Market in Minutes
Netherlands

Q1 2012

Market in Minutes shows in brief the current opportunities and threats of the Dutch property market and includes a 2012 forecast.

Economy: dark clouds in 2012, silver lining in 2013

Uncertainty is the keyword describing the current economic climate in the Netherlands. The government has to deal with the financial repercussions of the Eurozone sovereign debt crisis and will have to make drastic budget cuts in order to meet the EU requirements. These cuts will seriously affect the economics of individual households and private companies. Households already face rising unemployment, lower spending power, decreasing housing prices and non-indexed pensions. No wonder that consumer trust is currently even lower than in 2009 and that household spending dropped in the final two quarters of 2011 by 0.9% and 1.8% respectively.

The 2011 growth of world trade has come to an end and for 2012 a decline of 1.75% is forecasted for Dutch exports. Following lower domestic spending and declining exports, private companies are cutting back on their investments, are reducing risks and are focusing on their daily operations.

All in all 2012 will be a tough year. Households, companies and the public sector are focusing on cutting expenses and recovery will not come from world trade. For 2013-2015 economic forecasts show a small but steady economic growth between 1% and 1.5%, mainly supported by exports.

Occupier market: retail and industrial markets pulling the cart

Demand for commercial real estate in 2011 totaled 4.3m sq m, up 13% from last year. This increase can mainly be attributed to the industrial market, jumping from 2.1m to 2.6m sq m. Demand for retail property also increased, from 275,000 sq m to 425,00 sq m, while the office demand faced a decline in take-up: from 1.5m to 1.3m sq m.

"The current opportunity driven market provides for great opportunities for private investors with access to finance."

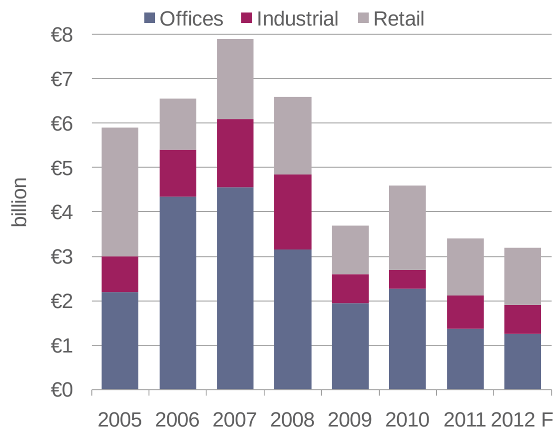
Clive Pritchard, Director Savills Investment

Preliminary figures for Q1 2012 show demand to be close to the quarterly average of 2011.

Office users are focusing strongly on cost-saving and are cancelling or postponing relocation plans in favor of lease renewals. Supply of offices increased over the past year and reached record-levels in a number of markets. Especially satellite cities, such as Rijswijk (19.8%), Capelle aan den IJssel (24.9%), Amstelveen (24.1%) and Nieuwegein (27.2%) show high vacancy rates.

GRAPH 1

Netherlands investment volume



Source: Savills Research

With office demand dwindling it is more than likely that vacancy will only increase in the years to come. Both private companies and the public sector are increasingly embracing 'smart working' methods, reducing the need for square meters. This is without a doubt the single largest threat for the office market.

It is remarkable to note that over the past months three large financial companies (Deutsche Bank, ING and TMF Group) moved/consolidated their offices in Amsterdam-Southeast, more specifically in the Arena submarket. The combination of attractive rents, excellent accessibility by car and public transport and the increasing presence of amenities is turning this into a very competitive area.

Oversupply is also visible in the industrial market and the retail market, although in both cases the vacancy mainly concerns secondary property, while occupier demand for prime

property is still high.
In all sectors prime rents are stable, while in the office market rents remain heavily supported by incentives.
At secondary locations incentives remained very generous and in areas with large oversupply headline rents are dropping.

Investment market: private investors and opportunity funds stepping in

The total commercial investment volume in 2011 dropped by 26% to €3.4bn, with Q1 2011 being the best quarter of the entire year. This indicates that over the year the commercial investment market worsened, both due to less liquidity in the market and increasing restrictions on finance. This in turn resulted in softening yields, also at prime locations, where yields moved upwards 30-50 basis point over the past 6 months.
With institutional investors and (foreign) funds being more hesitant, chances for private investors, with a value added or even opportunistic approach are increasing. The proposed sale of the Philips High Tech Campus for around €450m, the largest commercial transaction in years, to the private Chalet Group is proof that these types of investors will likely increase their market share in the Netherlands in 2012.
Other large Q1 2012 deals include four trophy office buildings (Number One and Nijenburg in Amsterdam, Monarch and Haagsche Hof in The Hague), which were all bought by German funds, indicating that in the current market these funds remain highly interested in prime property.
The office market (39%) and the retail market (38%) were the largest investment markets, followed by the industrial/logistics market with the remaining 23%. Investors increasingly focus on retail and the industrial/ logistics market, but also on alternative sectors, such as (student) housing, hotels and parking garages.

"In many submarkets occupiers can make good use of their strong negotiation positions, particularly when renewing their leases." Coen de Lange, Director Savills Agency

OUTLOOK

Private investors more dominant, upward pressure on yields

■ 2012 will be a year of economic stagnation and it will not be before 2013 that any economic growth can be expected. With lower demand from households and exports dwindling, it will be a challenging year for private companies, reflecting in low demand for real estate, and this will not be compensated by increasing demand from the public sector.

■ At the investment side it is expected that the 2012 volume will not exceed that of last year, with liquidity low and limited financing opportunities. The result will be that yields will move upwards in the troubled markets, as we have seen already in the office market over the past months, where yields softened with 30-50 basis points.

■ 2012 is also likely to show an increase of forced sales. The limited liquidity will however narrow demand for these opportunities, resulting in sharp price corrections for all asset types.

■ For the first time for over a decade the Dutch property market has turned into an opportunity driven market, with sufficient purchasing possibilities for investors with access to capital.

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