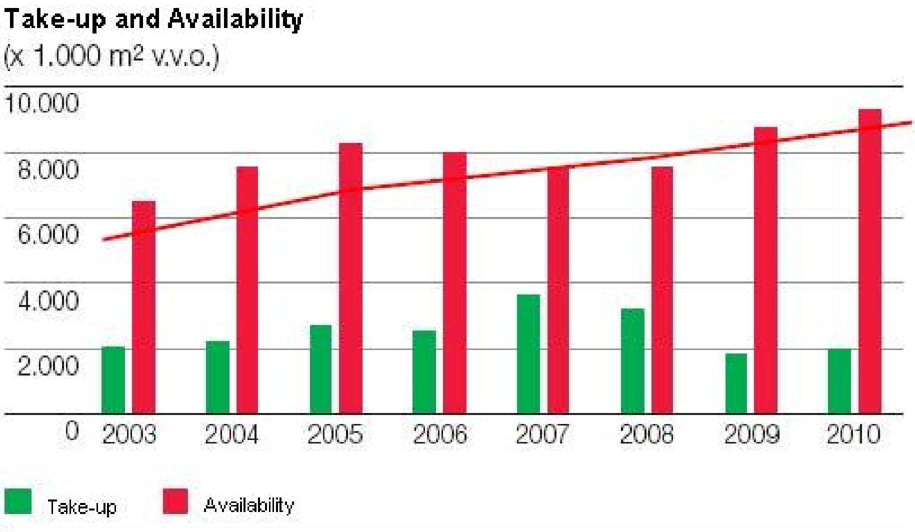

Table 1 source: DTZ Zadelhoff Factsheet Commercial Property Market in the Netherlands January 2011

Zooming in on the details, we can conclude that logistics premises account for much of the vacant space. Also, many older properties are standing empty – those built in the 1970s, 1980s and even the 1990s. These latest figures confirm that the structural increase in vacant commercial premises, which began years ago, is still continuing. But what underlying mechanism is at the heart of this trend? And perhaps more importantly: can we expect, or create, a reversal of it?

To answer these questions, we need to consider the participants in the commercial property market, and what drives them. It is not difficult to identify the key players, namely:

1. Investors
2. Users
3. Developers (or contractors)
4. Landplots (made available by local councils or commercial entities)

Investors:

The financer is out to generate a good return on investment. The financer could be a shipper or logistics service provider which is purchasing its own premises as an investment or, in the case of a rental/lease agreement, a property investor. In both cases, outside investment by banks always plays an (often not inconsiderable) role.

In the current climate, the quest for return on investment inevitably involves a risk-return trade-off. Recent years have shown that nothing can be taken for granted in the world of business, and this has also resulted in greater cautiousness in the property sector, which by definition takes a long-term approach. In addition, it is becoming increasingly difficult to secure equity from banks, since they too now have a changed view of the relationship between return and risk in the (logistics) property market.

Furthermore, the average property investor undoubtedly already has several premises in his portfolio from previous investments. Due to both financial-sector developments and stagnation in the global economy, these properties are depreciating in value. This has a direct and unwelcome impact on the investor's bottom line, which takes some adjusting to – mentally, as well as financially.

All in all, conditions appear unfavorable. And yet, if this were the whole story, an economic upturn – which has clearly already begun – should be enough to cause a rapid decrease in the amount of commercial property standing empty, and the situation would eventually be resolved.

Users of logistics premises:

Companies occupying logistics premises have undeniably suffered in the recent recession. Facing lower turnover, shrinking goods flows and a reduced need for storage space, they reacted by terminating rental agreements and selling off properties wherever possible. Therefore, as the economy starts to improve, we can expect the reverse. Once again, however, this factor does not explain the structural increase in the amount of vacant space – instead, it is merely a wave caused by the shifting economic tide.

Notably, once companies begin to expand again after a cyclical period of shrinkage, many users upgrade to newer, more modern distribution centres than the ones they previously had. This could go some way to explaining the structural increase in vacant premises.

Developers:

The developer is on the look-out for lucrative projects. Operating largely within constraints defined by the other parties, the developer adds value by skilfully balancing users' demands, financing options and site locations, generating a profit in the process. The developer is a follower rather than a leader.

Landowners:

The landowner plays an essential role. Often, local councils are not only involved as initiator but also bear part of the risk. How is the market looking for them at the moment?

For decades now, there has been a steady stream of new industrial estates being built across the Netherlands – many of them on sites where cows previously grazed in meadows, and often some distance from the urban centre. This, along with residential developments, has been a lucrative line of business for a number of parties – including local councils, who have made considerable amounts of money as a way of funding other projects in their municipality.

Hence, property development departments have been popular within Dutch town halls over the past decade. The alternative – be it demolition or conversion of outdated industrial estates – costs money rather than generating it, not to mention the amount of time and energy required.

This, then, is a key driver behind the ever-growing surplus of empty commercial, and in particular logistics-oriented, premises. As long as governments continue to allow new developments on greenfield sites, these will continue to be the preferred choice of all parties concerned: the investor obtains a high-quality, and hence low-risk, property; the landowner makes a profit; the developer has a 'clean' project with clearly defined risks; and the user can set up a state-of-the art logistics operation.

Prognosis for logistics premises

Your reaction might well be, 'Why the need for change?' But if this trend continues, how much commercial space will be vacant 5 years from now? And what would happen if all of that property were to depreciate in value? Because that would have to happen eventually. Does it make sense to continue building beyond our cities' outer ring roads when there is a slow but sure exodus from premises situated within them? Ironically, these existing city-centre locations are particularly suitable for manpower-intensive logistics operations. Time for a rethink, if you ask me.

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Mari van Kuijk joined Groenewout Consultants & Engineers in 1998, initially as a Senior Consultant in the field of Assets & Facilities. Prior to joining Groenewout, he worked for several other engineering/consultancy firms. In January 2007, he became Managing Director of Groenewout, while continuing to serve as a member of the MT. In April 2008, he became one of the owners of the company through a Management Buy-Out. In addition to his managerial responsibilities, he still advises in the area of Assets & Facilities with an emphasis on the contractual and financial elements of the projects. He has a Masters degree in Building Science from Eindhoven University of Technology and a MBA of the Erasmus University in Rotterdam.

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