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The Netherlands – Spring 2021

A wave of investments is heading for the Dutch real estate market

MARKET IN MINUTES

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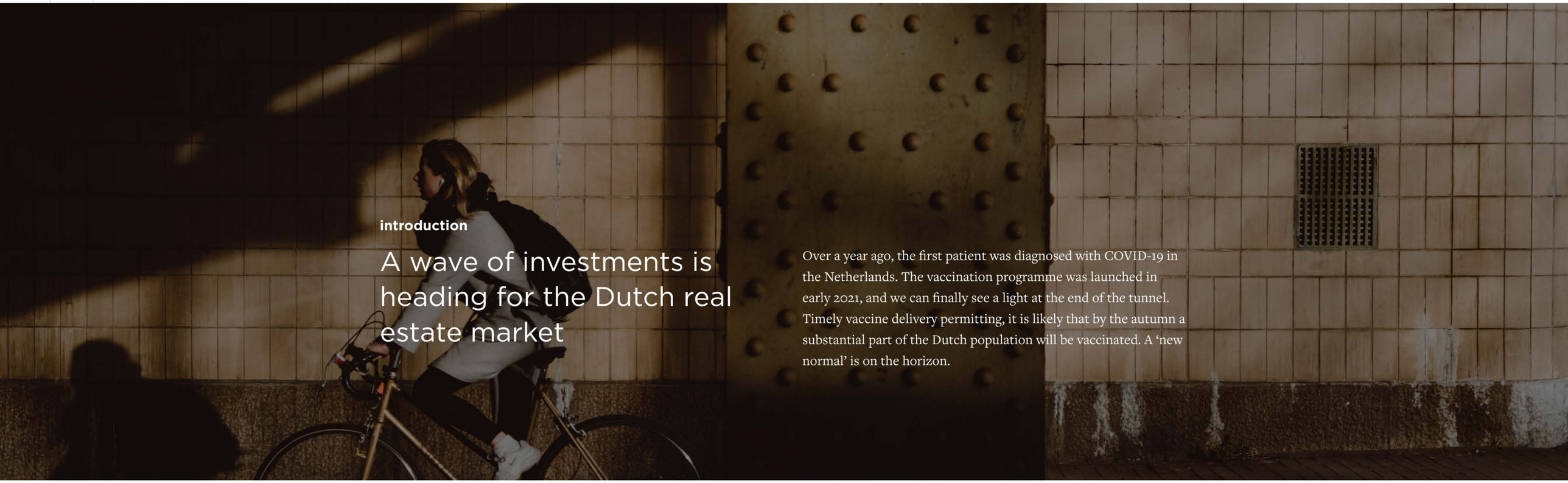

introduction

A wave of investments is heading for the Dutch real estate market

Over a year ago, the first patient was diagnosed with COVID-19 in the Netherlands. The vaccination programme was launched in early 2021, and we can finally see a light at the end of the tunnel. Timely vaccine delivery permitting, it is likely that by the autumn a substantial part of the Dutch population will be vaccinated. A 'new normal' is on the horizon.

In the meantime, the impact of the pandemic on the Dutch economy is steadily becoming clearer. COVID-19 affects the economy, but the extent of this impact varies per sector and per household. The differences are considerable, and it is also becoming increasingly clear which investment categories in the real estate market are resistant to these effects and which have come under greater pressure during the crisis.

Does this mean that investors are more likely to invest in the Dutch real estate market, now that the full extent of the risks is becoming clearer?

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One year in a pandemic economy

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One year in a pandemic economy

In 2020, the Dutch economy experienced its most severe contraction since the Second World War. Compared to other countries in the euro area, where this contraction was considerably worse on average, the Dutch economy has performed relatively well. Partly due to the support measures implemented by the Dutch government, there were actually fewer bankruptcies in 2020 (-15%) compared to the year before and producer confidence has returned to a neutral level after hitting a low point of -28.7 in April 2020. The unemployment rate rose only slightly, particularly in the hospitality industry.

Table Compared to the rest of the euro area the impact of COVID-19 has been relatively limited.

