

## **Savills Netherlands Market Insight February 2010**

*Market Insight is a quarterly update on the Dutch real estate market and is published midway the respective quarter. It covers in brief the economic developments, the occupier market, the investment market and concludes with a forecast.*

### **Economy: export driver for initial recovery**

Over 2009 the Dutch economy shrunk by an unprecedented 4%. This steep fall of the Dutch economy seems to have come to an end and key indicators, like export and industrial production, are bottoming out. This indicates that 2010 will show better figures and consumer trust is anticipating on this, with a climb from -24 to -7 in the last 3 months. However, actual consumer spending is not following this positive trend, so households are not yet acting according to their beliefs.

Taking the still increasing unemployment and the fragility of the economic recovery into account, it is expected that consumer spending will only grow very moderate during 2010. The same is the case for public spending and that makes export the key driver for economic recovery. Due to the increase in global trade a GDP growth between 1% and 2% is expected for 2010. During this year it is likely that the ECB will keep interest rates low in order to support further economic activity.

### **Occupier market: Q4 demand higher than expected**

Demand of commercial real estate in 2009 totaled 3.75 million sq m. Industrial property took as usual the largest share (54%), followed by offices (36%) and retail (11%). Demand was especially high during the final quarter of the year, where in total 1.27 million sq m was absorbed.

Office users are currently focusing strongly on cost-saving and are cancelling or postponing relocation plans. Instead a strong increase in lease renewals can be seen: 18 of the 30 largest transactions in 2009 concerned lease renewals, compared to just 6 in 2008. The average lease duration has shortened over the year, from 6.7 years in 2008 to 6.1 years in 2009.

Due to the low demand availability will increase in all real estate sectors in the coming period. This is a significant change after a number of years with decreasing vacancy figures. New developments are currently much more difficult to realize than in the past years, limiting the amount of new high quality property being brought onto the market.

Prime rents in the major cities remained stable, but incentives have increased strongly over the past 18 months and could, depending on the situation, go up to as much as 25%.

### **Investment market: quarterly volume increasing**

The effects of the financial crisis and the subsequent economic recession are clearly visible in the investment

market, where investments in Dutch commercial property totaled € 3.7 billion. Positive sign is the increase in the course of the year culminating in a higher than expected Q4 figure: € 1.5 billion.

Of the total investments 53% is aimed towards the office market. The retail share has increased steadily in recent years: from 18% in 2006 to 30% currently. Of all investments 18% is dedicated towards industrial property, which is a significant decrease compared to the 26% in 2008.

Private investors took the largest share of new investments with almost 50%, but also the return of the German funds, like Wölbern, could be witnessed. At the vendor's side key players are optimizing their portfolio (Unibail-Rodamco, ING) or shifting from direct to indirect real estate (SBZ, Progress).

During 2008 the gap between prime and secondary property has increased significantly. While prime property has shown yield increases of just over 100 bps, the increases for secondary property has been much larger.

Actual transactions of long-leased prime office property, like the Unilever HQ and the Maastoren in Rotterdam, show that yield levels for this property have actually contracted some 20 bps. At the same time, yields for secondary property are still under outward pressure, increasing the gap between prime and non-prime real estate. This goes for all property sectors.

### **2010 forecast: increasing investment volume**

The downswing of the Dutch economy has come to a halt, but it will take some time before a solid growth can be expected. In the mean time demand for real estate will remain low and in 2010 the occupier market will show a similar level of activity as 2009. Rents will continue to be under pressure, vacancy will rise and lease renewals will remain common.

Concerning the capital market there is more cause for optimism. The increase in sales over 2009 show that buyers and sellers are increasingly able to find each other. And with real estate being a hedge for inflation, it is likely that more and more investors will enlarge the share of real estate in their portfolio. During 2010 yields for prime property will remain stable, while yields for secondary property might in some cases see upward corrections. In this market it is more than ever vital to have a clear insight in the property market and quality of the occupier(s) and to have access to capital. If that's the case then 2010 will provide for further interesting investment opportunities.