Almere’s **office market** on track to lasting recovery
History of Almere

The original vision for the land reclaimed from the IJsselmeer was that it would almost exclusively be destined for agricultural use. This changed after 1945, when it was acknowledged that a rapidly growing population, particularly in Amsterdam, would have to be accommodated elsewhere. The original plan for Almere was a self-contained and economically independent city with a population between 125,000 and 250,000 inhabitants. The politicians and urban planners of the day had big ambitions for Almere and departed from the ‘conventional’ process of organic city growth. Instead, the city was to be fully planned; an ode to the drawing board. The result was to be a fully self-contained city including commercial activities ranging from offices and industry to shops.

As we now know, however, these ambitions were never fully realised. Despite the grand plans and the fact that since the arrival of its first residents in 1976 Almere has become the largest urban ‘greenfield’ development in the Netherlands, the city remained largely an ‘overspill’ location for residents of Amsterdam.

Introduction

Almere is flourishing

In recent years, the municipality of Almere has been a front-runner in terms of demographic and economic growth. Forecasts now show that the original population targets for Almere, which had not previously been met, will soon be achieved. An important underlying driver for this growth is the increasing lack of space in the northern Randstad, particularly in Amsterdam. As a result, ever more functions have to be relocated. A good example of this is Lelystad Airport, which will reduce the need to expand Schiphol Airport. Almere is also benefiting from the expansion of the Randstad. For many years, it has served as a residential satellite for the Amsterdam metropolitan area, for instance.

It is not only the housing market in the Randstad, and Amsterdam in particular, that is under severe strain. A structural shortage within the Randstad is also imminent within the office market. Increasing scarcity is causing companies to move to other cities. Almere seems a particularly good alternative due to its strategic location, its direct connections with Amsterdam, and the available supply of offices. To date, however, the migration of companies from Amsterdam to Almere has been very limited. Why is this? What are the opportunities for Almere’s office market? And what is the outlook?
Almere’s first residents arrived in 1976, and the city’s growth in the years that followed was explosive. This dramatic growth has relented somewhat recently, but remains well above the national average.

Currently, Almere is the seventh largest municipality in the Netherlands in terms of population and significant further population growth is predicted. Statistic Netherlands (CBS) forecasts population growth of almost 50,000 (24.4%) by 2040. This would make Almere the fifth most populous municipality in the Netherlands. Predicted population growth is similar to that of Amsterdam and Utrecht, making Almere one of the country’s fastest-growing municipalities.

The character of this population growth has also changed. In the past, Almere’s growth was almost entirely attributable to an influx of new residents from Amsterdam, but now more new residents are arriving from other provinces. The city’s affordable housing market makes Almere an increasingly popular alternative for those wanting to locate in the northern Randstad. Almere offers good value for money, which is reflected in increasingly popular new neighbourhoods in the south (west) of Almere (Almere Duin). Partly because of this, activity on Almere’s housing market has been increasing steadily.

The uptick in house prices has outpaced the national average by some margin in recent years. The price per sq m in Almere rose by 18.4% in 2017 compared to the previous year, while nationally this increase averaged 9.4%. Almere’s consistently above-average rises in house prices illustrates its growing popularity as a residential destination.

“Almere offers ‘value for money’, meaning that both existing and new-build locations in Almere are increasingly popular.”

Martijn Onderstal
Economy

Almere has best economic growth rate in the Netherlands

Almere has a diverse economic structure, typically attracting new or established small and medium-sized entrepreneurs. It is therefore not surprising that the highest employment growth among SMEs was in Flevoland (MKB-Banenmonitor 2018Q2). In addition, the region’s ample supply of space and its strategic location near Amsterdam also contributed to growth in the industrial market. Almere currently has the eight largest stock of business parks (989 ha) in the country. Some 92 ha of land remains available, implying that companies will continue to have room to expand in the future.

In addition to population growth, the economy of Almere is also growing significantly. Recent research by Statistics Netherlands indicates that the municipality of Almere (along with the Eindhoven area) experienced the highest economic growth of the Netherlands in 2017 (+ 4.9%). This was caused partly by the growth of vehicle-leasing companies. These companies have a relatively large back office function, and thus need affordable office space in easily accessible locations. Indirectly, this economic growth was also due to the effects of strong population growth. After all, more residents require more amenities, which in turn provide extra business and employment opportunities.

