

savills

Utrecht

All signals on green:
CU in Utrecht



Introduction

Recent research by the European Union (EU) shows that after London the Utrecht region is the most competitive region in Europe. For example the region offers an excellent climate for the business community, it has a strong economy and a highly trained professional population. According to the EU, Utrecht scores particularly well in the fields of digital infrastructure, health, higher education, the labour market, technology and innovation.

A stable economy combined with a strong growth expectation for a city generally has a positive effect on the real estate market. This leads to dynamism in the occupier and subsequently in the investment market. While the occupier market for many years has shown a stable rise (on average over 108,000 sq m), the Utrecht investment market fell behind. This is particularly apparent if we compare the 'investment activity' against that of the other G4 cities Amsterdam, Rotterdam and The Hague. Investment liquidity is expressed in the table below as a

ratio that compares the size of the investment volume against the size of the stock.

The fact that the investment market is smaller in absolute terms than that of Amsterdam is not so strange; the stock is after all half the size. The fact that the activity of the Utrecht market in relative terms is also half as active as the Rotterdam market, and only a third of that of the Amsterdam office market, can in the light of the developments described be called striking at the very least. How can the limited dynamism within the Utrecht investment market be explained, since Utrecht seems to have all the means to experience a flourishing real estate market? And how will the Utrecht real estate market continue to develop?

To answer the above questions a thorough analysis has been carried out into the different issues that affect the Utrecht office market.

CITY	STOCK IN SQ M	AVERAGE ANNUAL INVESTMENT VOLUME 2010 - 2017	ACTIVITY
AMSTERDAM	6.1 MILLION	€ 1.285 BILLION	211.3
ROTTERDAM	3.7 MILLION	€ 485 MILLION	132.0
THE HAGUE	3.9 MILLION	€ 280 MILLION	71.9
UTRECHT	2.8 MILLION	€ 212 MILLION	75.0

Recent research by the European Union (EU) shows that after London the Utrecht region is the most competitive region in Europe.



Population

Utrecht experiences strongest population growth of the G4

At present Utrecht has 347,574 inhabitants divided over approximately 176,000 households, making it the fourth largest city in the Netherlands. Its central location means that Utrecht performs well in many aspects. This has a strong positive effect on the living environment and many people like to live in Utrecht because of its positive economic climate and central location. It is expected that the population will rise by over 26% to around 430,000 inhabitants by 2040. This exceeds the relative growth of Amsterdam (23.3%) and greatly exceeds the national average percentage growth of 6%. Furthermore, Utrecht is the municipality with the highest proportion of highly educated people; 52% of 15- to 75-year olds have achieved the highest education level of higher vocational (HBO) or university (WO) education (nationally 29%). This population structure ensures considerable dynamism in the city. Additionally, this attraction will ensure that after their studies students will want to continue living or working in Utrecht, which also has a positive effect in the (medium-) long term.

A high disposable income is also positive for the economy of a city. Utrecht has an average household income of € 31,500, which is lower than the national average of almost € 38,000. This comparison does however give a distorted picture due to the high number of students (approximately 10% of the population). When adjusted, the average comes out close to the national average. If the same adjustment is made for Amsterdam, Rotterdam and The Hague, the household income of these cities remains far behind those of the national average. Utrecht hence scores better than the other three big cities.



“Historically Utrecht lacked a ‘real’ CBD. The CU 2030 project has changed this and ensures an attractive business climate in the centre of Utrecht.”

Christian Taphoorn

Economy

Utrecht’s economy has several pillars

Over 36,000 companies are established in the municipality of Utrecht, 900 of which are of international origin. DHL, Mercedes-Benz, Capgemini and PepsiCo are a few examples of big internationally operating companies who have established their head offices in the Utrecht region. This is partly due to Utrecht’s international climate, with many expats and the presence of international schools. Many (Dutch) companies also have their head offices in Utrecht or are planning to move to Utrecht, such as for example VodafoneZiggo, Movares and Bol.com. This clearly shows that Utrecht is able to attract companies from outside the region.

What is striking here is that Utrecht is less dependent on one specific sector. Where (international) politics are for example dominant in The Hague and in Rotterdam the port is an important pillar, Utrecht

accommodates a wide range of companies, including healthcare, ICT, education, business services and government agencies. The character of the city in this area therefore corresponds to that of Amsterdam.

The favourable economic conditions in Utrecht are also expressed in a strong employment function. For example the professional population in Utrecht consists of over 251,000 people and the unemployment rate fell in 2017 from 6.0% to 4.6%.

Compared with the other G4 cities, with a net employment level of 70.5%, Utrecht scores best and is the only city with an unemployment rate of less than 5.0%. The low unemployment is partly due to the relatively high supply of jobs with respect to the potential working population. At present Utrecht does in fact offer 0.93 jobs per inhabitant aged between 15 and 75.

On balance, all the signals in Utrecht are on green. But how does this affect the real estate market and more specifically the office market?