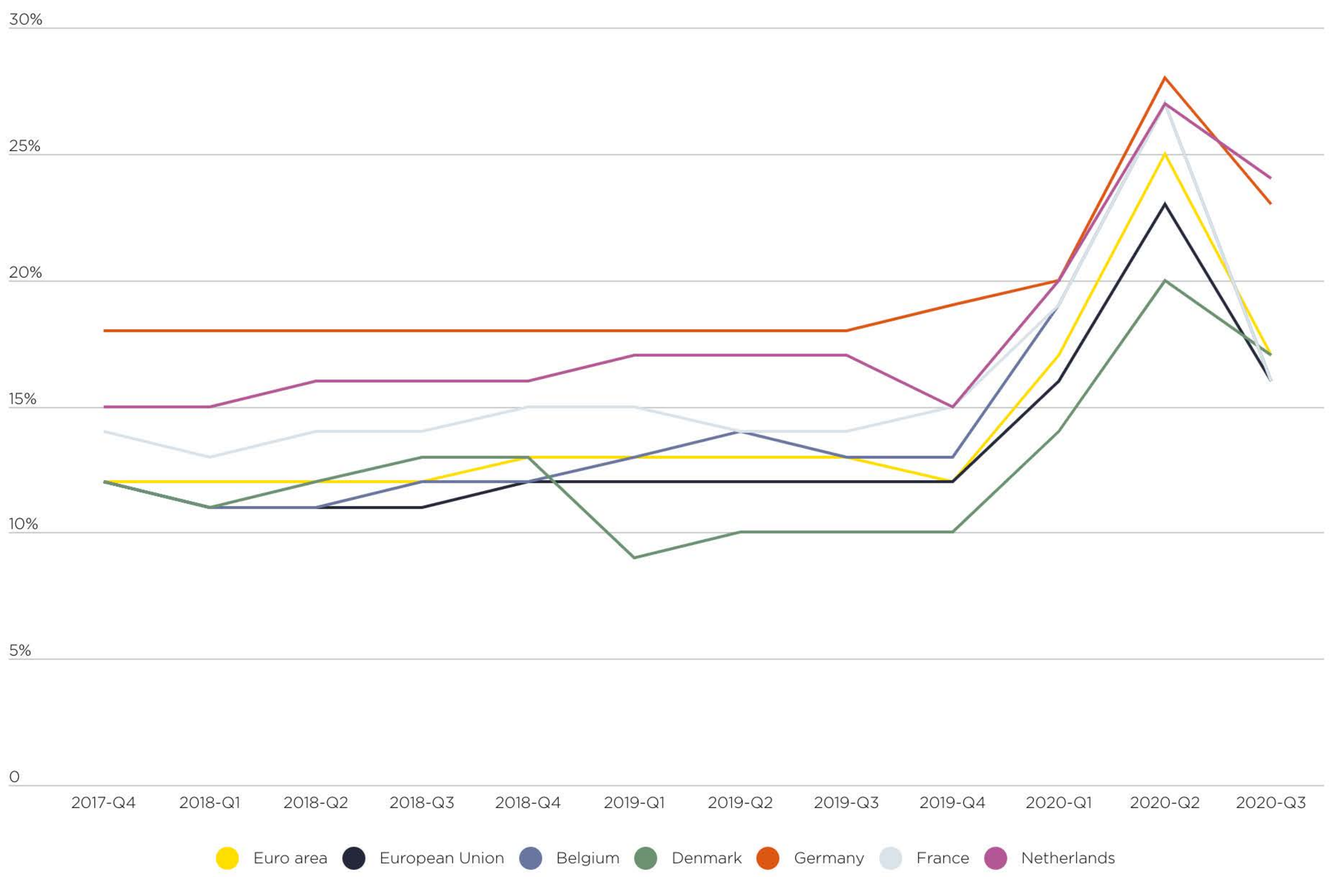
	The Netherlands	Euro area
Gross Domestic Product (2020 vs. 2019)	-3.8%	-6.6%
Consumer confidence (Jan. 2021)	-7.9	-14.8
Unemployment (Jan. 2021)	3.6%	8.1%