Almere’s strong economic and demographic growth indicates the presence of strong pull factors attracting economic activity to the city. These factors generally have a positive effect on business activity and thus, indirectly, on the office market. But does this apply in Almere, and what is the picture for Almere’s office market?
Office locations

Almere Centre and Gooisekant account for more than 70% of all offices in Almere

Six office areas can be distinguished in Almere. The largest and most important are Almere Centre and Gooisekant, which both have quite different characters. Almere Centre has an urban character, with a strong mix of uses and good accessibility in relation to the central station. Gooisekant, by contrast, is a monofunctional business park that accommodates both offices and industrial uses. This area has good accessibility via the A6 motorway. The other four office areas are more modest in size. It is striking that office vacancy is highest in the two primary office areas. This is because many speculative developments were planned and delivered just prior to, and during, the last financial crisis. Another point to note is that over 80% of the total vacancy rate in Almere is only caused by vacancy in 12.5% of the total number of office buildings.

<table>
<thead>
<tr>
<th>OFFICE AREAS</th>
<th>STOCK (SQ M)</th>
<th>SUPPLY (SQ M)</th>
<th>VACANCY (% TOTAL)</th>
</tr>
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<tbody>
<tr>
<td>ALMERE CENTRE</td>
<td>271,180</td>
<td>80,065</td>
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<tr>
<td>GOOISE KANT</td>
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<td>MUZIEKWIJK</td>
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<tr>
<td>VELUWSEKANT</td>
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<tr>
<td>ALMERE BUITEN</td>
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<tr>
<td>ALMERE HAVEN</td>
<td>31,397</td>
<td>5,440</td>
<td>17.3%</td>
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Office conversions are the main cause of the substantial fall in vacancy

The size of the office stock grew significantly in the period leading up to 2013. The amount of office space in use also grew strongly until the financial crisis of 2008, almost doubling between 2000 and 2008, while the national increase was ‘just’ 11%.

After 2008, economic stagnation led to a decline in the demand for office space. Due to the speculative nature of many office developments in Almere, the local market took a particularly hard hit. The lag that is inevitable in real estate developments meant that these speculative developments were completed during the economic crisis. As a result, the vacancy rate peaked at a staggering 32.9% in 2017. Vacancy in the area of ‘Almere Centre’ reached almost 40%. Several buildings stood largely or even completely vacant from the moment of completion.

One example is the WTC, which is by far the largest office building in Almere. This grade-A office building was completed in 2010, precisely as the recession reached its deepest point and with no immediate prospect of any revival in demand. The timing could hardly have been worse. As a result, over half of the WTC stood empty until 2015. This horrendous vacancy rate blighted certain areas of the city and also undermined Almere’s reputation as an office market. Since then, however, the vacancy rate in the WTC has dropped to well below 40%. This makes the WTC one of the office buildings with the most rapid fall in vacancy in Almere.

"Almere is on track towards a healthy and lasting recovery of its office market”

Jordy Kleemans

GRAPH: 2017 MARKS THE FIRST SUBSTANTIAL DROP IN VACANCY SINCE THE DELIVERY OF SPECULATIVE DEVELOPMENTS IN THE PERIOD 2008-2013

STOCK SQ M | IN USE (SQ M) | VACANCY (%)
A fall in vacancy is now underway

Last year marked the first significant fall in vacancy since 2008. This was caused mainly by the substantial amount of office space made available for conversion. For instance, 47,750 sq m of office space has been withdrawn from the market (Stad and Muziekwijk) in the past two years. Since 2009, 9.2% of office space has been withdrawn from the office market. This proportion is considerably lower than in, for instance, Amsterdam (13.4%) in the same period, partly because substantial conversions in Amsterdam was initiated earlier than in Almere.