CU2030

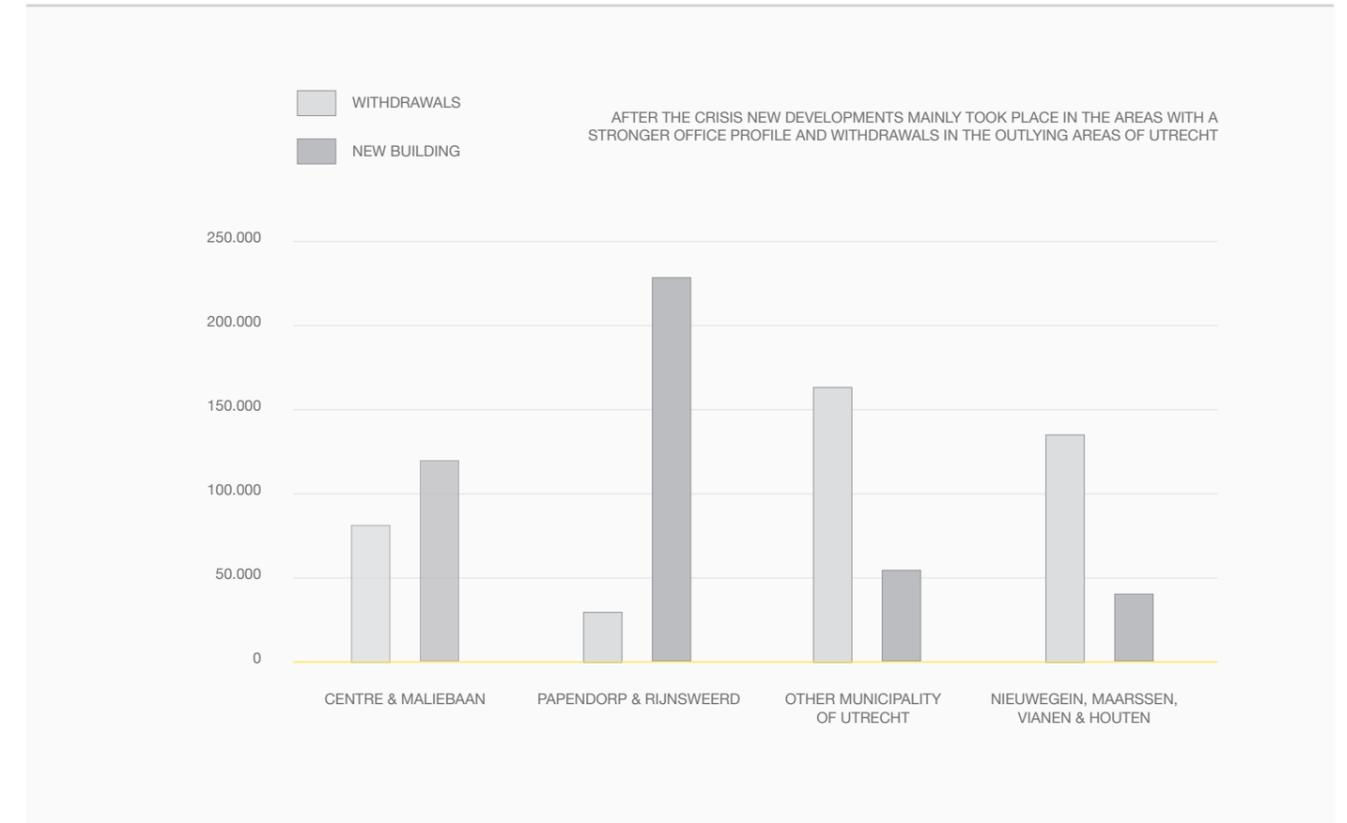
The catalyst for the current success of the Utrecht office market

Up until five years ago the development of the station area in Utrecht had come to a standstill. Partly due to overdue maintenance and years of deterioration, the safety of the area became under pressure. The fall in quality of life was affecting residential and work-related users of the area. Furthermore, there was great pressure on the capacity of Utrecht Central station. In the 60s this was in fact designed for 30 million occupiers, while in 2002 this number had already grown to 55 million. It was expected that the number of occupiers would grow to 131 million by 2025. These factors were the reason for the large-scale redevelopment of the station area. With the CU2030 plan the municipality introduced a concrete programme for this redevelopment. After a development period of around 20 years, the station area was by 2023 to offer extra space for 300,000 sq m of offices, 5,500 dwellings,

47,500 sq m of shops, 35,000 sq m of hotels (1,350 rooms), 120,000 sq m for leisure, culture and restaurants and cafes and the biggest underground bike park in the world (12,500 bikes). The aim was to turn the station area into a lively and mixed area and this mission seems to be succeeding well. We can now truly talk of a Central Business District of a substantial size.

A large part of the retail programme has now been delivered in the form of Nieuw Hoog Catharijne. The development of the offices and dwellings is continuing up to 2022. A lot remains to be done, particularly on the Jaarbeurs side of the station. For example a further 200,000 sq m of offices are still to be added, such as the iconic developments of Central Park, Wonderwoods (combined with dwellings), De Generaal and the Jaarbeursplein building.

