

Market report

Dutch property markets in 2012 and 2013

March 2013

Economy: challenging 2013, hopes for 2014

Over the past two years decreasing house prices, increasing unemployment levels and pension funds having to cut back on pension rights, have caused a very large drop in consumer confidence. Since Q4 2011 this figure remained constantly between -30 and -40, while the latest figure of February 2013 showed a further drop to -44. This low consumer trust has caused an increase of household savings and a cutback on retail spending.

Coupled with a national government that is focusing on budget cuts and not on economic improvement, this has turned the Netherlands into a momentarily stalling economy. An economy which is predicted to contract by 0.5% in 2013, while for 2014 a modest growth of 1% is expected (CPB). In this period exports remain the positive economic key factor.

Investment market: prime remains targeted

The total investment volume in 2012 for the office, retail and industrial sectors reached €2.54bn and is significantly lower than last year's total of €3.5bn. The office investment market remained strong with €1.25bn transacted, or 8.8% less than in 2011. The single largest transaction in 2012 concerned the €425m sale-and-lease-back transaction of the Philips High Tech Campus in Eindhoven, while triple-A office properties did remain the most important asset class with a total of €450m transacted. All these prime properties were purchased by German investors, among them Real I.S. buying the Alexander building in the Amsterdam city centre and Deka purchasing The Rock and the Vinoly Tower at the Amsterdam South Axis.

Both the retail sector (€885bn, or -31%) and the industrial sector (€400bn, or -51%) showed



SUMMARY

Appetite for prime property

■ It is becoming increasingly clear where the threats and also the opportunities lie within the Dutch real estate markets.

■ The overall office oversupply is a given factor, but companies increasingly focus their attention to lively, mixed-use location in order to provide for a positive working environment for their employees. In these areas demand is high and vacancy low and even decreasing.

■ Office occupier transaction volumes totaled 1.24m sq m in 2012, just 5.9% lower than last year. In Q1 2013 demand remained lower due to the lack of large transactions. Office investments totaled a solid €1.25 bln in 2012, but were supported by the €425m sale of the Philips HTC. Q1 2013 does not include such a transaction but is otherwise in line with Q1 2012.

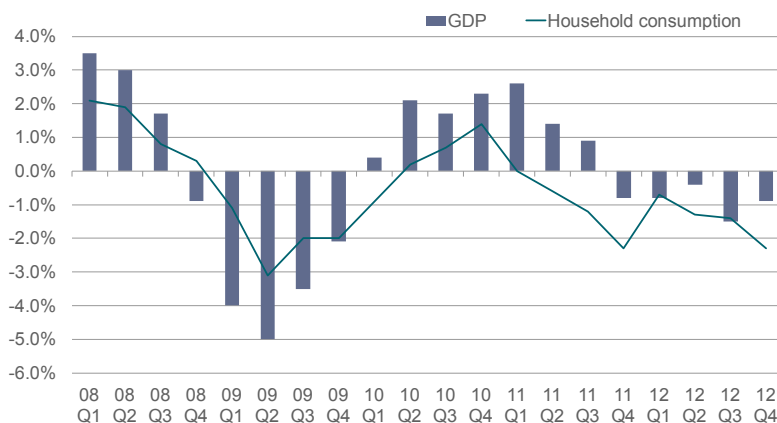
■ Retail has remained attractive for investors over the past years, showing in decreasing yields for high street retail and shopping centres.

■ The lack of new retail developments affected occupier demand and resulted in a total transacted volume of 280,000 sq m, much lower than the 425,000 sq m of last year and likely also influenced by the economic conditions. Major retailers such as Primark and Decathlon dominated demand.

■ While overall industrial demand was slightly lower than last year, demand for logistics increased from 0.85m sq m to 1.06m sq m. A stunning 64% of leased sq m and 66% of the invested volume were recorded in two provinces: Noord-Brabant and Limburg.

■ The possibilities for value-add and opportunistic investments have increased dramatically over the past years, with the gap between prime and secondary ever increasing.