Source Eurostat / Statistics Netherlands

The limited rise in unemployment has resulted in the continuity of paid wages, while options for spending have been limited. The result: more money in the savings accounts of people in the Netherlands. This is shown in the strong increase in the savings ratio. Relatively speaking, the Netherlands even shows the highest savings in the entire euro area. As a result of higher savings and the low savings interest rate, some households have made the decision to invest. The number of households with investments rose by 17% in 2020 and a record amount of 3.8 billion was invested in Dutch investment funds. This has led to a greater availability of investment capital in the Netherlands, with more capital set to find its way into the Dutch real estate market.

Sources Kantar, 2021, Number of households with investments in 2020 grew at an unexpected rate (17%), DNB, 2021, Capital of Dutch investment funds has grown to a record high of 1 trillion euros

Graph Savings ratio of Dutch households the highest in the entire euro area in Q3 2020.



Bron Eurostat

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Differences in impact per sector and within sectors
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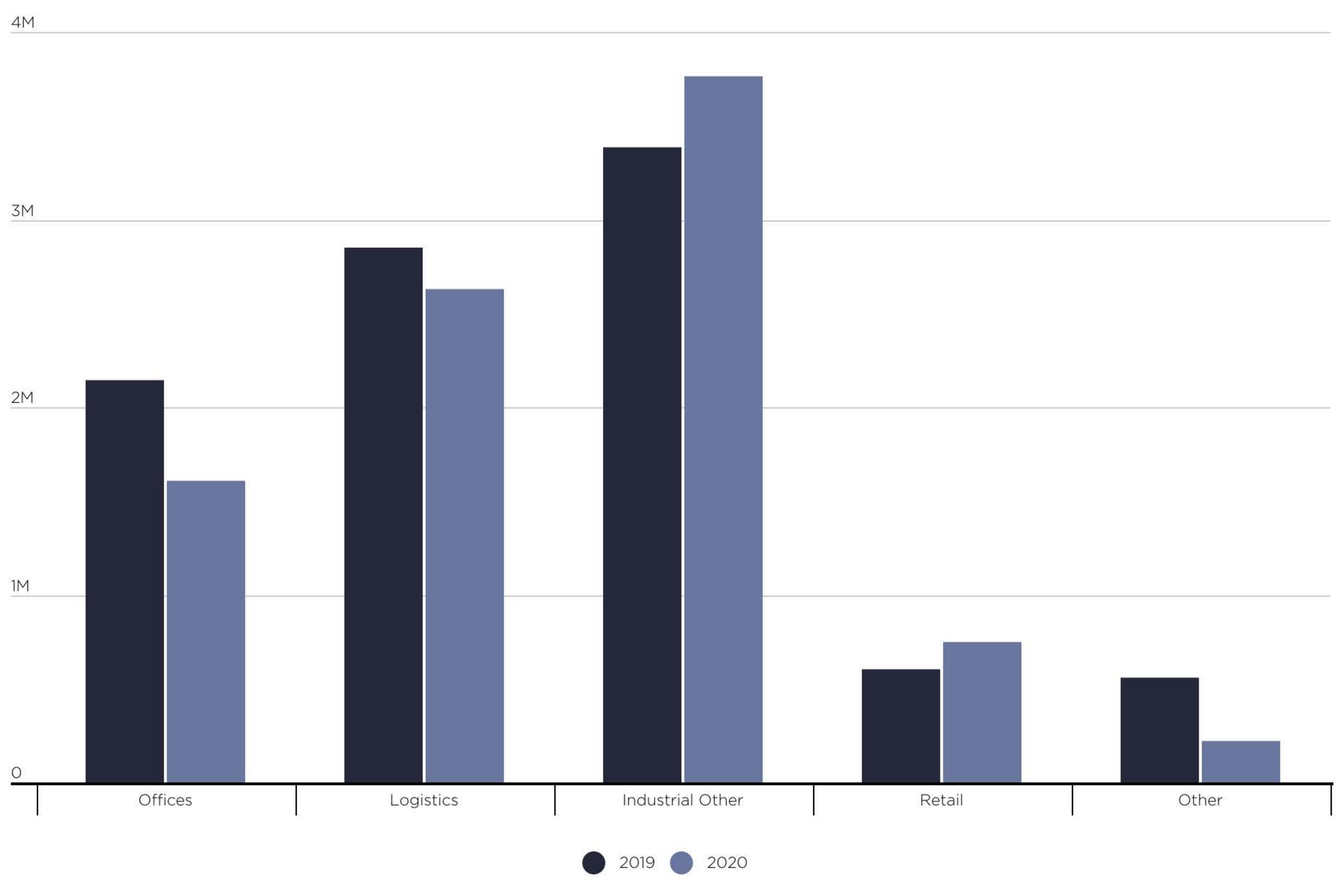
Take-up volume