The quality of the public space has also been boosted by improving mobility and accessibility with surrounding areas (including the historic city centre) and by replacing asphalt by greenery and water. A good example is the restoration of the canal in Catharijnesingel.



Office Stock

The quality of Utrecht's office stock is being boosted

With a stock of 2.8 million sq m, Utrecht has the third biggest office market in the Netherlands (after Amsterdam, The Hague and Rotterdam respectively). The Utrecht conurbation has an office stock of over 3.7 million sq m. This includes the municipality of Utrecht as well as the municipalities of Houten, Nieuwegein, Maarsse and Vianen. Within Utrecht we can distinguish a total of ten office areas which all have their own character.

The centre of Utrecht has a special status here within Utrecht, as well as outside it. The centre, which is now called the Central Business District (CBD), is the biggest in size compared with all the subareas mentioned. In addition it has a particularly low vacancy rate of 3.0%. Historically the vacancy rate in Utrecht Centre has always been low: on average 3.8% over the last 10 years. In comparable prime areas of Amsterdam, Rotterdam and The Hague the average vacancy rate is

a bit higher: 10.1%, 14.9% and 7.2% respectively. Not only does the Utrecht CBD therefore score better than that of other G4 cities, but the whole office stock of Utrecht has different properties.

Where the stock in the other G4 cities has shrunk in recent years by percentages of between 5% and 10% in particular due to transformations, the size of Utrecht's office stock has remained virtually stable.

Utrecht has clearly followed a different course. Over this period in the municipality of Utrecht a total of over 230,000 sq m have been withdrawn, while there have also been 335,000 sq m of new developments. Conversions have been carried out mainly of old offices in unattractive office areas such as the (North) West of Utrecht. A few examples are the conversion of the former tax offices on Kaatstraat 27 and the "Korenschoof" project in North West Utrecht, together accounting for almost 600 apartments. The majority of the withdrawals are the result of municipal and provincial incentives for office transformations. In order to meet the growing housing demand, under the title 'Utrecht Transformeert', the conversion of structurally vacant offices into dwellings has been strongly promoted.

There have also been substantial conversions and withdrawals from the office stock in the centre. Here, however, over the same period there have also been many new developments, which created a quality boost. Initially the new developments resulted in a higher vacancy rate in Utrecht, with a peak of 14.0% in 2013. The different course in Utrecht therefore appeared risky, but can easily be explained. As Utrecht was lacking a prime office area near a public transit hub, there was not really a CBD. In addition, both the public space (including Hoog Catharijne) and the offices present were of limited quality.

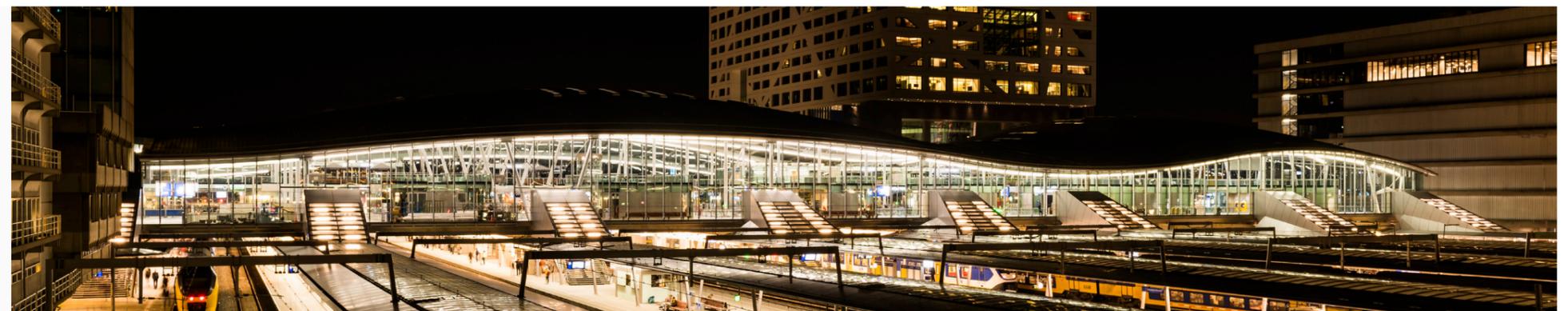
These factors meant that for years, Utrecht served as a poor alternative in regards to prime office location compared with the other G4 cities. The improvement in the quality of the public space through the CU2030 project served to boost the addition of quality to the Utrecht office stock and hence to create a fully-fledged CBD. A number of companies and institutions also recognised this. A good example is VodafoneZiggo. This year they are taking up approximately 17,000 sq m in Nieuw Hoog Catharijne, whilst Amsterdam could have also been an option for them. In the CBD a further 200,000 sq m is being added to the office stock by 2022.