GRAPH 1
GDP and consumer spending Falling internal demand has a negative impact on GDP growth



Graph source: CBS

“Location quality is the no. 1 decisive factor. Mixed-use office locations, logistic hotspots and high street retail are profiting.” Jeroen Jansen, Netherlands Research

significant drops in total investment volume. While overall liquidity problems play an important role in this, it is also the scarcity of good quality investment product and the lack of new developments that sets limitations.

Investments in Q1 2013 so far (all data up till the second week of March) total €130m so far for the office market. The purchases of the TomTom HQ for €30.8m and the IJdock offices for €19.0m being the largest transactions. Both properties are located in Amsterdam and both were bought by German investors, HIH Global Invest and Union respectively. At first glance this volume is way lower than the €545m invested in the same period last year, but in that specific period the Philips High Tech Campus was bought for €425m. When discarding that single transaction the overall volumes are very comparable.

Retail investments so far in Q1 2013 reached around €200m and are three times higher than those of the same period last year. The volume includes the transfer of 50% of the shares of the Home Trade Centre in Nieuwegein from TCN to CBRE GI. Next to that, seven small to medium-large shopping

centres have been purchased in this period, varying from the local 2,700 sq m SC 't Schoot in Eindhoven to the newly built 12,000 sq m SC Oosterheem in Zoetermeer.

The industrial investment volume totalled around €50m so far in Q1 2013, slightly higher than the €40m in the same period last year. The volume is very much dominated by the sale of some very large industrial/logistic properties, all (semi-)distressed and purchased for less than €300 per sq m.

Office occupier market

Despite the economic headwind total office occupier transaction volume reached 1.24m sq m in 2012, being just 5.9% lower than the 2011 volume. Even in these challenging times occupiers remain on the lookout for a better location for their employees. In most of these decisions companies move towards well-functioning mixed-use locations. This is well visible in Amsterdam where 70% of the 2012 occupier volume landed in either the city centre, the South Axis or the core area of Amsterdam Southeast, all attractive locations, with relative low vacancy levels. At the mono-functional, often peripheral office locations vacancy rates are rising and vacant

offices are increasingly being taken off the market and transformed to other uses, like the conversion of the 28,000 sq m 'The Dam' office at the Sloterdijk office location into a hotel.

With high and potentially rising vacancy the office market has turned into an occupier market. Occupiers have strong negotiating positions and only those areas and offices that provide for a specific quality have been able to keep rents at a stable level.

The three largest leasing transactions in the Netherlands in Q1 2013 so far took place in Amsterdam: DAS (15,300 sq m; Southeast), Leaseweb (6,700 sq m; Southeast) and Booking.com (6.250 sq m; centre). This very much fits into the consolidation and concentration trend described in the box on page 3 of this report. The overall volume of leasing transactions up till mid March 2013 reached 165,000 sq m, which is considerably lower than that of the same period in 2012, especially due to the lack of large-scale transactions.

Retail occupier market

The economic climate does have a significant effect on the retail sector. With households keeping their hands on their purses, retailers on average have to compromise with lower turnovers. Especially, when taking into account that an increasing part of the sales can be attributed to e-commerce, or internet shopping, totalling around €10bn in 2012 (+10%).

On a qualitative level this does force stores, chains, shopping centres and even city centres to reconsider their position within the retail market and to identify and enhance their strong qualities, all this in order to remain competitive.

Retail occupier demand reached 280,000 sq m in 2012, significantly lower than the 425,000 sq m in 2011. This has much to do with the economic outlook, but is also a reflection of the limited number of new retail developments brought to the market.

Interesting exception to the traditional city centre focus of Dutch retail is the new to develop Sugar City factory outlet centre (FOC) to be realized in 2014/2015 in Halfweg, just west of Amsterdam. This brings the total number of FOC's in the country to four.

GRAPH 2 **Occupier transaction volume** Office transactions standing their ground



Graph source: Savills

A second FOC project, just to the north of Rotterdam, was voted down.

The first months of 2013 lacked new leases by volume driven retailers such as Decathlon and Primark, resulting in demand reaching a total of 35,000 sq m and is about half of last year's total.

Industrial occupier market

The total industrial occupier transaction volume of 2012 reached 2.4m sq m, very much due to a strong fourth quarter and was just 8.7% lower than last year's turnover. Taking the economic situation into account this decrease is actually less than anticipated.

