MARKET IN MINUTES
Savills Research

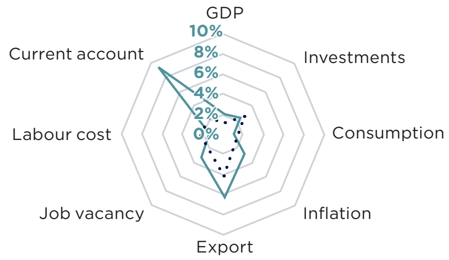
New capital continues to boost the Dutch real estate sector

savills

The stability and open nature of the Dutch economy

Brexit, trade wars with the potential to escalate and rising inflation are all lurking. However, for now the Dutch economy continues to perform well and significantly better than the Eurozone average.

Performance on key economic indicators
annual YoY %-change.
— Netherlands
··· Eurozone

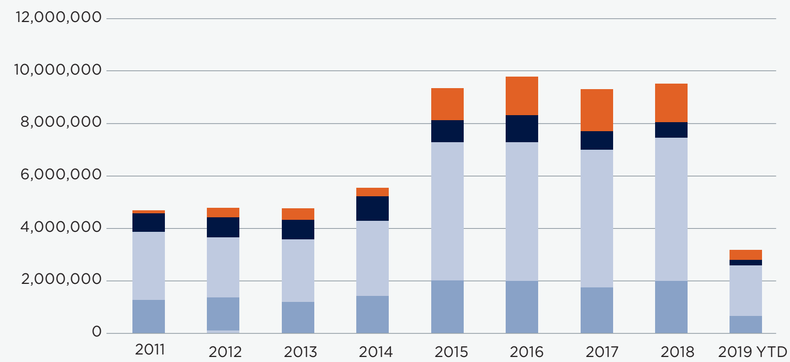


An open economy, key for succes
This is due, on the one hand, to the stability that the Dutch economy is currently enjoying. On the other hand, the open nature of the Dutch economy is also a factor in its current success. Research shows that countries with more open economies are more productive and therefore grow faster. The Netherlands has the most open economy in Europe, followed by Switzerland, Denmark and Norway. In global terms, the Netherlands' economy ranks third for openness, second only to Hong Kong and Singapore.

Imports and exports have grown by 66% and 68%, respectively, in the period since 2009, while the volume of investment into the Dutch real estate sector has grown by no less than 278% over the same period. Why is this, and what are the real drivers of this growth?

Graph The take-up for Dutch real estate continues to be well distributed and, despite a shortage of supply, remains high.

Offices
Industrial
Retail
Other



WHY FOREIGN INVESTORS ARE 'GOING DUTCH'

The underlying stability of the real estate markets is not the only factor drawing so much foreign capital into the Dutch real estate sector. Another important driver is the interest rate, which has been kept low by the ECB. Due to this low interest rate, the difference between the yield on government and other bonds and real estate (known as the 'yield gap') remains wide (around 300 basis points). Investing in real estate has therefore become more attractive in comparison with other asset categories.

The Netherands, an attractive place to invest
The low European interest rate is creating an attractive climate for real estate investments – not only in the Netherlands, but throughout the Eurozone. Still, the volumes of foreign capital that are finding their way into the Netherlands are higher than growth in neighbouring countries. In the Netherlands, real estate investment by foreign investors (+855%) grew 6 times faster than real estate investment by national investors (+144%, a ratio of 6) over the last 10 years. In other countries, too, the growth in investment volume in real estate by cross-border investors was greater than national investors' share in that growth, but this ratio was considerably lower in the UK (1.3), Germany (3.9), France (1.3) and Poland (2.2), for instance. This indicates that, relatively speaking, foreign investors have seen the Netherlands as a more attractive place to invest. This is also evident when we compare growth in the absolute volume of investment in real estate. Last year, no less than 9.5 times more was invested by international parties in Dutch real estate than was invested 10 years ago.

The primary reasons for international investors to choose the Netherlands over other countries are the transparency of the Dutch market, the stable political situation and the fact that it is (in terms of its size) a market that is relatively easy to evaluate.

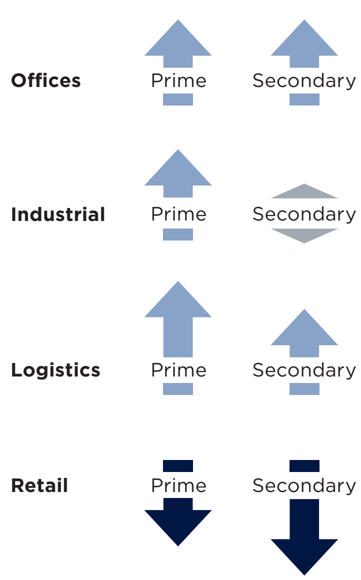
These factors ensure that investors continue to seek good places to invest their capital, which is reflected in above-average investment volumes across all sectors. The retail sector is again an exception, however (-41% investment volume). By contrast, the office market (almost stable despite a shortage of supply) and the logistics market (+22%) are continuing to perform excellently. There is also a risk in the continuing 'internationalisation' of the Dutch real estate market. After all, how stable is this influx of international capital?