The above-mentioned policy of adding new developments in prime locations is now bearing fruit. Since 2015, the vacancy rate has fallen significantly, despite the fact that new developments have exceeded withdrawals. The further fall in supply in the CBD has also had a positive effect in other areas in Utrecht. As a result, the biggest fall has been observed in the vacancy rate in the office areas of Papendorp and Rijnsweerd. For example after a period of relatively stable supply, the vacancy rate in Papendorp has fallen in the past year from 25.9% to 14.7%. In Rijnsweerd, despite an increase of over 20% (90,000 m2) in the stock, the vacancy rate stands at only 4.9%.

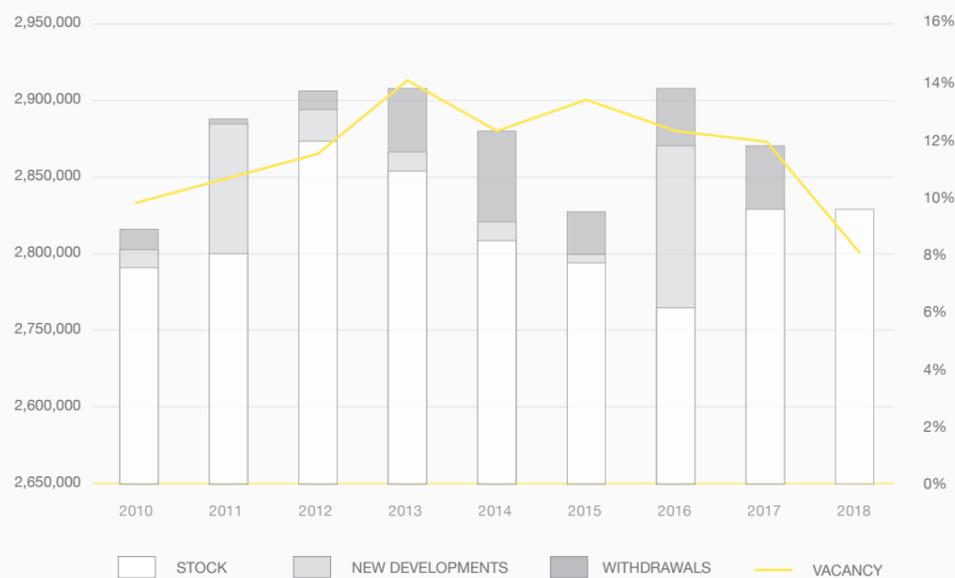
"The vacancy rate in Utrecht has fallen dramatically since 2015, despite a slight increase in the stock. This indicates an increasing demand for office space in Utrecht."

Jordy Kleemans

CITY	STOCK IN SQ M	CHANGE IN STOCK 2010 - PEAK AGAINST TODAY 2018 YTD
AMSTERDAM	6.1 MILLION	-5.2%
ROTTERDAM	3.7 MILLION	-5.0%
THE HAGUE	3.9 MILLION	-9.2%
UTRECHT	2.8 MILLION	-1.6%



SINCE 2015 THE VACANCY RATE IN UTRECHT HAS FALLEN DRAMATICALLY



Office Stock - continued

In addition to upgrading the existing stock, a mix of functions is being used in the areas that have traditionally been characterised by a (virtually) exclusive office function. This is happening around the station area with the addition of 5,500 dwellings, but also in Rijnsweerd there is a clear aim of remaining firmly committed to a mix of functions within the area. In cooperation with owners and tenants in Rijnsweerd, the municipality of Utrecht has stated it wants to offer space for 2,500 to 3,500 dwellings. We are also now seeing this mix of functions in new locations such as Leidsche Rijn Centrum, where a new city centre is being developed within which a substantial number of square metres of new office space is being added. Additionally the Science Park, home of many facilities of the University of Utrecht, is performing well. Within this 'sector hub' the focus is specifically on research and development. Over 100 companies have meanwhile set up here.

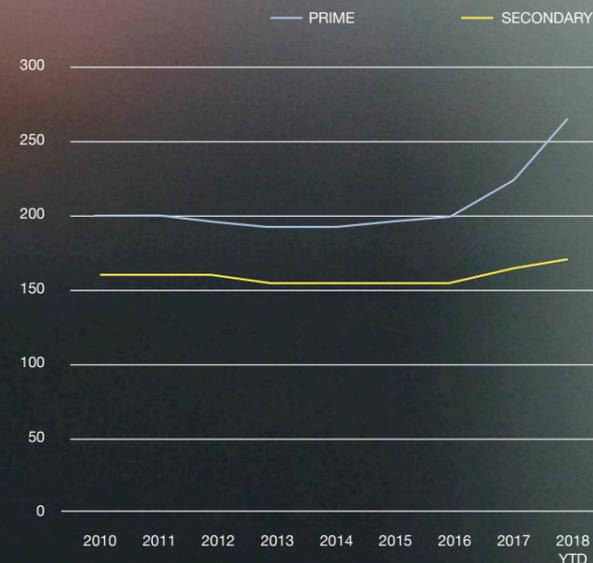
Compared to Amsterdam, The Hague and Rotterdam, Utrecht has a relatively young stock. In Utrecht only 19.1% of offices are over 40 years old (as against respectively 21.5%, 29.3% and 34.2%). The proportion of office buildings built after 2008 at 13.4% is also the highest (compared with 11.7%, 4.4% and 7.4% respectively). Utrecht is therefore showing that in this respect too, it has an attractive establishment climate for companies that want to occupy high-end and sustainable offices.

