Netherlands Market in Minutes
Interest of buyers and sellers aligned

December 2014

Economic growth

In Q2 and Q3 2014 all economic key figures showed yoy growth: household consumption +0.6%, private investments +2.8%, public investments +0.6% and exports +4.5%. The last time this happened in two consecutive quarters was early 2008, before the start of the crisis.

This growth is accompanied by a high producer and consumer confidence, by a further increase of the purchasing managers index (to 54.6 in November, the highest figure in nine months; source: Nevi), and by a positive outlook for 2015 among small and medium-sized enterprises, according to a recent survey.

While the economic growth in the Eurozone is currently slowing down, the forecasts for economic growth in the Netherlands remain relatively unchanged and predict a 0.75% growth in 2014 and around 1.5% in both 2015 and 2016.

Bonds, shares & property

The amount of capital within investment vehicles has accumulated vastly over the past two years and is looking for profitable return on investment. As bond yields remain low, both shares and property have profited substantially from this increase of capital. At the start of December the Amsterdam Exchange (AEX) reached a post Lehman Brothers record and, similarly, European property investments reached the highest volume since 2007. This also due to the return of debt, as both foreign and national banks are now eager to finance, with LTV's again up to 65-70%.

Stable occupier demand

The increase in investment volume is not yet supported by increasing occupier activity. Take up remained fairly stable since 2009 and total demand for office, industrial and retail space generally fluctuates around 4.0m sqm per year. 2014 will not be an exception as take up reached close to 3.0m sqm by the end of Q3 and is just short of 1.0m sqm mid December. By the end of the year take up will be between 4.0m and 4.1m sqm.

Office take up totalled 850,000 sqm by the end of Q3 2014. The forecasted 275,000 sqm demand in 2014 Q4 will bring take up towards 1.13m sqm, just short of last year's total. Due to improved economic prospects many firms are now reassessing their location strategy and are actively choosing whether to extend their lease or to move to a new location. In both cases a critical look is given towards the effective use of office space, also leading to an increase of subletting.

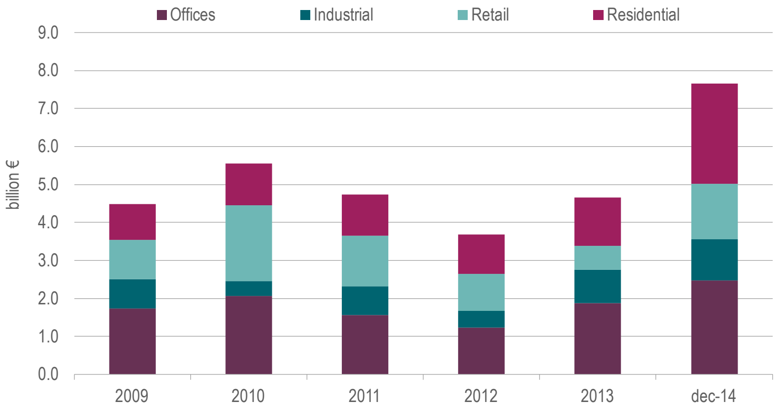
Retail occupier activity reached around 345,000 sqm by the end of Q3 2014. In Q4 2014 usual suspects such as H&M, Mediamarkt, Decathlon and JD Sports signed substantial new leases and demand will likely end up around 120,000 sqm in the final quarter and around 465,000 sqm for the full year, a 25% increase compared to last year.

Interesting to note is the increasing activity from previously internet-only companies, as recent leasings from CoolBlue (Groningen), Futurum Shop (Apeldoorn) and Lamp en Licht (Breda) show. Still, many retailers have to cope with five challenging years and 2015 will likely see a continuation of consolidations and foreclosures.

Logistic demand has gained speed in the second half of 2014 and pushed industrial take up upwards. Take up in Q4 2014 saw large signings from a.o. Tesla and Coolblue and will reach around 700,000 sqm. Total industrial demand in 2014 will be around 2.45m sqm, similar to last year's 2.47m sqm.

GRAPH 1

Investment volume Netherlands by sector:
Mid December 2014 and almost €8.0 bln invested already



Graph source: Savills

Foreign investors and portfolio deals

Investment activity increased substantially in 2014 and by the end of Q3 the total investment volume in offices, industrial, retail and residential already outperformed the full-year volumes of the previous three years.

Investor appetite prolonged in Q4 2014 and mid December already over €2.0 billion was invested. With a few weeks left and a number of significant portfolio deals awaiting finalisation, the combined investment volume in offices, industrial, retail and residential will reach over €8.0 billion in 2014, compared to €4.7 billion in 2013.

The increase in volume can very much be attributed to foreign investors as they were responsible for around two-third of the investment volume. Especially equity buyers from the US and the UK turned to the Netherlands. These investors focus on value-add and opportunistic properties, preferably in portfolio segments and preferably in large lot sizes. Major reason for them to invest in the Netherlands is pricing. Property values have dropped considerably over the past five years, while initial yields are still significantly higher than in other major European markets.

Portfolio deals were plenty and responsible for 42% of the total investment volume so far, compared to 25% in 2013. Noticeable Q3 and Q4 portfolio deals concerned a €385m purchase by Lone Star of 32 offices from CBRE GI, a €70m purchase by Lone Star or 5 offices from IVG, a €240m purchase by Blackstone of 14 shopping centres from CBRE GI and a €180m purchase of a residential portfolio by Round Hill.

"Liquid markets in all sectors aligns the interest of buyers and sellers, allowing asset managers to redefine fund strategy."

Clive Pritchard, Netherlands Investments

The purchase by Round Hill was their third residential purchase this year and reflects the large interest from foreign investors for this sector. Besides Round Hill also BNP Paribas REIM, Aventicum, Patrizia and Heitman entered the Dutch residential market in 2014 and many more have lined up.

The hotel and the student housing sectors also witnessed increasing demand from (international) investors. In both sectors the aim is very much oriented towards the Amsterdam market where supply and demand rates remain very favourable.

Outlook 2015

Due to a growing economy the occupier activity will likely increase in all sectors. However, as optimisation of the location strategy will remain important, this will not reduce vacancy in both the retail and the office market.

Only at very specific office and retail sites rents might further increase. Within the logistics market, the lack of high quality supply will likely result in upward pressure on logistic rents.

Yields will generally remain stable, as the large investor interest and increase of debt will have an overflow effect towards core+, value-add and opportunistic properties. Again, at specific high quality sites yields might contract further in the course of 2015. This goes for all sectors.

Total investment volume is very much dependent on the supply of product. As equity investors are aiming at purchasing large lot sizes, providing these will be the major challenge. With this large appetite from investors and with debt widely available, 2015 will be the right year to sell properties and especially portfolios.

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