

The future of Dutch real estate: On track towards a new reality



The new standard: sustainable economic growth

There is little new about the strong performance of the Dutch economy, which has now shown uninterrupted growth for 17 consecutive quarters, implying a trend break with the standard real estate cycle of around 7 years. An 'extended' cycle is now certain and there are even signs that point to a double cycle. At the same time, we seem to be on the verge of rising interest rates, driven by developments in the (international) bond market and geopolitical issues such as Brexit.

Although the current period of growth ranks in the top 3 of the most successful economic periods in the history of the Netherlands, this is certainly not a unique achievement. During the last comparable period, the total growth of gross domestic product (GDP) was much higher. For example, total GDP growth in the period 1994-2001 was almost 35%, whereas growth between 2014 and now is 'only' 11%. This provides strong evidence that the current Dutch economic growth remains at a sustainable level, which is confirmed by forecasts from Statistics Netherlands and CPB, among others.

Economic indicator	YoY Growth	2019 Forecast **
GDP	2.8%	2.6%
Exports	2.3%	4.2%
Unemployment rate*	3.7%	3.3%
Household consumption	2.7%	2.3%
Government consumption	2.0%	2.8%
Inflation	1.6%	2.5%

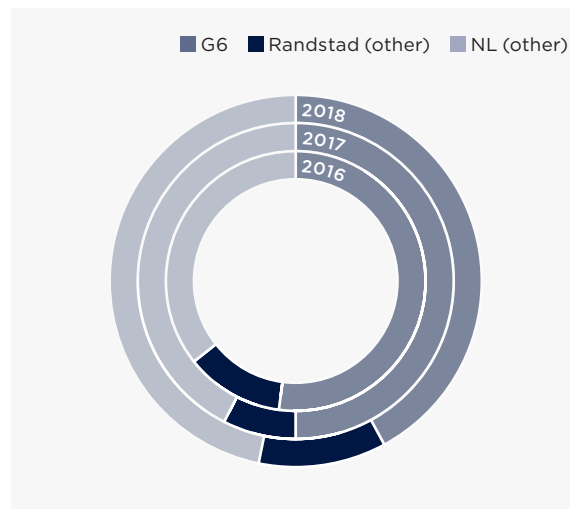
* current rate, not YoY growth
** forecast based on 'Macro-economische verkenning' of Central Planning Bureau

The economic growth provided a positive boost for the real estate market resulting in record-breaking investment volumes. The results of the past year also show evidence of further maturation in the Dutch property market, from an international perspective. How will 2018 be concluded? And, does the outlook for sustainable economic growth imply another successful year for real estate in 2019?

Spread and diversification have led to qualitative improvements and professionalisation

For investors who wish to expand their asset portfolio or to enter the Dutch market, these are increasingly challenging times. Competition among national and international investors is huge and is expected to remain so due to the attractiveness of the Dutch economy. Spread and diversification have become important concepts for investors and over the past year, they have proved to be willing and able to broaden their scope. This has resulted in a balanced mix of investment growth across the market in terms of size, type and location.

Investment growth Investments are increasingly being made outside the Randstad



Source Savills Research

'All of a sudden' there has been substantially more investment outside the Randstad in recent years, as well as in areas such as Amsterdam Zuidoost - a prime example of an area that until recently had been considered secondary. Due to focus shifting to 'secondary' areas and cities, a clear drive for quality is also visible. Examples include quality improvements in the spatial environment, but also a better mix of uses that enhances local dynamics and quality of life. Partly as a result of investment, many areas have been brought to higher levels of quality, making them more attractive to both users and investors.

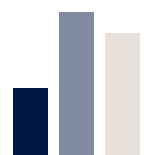
Internationally competitive

Rental rates at hot spots are increasingly 'internationally competitive'

In particular, the demand for office space at strategic locations remains high, specifically in city centres and at (transit) hubs. However, due to municipalities' continuing prudent policy with respect to new developments, there is some persistent scarcity. As a result, tenants are becoming increasingly creative and flexible.

Ever more parties are opting for a primary location in a hot spot and combing this with a flexible secondary layer in less popular locations. However, this is hardly easing the pressure in strategic locations, such as Amsterdam Zuidas and Utrecht Central.

For investors who already own property in such locations, this is considered good progress. For example, prime rental rates around Utrecht have increased by 37% over the past year to €285 per sq m.



37%

Increase prime rental rates around Utrecht

Chart Investors have been investing much more widely and diversely than 10 years ago