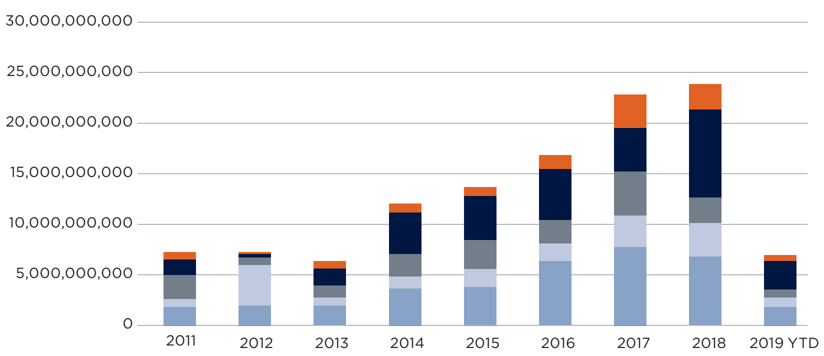
OCCUPIER MARKET

One important driver is the enormous amount of capital available worldwide. Some of this capital is finding its way into the real estate markets of the Netherlands and other countries. This growth is further reinforced by far-reaching professionalisation in the global real estate market.

But other drivers are also contributing to growth in the Netherlands. One major factor is that the underlying occupier markets provide a good foundation for investors looking for stable cash flow. This is evident from the take-up figures across all sectors, which have been stable or rising for years. The only exception to this trend is the retail sector, where take-up over the past three years (2016, 2017 and 2018) saw falls of 34%, 13% and 35%, respectively, compared to the preceding years. This decrease is still largely caused by the strong rise of e-commerce; 10.7% of all purchases in the Netherlands are now made online. As a result, the logistics sector continues to grow rapidly with a take-up of over 2.5 million square metres every year. Strong demand combined with supply that is lagging behind in terms of quality is leading to sharp rent rises and falling incentives at primary locations, and increasingly also at secondary locations, across all sectors (with the exception of the retail sector).

Expected trends in rents





Graph Over the past 6 years, the volume of investment in Dutch real estate has risen consistently

DUTCH REAL ESTATE SECTOR PROFITS FROM OPEN ECONOMY

To answer this question, it is important to look at where this capital is coming from, and where it is being invested. Up until 5 years ago, almost 90% of the capital invested in Dutch real estate was coming from other European countries. In recent years, this proportion has fallen consistently to a percentage of between 70% and 80%.

This is because the proportion of investment from European parties has been diluted by capital from North America, in particular, which has increasingly been finding its way into the Netherlands. Over the past 5 years, almost 20% of the capital invested in the Netherlands has originated from this region. This represents a shift from the previous period, when less than 10% of capital invested came from North America. At the same time, more and more 'new capital' is also flowing into the Netherlands from Asia and the Middle East. This investment volume has grown by almost 350% over a similar period. The origin of the capital invested in the Netherlands is therefore now much more diversified, and thus more sustainable, than previously.

If we look at the the origin of investment capital in more detail still, it appears that this is much more varied than it was in the past. Historically, investment in Dutch real estate came primarily from parties in the UK, Germany and Belgium. Today, we also see regular investment from Swedish investors, for example, and there have also been transactions involving Hungarian and Greek parties. This increasing diversity applies not only to European parties, but also to parties from outside Europe, with investors from Asia and the Middle East in particular having become more active in the Dutch market on a regular basis. In addition to investors from China, Singapore and Qatar, parties from India, the United Arab Emirates, Korea and Saudi Arabia have also invested over the past two years.

Top 3 Country of origin of new investors in Dutch real estate over the past 5 years including the dominant investment categories:

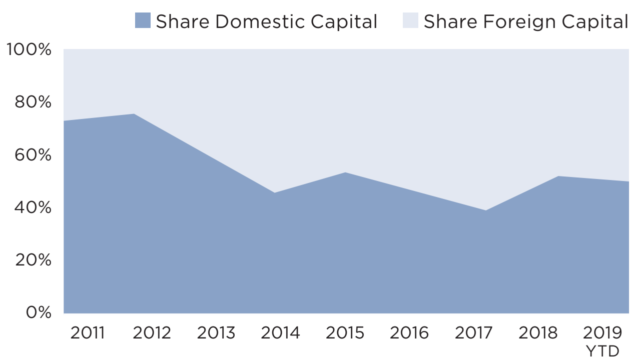
1. Canada (offices and homes)
2. South Korea (offices and logistics)
3. Malaysia (hotels and logistics)

Top 3 highest growth in new investors in Dutch real estate over the last 5 years relative to the 5 previous years, including the dominant investment categories:

1. China (offices and hotels)
2. Singapore (hotels)
3. Sweden (residential and business premises)

SAVILLS OUTLOOK

The Dutch real estate market is now firmly on the map as far as international investors are concerned. Historically, cross-border investment has been between 25% and 35%. However, in recent years this proportion has stood consistently at around 50%.



It is also expected to remain at this level, if not higher, for the next few years. The highly diversified inflow of foreign capital is lending added buoyancy to the Dutch real estate market. It would be easy to conclude, of course, that international investors will cease their activities in the Netherlands if the economy hits an unexpected slow-down. However, because these parties originate from an increasing number of different countries, any withdrawal by investors from one particular country would have a much less significant impact than would have been the case in the past.

Going forwards, the landscape is expected to become even more varied. In addition to the countries mentioned above, parties from the Middle East and Asia, in particular, look ready to invest in the Dutch real estate market, primarily in the office market. These investments mean that the influx of 'capital from the East' is expected to double in size in terms of the share of overall investment capital. As such, it will be an even more significant and stable driver.

Source CBS, Eurostat, Legatum, PropertyNL, VGM, Savills Research

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