The Utrecht office market has undergone a quality improvement, which has affected companies who want to establish themselves in (the centre of) Utrecht. Due to sharply falling vacancy rates and a barely decreasing stock, we can conclude that the demand has increased strongly. Due to the positive demographic and economic climate, a continuing demand and hence also a further decrease of the existing supply can be expected. The new developments in the CBD are therefore necessary to meet future demand. One priority is the vacancy rate in the outlying areas and municipalities of Utrecht, such as for example in Kanaleneiland and Houten.

“Papendorp and Rijnsweerd will become even more attractive due to the planned mix of use.”

Sander van den Engel

THE DAMPENING OF SUPPLY IN PRIME OFFICE LOCATIONS HAS RESULTED IN SHARPLY RISING PRIME RENTS



Rent development considered

For some years in Utrecht we saw stable prime rents of slightly over € 200 sq m per year. Since 2016, however, the increasing pressure within the occupier market in prime locations has resulted into a considerable increase in rents. Presently, prime rents in Utrecht are at € 265 sq m per year, which is an increase of over 25% in a year and a half. This rent was achieved in the new WTC. At the same time incentives in top locations have fallen to a level of 0 to 10% of the rent. Rents have also risen in secondary locations, which are now at a level of € 170 sq m per year. This rise limited though, due to a relatively smaller excess demand on this market.

Draw of tenants to CBD is visible

Also on the occupier market Savills finds evidence that the Utrecht office market has improved. Over the period up to 2014, the Utrecht office market showed an average take-up level of around 85,000 sq m.

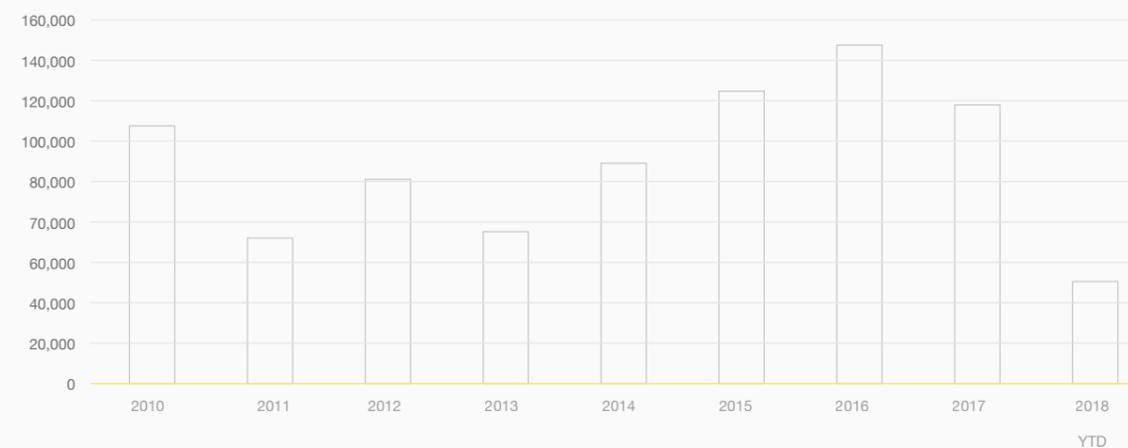
This level has since then been considerably higher at an average of around 135,000 sq m. This can also be explained by the addition of a quality supply. In 2016 for example over 100,000 sq m of new office space was added, which was taken up immediately.

The increase in take-up is greatest in the centre. Since 2015 the average annual take-up in the centre as a proportion of the total rose by 50% compared with preceding years. Major recent transactions that

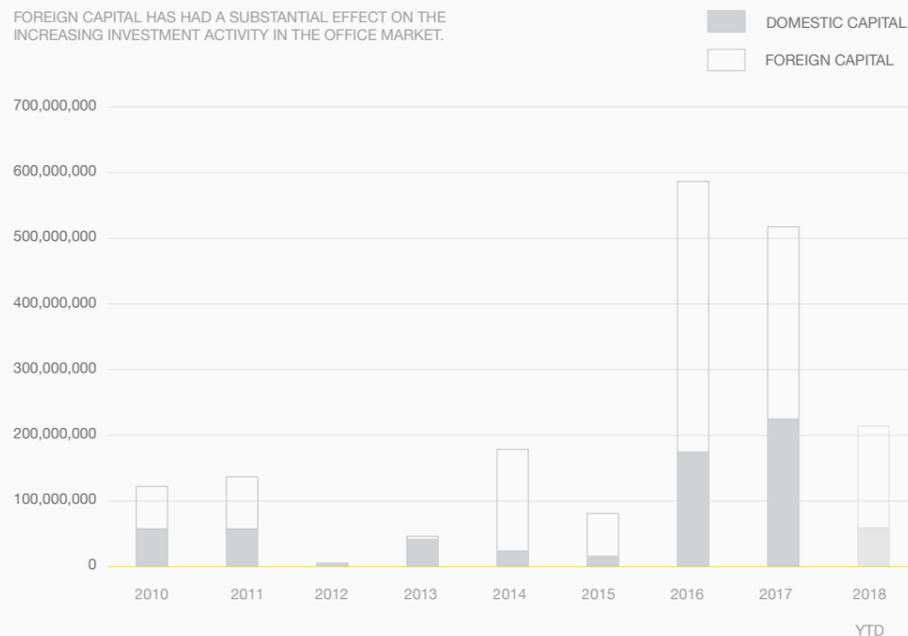
contributed to this are for example VodafoneZiggo moving into Hoog Catharijne (17,000 sq m) and Ultimaker into the Noordgebouw (3,500 sq m). In addition to the increase in the take-up level in square metres, we are also seeing an increase in the number of transactions. The average number of square metres per transaction has fallen though. This is following the national trend, where tenants are using fewer square metres for the same operations.

