

Sustainable Economic Growth

The Dutch economy has been growing for 14 consecutive quarters and reached a GDP growth of 3.0% YoY in Q3 2017.

It outperforms the European's average GDP growth (+2.5%) and the growth of adjacent countries like Germany (+2.8%), United Kingdom (+1.5%), Belgium (+1.7%) and France (+2.2%).

Other fundamentals show similar economic improvements. Unemployment stands at 4.5%, household consumption is up 2.5%, private investments have risen to 7.8% and exports increased by 6.0%. Both producer and consumer

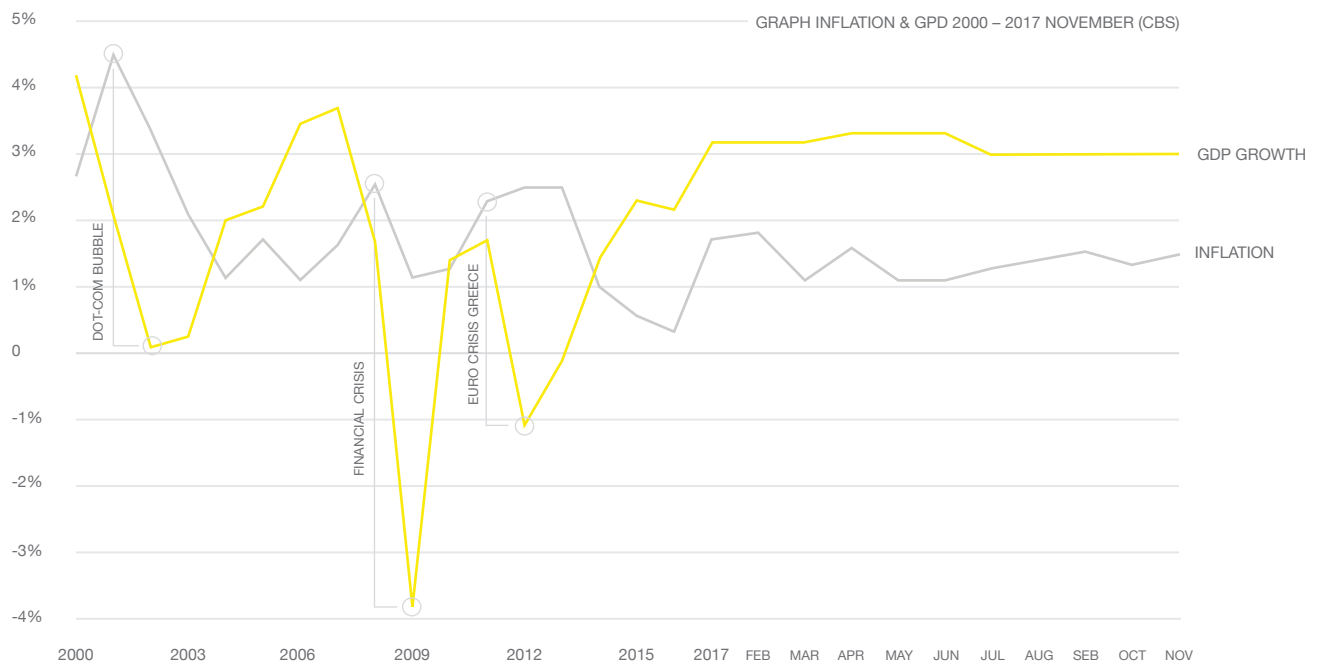
confidence stand positive with +13.4 and +26 respectively which is the highest level since the crisis and even better than 2007.

The CPB ('Centraal Plan Bureau', a governmental institute that sets up economic forecasts) expects the Dutch economy to further restore to pre-crisis levels. However, current growth is more sustainable than before the crisis in 2008 due to the stronger fundamentals which indicate a controlled growth.