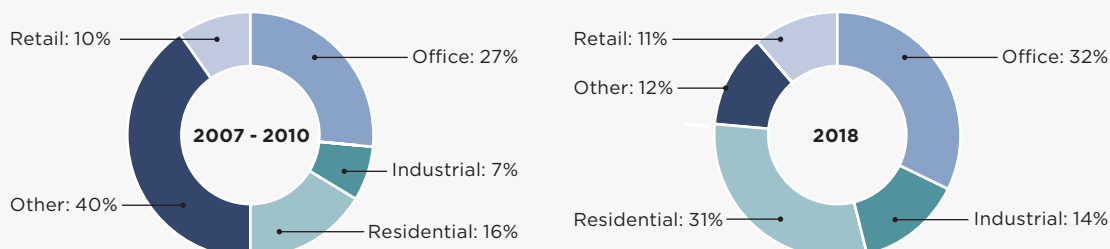
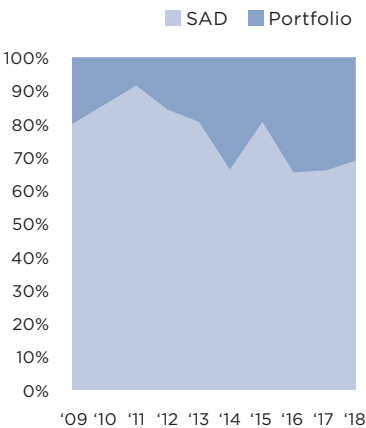
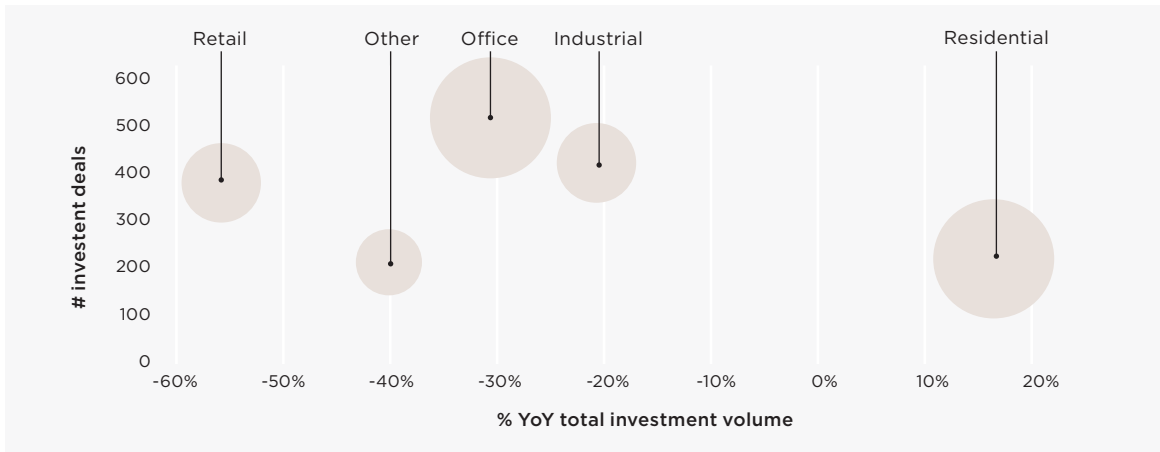


Diagram Dutch real estate investment market 2018YTD



Diversification has also occurred in relation to the type of investment product in recent years. Niche markets, such as the student housing market, have been further professionalised with increasing interest from other investors as a result.

In addition, the average transaction size in the traditional sectors, such as offices and retail, has fallen in recent years, while the volume of investments in (originally) alternative sectors has risen consistently. This is partly because there is a limited supply of larger-sized investment products, but also because alternative sectors have matured considerably.

This also applies to portfolios, which have increased their share steadily in recent years. In the last two years, due to a shortage of supply, a turnaround can be seen and the share of portfolios is slowly starting to decrease again.

A shift is also visible in the origin of capital. In 2017, international investors still accounted for over 63% of the total volume of investment in real estate. This share is set to decrease to 45% in 2018 (based on figures to date). This can partly be explained by the fact that international investors tend to prefer large-scale transactions and this type of product is becoming increasingly scarce.

SAVILLS OUTLOOK

GRADUAL END TO EXPONENTIAL GROWTH RESULTS IN A NEW REALITY

Based on the growth forecasts for the Dutch economy, the Dutch real estate market have adjusted to the new reality of sustainable balance. As the investment total for 2018 moves towards €20 billion, driven for a large part by residential investments, the predicted picture for 2019 seems to be a stable or slightly flattening line with an expected investment volume of €17 to €18 billion. Diversity across sectors and locations is also expected in 2019. Demand for good investment product will persist. Even if certain groups of investors decide not to invest in the Netherlands, there will still be insufficient investment product to meet demand. This situation is persuading investors both to enter and (temporarily) exit the market, which continues to ensure market dynamics.

Yields remain under pressure due to high demand; although they also seem to be bottoming out. Investors see rental growth as a particularly positive reason to continue investing in Dutch real estate at historically high price levels.

Sources CBS, PropertyNL, VGM, BAK, Savills Research

Traditionally, real estate continues to be the ideal 'inflation hedge' and, based on current inflation expectations, this will remain the case in 2019.

THE FUTURE

The extended real estate cycle is bringing a renewed balance to the Dutch property market. There continues to be demand, but supply cannot keep up with this demand. As a result, the exponential growth in investment activity seems to be behind us. But how significant is this development? Even in periods of long-term modest growth, real estate markets can remain dynamic. Think of the 'Japanese situation' where economic stability ensured continuous and sustained interest in real estate for years, with dynamism due to parties entering and exiting regularly.

Another scenario is also conceivable: the economy continues to operate at full capacity. But even then, a balanced investment volume can be expected due to high demand and limited supply. The combination of inflation and rental growth driven by market developments will allow investors to achieve the returns they require.

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