Prominent examples of conversion projects in Almere include the Martinez tower and Alnovum. Both buildings are located directly to the north of the railway station in the immediate vicinity of the WTC. Martinez accounts for almost 20,000 sq m and has been transformed into a hotel with 158 rooms. Alnovum consists of two towers, one of which will retain its current office function while the other will also be converted into a hotel.
Another explanation for the decline in vacancy is a slight increase in the overall demand for office space. Almere’s occupier market has been characterised by stable annual office take-up rates since 2013. The graph shows that almost 10,000 sq m of office space was taken up in the first half of 2018. This activity was mainly in the centre and in the Gooisekant business park. In addition to new take-up, 60% of all activity in the period 2014 - 2017 was caused by lease renewals, even though nationwide these only amounted to 25%. From this we can conclude that existing tenants are generally staying put and that take-up is largely being caused by new entrants to Almere’s office market. As a result, in addition to a stable take-up rate, the number of square metres of office space in use has also increased. One peculiarity of the occupier market in Almere is that leases tend to be for smaller offices. On the one hand, this is consistent with the trend that tenants are increasingly favouring smaller floor sizes. On the other hand, it also fits well with the profile of Almere’s office market. Because of its favourable pricing, Almere is an affordable alternative for start-ups and small or medium-sized businesses in particular. There is a chance that these companies will generate increased demand for office space as they grow in size.

In contrast to the national average, take-up derives mainly from the public sector, including education and healthcare. Affordable rents are generally a higher priority for this type of tenant.

The high vacancy rate has affected rent levels achieved for office space in Almere. Prime rents have now stabilised, following a decline prior to 2014. Presently, office prices in Almere are almost exclusively in the range of €90 to €165 per sq m / year. In some exceptional locations, such as the highest floors of the WTC, rents of up to €185 per sq m / year are realised.

Occupier market

In addition to a significant number of conversions, the strong decline in office vacancy is also a result of a general increase in the demand for office space.

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Limited activity in occupier markets generally means limited investment, and this applies in Almere. Prior to 2016, the investment volume did not exceed €30 million per year. This seems to have picked up somewhat since then, although the recovery remains fragile.

The spike in investment volume in 2017 was largely due to the sale of Aqua portfolio by Spes Bona to Kildare. Three of the seven office buildings in the portfolio are located in Almere, representing a value of approximately €50.4 million. Kildare is a value-added private equity fund that has invested in distressed real estate throughout Europe. The rest of the investment volume came largely from developers that planned to convert properties into residential or hotel uses.

Limited activity and high vacancy rates in Almere’s office market have led to a slow increase in gross initial yields (GIY) for investments. Recently, increased interest from investors has led to a stabilisation of GIY. The lowest yields are currently 7.5%.

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Various recent developments in Almere’s office market provide evidence of a recovery after years of stagnation. This is largely being driven by withdrawals, but also by a growth in intrinsic demand. As a result, the number of structurally vacant offices is falling and the image of Almere’s office market as a whole will improve over time. The recovery in the occupier market means that some increased interest in Almere among investors is also in evidence, albeit a modest increase.

“Almere can be considered a good place for small businesses to set up and grow towards success. This means there are opportunities for further profiling this market as an innovative environment for development.”

IJsbrand Brunger
trend to convert structurally vacant office buildings for other uses, particularly residential. A start was made in Almere in 2016, with a dedicated conversion task force to promote the conversion of vacant office buildings. This began later than in other cities, particularly given that the issue of vacancy had been there since the beginning of the financial crisis. There is a logical explanation for this, however. Almere has significantly more land available for new construction, average house prices are significantly lower and Almere’s office stock is relatively young. All these factors imply higher costs and lower revenues for conversion projects, making them less attractive from the point of view of developers.

Meanwhile, there remains significant potential for conversions in Almere due to the popularity of the housing market. Several large-scale repurposing projects are planned for the near future, together accounting for over 60,000 sq m. Some 80% of the planned conversions will take place in Almere Centre, and these are equivalent to 10% of the current stock and over 35% of current supply. This will lead to a higher total of conversion projects than in Amsterdam, for instance.

Increasing shortage of office space in Amsterdam
Office space is becoming increasingly scarce in Amsterdam. Since 2014 alone, vacancy in Amsterdam has dropped from 17.2% to 5.5%. Due to a combination of strong economic growth and the limited number of new office developments in the pipeline, supply is set to become even scarcer. As a result, companies are increasingly being forced to move (some of) their activities to neighbouring cities. This effect is being reinforced by rising rent levels due to the scarcity, which some companies are unable or unwilling to accept.

