Netherlands Market in Minutes
The Netherlands remains target for foreign capital

June 2016

Strong economic growth

The Dutch economy grew by 1.4% yoy in 2016 Q1 with all economic key figures showing growth: government investments +1.3%, household consumption +0.9%, exports +6.4% and private investments +8.2%.

The unemployment rate stood at 6.6% in April from 7.1% in the same month a year ago. House prices increased by 6.7% yoy in 2016 Q1. Compared to the bottom in June 2013, prices are up 12.1%.

Producer confidence stands at 8.8, slightly lower than the 9.3 last quarter, the highest since 2011. Producer confidence has now been positive for 2.5 years in a row. Consumer confidence in turn stood at +1 in May, also well above the 20-yr average (-8).

CPB set the forecasts for economic growth at 1.8% for this year and 2.0% in 2017. Recent forecasts by analysts at Rabobank and ING are even more positive and predict growth of 2.0% or more for this year already.

Occupier markets at different speeds

The economic growth and the positive economic outlook support the occupier market. However, whereas occupier demand showed growth in all sectors in 2015, demand in the first 4 months of 2016 differed substantially by sector.

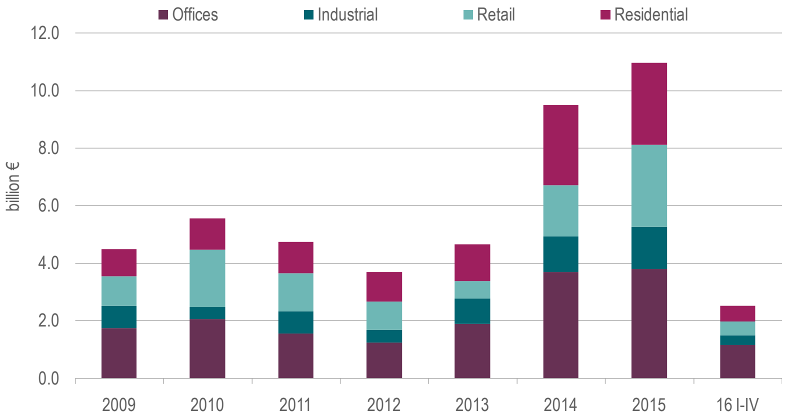
The industrial market continued its strong momentum and saw take-up grow to over 1.2 million sqm, compared to 920,000 in 2015 (+34.7%). The logistics sector, spurred by e-commerce demand, played a major part in this growth. While logistic demand in the Noord-Brabant province remained dominant, occupier demand is seen to spread over the country.

Total retail occupier demand reached 200,000 sq m in 2016, more or less on par with the 205,000 sqm transacted last year. Savills expects occupier activity to increase in the remainder of the year as the vacated locations of bankrupt retail chains (like the V&D department store chain) will be filled. International chains do focus on the 20-25 largest cities in the Netherlands.

In contrast, the office market saw a substantial decline: from 340,000 sq m in 2015 to around 280,000 in 2016, a decrease of 17.0% and not in line with our expectations. Savills expects this to be just a temporary setback as we see many occupiers actively searching for suitable space and there are a number of substantial transactions to be signed on short term. On the other hand the limited number of developments and decreasing supply at the prime spots does limit opportunities for companies to relocate to more suitable locations. The lower supply at these prime spots also results in lower incentives and increasing effective rents.

GRAPH 1

Investment volume by sector: €2.5bln transacted in the first four months of 2016, compared to €1.7bln last year



Graph source: Savills

Further increase in investment volume

As forecasted in the previous Market in Minutes, commercial investment activity increased and reached €2.5bln in the first four months of 2016, compared to €1.7bln in the same period last year. Growth was concentrated in the office and residential sectors. The office investment market more than doubled from €500m in 2015 to €1.2bln in 2016. The purchase by MCAP global Finance of the €380m Credit Suisse portfolio significantly contributed to this total. Gross prime office yields remained stable in the first months of 2016 and currently stand at 4.8%.

Residential investments increased

further, from €415m in 2015 to €510m in 2016. While Dutch investors were responsible for most of the transactions, foreign buyers Round Hill, Heitman/OCP and, to a lesser extent, Patrizia also strengthened their position on the Dutch market. Gross prime yields for residential property stand at 4.5% currently.

> "The growth of investment volume to €2.5bln shows continued investor interest"
>
> Jan de Quay, Netherlands Investments

Student housing investments are not included in this data and almost doubled compared to last year: from €75m in 2015 to €140m in 2016 (in both cases data up to and including May). Of the 2016 volume, more than half concerned cross-border deals.

The retail investment market increased by 11% to a total volume of €475m, very much supported by shopping centre transactions. In the course of this year gross prime yields decreased further to 3.75% for high street retail and 5.25% for shopping centres.

Despite the significant increase in occupier activity, the limited availability of product in the logistics market subdued investment volumes: €335m in 2016 compared to €390m in 2015. Still, investor interest for this category is vast and as a result gross prime yields in this sector have contracted spectacularly over the past 18 months, to currently 5.75%.

The data in the Market in Minutes relates to the first 4 months of 2016 only. In May and even June 1st a number of noteworthy investments transactions were registered. Notably the purchase of the mixed-use De Rotterdam building, the largest single asset deal in recent years, for €350m by AMUNDI Real Estate representing Korean investors, but also office building FIRST Rotterdam by Union, three student housing projects by Xior, Eurocenter II in Amsterdam by LaSalle IM, an office portfolio by Union Street Investments, a residential portfolio by Round Hill, a 100,000 sqm logistic development by Logistics Capital Partners and a Propertize office portfolio by DW Partners and Whitewood Capital.

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 might become a future bottle-neck, but for the medium-long term the arguments for sustained high investment volumes are numerous:

- The availability of financing has fully recovered.
- As prices have risen owners are motivated to cash in.
- Sellers will be motivated to sell in 2016/2017 making use of the three year transfer tax break that ended in December 2014.
- A number of portfolios and large assets are expected to be closed on short term.
- There is the expectation that governments and city councils will continue to sell large volumes.
- Interest rates will remain low for at least two years.
- Unprecedented funds have been raised and must be invested.

Outlook

Savills foresees investor interest to remain high, which will keep pressure on prime yields. While the largest contraction has taken place over the past 18 months, there is room for some further compression in all sectors.

The economic growth and positive forecast will support occupier demand in all sectors. New developments (and redevelopments) for retail, offices and residential (including student housing) will mainly take place in the major Dutch cities as people, jobs and economic growth will continue to concentrate here.

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