Market in Minutes
Netherlands

1H 2012

Market in Minutes shows in brief the current opportunities and threats of the Dutch property market and includes forecasts.

Economy: decline in 2012, export based growth expected in 2013

Increasing unemployment, falling house prices, decreasing spending power and an overall uncertain economic outlook have lowered consumer confidence and consumer spending. Combined with the necessary public budget cuts in order to meet the EU regulations, economic growth can only originate from increasing exports. These exports did show better than expected figures in Q1 12, but the overall estimated GDP growth in 2012 remains at -0.75% (source: Centraal Planbureau).

It is estimated that external demand will be the driver for more economic growth in 2013, forecasted around +0,75%, but the euro zone crisis might have unforeseen implications, with the risks that economic growth will be lower. For the longer term, over the period 2013-2017, the overall economic growth is estimated to be around 1.5%, again stemming from increasing exports and related investments in the private sector.

> "The current opportunity driven market provides great potential for private investors with access to finance."
>
> Clive Pritchard, Director Savills Investment

Occupier market: office demand relatively stable, retail and industrial down

Leasing turnover for commercial real estate in 1H 12 totaled 1.8m sqm, around 17% lower than the first half of last year. This all has to do with a very weak Q2 12. While demand in Q1 12 held up against last year average figures, Q2 12 showed a significant drop in leasing transactions: 785,000 sqm versus 1,040,000 sqm in Q1 12.

The office market showed the smallest decline in 1H 12: -6.9% compared to 1H 11 and total demand reaching 705,000 sqm. The industrial market had a take-up level of 960,000 sqm, down 22.8%, while the retail market showed a similar drop in demand: -21.8% and totalling 155,000 sqm in 1H 12.

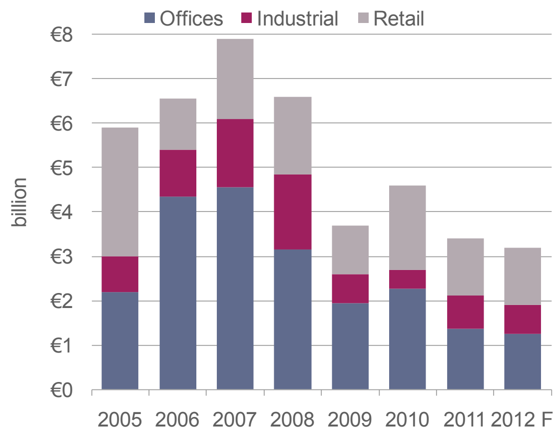
Supply of offices increased further, plus 128,400 sqm in the four large agglomerations in the course of 1H 12 also increasing the vacancy rates to an average of 16.3% in these areas. Again the peripheral, monofunctional office areas, often in satellite cities such as Rijswijk, Capelle aan den IJssel, Amstelveen, Maarssen and Nieuwegein, showed the highest vacancy rates. The gap with the well functioning, more central, mixed-use and better accessible areas is increasing ever more, both in respect to occupier demand and investment demand. Prime office rents remained relatively stable, while at the other side of the spectrum, office locations under strain do see starting rents drop.

With retail sales generally showing a negative trend for over a year now, the retail market as a whole is under strain. Prime locations, being the high streets in the major cities, still do well, with vacancy being almost non-existent and rents stable, while the secondary locations and also the smaller cities did see vacancy rising over the past six months.

At the industrial/logistic market new developments are scarce and available high quality product is limited, resulting in stable rents for prime property.

GRAPH 1

Netherlands investment volume



Source: Savills Research

Also in this sector oversupply is mainly visible at the secondary market and over the past year rent levels of secondary property have experienced downward pressure.

Investment market: interest for prime property remains high

The total commercial investment volume in 1H 12 dropped by 10.1% y-o-y to €1.63bn. Especially the industrial market and the retail market showed a negative trend, with investment levels falling by 59.3% and 37.9% per annum respectively. The office market on the other hand showed a 36.0% increase in investments and totalled €1.1bln. This volume was heavily underpinned by the Philips High Tech Campus transaction in Eindhoven, which changed hands for around €425mln.

Financing constraints caused for rising yields in the past 6-9 months in both the office market (+20-50 basis points) and the industrial market (+25 bps). Yields for high street actually dropped further (-25 bps) as interest for this smaller-scaled product has even been increasing over the past six months.

Concerning the office market the appetite especially from German funds for prime property remains very high, with German investors purchasing for a total of €516m (Q1: €173m and Q2: €343m), and thus responsible for a stunning 47% of the total office investment demand in 1H 12.

Other transactions, like the purchase of the mostly vacant The Hilt building in the Amsterdam Waterfront area, do show that the Dutch office market provides increasingly buying opportunities for value-add investors. It is likely that more similar transactions will be registered.

Private equity funds played a significant role in the first months of 2012 with the purchase of the distressed Uni-Invest and Orange portfolios. It is likely that similar transactions will occur more often, although size does matter: the private equity funds are mainly interested in the larger portfolios.

"Office occupier demand is focused on mixed-use, well accessible office locations and in a number of those supply is getting scarce." Coen de Lange, Director Savills Agency

OUTLOOK

Gap between prime and secondary growing further

■ A shrinking economy and a severe uncertainty surrounding the potential recovery in 2013 will have limitations for occupier demand in the office, retail as well as the logistic market. The latter market might profit from an increasing international trade and the strength of the Netherlands as logistic hub, but overall occupier demand in 2012 and 2013 is likely to stay stable.

■ On the investment side it is expected that the 2012 and 2013 volumes will not exceed those of last years, taking the financing constraints and low liquidity into account. This will result in upward pressure on yields in secondary markets.

■ Forced sales are slowly accruing and in the remainder of 2012 and in 2013 this will continue to be the case. This will provide for increasing opportunities for value-added investors and private equity funds.

■ In all markets the gap between good product and secondary product is increasing, both in terms of vacancy, as well as rent levels and yields. A good grasp of the strengths and weaknesses of the local submarkets is essential when investing in the Dutch property market.

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