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Netherlands Market in Minutes
Recovering occupier demand drives investment volumes

June 2015

Broad-based economic growth the Netherlands

The Dutch economy grew by 2.4% yoy in 2015 Q1. This increase was across the board as government spending (0.5%), government investments (2.8%), household consumption (1.4%), exports (3.0%) and private investments (8.8%) all provided for substantial positive contributions.

Two other important parameters showing a positive trend concerned the unemployment rate, which further decreased to 7.0% from 7.2% last quarter, and the house prices, which increased by 2.3% yoy in April 2015. Compared to June 2013, when house prices hit bottom, prices are 4.4% up.

This caused both producer and consumer confidence to increase further. Producer confidence stands at 4.1, the highest level in 4 years and well above the 20-yr average (0.4). The consumer confidence in turn stood at +2 in May, also well above the 20 year average (-9). As a result consumers have spent 1.9% more yoy.

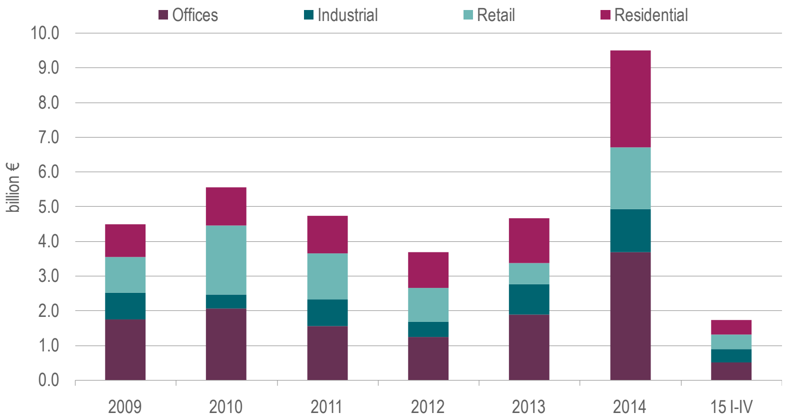
Euro economy growing

Both the Eurozone and the European Union showed a 0.4% growth yoy in 2015 Q1. Due to this growth the size of the total economy in the European Union turned out higher than at the start of 2008. Mind: for the Netherlands this figure is still negative: -1.1%.

This ongoing economic growth could be the major reason why bond yields have started to rise in the past weeks. As the economy is getting stronger the ECB at one point will readjust their strategy of keeping interest rates low and might eventually reconsider the need for further QE. And when interest rates will go up, this will in turn also drive property yields upwards. This is not likely to happen in the short term as the economy first has to become robust enough to be able to absorb these adjustments.

GRAPH 1

Investment volume Netherlands by sector: Large number of small transactions do drive volume up



Graph source: Savills

Take-up increasing

As the economy is steadily growing and as the forecasts remain positive, activity in the occupier market has now started to pick up and commercial take-up reached 1.45m sqm in the first 4 months of 2015 (up 31.7%), especially due to the industrial market.

Office take-up in 2015 totalled 340,000 sqm compared to 295,000 sqm in the previous year (+14.6%). The overall willingness to move is increasing and landlords still offer substantial incentives in order to attract new tenants. Combined with the fact that many companies have stayed put over the past seven years, a reservoir of potential demand has formed.

As foreseen the number of transactions grew faster than the volume of take-up (18.5% vs 15.6%), indicating that companies, in search of efficiency, do tend to cut down on sqm usage.

Amsterdam remains the main destination for international HQs and over the past half year four of them settled in the capital: SalesForce (2,650 sqm), Celanese (1,600 sqm), Multi (1,900 sqm) and Henkel (3,300 sqm).

Total industrial demand ended up at a high 920,000 sqm (+46.0% yoy). Logistic demand reached 244,000 sqm, more than double from 2014, when take-up reached 110,000 sqm.

New logistic developments, many of them speculative, are plenty and are driven by the strong growth in e-commerce (+18% in Q1 2015). Retailers expanding their logistic networks include bol.com (phased 200,000 sqm development) and Primark (80,000 sqm).

Due to a strong April retail take-up increased from 185,000 tot 205,000 sqm. At the positive side new inner-city developments are plenty, new formulas are entering the Dutch retail market (Ted Baker, &OtherStories, Haussmann) and recently the province of Noord-Holland approved a new outlet centre just West of Amsterdam. On the other hand, many retailers follow the example of department store V&D and demand rent cuts from their landlords to support their transformation processes. Retailers lacking a clear customer proposition will remain in danger in the competitive Dutch retail market.

"After seven meager years, occupier demand is now rising in all sectors."

Wouter Stevens, Netherlands Agency

Investment volume awaiting growth spurt

Investment volume went through the roof last year as the large demand was met by substantial supply, including a number of large portfolios. While investor demand remains invariably high, 2015 did not see these sort of large portfolio deals yet.

Commercial investment activity reached €1.7bln in the first four months of 2015, compared to €2.1bln in the same period last year. Retail and residential investments were both around 30% lower than last year, while office investments were almost identical and industrial investments were up almost 12%.

Looking towards the remainder of the year, there are a large number of portfolios, large single assets and loans awaiting. Prime yields are falling, but compared to other European cities, Dutch assets remain very attractively priced, thus attracting investor interest.

Within the office market there are close to twenty €40m+ office portfolios on the market totalling €2.8bln. And before this summer three large single assets will be sold, totaling another €350m. Remaining supply of large single office assets in the major cities is however getting scarce.

Investment appetite for the industrial market is large, logistic developments are plenty and a number of substantial portfolios are on the market. The retail market also sees an increasing number of investment possibilities.

The residential market is the only market which will end up with a lower investment total than the 2014 peak of €2.8bln, as massive portfolios are not available. Still, a large number of housing blocks have been bought this year by Dutch investors Amvest, Vesteda, Syntrus and Bouwinvest.

Next to the direct investments, another €1bln to €2bln of loans are on the market, tapping into the increasing appetite of (private equity) investors.

Prime gross yields in the office market stand at 5.6%, in the logistics market at 6.6%, for high street retail at 3.9% and shopping centres at 5.6% and in the residential market at 4.9%.

Outlook 2015

Supported by the economic upswing occupier demand in all sectors is foreseen to increase further in 2015-2016. In high vacancy submarkets this will however not affect the rents.

While investment volumes are still lagging Savills foresees a growth spurt. Supported by the availability of numerous portfolios and large single assets the commercial investment volume in 2015 is forecasted to end up higher than the 2014 total. The large demand for residential property can unfortunately not be matched with adequate supply.

Gross prime yields in all sectors will harden by another 10-20 bps in the remainder of 2015.

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Courtesy to PropertyNL for providing the transaction totals.