The rapid absorption of new offices indicates that there was a quality mismatch between demand and supply. Partly due to the addition of stock in the CBD, we expect that the take-up level will remain above 100,000 sq m in the years to come.

TAKE-UP PEAKED IN 2016 WITH THE RELEASE OF OVER 100,000 SQ M OF OFFICE SPACE



FOREIGN CAPITAL HAS HAD A SUBSTANTIAL EFFECT ON THE INCREASING INVESTMENT ACTIVITY IN THE OFFICE MARKET.



Investment Market

Utrecht increasingly destination for (international) investors

As previously stated the Utrecht investment market is limited in size in relation to the other G4 cities. After a period of limited investment volumes, which did not exceed € 200 million, interest in the Utrecht office market seems to have grown considerably in the last two years. This could even be termed a break in trend compared with the preceding years. This does not only apply if we look at Utrecht itself, but also compared to other G4 cities. Investment volume has also increased sharply here, although less dramatic than in Utrecht.

In regards to the investment market up to 2016, high-quality investment product was only limitedly available. Since this product has become available though, there have been structurally more and substantially larger transactions. To illustrate, only two transactions with a value of over € 10 million took place in 2015, while in 2016 and in 2017 there were respectively nineteen and twelve. The biggest investment transactions in Utrecht of recent years both took place in 2017. Vivat bought the 'Hojel City Centre I' for € 102 million and Deutsche Bank paid € 72 million for Daalse Kwint.

This increased interest can for a large part be attributed to foreign investors. Up until 2015, the average yearly inflow of foreign capital was around € 62 million. While in 2016 alone, this volume had increased to € 415 million (70.3% of the total investment volume). 43.0% of this capital originated from the United States, followed by Luxembourg with 23.5% and China with 18.1%.

Foreign investors are also in search for a good investment product and perceive the Netherlands as a stable country in which to invest. Since the core investment product in other cities is becoming increasingly scarce, people are looking for alternative locations and are finding these among other places in Utrecht. Certainly with the pipeline mentioned of approximately 200,000 sq m this interest is expected to be maintained in the years to come.

