

Netherlands Market in Minutes

Further increase in investment volumes

October 2013

Economy bottoming out

While the economy currently is still shrinking, forecasts for 2014 depict a 0.5% GDP growth in 2014. This recovery is much supported by increasing foreign demand. The substantial economic growth in surrounding countries will drive exports and this will positively impact private investments. Already the Purchasing Managers' Index (PMI) is rising, to 55.8 in September 2013 and showing the highest figure since April 2011 (source: NEVI).

At the same time the government will have to make another €6bn budget cut to meet EU requirements and thus growth will not derive from the public sector. Households in turn are still coping with rising unemployment and decreasing spending power. On the positive side, the downturn in house prices seems to be nearing an end. This is likely to have a positive effect on consumer confidence, currently still at -33, but this already improved

significantly compared to the -44 at the start of the year.

Overall the Dutch economy seems to be bottoming out and is projected to grow in 2014, although month-by-month might still show volatile figures.

Occupier market remains subdued due to economic headwind

While total commercial demand in 13Q3 totalled just over 1m sq m and was slightly higher than in 13Q2, Savills does not see this as an indicator for a recovering occupier market. Only when consistent economic growth has become reality, market activity is estimated to improve. Until then, occupiers in all markets remain focused on the bottom line and therefore on reducing accommodation costs.

Office occupier activity totalled 270,000 sq m in 13Q3, very similar to 13Q2 but still low in regard to previous quarters. Occupiers remain on the look for ways

to optimise their usage of space, such as Reed Elsevier renewing their lease for just 20,000 sq m of the formerly 40,000 sq m at Amsterdam-Sloterdijk, or by subletting superfluous office space. Largest occupier transaction concerned NautaDutilh leasing 10,000 sq m in a new office development at the Amsterdam South Axis.

The retail sector is clearly suffering from five years of economic decline and low consumer confidence. Total retail turnover contracted by another 1.0% according to National Statistics and occupier demand reached 116,000 sq m in 13Q3, just slightly better than 13Q2. Most activity originates from value retailers, such as Primark, H&M, Action and Jumbo, all benefiting from increasing price sensitivity among consumers.

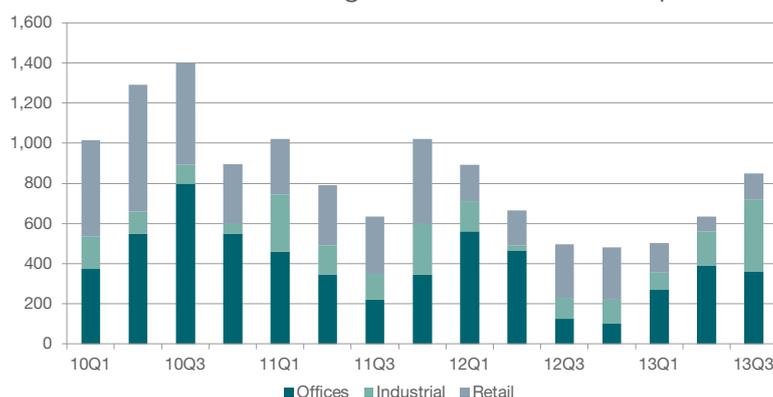
Demand for industrial space reached 650,000 sq m in 13Q3, a significant 20% increase compared to 13Q2. Especially demand for modern logistic distribution centres remains high, making this the only market segment to show continuing growth.

Portfolio deals and private capital driving investment volumes up

The steep increase in investor demand, foreseen by Savills in the June version of the Market in Minutes, has continued. Investment volumes in offices, retail and warehouse reached €850m, a 34% rise compared to last quarter, when investment volumes reached €635m. The rising number of transactions and the resulting rising volume clearly shows that the Dutch investment market has bottomed out.

With this recovery in mind, banks →

GRAPH 1
Investment volume Netherlands by sector: investor demand for offices and logistics drives volumes upwards



Graph source: Savills

are now re-entering the market, although they remain cautious with financing due to the regulatory changes. Further Savills notices an increasing number of institutional investors harnessing real estate debt funds, which gives investors more alternatives for funding and could relieve pressure for refinancing.

The growing investor activity is further supported by a number of large portfolio transactions as well as private equity buyers looking for opportunistic and value-add product. PPF Real Estate entered the Dutch real estate market with the purchase of the AXA Immoselect portfolio complemented with the acquisition of the Sanoma Head Quarter in Hoofddorp for €47m.

opportunistic market segments. The pricing adjustments over the past years have turned these into interesting market segments, also for conversion purposes like the purchase of the 25,800 sq m 'De Admiraliteit' building in Rotterdam for €9.5m.

The prime office segment remains strong in terms of investor demand and achievable yields compare favourably to the CBD's in other European markets. Over the past 18 months four large South Axis properties have been purchased and it is more than likely that within the coming months more will follow.

The warehousing market, and especially the logistic market, boomed

retailing and the best performing inner city shopping centres. Since these transactions are small in size and supply is rather limited due to a lack of new developments, the resulting volume is limited and is likely to remain that way in the short term.

Outlook

Investment volumes in the office, industrial and retail market reached close to €2bn in 2013 so far and will clearly exceed the €2.5bn of 2012.

TABLE 1 Investment portfolio transactions 2013

Vendor - portfolio	Buyer	#	€
AXA Immoselect Seven	PPF Real Estate	7	140m
AEW Europe Curzon Capital Partners II	Granite REIT	3*	75m
CBRE GI Dutch Office Fund	OVG Goldman Sachs	8	115m

* Total portfolio consists of 7 properties, total investment volume was €229m

Table source: Savills

"Equity buyers further increased their presence in the Dutch property markets."

Clive Pritchard, Netherlands Investments

Additionally, Delin Capital purchased a logistic portfolio for a total of €80m. These private equity buyers have the advantage of operating with limited external funding and therefore have lower financing constraints.

in 13Q3 with a total investment volume of €320m, almost double the €170m in 13Q2. This vast investor demand did mainly derive from three portfolio deals, purchasers being Granite (€129m), Syntus Achmea (€78m) and the aforementioned Delin Capital (€80m). All properties transacted are located in the major logistic areas.

The office investment market totalled €365m in 13Q3, similar to the previous quarter but also four times higher than 12Q2. A large number of transactions took place in the value-add and

Investors in the retail sector are mainly focusing on core product: high street

In the office and industrial markets a number of large assets and portfolios are about to be sold and for 2014 these markets will remain of interest for investors and show increasing volumes. In 2014 investments in retail are estimated to consolidate or even show minor growth, as investors will likely incorporate the better economic outlook in their purchase plans.

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