Companies like Asics and VodafoneZiggo have already made a conscious decision to locate their head offices in Hoofddorp and Utrecht respectively. Now that supply in those cities is becoming increasingly scarce, Rotterdam may appear to be a suitable alternative at first glance. However, for many companies the distance between Rotterdam and Amsterdam is simply too big, making Almere a logical and affordable alternative.

“In the past, vacancy rates in Almere above 30% were ‘common sense’. The expectation is that this percentage will eventually converge with the national average.”

Jordy Kleemans

Developments in Almere

Various large-scale developments in Almere are having a positive impact on the local office market

After years of stagnation and decline, there are clear signs that Almere is increasingly moving in the right direction. Since the city seems to be developing rapidly, what else can we expect in Almere, and what effect could this have on the office market?

Almere, an important growth hub within the Randstad
To ensure the international competitiveness of the Randstad, cooperation between various levels of government have led to the decision to divert a large part of the expected demographic and economic growth towards Almere. In concrete terms, this means an expansion of 60,000 homes and 100,000 jobs by 2030, for which €74 million has been made available through the Almere Urbanisation Fund. This includes plans to stimulate the area around the railway station by adding an integrated connection to the rest of the city centre. The Floriade, the world horticulture exhibition that will take place in 2022, will play a role in these developments.

Policies and measures to promote urbanisation in Almere
In order to safeguard and enhance the attractiveness of Almere as a business location, large-scale infrastructural developments are currently under construction or planned for the future. The A6 motorway, for instance, is being widened from two lanes to four lanes in each direction (scheduled completion date: 2019). In addition, the number of train tracks between Schiphol and Lelystad is being doubled, which will make it possible to board a train every ten minutes on this route. There are also plans for a new metro line, the M55 Umeer line, which will connect Almere to Amsterdam’s metro network. This new line would dramatically improve transport connections with Amsterdam. It is important to note is that this project is still in the exploratory phase.

Conversions as a driver of recovery
Issues with office vacancy all around the country have led to a
Almere’s office market on track to lasting recovery

To conclude, we can certainly say that the occupier market in Almere seems to have found its way. Although a complete and structural recovery remains elusive, the outlook for Almere is positive. As office space becomes increasingly hard to find in Amsterdam, Almere is expected to be seen increasingly as an alternative location for back / MID offices, for instance. Forecasts of significant population growth and Almere’s continuing affordability will further reinforce this trend.

In addition, the authorities are becoming increasingly aware of Almere’s growth potential and are stimulating growth through spatial policy. Here, the emphasis is specifically on connections between Almere and Amsterdam, and the urbanisation of Almere Centre.

In addition, Almere now has an opportunity to shake off its negative image. Due to recent interventions, vacancy is expected to fall towards the national average, even though the spread currently remains at 13.8%.

This is mainly due to the conversion projects planned or already realised, but it is also due to increasing activity and improved connections. The vacancy rate remains above the national average, but has improved significantly in relation to recent years.

Outlook

Sources: CBS, Gemeente Almere, NVM, BAK, Google Maps, Savills Research
Demographics and economy
Almere has seen strong growth in recent years. This growth will continue, stimulating further business activity.

Stock and vacancy
Last year marked the first significant fall in vacancy for a number of years (from 32.9% to 28.8%). Planned conversions will lead to a further decrease in the current stock of more than 10% in the short-term, and a reduction in the current supply of approximately 35%. As a result, vacancy will converge with the national average for the Netherlands.

Occupier market
Office take-up is stable at around 14,000 sq m. Take-up will rise as a result of the scarcity of office space in larger cities such as Amsterdam.

Investment market
An improving occupier market is sparking interest among investors, and this is expected to be the case in Almere too.

Savills Outlook
A combination of factors is contributing to significant potential for Almere’s office market

Almere’s office market seems to have found its way. The outlook for Almere is positive. Falling vacancy and the spatial policy stimuli will help Almere to shake off its negative image and to promote it as a solution to Amsterdam’s office shortage.