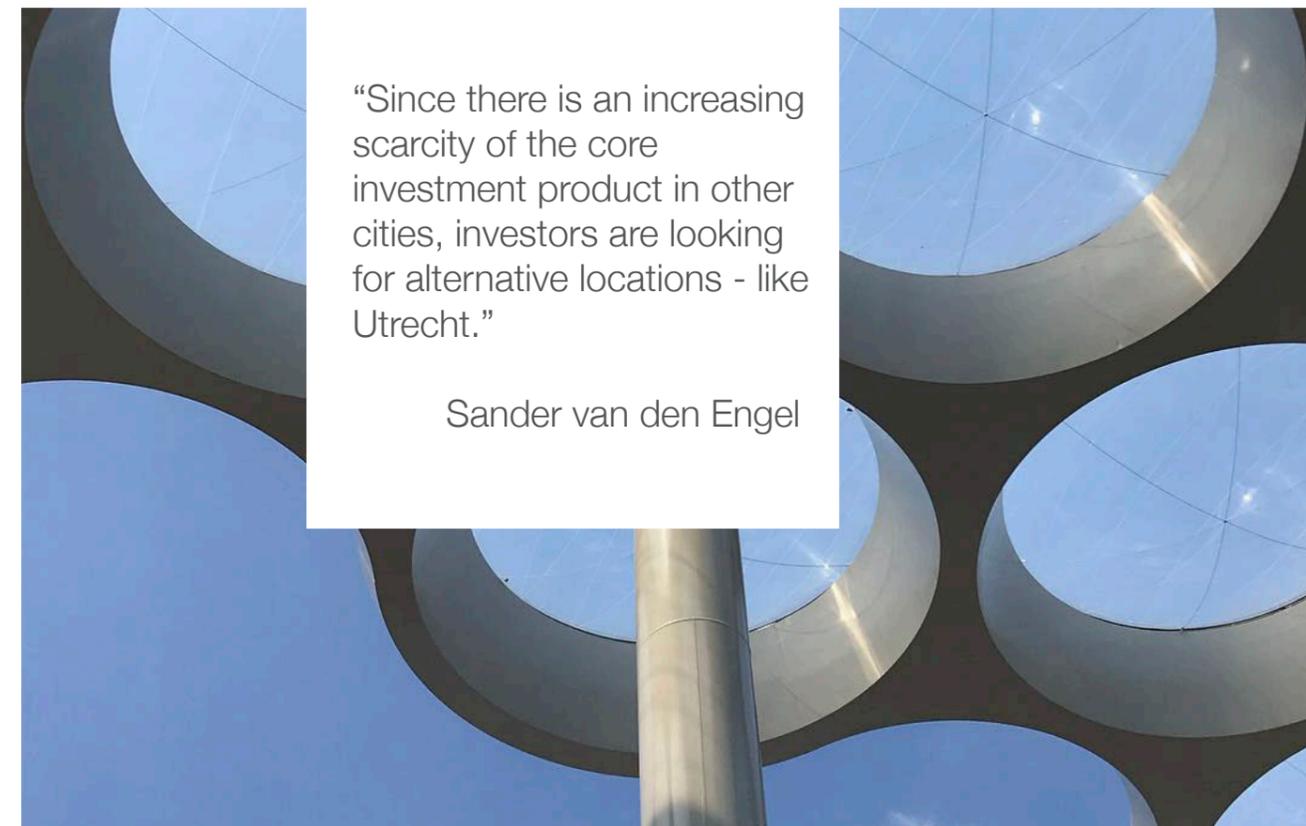
The massive interest of foreign investors in cities like Amsterdam and Rotterdam is not new. This is, however, the case for Utrecht. The city has been the domain of the Dutch investor for years. They were the main owners of office buildings in Utrecht and remained so (in the absence of any other supply) for a long time to come. Due to the inflow of foreign capital, the ownership distributions in Utrecht will slowly change.

work, live and recreate, and it is an attractive area for companies and residents and hence also for investors. For years, the economy and demography of the city performed well above average.

Since the development of sufficient high-grade supply in both the occupier and the investment market, we are seeing all the signals on green for the Utrecht office market. The further strengthening of the CBD and the other key office areas such as Papendorp and Rijsweerd, as well as Utrecht Science Park and Leidsche Rijn, will ensure a continuing interest of occupiers and investors.

Utrecht all signals on green

Until a few years ago, Utrecht had sold itself short and only had a limited stake within the Dutch office market. Due to a structural deficit of high-end office real estate located in a liveable environment, the growth in both the occupier and the investment market remained limited. The boost given to the station area in Utrecht by the CU2030 project ensured that a full-scale CBD had been created. Within the new CBD there is room for people to



“Since there is an increasing scarcity of the core investment product in other cities, investors are looking for alternative locations - like Utrecht.”

Sander van den Engel

The development of yields

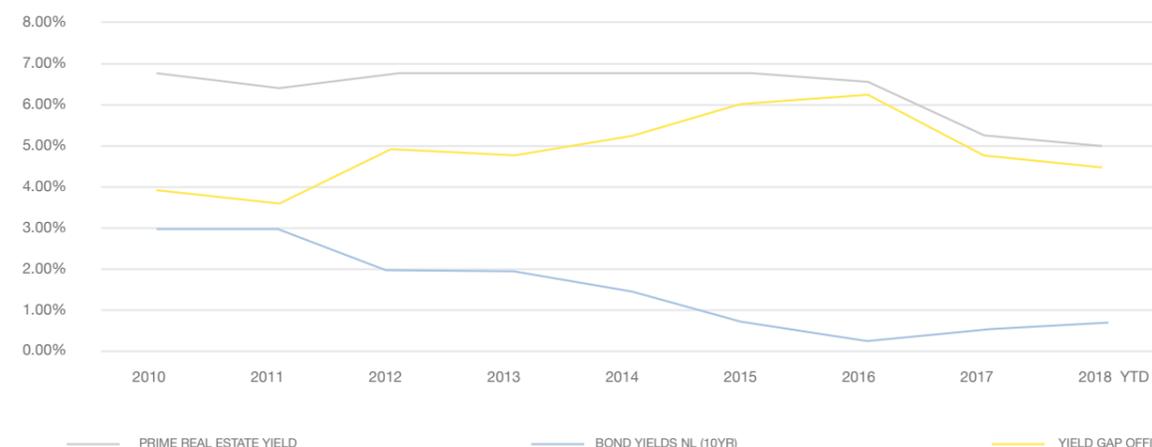
Similar to the national trend on the Dutch real estate market, the Utrecht office market is also showing rising prices and hence falling (gross) prime yields. In less than two years, this has fallen by almost 2.0% to the present level of 5.0%.

Despite this sharp fall, the difference between the highest initial yields and long-term government bonds, also called the 'yield gap', is at present still 4.5%. In Amsterdam this percentage is lower at 3.0%. Due to this higher yield gap combined with the development described, interest in Utrecht is expected to increase. As a result, these low yields will at least persist or may even fall slightly further.

