

Netherlands Market in Minutes

Investor interest for non-core assets will increase

March 2014

Further improvements Dutch economy

While the first signs of economic recovery were visible early 2013, it was not until the final quarter before the majority of the key economic indicators turned towards recovery.

Recently the ECB raised the forecasted economic growth for 2014 to +1%, while the CPB increased their growth projection to +0.75% in 2014 and +1.5% in 2015. Despite the relatively small figures, the effect of these outlooks and the accompanying positive newspaper headlines already contributed to a further increase in consumer confidence, to an increase in household spending, to a growth in volume of private sector investments and a positive purchase managers index (source: NEVI).

Next, the house prices are stabilising after falling for five consecutive years. This is an important contributor to the increased consumer confidence.

At the same time unemployment remains high, bankruptcies are still common and the number of job openings is rising. All indicators of the severe effects the five year recession period still has on the Dutch business sector. While economic growth is returning it will take time before households, private companies and the public sector will have recovered from the damage done by five years of recession.

Occupier demand remained stable

By year-end 2013 occupier take-up in the office, retail and industrial sector combined reached 4.0m sqm, exactly the same as the previous year. There are however differences between the different sectors.

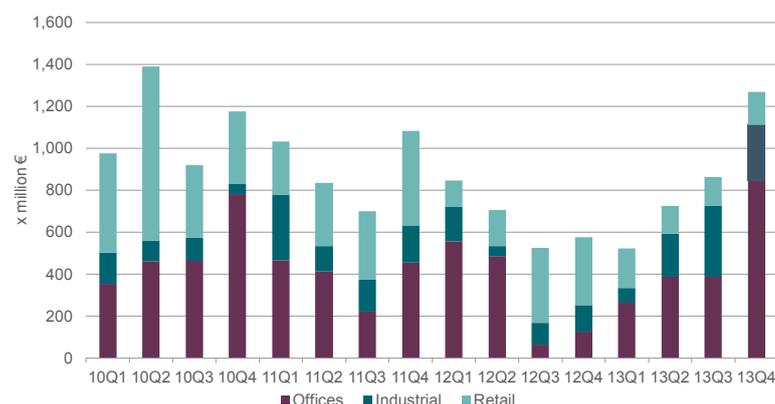
Demand in the office market reached around 1.15m sqm in total, significantly lower than the almost 1.3m sqm in 2012. Transactions that still took place were increasingly concentrated

in the Randstad (45.6% in 2013) and especially Amsterdam (21.0% in 2013 compared to just 13.2% in 2009). Office transactions in the first two months of 2014 support the trends towards consolidation (UWV in Breda, Rabobank Gouwestreek in Gouda and Stichting Vèrian in Apeldoorn), towards purchasing instead of leasing (Nationale Politie in The Hague, Heerlen municipality and Triade in Groningen) and finally towards more efficient use of space of large companies (LyondellBasell leaving 12,000 sqm in the Groothandelsgebouw in Rotterdam and leasing 9,000 sqm in the nearby Central Post office building).

After a weak 2012 retail demand picked up significantly during 2013, especially so in the second half of the year and totaled around 370,000 sqm in the full year. The increase was among others driven by expanding international fashion retailers, often in large inner-city developments. This trend continued in early 2014 with Primark leasing a stunning 13,500 sqm (of which 8,800 sqm sales area) in an Amsterdam city centre redevelopment and another 4,375 sqm in Rotterdam South, while H&M extended their Rotterdam city centre store and signed new leases in both Vlaardingen en Meppel. In addition value-retailers, like Action and Big Bazar, are rapidly increasing the number of stores in their chains and both chains open multiple stores each month.

Industrial occupier demand reached 2.47m sqm in 2013 and was 2.6% larger than the previous year. Data on new logistic developments suggest that 2014 will see a lower number of completions than in the record- ➔

GRAPH 1
Investment volume Netherlands by sector: Q4 2013
turned out even better than anticipated



Graph source: Savills

high 2013. This despite some recent speculative developments, like the 45,000 sqm logistic centre by Dok Vast in Tilburg. The smaller pipeline is partly the result of the vast amount of new developments in the previous years and partly of logistic service providers taking a step back in order to develop new strategies to cope with the e-commerce trend.

Investment in non-core increases

Interest from investors for Dutch property increased on a daily basis during 2013. With Q4 2013 totalling around €1.3bln the overall investment turnover in 2013 reached €3.4bln, a 27% increase from the previous year.

concerned core assets, another 29% core+, 10% value-add and finally 22% opportunistic. Since much of the core Amsterdam assets have been transacted in recent years, limited opportunities remain. Savills therefore expects investors to turn increasingly towards the other large cities and to non-core assets. The majority of the 2014 office investments so far concern redevelopments and value-add transactions, like Blaak 16 in Rotterdam, supporting these expectations.

Investments in the industrial sector totalled €880m in 2013, of which around €575 concerned logistic properties and were oriented mainly towards new developments. The first

Meren in Hoofddorp and De Koperwiek in Capelle a/d IJssel), a factory outlet centre (Batavia Stad in Almere) and a high street development in The Hague. These transactions totalled over €600m and together with the smaller transactions the 2014 total already surpassed the 2013 full year total.

Investor interest for sectors like hotels, student housing, residential, and care is expected to continue to rise as these are sectors in which user demand is large and growing.

Outlook

At the occupier side Savills forecasts the 2014 take-up figures to be very similar to the previous years. With moderate economic growth occupiers will remain cautious.

"Limited opportunities for core offices will push investors to value-add markets."

Clive Pritchard, Netherlands Investments

Driving forces behind this growth have been the general increase of capital flowing towards property markets, a very competitive price level of Dutch properties both for prime and for value-add/opportunistic properties, and the eventual willingness of owners to dispose of their non-performing assets.

Investments in the office market totalled €1.9bln, of which €845m was transacted in Q4 2013. Around 38%

months of 2014 however showed increasing interest for the multi-let light industrial market, exemplified by the recent Rockspring purchases.

The first months of 2014 showed an increase in retail investments. First of all due to the sale of a €213m portfolio from Corio to a JV of Mount Kellett and Sectie5 and secondly due to four substantial single asset deals, including two shopping centres (Vier

Concerning the investment market Savills expects both the office market and the industrial market to remain somewhat behind the 2013 totals. Within the office market availability of prime product is limited, while in the logistic market there will be fewer developments. The retail market however is forecasted to fill this gap and bring the total year-end volume in the range of €3.5 to €4.0bln.

Yields for prime properties are likely to contract further, while increasing interest towards value-add and opportunistic properties will prevent further softening of secondary yields.

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