European Commercial – February 2019

SPOTLIGHT
Savills Research

Benelux Investment

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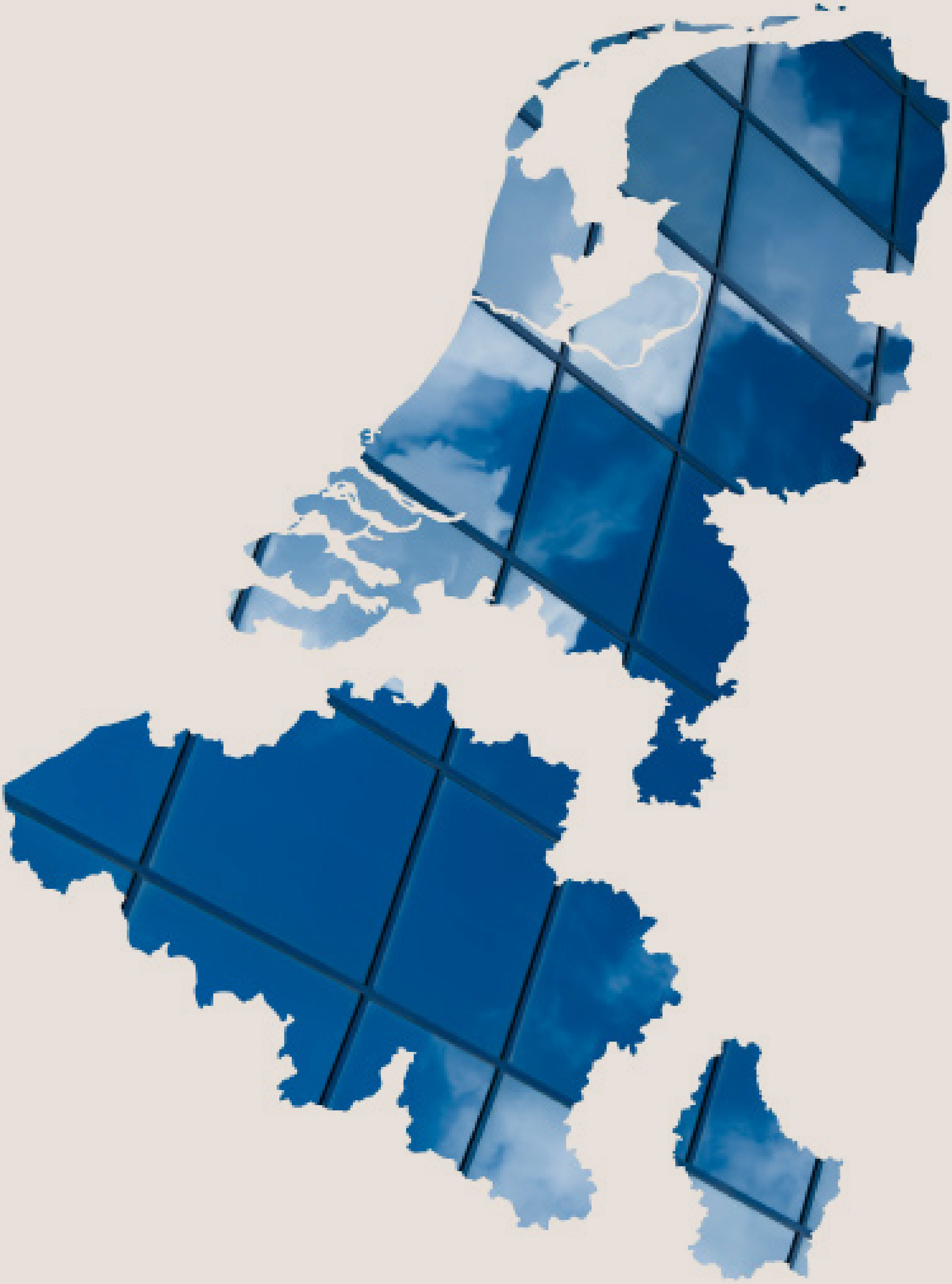
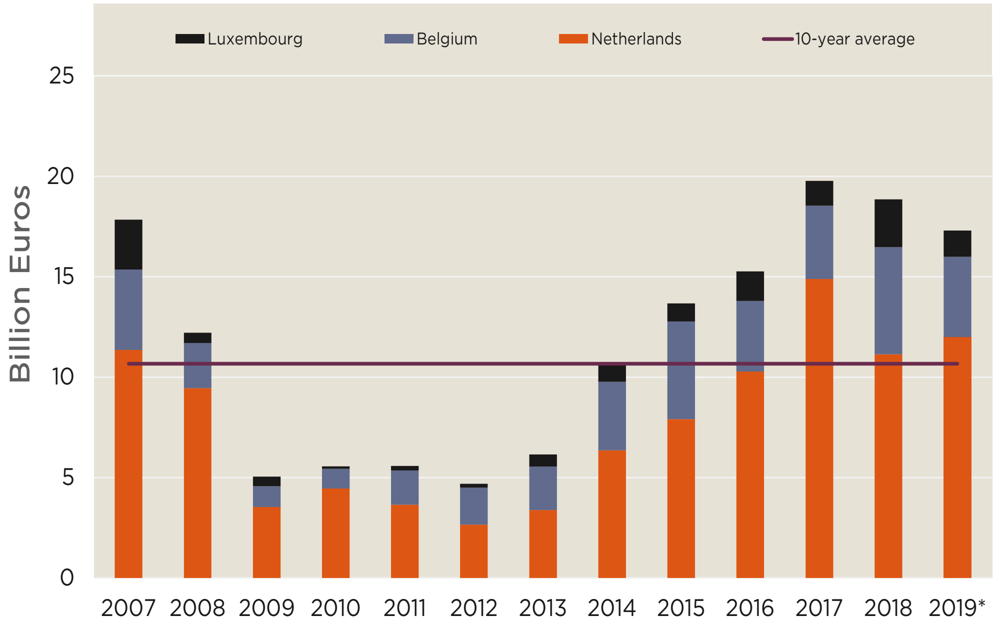


