The Netherlands – June 2019

MARKET IN MINUTES
Savills Research

Why mobility matters

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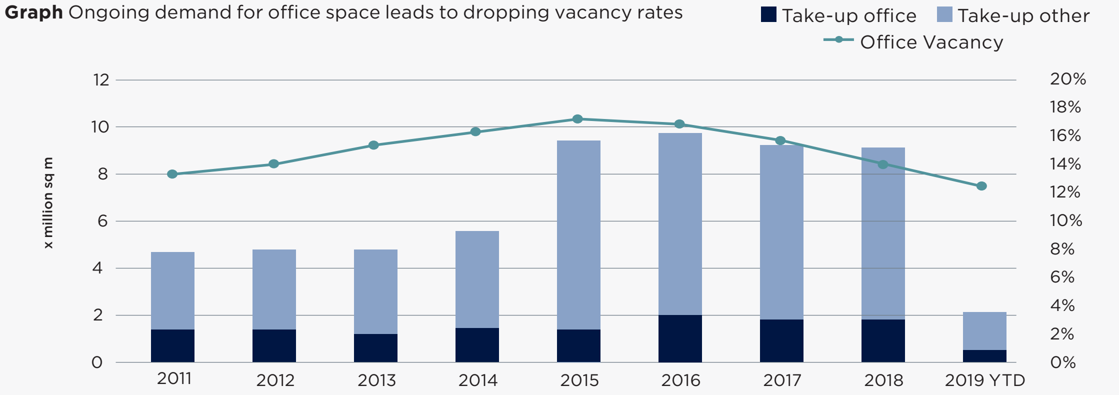
Correlation mobility, economy and the property markets

As well as the main economic indicators, mobility and infrastructure are becoming increasingly important for companies determining their corporate locations. Typically, prime locations accessibility reduces in times of economic growth due to increased pressure placed on existing transport facilities as a result of explosive employee growth. Investment in infrastructure is required to facilitate the efficient accessibility of prime locations.

Therefore, the Dutch government invests a comparatively high amount of approximately €17 billion in transportation infrastructure annually (circa 2.1% of GDP). These capital investments are greater than average European Union infrastructure investments (1.9% of GDP). Per capita (pc), the Netherlands (€1,020 pc) invests much more in transportation infrastructure than the neighbouring countries of the UK (€675 pc), Germany (€710 pc) and France (€813 pc).

Graph Ongoing demand for office space leads to dropping vacancy rates



OCCUPIER MARKET

As a result of the current economic climate, demand for office space in prime locations is high. Consequently, office rents are increasing and vacancy is declining. For example, in the first quarter of 2019, office take-up was circa 470,000 sq m, resulting in office vacancy falling further to just 12.5% (-1.5% YoY).

Reduced supply and accelerating rents in prime locations in recent times have contributed to secondary locations and cities becoming an alternative choice for an increasing amount of companies.

For example, APG, a financial service provider, decided to leave Amsterdam-South-Axis and relocate to Amsterdam-Sloterdijk. This doesn't mean that the South-Axis is attracting less interest from occupiers. The demand for office space continues to be exceptionally high and office vacancy remains limited (3.5%). Relatively small distances and high connectivity are important reasons why companies choose to locate in alternative locations. This accounts not only for inner-city connections, but also for intercity connections.

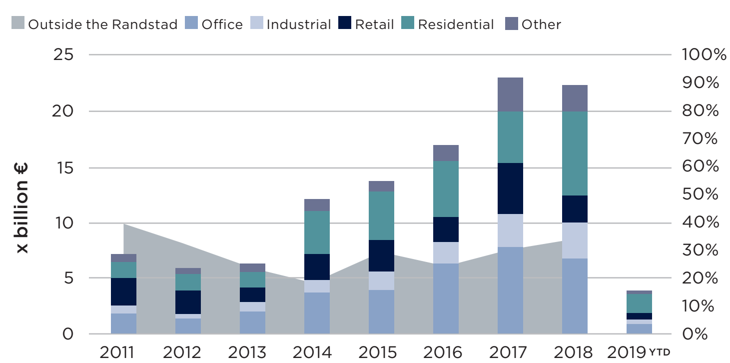
Traditionally, secondary cities such as Zwolle (in the northeast), Amersfoort (in the centre of the Netherlands) and Breda (in the south) can be reached within approximately an hour by train and car from Amsterdam. Due to the ongoing public investments in infrastructure, travel times have become shorter and continue to compress. Good connectivity between secondary and prime cities strengthens the interest from companies in these secondary cities. Increasing occupier interest is demonstrated by growing take-up volumes in these cities. The primary cities, such as Amsterdam and Rotterdam are still performing well with above average take-up levels. However, the relative increase in take-up levels are less high in comparison to the take-up levels of several secondary cities. The lack of product and increasing rents in Amsterdam and Rotterdam are relevant motives for these facts.

Interestingly, secondary cities where large public investments in infrastructure and mobility have been made, show stronger growth of take-up than comparable secondary cities where no such investments have been made.

The correlation between investments in mobility and infrastructure and the demand of occupiers, results in a higher growth of take-up levels. Major infrastructure projects such as the upgrading of stations and shortening travel distances have an impact on accessibility, but also on the performance of the real estate market. For instance, one year after the completion of Station Zwolle, take-up levels increased by 185.3%.

On the contrary Apeldoorn, which did not structurally invest in infrastructure and in mobility in general, showed a much lower growth of take-up (18.8% in the last three years) than Zwolle. As a result of the increasing connectivity of secondary cities, the first signals of rental growth can be observed.

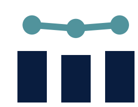
Graph The first quarter of this year got off to a strong start, with an investment volume of circa €4 billion.