Differences in impact per sector and within sectors

Companies too appear to have plenty of available capital for new housing decisions. As a result, the total take-up volume for commercial real estate only fell by 6% in 2020 compared to 2019, despite the most severe economic contraction since the Second World War. This figure and improved producer confidence demonstrate that entrepreneurs still have plenty of confidence in the Dutch economy. However, this played out differently per sector.

On average, demand for office space decreased and take-up volume fell by 25%, despite the fact that some sectors, such as tech, showed growth. The Just Eat Takeaway transaction in Q1 2021 for approximately 14,500 sq. m., shows that this business type has plenty of capital to invest in housing even during the current crisis. The demand for flexible office space is also showing a positive development and serves as an initial indicator of recovery in the office market. The demand for flexible office space in January this year was 50% higher than in January 2020, for example.

Graph In 2020 the most significant decline in take-up volume was visible in the sectors 'offices' and 'other'.



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In the logistics sector, take-up only fell slightly (-7.8%) due to a slight decline in domestic and international trade. E-commerce, on the other hand, grew due to the pandemic, resulting in increased demand for e-commerce and last-mile logistics locations. The growth of e-commerce comes at the expense of the total demand for retail space, yet total retail vacancy only fell slightly, from 8.1% in 2019 to 7.6% in 2020. This is mainly thanks to the support measures implemented by the Dutch government, so that retail vacancy rates are not expected to rise until the end of this year. On the other hand, the food sector within retail appears to have benefited from the COVID-19 crisis. The supermarket chains Albert Heijn and Jumbo are the biggest beneficiaries, with 12 and 10 new branches in 2020 respectively.