● Another strong year ● Cross border investment ● Yield compression

> Solid economic and property fundamentals are making the Benelux an appealing investment-friendly destination.

Graph 1: Commercial investment volume in the Benelux



Source: Savills Research /*Forecast

STRONG ECONOMIC LANDSCAPE

Pioneer in uniting forces to form a stronger economic entity following the Second World War, the Benelux, a customs union between Belgium, Luxembourg and the Netherlands, was created thirteen years before the creation of Europe and came into force in 1958. Hence, last year the Benelux Economic Union celebrated its 60th anniversary in an overall very strong economic background and positive outlook.

According to Focus Economics, GDP increased by 3.1% in Luxembourg, 2.6% in the Netherlands and 1.5% in Belgium, against 1.6% in the Eurozone in 2018. Overall, the economy in the region was mainly boosted by private consumption notably due to the very low unemployment rate. Private investment was another strong component of all three economies that underpinned growth.

In a solid but slowing down pan European context, the Benelux will continue standing out throughout 2019. GDP growth in the area is set to exceed that of the Eurozone, with one slight exception in Belgium. Private consumption expenditure will remain the main component of growth, notably fuelled by strong labour markets, most particularly in Luxembourg.

With the Dutch economy particularly export-oriented, the main uncertainty hanging over the future prospect of the region remains the US-China trade conflict and its potential drag on the global economy.

Another strong year in 2018...

...with momentum carried forward into the year ahead.

Benelux commercial investment volume reached €18.8bn last year.

Against this positive economic backdrop, the Benelux real estate market has been attracting an increasing amount of capital over the past 24 months. Last year, the investment volume in the region totalled €18.8bn. Although 5% down on the record year reached in 2017, this is still approximately €8bn above the 10-year average and €1bn above the 2007's peak.

In Belgium the investment volume reached a record high (€5.3bn +46% yoy), in Luxembourg, it nearly doubled compared to 2017 (€2.4bn +97% yoy), whereas, in the Netherlands, the annual figure (€11.4bn) was 25% down compared to 2017's high.

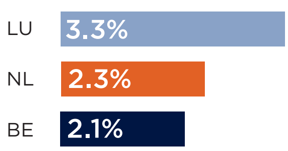
Hence, the Benelux which represents an area of less than 2% of the 18 European countries we monitor, accounted for 7.8% of the European investment volume. Put in a wider European context, where 2018's investment volume ended in line with the previous year, this is an imposing result. This is notably due to large transactions and portfolio deals which clearly attracted cross-border capital.

Investment activity was fuelled by both large cross border and small- medium domestic acquisitions.

Historically, US capital has accounted for the largest share of all cross-border investments with Blackstone, HighBrook Investors and CBRE Global Investors particularly active funds, followed by the UK, and German investors.