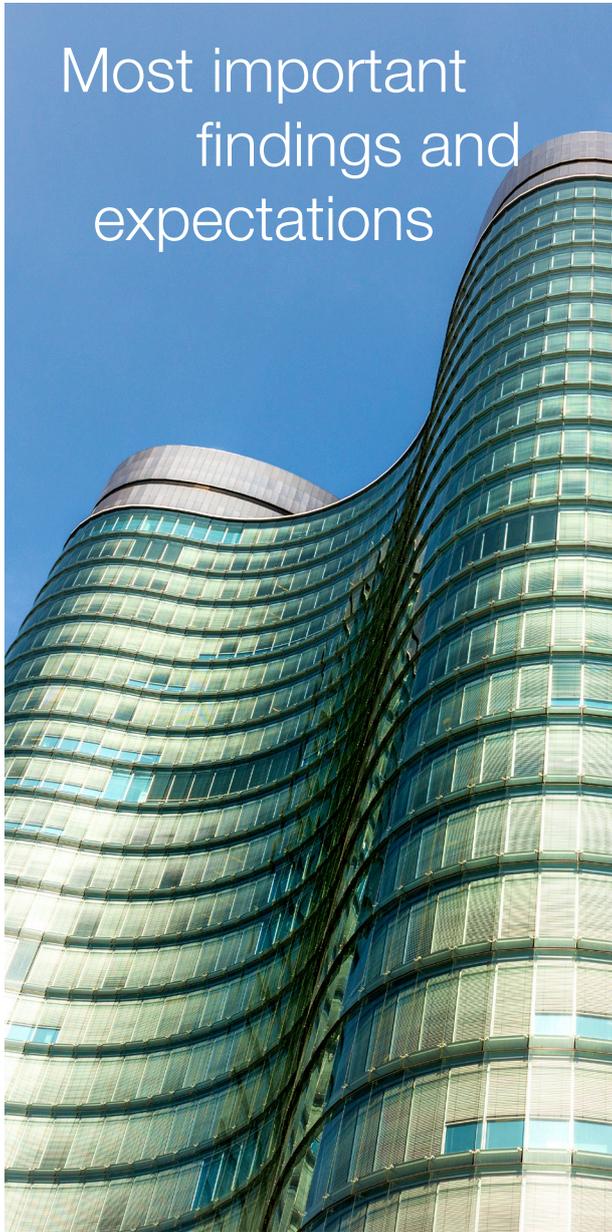
“The fact that, broadly speaking, Utrecht is performing well, is reflected in the real estate market. Both investors and occupiers have found their way to Utrecht offices in recent years.”

Christian Taphoorn

THE INCREASING INTEREST FROM INVESTORS IS ENSURING A STRONG REDUCTION IN THE PRIME YIELDS SINCE 2016. DUE TO THE LOW INTEREST ON 10-YEAR GOVERNMENT BONDS, THE YIELD GAP STILL REMAINS AT 4.5%.



Most important findings and expectations



Demography and economy

Utrecht has high attraction levels. As a result, Utrecht will grow (by +26%) faster than for example Amsterdam (+23.3%) by 2040. The economy is also developing well, illustrated by the unemployment rate which has fallen to 4.6%. This is the lowest percentage of all the G4 cities.

Development of the stock

The Utrecht office market has in recent years been given a strong quality boost. Outdated offices in the outlying areas have been withdrawn and new offices built particularly in the centre. As a result, the size of the Utrecht office stock has remained stable, while this has fallen in the other G4 cities by percentages of as much as 10%. Despite this, the vacancy rate in Utrecht has fallen dramatically, which indicates an increase in demand. The current vacancy rate in the city centre area is only 3.0%. Additionally, to meet the increased (future) demand, over 200,000 sq m of new offices are being added in the centre up to 2022. In areas such as Rijnsweerd, Papendorp, Science Park and Leidsche Rijn Centrum, space is still available for new office developments.

Occupier market and rent development

The rapid take-up of new office space in top locations indicates that there was a qualitative mismatch between supply and demand. The increasing pressure on the occupier market has ensured that rents in prime locations have risen by 25% in a year and half. It is expected that due to the addition of new offices in the centre, the take-up level in the years to come will remain stable above 100,000 sq m and rents will continue to rise slightly.

Investment market and development of initial yields

Due to a limited availability of high-grade investment product, the Utrecht investment market was of a limited size in relation to the other cities in the G4 and also dominated by Dutch investors. Driven by the increased interest of foreign investors and the availability of high-grade investment product, the investment volume peaked at around € 590 million in 2016. The increased interest has resulted in a considerable reduction in the gross initial yield since 2016 to 5.0%.

All signals on green

The boost given to the station area of Utrecht by the CU2030 project has ensured that a full-scale CBD has been created. For years, the economy and demography of the city have been performing very positively. Now that high-grade supply on both the occupier and investment market has become increasingly available, it appears that all the signals are on green for the Utrecht office market.

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