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Major competition for scarce core product
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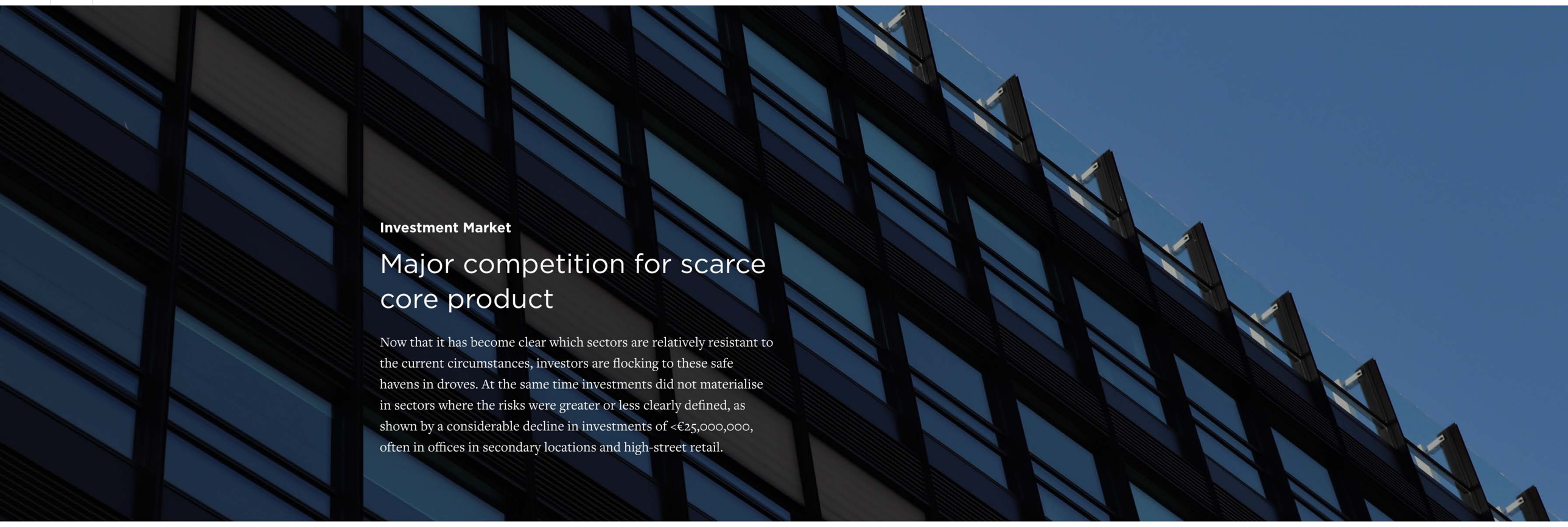
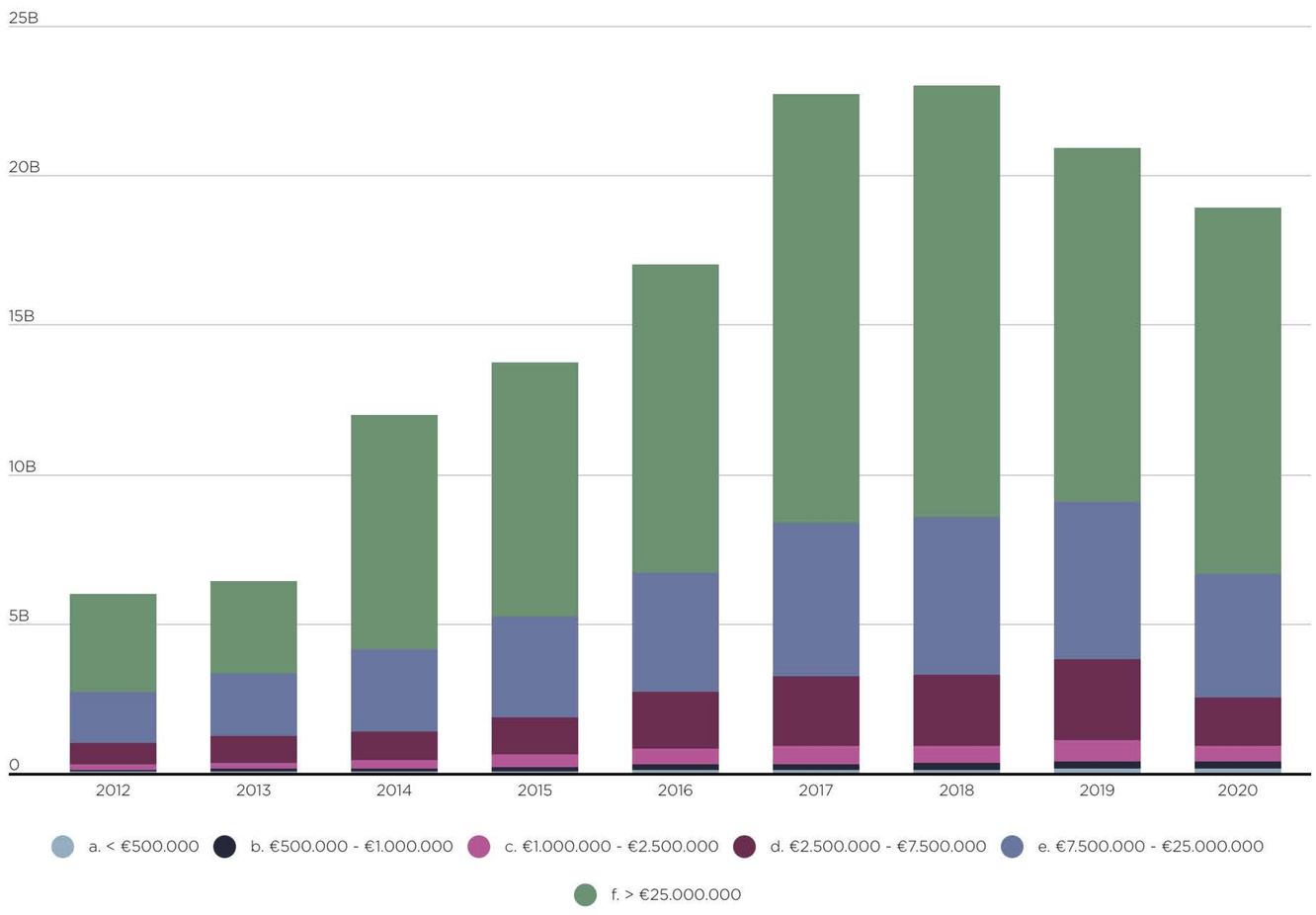