Office-based employment expected to remain strong in the region

Average annual growth between 2018 and 2023



Over the next five years, office-based employment is set to grow by 2.3% on average in the Benelux region, above the 2% average expected in Europe.

Source: Oxford Economics

€18.8bn of investment transactions recorded during 2018.

Benelux investment volume 77% above the 10-year average.

The Benelux accounted for 7.8% of all European investment volumes.

Offices accounted for 50% of investment transaction volumes last year.

We expect the the average prime CBD rents in the region, to increase by 2.5% between Q4 18 and Q4 19.

Over the past five years, the origin of capital spread across continents. Korean (Korea Investment Holdings/ KTB Investment & Securities), Canadian (Dream Global REIT / AIMCo) and Israeli (Forma Fund) funds entered the Benelux and slowly grew their investment activity in the region. At the end of last year, the Singaporean-based investor, Mapletree Investments, entered the Netherlands in buying a large paneuropean logistics portfolio.

But investment activity was also fuelled by a large number of smaller deals, generally more suitable to domestics demand. This explains why overall, the cross-border share of investments in the area decreased from 79% in 2017 to 61% last year.

The property fundamentals are set for another resilient year.

The office vacancy rate in the three capital cities will remain low and even decrease as a result of cautious development despite the growing demand. Hence, we expect the prime office CBD rents to increase by 3.7% yoy in Amsterdam, by 2.1% in Luxembourg and by 1.6% in Brussels in 2019. As in the rest of Europe, the office sector will continue to dominate the investment scene.

The rapid expansion of e-commerce in the region also bodes well for the logistics segment, notably in the Netherlands but also in Belgium. In a context of growing appetite for logistics assets, the strategic location of the region within Europe is an appealing choice for logistics investments. There is also room for a growing share of alternative investments, notably multifamily, student and senior housing.

61%

Average share of cross border investment in the Benelux region in 2018 with wide differences between the three countries.