One example is the moderate level of inflation; a healthy economic growth maintains an inflation of approximately 2%. Exceeding this level means

an unhealthy and unsustainable growth which is usually followed up by a recession. The graph below presents this recurrent pattern and shows the healthy inflation level during the course of 2017. Another fundamental that is beneficial to the Dutch economy is the yield gap between Dutch real estate and long-term interest rates in the EU which makes the Netherlands an interesting destination for foreign capital.

These strong fundamentals and stable economic climate are the key drivers of the ongoing popularity of Dutch commercial real estate, leading to another record-breaking year in 2017.



The occupier dilemma

The occupier market has been performing very well, leading to a significant decrease of available product in the larger cities. The supply in Amsterdam, for example, was 44% lower in 2017 compared to 2016 as a result from the exceptionally low vacancy rates in prime locations. The lack of office supply had already led to lower incentives in 2016, but has now also led to a 10% increase of average rent prices in the large cities. Occupiers find themselves between a rock and a hard place, with a lack of high quality office space on the one hand, and increasing rents on the

other hand. It either causes occupiers to deviate to secondary locations, or to come to a standstill, which is confirmed by the take-up numbers. The take-up in the Dutch office market in 2017 has been lower than the 9-year average and stands at 1.5 mn sq m (-25%) which includes the signing of the European Medicines Agency for approximately 38,500 sq m in the new office development at the Zuidas.

The take-up in the industrial market stands 5 mn sq m and seems to have stabilised itself at this level over the past three years. Take-up was highest in the province of Noord-Brabant with over 1.5 mn sq m, the majority of which concerned logistics warehouses.

Historically seen, the retail take-up peaks in the fourth quarter of each year. However, the lack of large take-up transactions like Hudson's Bay in 2016 has led to an absence of this peak in 2017 and a total take-up of 639,000 sq m, which is slightly lower compared to the total of 2016.

The total take-up of all sectors stands at 8.6 mn sq m in 2017 compared to 9.7 mn sq m in 2016 (-11%).

The decrease was due to the exceptionally low take-up in the fourth quarter of 2017 in which only 1 mn was absorbed, contradicting the first three quarters of 2017 which were well above take-up levels from 2016.

Investment Market

Office market performs well, other commercial markets are performing even better.

After three consecutive years of record-breaking investment volumes, 2017 continued this trend. The 2017 total investment volume reached € 20.9 bn compared to € 16.8 bn in 2016, a growth of 24%. Interestingly, all major commercial real estate sectors have shown a growth of at least 20%, this diversification is caused by investors looking for new investment opportunities with the best return.

With approximately € 7.7 bn invested in the Dutch office market, the market has grown by 21% compared to 2016. The Dutch office market attracted 37% of the total investment volume in 2017, holding its position as most active market in the Netherlands. Of this total approximately € 3.3 bn – being 42% – was invested in Amsterdam offices. As the movement in the market continues and prime product in Amsterdam is scarce, secondary cities are benefitting. Den Bosch, for example, reached an office investment volume of € 180 mn in 2017, an increase of 87% compared to 2016.

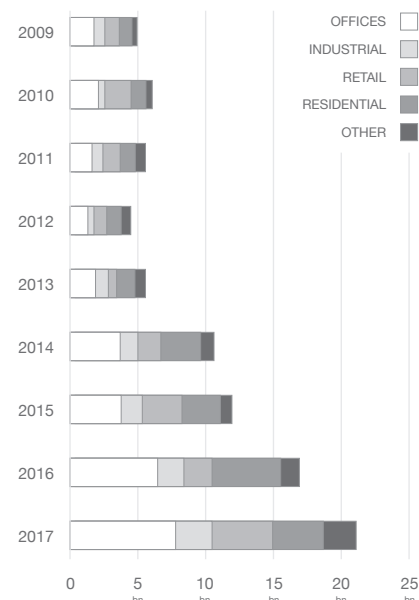
A significant growth in investment volume has also been detected in the industrial real estate market. The total industrial investment volume in 2017

reached nearly € 2.7 bn compared to € 1.9 bn in 2016 (+43%) driven by the flourishing logistics market which is profiting from many factors including the exponential growth of e-commerce.

