Netherlands Market in Minutes
Time for new prime

June 2017

Strong economic growth

The Dutch economy grew by 3.4% yoy in 2017 Q1, the highest growth since the 2008 financial crisis. All economic key figures are showing growth: government investments +1.6%; household consumption +1.6%; exports +4.7% and private investments +6.7%.

The unemployment rate stood at 5.4% in March from 6.7% in the same month a year ago. House prices increased by 8.8% yoy in 2017 Q1. Compared to the bottom in June 2013, prices are up 21% on average, almost at the same level as just before the crisis.

Producer confidence stands at +14.7 in 2017 Q1, also the highest since the 2008 financial crisis. Producer confidence has now been positive for 3.5 years in a row. Consumer confidence stood at +16, the highest since 2000.

CPB set the forecasts for economic growth at 2.1% for this year and 1.8% in 2018. Although this may be a bit premature, the results of the recent elections in the Netherlands and France seem to have a stabilizing effect on the (inter)national business climate.

Growing take-up, but prime supply is drying up

The economic growth and the positive economic outlook support the occupier market. Occupier demand showed growth in all sectors, with significant growth in both retail and offices.

The industrial market continued to grow and saw take-up in the first four months of 2017 reach over 1.3 million sqm, compared to just over 1.2 million sqm in 2016 (+8.1%). The logistics sector was a major part in this growth, with large transactions in Venlo and the province of Noord-Brabant, both traditionally strong logistic hotspots. For other industrial real estate both provinces Noord-Brabant and Zuid-Holland were dominant; together they accounted for allmost half of all take-up.

Total retail occupier demand reached 265,000 sqm, which is +32.5% higher than the same period last year. This is due to Hudson's Bay and Topshelf leasing former V&D locations. While most of those locations are filled again, Savills expects occupier activity to remain high due to the disposition of stores by chains like Blokker.

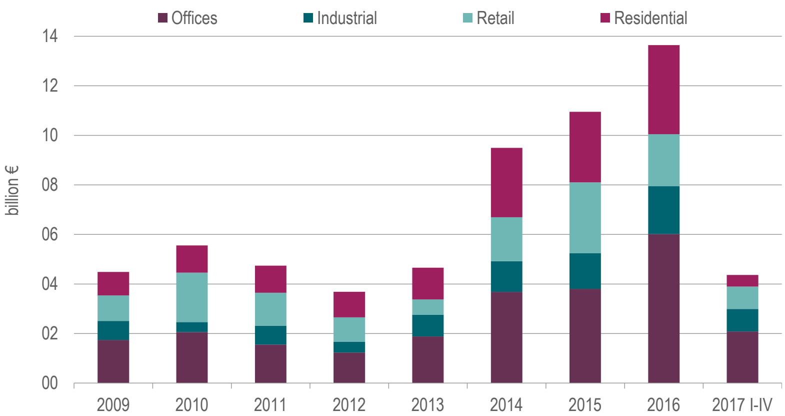
The office market saw a strong increase in demand: from around 280,000 sqm in the first months of 2016 to almost 450,000 sqm in 2017, an increase of +59.3%. Noteworthy is the increase in office space for tech companies in Amsterdam, such as Uber, Netflix and Amazon. The setback in take-up of last year was thus temporary, as we expected. For the rest of the year we expect that take-up won't keep this pace, since there is a limited number of new developments and a very low supply at the prime spots. This limits opportunities for companies to relocate to more suitable locations. The lower supply at these prime spots results in lower incentives and increasing rents, while secondary locations also seem to be profiting.

Investments up, but prime becomes scarce

Commercial and residential investment activity increased and reached €4.4bln in the first four months of 2017, compared to €2.5bln in the same period last year. The retail and office sector showed a remarkable growth. We see that new investors have entered the market, or want to enter.

GRAPH 1

Investment volume by sector: €4.4bln transacted in the first four months of 2017, compared to €2.5bln last year



Graph source: Savills

The office investment market showed a spectacular growth of +79.3% to almost €2.1bln in 2017 compared with the first four months of 2016. The purchase by Amundi Real Estate of the Atrium building at the Amsterdam South Axis for €500 million, the largest single asset office deal in Dutch history, contributed significantly to this total. Gross prime office yields remained stable in the first months of 2017 and currently stand at 4.25%.

Residential investments had a slight setback. Total investments decreased from €510m in 2016 to about €470m in 2017. This has more to do with a lack of suitable product, since demand is high. Dutch investors remained responsible for most of the transactions, but we see remaining interest by foreign investors from especially Germany and the USA, and increasing interest from investors from Asia. Gross prime yields for residential property currently stand at 4.0%.

The retail investment market almost doubled, from €475m last year to €905m in 2017 (+90.5%). This growth was very much supported by the €200m purchase by the Zurich Insurance Group of the stores at Rokin in Amsterdam where Hudson's Bay will open soon and a €151m portfolio deal by Orange Capital Partners. In the course of this year gross prime yields for high street retail and shopping centres decreased to 3.25% and 5.15% respectively.

The industrial investment market showed an increase to almost €910m this year, of which €265m logistics. Notewhorty is the purchase of two portfolio's by The Blackstone Group, with a total volume of about €432m. Prime gross yields for logistics have contracted substantially and are now at 5.25%. The scarcity of product will continue to keep a downward pressure on yields at all major logistic sites.

The data in this Market in Minutes relates to the first 4 months of 2017 only. In May a number of noteworthy transactions were registered. NSI sold multiple retail objects for €115m to Goldman Sachs and M7 Real Estate purchased offices and industrial properties with a total volume of €55m.

Outlook

For the remainder of the year, Savills forecasts investment volumes to remain high. While high-yield investors are losing interest as the market got too expensive, new investors entered and investor demand still far exceeds supply. The actual supply of attractive product is starting to become a bottle-neck, but portfolio deals might push total investments volume towards or even above last year's volume.

Savills expects a further increase in alternative assets, such as hotels, care, and student housing, as these categories are maturing and still provide higher yields. And since investment possibilities for core and opportunistic properties are becoming increasingly rare, investors are also forced to look at opportunities in the core+ and value-add markets.
Prime yields are forecasted to remain under downward pressure, as investor demand keeps outstripping supply. There is some room for further contraction, although it will be limited.

In the most competitive locations rents for offices are under upward presssure. Rents on the South Axis in Amsterdam will rise over €400 per sqm per year. Due to a lack of supply on prime locations in Amsterdam, other locations will benefit. Within Amsterdam this will be the Teleport-Sloterdijk, Southeast and De Omval area, whereas outside Amsterdam we expect increasing take-up for the city of Utrecht and even Hoofddorp, both less than 30km from Amsterdam. Also prime locations in Rotterdam, The Hague, Eindhoven and Den Bosch will do well.

Rents for logistics are under upward pressure as well, supported by the substantial occupier demand and limited supply of prime logistics.

While in some specific retail locations this is also the case, the substantial oversupply in the retail market as a whole keeps rents quite stable.

"Amsterdam is becoming a real tech hotspot, with international players such as Uber, Netflix and Amazon."
Wouter Stevens, Netherlands Agency

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