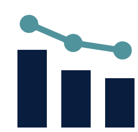
DUTCH ECONOMY

The Netherlands firmly remains one of the most sought-after global real estate investment markets. Dutch real estate investment volume exceeded €20 billion in 2018, of which 50% were cross border transactions. The Netherlands' appeal is fuelled by a relatively strong macroeconomic environment. Despite international geopolitical uncertainties due to issues such as Brexit and the US-China trade conflict, there is relatively little political uncertainty in the Netherlands and primary Dutch economic indicators remain positive. In the first quarter of 2019, GDP growth (+1.7% YoY), business investment (+4.5% YoY), consumer spending (+0.7% YoY) and exports (+1.1% YoY) have all enjoyed growth.

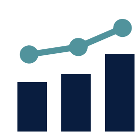
Investment volume slightly down but above average



Cross border investments stable



Take-up decreasing



Rents increasing

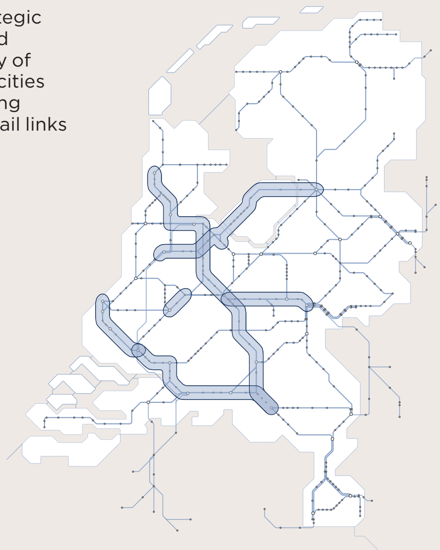
STRUCTURAL INVESTMENTS IN INFRASTRUCTURE

In the late 1990s, the Dutch government agreed to designate several railway stations as 'key projects' for public railway infrastructure investments. Outside the core Randstad megalopolis; Zwolle, Arnhem and Breda were the only railway stations selected for further railway investments. The objective of these projects was to facilitate the anticipated increase in passenger numbers and, crucially, to ensure the surrounding areas would also benefit from this government infrastructure capital. In Breda, for example, investments in a new station terminal have been complemented by the development of a high-density, mixed-use area neighbouring the terminal. The Dutch government has also invested heavily in widening strategic motorways, such as the A2 corridor between Amsterdam and Eindhoven, the A6/A9/A1 between Schiphol and Almere and the A1 between Amsterdam and Amersfoort.

INVESTMENT MARKET FOLLOWS OCCUPIER MARKET

The developments in the occupier market are now also translating into results in the investment market.
In general, the occupier market is performing well, which attracts a wide variety of investors. 2019 commenced well with relatively high investment volumes (approximately €4 billion in Q1). A significant share is cross border capital (still above 50%).
Amsterdam investment volumes remain high, as well as other primary locations. Investment volumes in secondary cities are growing aggressively. For instance, the growth of investment volumes in offices over the last three years in Amsterdam was 13%. Interestingly, secondary cities such as Zwolle (+158%) and Breda (+143%), where significant investments have been made in public infrastructure, experienced a relatively higher growth of corresponding investment volumes during the same period. This trend can be observed in the occupier market and also applies to the investment market, proving the fact that mobility matters. A notable example of the correlation between investor volume and investments in infrastructure can be seen in the city of Breda where investment activity has doubled since 2015. Investment in offices rose sharply after the opening of the new railway terminal, reaching almost €90 million in 2018. Amersfoort represents a similar case. Here, investments in road infrastructure have had corresponding positive effect on office investments. Office investments were stable until 2016, but then increased sharply to over €160 million (+280% YoY). This growth coincided with public investments in the A1 motorway near Amersfoort.

Graph Strategic location and accessibility of secondary cities located along important rail links



MOBILITY: WHAT'S NEXT

Dutch travel habits are continually evolving. This had and will continue to effect domestic property markets and associated investment volume, as well as the urban living environment. As a result of the increasing number of highly educated people in the Netherlands, commuter distances increase. Moreover, commuting by train is gaining popularity in comparison to the conventual car. This trend emerged a few years ago, and is expected to continue in the years to come. The Dutch government anticipates further investments in major road networks and railway services. For instance, the National Railway carrier (NS) plans to increase the frequency of its services along several corridors in response to further anticipated demand. The Amsterdam-Eindhoven train service has already been extended with a high-frequency service. The NS would like to extend higher frequency services to more key localities throughout the Netherlands.

SAVILLS OUTLOOK

- Due to the stable economic environment, the Dutch property market is performing well, resulting in high take-up and investment volumes, especially from international capital.
- Due to future public infrastructure investments, changing domestic travel habits and the continuing lack of prime real estate, Savills forecasts that occupiers will continue to widen their horizons to secondary areas and cities.
- Secondary cities with high transport connectivity offer an interesting alternative for investors. In particular, cities that are strategically located on important transport corridors and where investments in infrastructure have been made and will be made, offer attractive opportunities.

Source CBS, PropertyNL, VGM, BAK, Ministerie van Infrastructuur en Waterstaat, Planbureau voor de Leefomgeving, Savills Research

Savills team

Please contact us for further information

Clive Pritchard
Head of Country
c.pritchard@savills.nl

Erik Beekman
Head of Tenant Representation
e.beekman@savills.nl

Bas Wilberts
Head of Alternative Investments
b.wilberts@savills.nl

Martijn Onderstal
Co-Head of Valuation
martijn.onderstal@savills.nl

Jordy Kleemans
Head of Research & Consultancy
jordy.kleemans@savills.nl