Investment Market

Major competition for scarce core product

Now that it has become clear which sectors are relatively resistant to the current circumstances, investors are flocking to these safe havens in droves. At the same time investments did not materialise in sectors where the risks were greater or less clearly defined, as shown by a considerable decline in investments of <€25,000,000, often in offices in secondary locations and high-street retail.

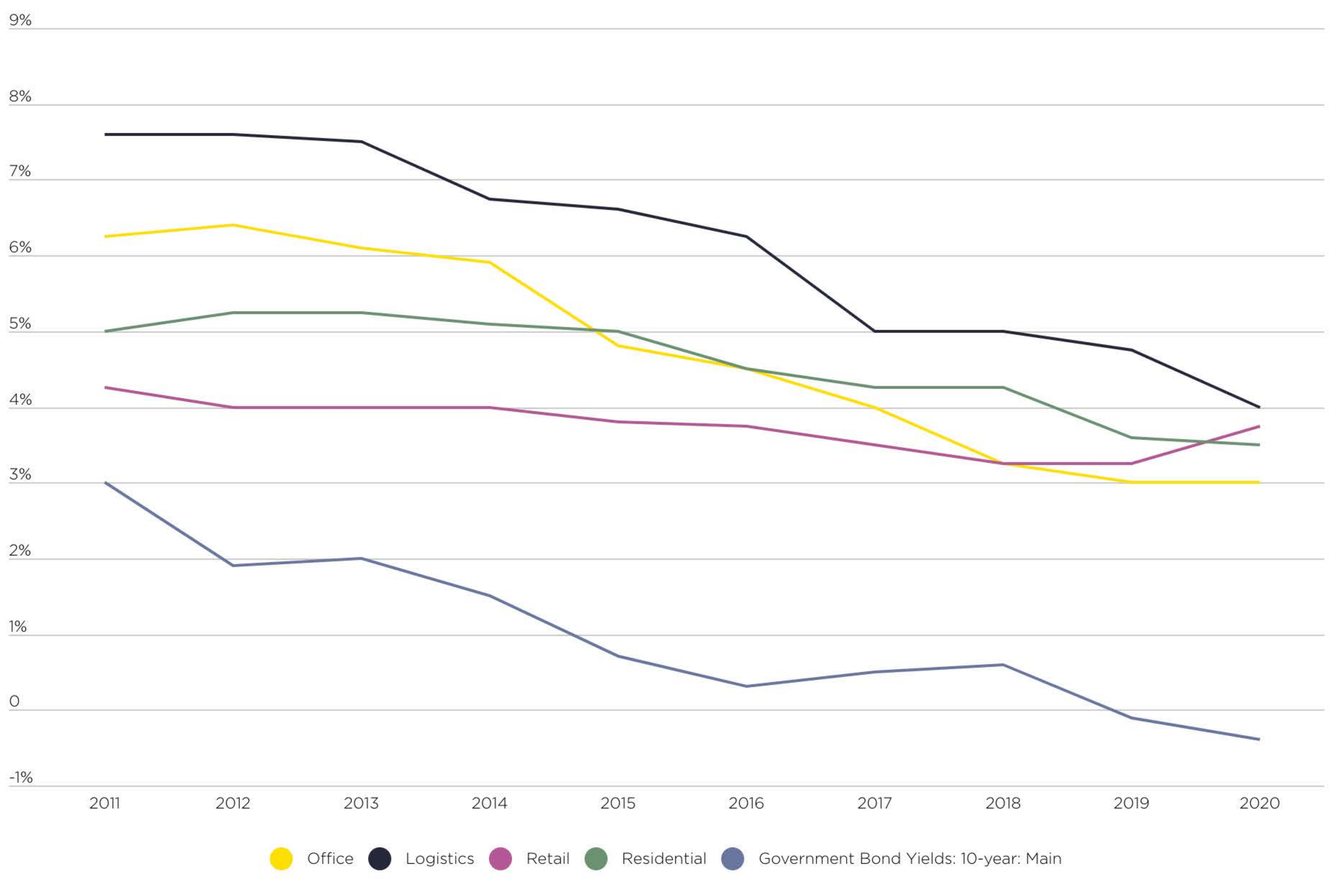
Graph The total volume of small-scale investments showed the most significant decline whereas >€25,000,000 remained almost stable.