87% Luxembourg

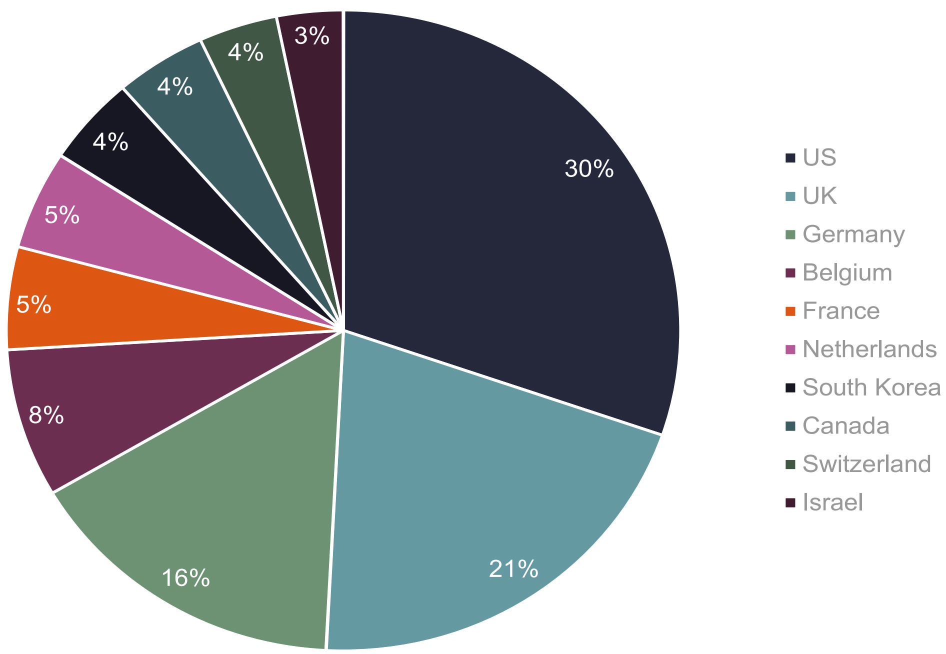
60% Belgium

55% Netherland

50%

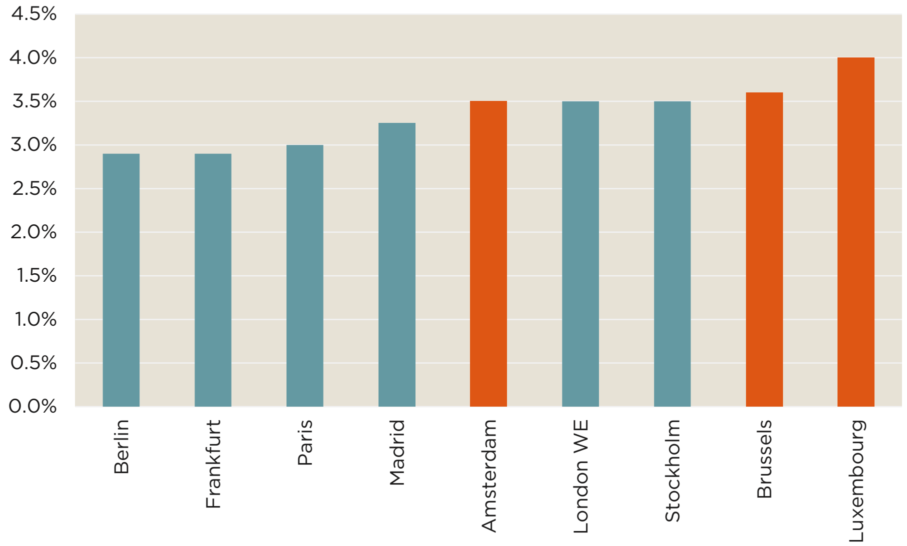
Average share of cross border investment in Europe.

Graph 2: Origin of cross border investments in 2018



Source RCA

Graph 3: Prime Office CBD yield in Q4 2018



Source Savills Research

Graph 4: Major deals

Date	Location	Name	Sector	Price in m€	Buyer
Jan-19	Amsterdam	5 Keizers	Office	148.0	Union Investment
Dec-18	Amsterdam	Rivierstaete	Office	227.8	Deutsche Bank, Rubens Capital
Nov-18	Luxembourg	Allegro	Office	125.0	Fidelity International
Oct-18	Luxembourg	Le Dome	Office	195.0	AXA IM - Real Assets
Aug-18	Rotterdam	Central post	Office	139.6	Hannover Leasing
Jul-18	Luxembourg	JBBK	Office	168.0	Fund owned by Mulliez family
May-18	Rotterdam	Maastoren	Office	159.3	Coquine SA, Asia Pacific Real Estate, FOM Real Estate
May-18	Brussels	Docks Bruxsel	Retail	300.0	AIMCo, Portus Retail
May-18	Rotterdam	Groot Handelsgebouw	Office	170.0	HighBrook Investors
Apr-18	Senningerberg	Aerogolf	Office	100.0	Fidelity International
Apr-18	Netherlands	Mesdag Delta Portfolio	Mixed	615.5	HighBrook Investors
Apr-18	Luxembourg	Deloitte HQ	Office	250.0	Ethias/Intégrale
Mar-18	Brussels	The Woluwe SC	Retail	468.0	Eurocommercial
Mar-18	Charleroi	Rive Gauche	Retail	300.0	CBRE Global Investors
Mar-18	Brussels	Passport	Office	130.0	KTB Investment&Securities, AXA IM - Real Assets
Feb-18	Brussels	Egmont I & II	Office	NA	Confinimmo

Source: Savills Research

THE YIELD SPREAD WITH CORE COUNTRIES WILL REMAIN ATTRACTIVE

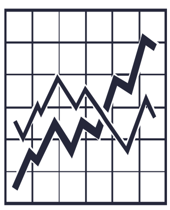
Strong investor's appetite for the Benelux has caused downward pressure on yields. The average prime office CBD yield in the region currently stands at 3.55%, compared to 3.3% in Core countries (UK, Germany and France). Over the course of the past five years, the spread between the two regions fell from 68.5bps to 25bps last year. Yet prime office yields in the Benelux remain attractive compared to other major European cities.

The prime logistics yield in the Netherlands moved in by 75bps yoy and stood at 4.5% in Q4 2018, whilst it remained stable at 5.5% in Belgium. Prime retail yields remained stable in Belgium and Luxembourg. In the Netherlands, both the prime high street and shopping centre yields moved in by 25bps and 15bps yoy respectively. Overall prime logistics and retail yields remain well above the levels achievable in core European cities.

We expect prime office CBD yields to stabilise during 2019, with a slight downward pressure still possible in Luxembourg. The yield spread with the core markets will continue to attract both domestic and foreign investors' interest. All in all, we anticipate another high volume of investment for this year of more than €17bn, driven by an increasing amount of capital targeting the Netherlands, in particular.

25bps

Average prime office CBD yield spread with core countries.



Savills Commercial Research
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