

Netherlands Market in Minutes

Further yield contraction in Dutch property market

March 2015

Broad-based economic growth continues

According to the first provisional figures the Dutch economy grew by 1.0% in 2014. This increase was pretty much across the board as household consumption, exports and investments all made positive contributions. Government consumption however did contract slightly.

The growing household consumption, in line with the recovery of employment, also showed in retail sales increasing in 2014, for the first time since 2008. These growing sales are supported by relatively high consumer confidence, fluctuating between -8 and -2 over the last 10 months. The producer confidence remains positive (+2), but did drop slightly over the past two months.

In January 2015, the number of employed workers rose by 21,000 and as a result the total Dutch

labour force grew to more than 8.9 million. With 7.2%, the proportion of unemployed remained the same as in December 2014. From an international perspective, the Dutch rate is relatively low. The euro zone rate was 11.4% in December and the rate across the entire European Union was 9.9%.

2014 Q4 also saw the most substantial increase in temporary job hours in more than four years: +2.4% qoq. For the whole year of 2014 temp hours increased by 6.6%, a good indicator for further economic growth.

Capital in search of yield

As capital around the world is accruing and looking for returns, all financial markets are reaching record-high levels, while government bonds are so much sought-after that those with the lowest risk perception even have a negative yield. Adding to that, the quantitative easing programme (QE) adopted by the ECB is bringing bond yields further

down already. The property market is also profiting substantially from the increase of capital, as can be seen in both the total volume invested in this sector and in the substantial lowering of yields over the past year(s).

Asian funds are foreseen to increase their allocation towards property in 2015. Part of this new capital will be aimed at Dutch assets, as pricing is favourable, (cross-border) finance is readily available and the economy is improving further. Yields are currently still above the 2007 levels, unlike many other major European markets, leaving room for further contraction.

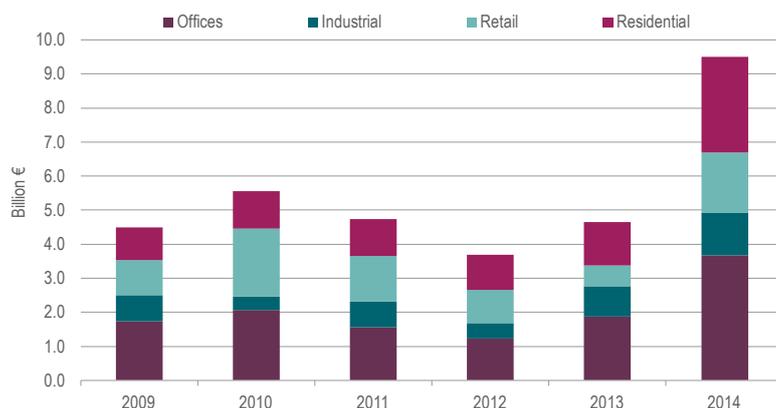
Occupier activity increased

Commercial take-up in 2014 reached 4.4m sqm and turned out around 9.7% higher than that of last year and also higher than expected in the December issue of the Market in Minutes. This was caused by a substantial share of late registrations (occupier transactions made throughout the year, but registered only at year-end).

Office take-up in 2014 totalled 1.25m sqm compared to 1.15m sqm in the previous year. Industrial demand reached 2.7m sqm, or +9.7%, while retail demand ended up at 420,000 sqm, compared to 370,000 sqm in 2013.

Despite the overall growth, the three major commercial markets do have substantial differences. Office occupiers are generally looking strategically towards their accommodation and are, in light of the economic growth, reassessing whether they need to consolidate, to relocate and/or reduce their square meter →

GRAPH 1
Investment volume Netherlands by sector: Capital driven investment market reached €9.5 billion



Graph source: Savills

usage. This will in 2015 likely lead to an increase in the number of transactions, but not necessarily to a larger transaction volume, while vacancy is likely to increase further.

For retailers a strategic view on their store portfolios is similarly essential and a fair share of them have plans for further consolidation. However, it is also a more opportunistic market as availability at prime high street locations remains scarce. Therefore, as soon as prime retail space becomes available, for instance due to foreclosures, tactical decisions have

(+9.8% turnover growth for webshops and mail order companies in 2014 in the Netherlands) is driving this market. The recently announced start of the development of a 140,000 sqm collaborative e-commerce Logistic Campus in Venlo by Belgian Heylen group exemplifies the need for new, high quality logistic space.

Investment volumes off the charts

Commercial investment activity almost doubled in the past year: from €3.4bln in 2013 to €6.7 bln in 2014, also due to a very strong final quarter.

While Asian investors did already enter the Dutch property market in indirect fashion, 2015 saw the first Asian direct property investment as First Sponsor Group Limited from Singapore purchased the 12,500 sqm Van Doorne office building, located at the western edge of the Amsterdam South Axis. It seems more than likely that more Asian investments will follow in 2015.

Outlook 2015

Occupier demand in the logistic market will continue to grow as e-commerce is forcing this market forwards and as the Netherlands is strategically well located. Demand in the office market will likely show more transactions but not necessarily larger transaction volumes. Retail demand is slightly more opportunity driven and focused on core (city centre) locations.

"Signs of yield compression and a liquid market pave the way for further stability and higher volumes."

Clive Pritchard, Netherlands Investments

to be made and these sites are quickly refilled. The reletting of stores vacated by for instance Maison de Bonneterie, De Bijenkorf and the Polare bookstores are clear examples. The general view on the retail market remains similar to the office market: more transactions, not necessarily higher transaction volumes and likely increasing vacancy, especially so at B and C locations.

Including residential investments the total reached around €9.5 bln in 2014, slightly more than double the €4.7 bln in 2013.

Around two-third of the €9.5 billion concerned cross-border investments, with Germany, the US and the UK leading the pack. It comes as no surprise that the German funds have been active in the core markets, while the US/UK investors focused on portfolios, preferably with lot sizes over €200 mln, and thus acquired mainly core+ and value add assets.

The increasing amount of capital looking for return on investment, coupled with the QE programme from the ECB, will continue to drive yields downwards in all sectors. Savills forecasts prime yields to contract 20-40 basis points in 2015.

As investor demand for property will keep increasing, only a lack of supply could hold volumes back. With such large appetite from investors and debt readily available, Savills continues to state that 2015 will be the right year to sell properties and especially portfolios.

The logistic occupier market is the only market dealing with substantially increasing occupier demand, as the continuing growth of e-commerce

Savills team

Please contact us for further information



Clive Pritchard
Investments
+31 (0) 20 301 2000
c.pritchard@savills.nl



Jan de Quay
Investments
+31 (0) 20 301 2000
j.dequay@savills.nl



Jeroen Jansen
Research
+31 (0) 20 301 2094
j.jansen@savills.nl

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