In a very active retail market, investment volumes more than doubled compared to 2016, to € 4.4 bn in 2017. Retail investments represented approximately 21% of all investments in the Netherlands, making it the second most popular sector of 2017. The high investment volume was mostly caused by large portfolio sales, whereof most noteworthy the sale of the IEF portfolio to a group of investors led by CBRE GI for approximately € 1.6 bn.

The residential market also performed well in 2017, with an investment volume of € 3.8 bn it accounted for approximately 18% of the total investment volume, which is well above the average volume of the past 9 years, but lower than in 2016.

As an alternative investment market, the hotel market showed a significant growth in 2017. The investment volume recorded a growth of 200% compared to 2016 and currently stands at € 1.5 bn. Noteworthy is that the average purchase price per hotel room in Amsterdam was similar to the purchase price of a dwelling in Amsterdam.



Outlook 2018

As the Netherlands remains an interesting destination for (foreign) capital, investors will have to broaden their horizon.

After another record-breaking year, the stable economy and ongoing investor appetite will continue this successful trend in 2018. As a result of the successes in 2017, yields have been contracting significantly and prime product has become scarce. In search for new and better priced product, investors are advised to expand their core business to other sectors giving them access to a wider range of product.

In addition to a broadening of eligible sectors, new locations are gaining interest. While Amsterdam will remain the hotspot for investments, other large cities are catching up fast. As Amsterdam yields are expected to bottom out and interest in other Dutch cities is growing, Savills expects the yield gap between Amsterdam and other large cities like Rotterdam, The Hague, Utrecht, Eindhoven and Den Bosch, to narrow in 2018. Alongside the G4 cities, the larger cities outside the Randstad like Eindhoven and Den Bosch will also become a viable investment destination within the Netherlands, offering more supply and attractive pricing. As the Netherlands remains an attractive investment destination, new

entrants will continue to search for investment opportunities here. Like domestic investors, cross-border investors will likely spread their focus geographically as well as across real estate sectors. In 2017, foreign investors started to show interest for logistics and 'branded living' residential concepts and this trend is expected to continue in 2018. Savills forecasts yields to contract below 5% in these asset classes.

The office sector is recovering from the high vacancy rates, as the vacancy is approaching a healthy level which is similar to pre-crisis rates. Savills expects the vacancy rate to further decline due to positive stimulation of office transformations and an increasing demand for office space in 2018. This will also result in a further increase of office rent prices.

As investors are diversifying, the industrial market is a profitable option. With the large pipeline of new developments in the logistics market as a key driver, Savills expects the industrial market to continue growing throughout 2018.

The retail market can be divided into online and offline shopping. Savills expects e-commerce to further strengthen its position with a wider range of suppliers and products available for consumers.

The brick-and-mortar retail will further improve the experience level of the shopping centres to remain attractive. In 2018, shopping centres will likely move more towards a multi-purpose leisure destination with complementing amenities like cinemas, restaurants and even hotels.

As mentioned before, 'branded living' concepts are growing in popularity among both domestic and cross-border investors. As vacant and redundant office buildings are being redeveloped into housing concepts like micro-apartments and student housing, 'branded living' will continue to gain market share in 2018. In addition greenfield projects will be developed to accommodate the growth of the Dutch households.

The hotel market saw a huge investment volume growth in 2017. Since investors widen their scope in the search for yield, hotels offer interesting opportunities. As this is a niche market with limited product, it will be a challenge to match this investment volume in 2018, however investor appetite will remain high.

In sum, a positive outlook for Dutch commercial real estate in 2018, which is nothing new – but good news nonetheless.

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Meet our team at Savills

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