Like in other market segments the number of new developments has dwindled. The projects that do continue are almost exclusively built-to-suit developments and this is especially so in the logistic market. While the overall industrial demand suffered a decline, the logistic sector actually showed improved figures. Take-up reached 1.06m sq m, compared to 850,000 sq m in 2011. Demand is very much focused towards the South of the Netherlands and a stunning 64% of all logistic occupier demand is located in the provinces of Noord-Brabant and Limburg, with Tilburg, Venlo and Venray being the most dominant cities.

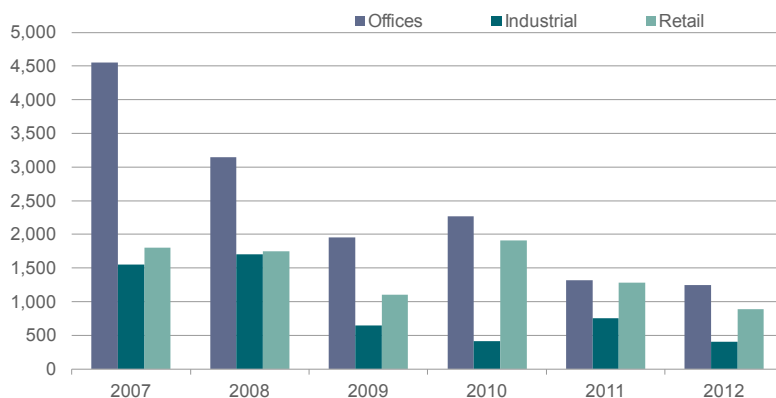
Compared to surrounding countries the Netherlands very much profits from having two main ports (Schiphol and Rotterdam), an excellent

transport and logistics infrastructure, a competitive tax regime and a professional and stable financial and business infrastructure. As a result a number of new European distribution centres (EDC's) were realised in the Netherlands in 2012. Examples are software company Microsoft moving its EDC from Germany to Venray and electric car manufacturer Tesla which will realise its new EDC in Tilburg.

Besides the usual purchasers, like WDP, DHG and Prologis/AMB, in 2012 a number of properties were purchased by relatively newcomers, such as Delin Capital and Aspen, indicating they also see the potential of well-located, long-leased, logistic property in the Netherlands. The overall logistic investment volume reached €285m, lower than previous years, and listed just one portfolio sale, that of Belgian logistic investor WDP purchasing the 150,000 sq m Lakeside logistic portfolio for €105m.

The total industrial leasing volume in Q1 2013 so far reached 390,000 sq m, of which 160,000 sq m regarded logistic property. This volume is very much in line with last year's demand and shows that, even in this challenging economy, industrial and logistic companies are proactively optimizing their location portfolios. For instance by setting up EDC's in the Netherlands, such as OMS (30,000 sq m in Oosterhout) and ModusLink (17,000 sq m in Venray).

GRAPH 3 Investment volume per sector Office investments stable, industrial and retail show decline



Graph source: Savills

Office market focus

Concentration & consolidation

Concentration and consolidation are key elements when describing the Dutch office market.

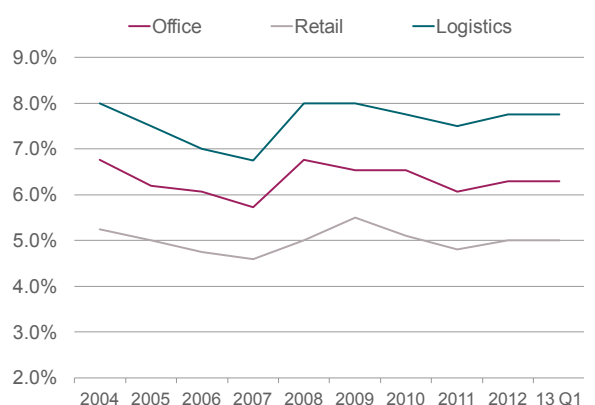
■ First of all there is a concentration of inhabitants and employment at national level. While the number of jobs rose by 5.7% in the four largest cities of the Netherlands, it decreased by 1.0% in the rest of the country (source: Lisa). Similarly, the number of inhabitants in the central and western part of the Netherlands is forecasted to grow, while the outskirts of the country will see a drop in number of inhabitants and sometimes even in households (source: PBL).