Source Savills Research

Large differences within sectors in the user market can also be observed in the investment market. The transaction of the Jumbo portfolio worth approximately €300,000,000 to fund builder Annexum testifies to this. This transaction concerned the relatively stable category of supermarkets, whereas there were few transactions on high-street retail locations. This results in differences in development of gross initial yields even within certain sectors. Gross initial yields for office buildings in top locations remained largely stable (3%) but showed an increase in secondary locations.

Graph Due to increasing demand in core real estate, Prime gross initial yields for Residential Investments and Logistics showed a further decline.



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A sea of available capital
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A sea of available capital

Although the range of core investment product (the main focus of investors at the moment) is limited, there is a lot of capital available.

This is partly due to the ECB's buy-back programme, for which an additional injection of 500 billion was announced last year. The ECB is also keeping the interest rate at the same level to help boost the economy during the COVID crisis.

Real estate funds have also made more capital available for investment. The total available capital from the new funds was €315 billion at the beginning of 2021, compared to €281 billion at the beginning of 2020 (+12%). This is not including the increasing number of investing households and the associated available capital. Dutch households currently have limited spending options and investors are faced with a comparable challenge. The investment options that meet the requirements of investors are limited and as such they are struggling to find suitable destinations for the available capital. This has resulted in a decline in the total investment volume in the first few months of 2021.

+17% in households with investments

Interest rates kept at same level by ECB

+12% additional capital available by new real estate funds

Injection +500 billion € by ECB

Source Savills Research

"Dutch households currently have limited spending options and investors are faced with a comparable challenge."

Outlook

Calm before the storm

As the winners of the COVID-19 crisis are revealed, current demand for investments in the Dutch real estate market is mainly focused on logistics, residential investments and food retail. The risks for office buildings and shops are still hard to assess, particularly for secondary locations. Uncertainty about the future of offices and inner-city shopping areas means investors will remain cautious until the permanent effects of this crisis become clearer. As a result, investors will gradually start daring to enter sectors again, such as the hotel and catering industry, retail and secondary offices. These markets are currently ignored because of the uncertainty about the long-term consequences after Covid-19. As the vaccination programme progresses, and travel restrictions are lifted, it will become easier for (foreign) investors to assess the risks of such investments.

It needs to be said however, that for (sub)sectors where COVID-19 has caused lasting economic damage, such as certain parts of the retail market, investors will remain reluctant to invest. In the long term, this means that the difference between core and other asset classes will widen.

"Uncertainty about the future of offices and inner-city shopping areas means investors will remain cautious until the permanent effects of this crisis become clearer."

Driven by the available capital, the expectation is that the investment volume in the broad sense will pick up again, due to an increasing demand for investments. Since it will take at least until the summer before a large part of the Netherlands is vaccinated, a very dynamic Q3 and Q4 is expected, in which records may be broken.

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