■ Secondly, companies are consolidating the number of locations at which they operate. The recent consolidation of five Amsterdam ING offices to a single location in Amsterdam-Southeast is an excellent example.

■ The third type of concentration is that towards the best performing areas. In Amsterdam in 2012 around 70% of all new office occupier leases took place in just three areas: city centre, South Axis and Southeast. These are all mixed-use areas with excellent accessibility by public transport and these two factors combined are clearly of the highest importance in today's office location decisions.

■ The final type of concentration concerns the smart working trend in which employees regularly work from home and where desk sharing is key. In some cases, like CapGemini in Utrecht, a 40% cut in sq m usage has been realised. Own research shows that the majority of companies is eyeing this trend and incorporation will potentially lead to a 15-20% cutback on office space needed in the next 5 years.

GRAPH 4 Prime gross yields by sector Stable yields in all sectors



Graph source: Savills

OUTLOOK 2013

More investments, stable occupier demand

■ In 2013 the volume of office occupier transactions is expected to remain similar to that of 2012. The number of new developments does not change much and the office occupier market remains characterized by outsourcing, smart working, consolidation, concentration and demand for flexibility. This will drive companies to optimise their housing needs. Well functioning office locations will profit from these trends, while the transaction volume in secondary areas will be subdued. Rents and vacancy levels at prime locations will remain stable, while in the remainder of the market vacancy is likely to increase further and rents will continue their downward trend.

■ Appetite from especially the German funds for prime office property remains strong, while interest from value add and opportunistic buyers is rising due to the increasing gap between prime and secondary assets. Coupled with an increase in (semi)-forced sales will likely lead to an increasing number of office investments in 2013. The total volume is however expected to turn out similar to that of 2012, since that volume was heavily supported by the €425m Philips High Tech Center transaction.

■ Occupier demand in the industrial and logistic market is likely to anticipate the projected economic recovery. A slight increase in demand in 2013 is therefore expected, followed by a larger increase in 2014. Rents at hotspots will remain stable and could increase slightly, due to local scarcity of high quality property. Older supply however, has to compete on price in order to remain marketable. Investment levels are likely to increase to at least €0.5bn since more and more investors enter this market segment.

■ Retailers will in 2013 again be confronted with decreasing consumer spending, growing competition from e-commerce and limited new developments. This will lead to occupier demand levels similar to that of 2012. Investors increasingly focus on their core strategy (Redevco and Vastned on prime high street; Corio and Unibail-Rodamco on large shopping centers) and supply of non-core properties is likely to increase. This will lead to increased investment levels to around €1bn in 2013.

TABLE 1

Largest occupier transactions 2012

EDC's, consolidation and retail chains

Address	Sq m	City	Sector
Rhenus	52,000	Son	Logistics
Van Rooijen	45,000	Eindhoven	Logistics
Brand Loyalty	41,650	Venlo	Logistics
ING Bank	18,850	Amsterdam	Office
Robeco	16,200	Rotterdam	Office
Stibbe	14,400	Amsterdam	Office
Primark	7,350	Eindhoven	Retail
Decathlon	5,900	Best	Retail
Primark	5,775	The Hague	Retail

Table source: Savills

TABLE 2

Largest investment transactions 2012

Philips HTC largest transaction

Object/city	Price (mln)	Buyer	Sector
Lakeside portf.	€ 105.0	WDP	Logistics
Ekkersrijt	€ 35.0	Dokvast	Logistics
Barneveld	€ 25.7	WDP	Logistics
Philips HTC	€ 425.0	Chalet Groep	Office
Vinoly	€ 140.0	Deka Immob.	Office
The Rock	€ 132.9	Deka Immob.	Office
The Wall	€ 91.0	The Wall R.E.	Retail
SC Waddinxvln	€ 60.0	Altera	Retail
Singel A'dam	€ 57.3	ASR	Retail

Table source: Savills

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