NETHERLANDS MARKET INTELLIGENCE

Facts, Trends, Peculiarities

WARBURG-HIH INVEST
REAL ESTATE

MARKET SNAPSHOT

Economic Growth Makes Office Rental Growth Look Likely

- The Netherlands remains one of Europe's key trading locations
- A substantial recovery of the country's GDP has fuelled employment growth and is driving rent expectations on the commercial real estate market
- Office market: Declining vacancy rates and rising rent rates make the market more attractive
- Retail property rents in the high-street pitches of Amsterdam continue to follow an upward trend
- The high liquidity level of the Dutch investment market creates buying and selling opportunities across market segments that are better than elsewhere in Europe
- The political climate remains stable

SMALL COUNTRY WITH ROBUST ECONOMIC PERFORMANCE

International Corporations Favour Amsterdam

Despite the country's small size — Germany being more than eight times as large and having five times the population — the Netherlands is home to one of the strongest economies in Europe. In international comparisons of location factors the Netherlands outperforms other countries. At the same time, the Netherlands is a very prosperous nation. Per capita income in the Netherlands is typically higher than that in Germany or the United States. The financial crisis of 2008 and 2009, which saw the Netherlands branded as the "sick man of Europe," and which did not spare the real estate sector, has been largely overcome. Unemployment has steadily declined and lately dropped to 4.5 percent.

The Netherlands has traditionally been an open and liberal economy. Its major sea ports, most notably the one in Rotterdam, Amsterdam's Schiphol airport, and its dense transportation infrastructure make the Dutch Kingdom a major transport hub for Europe. With its very business-friendly parameters, the Netherlands is an attractive location for international conglomerates that regard Amsterdam in particular as gateway to mainland Europe. The Randstad metro region, which includes the cities of Amsterdam, Utrecht, Rotterdam and The Hague in Holland, represents the economic powerhouse of the Netherlands.

The positive macroeconomic environment and the decline in unemployment are driving the currently robust demand for commercial floor area, especially high-spec office accommodation in the major cities. The trend is reflected in rising rent rates. In addition, the Netherlands is a popular tourist destination, with visitors drawn especially, though not exclusively, to Amsterdam. In 2016, the Netherlands was visited by 15.5 million tourists, almost as many as the country's population total. This explains why the gastronomy, hospitality and retail sectors count among the growth industries with a growing demand for floor space.

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What are the major developments on the Dutch commercial real estate market?

KEY TRENDS

The Netherlands: One of Europe's Trading Hubs

With its large ports, the Netherlands serve as the gateway to Europe for international freight transports: Just over half of all European transshipment centres for commercial goods are located in the Netherlands. Especially American companies use the Netherlands as their European port of entry. All things considered, well over 1,500 companies operate transshipment centres in the country. The ports of Amsterdam and Rotterdam handle 44 percent of Europe's maritime cargo, with Rotterdam alone currently accounting for 36 percent. Moreover, the Netherlands is also responsible for the bulk of freight transports on inland waterways in Europe. Another transport hub is Amsterdam's Schiphol airport, the third-largest air cargo airport in the European Union.

GDP on the Rise

The substantial recovery of the Dutch GDP has fuelled job growth and with it the demand for commercial real estate. This in turn has raised expectations in regard to rental growth. In 2017/2018, the Dutch economy is projected to grow by around 1.7 percent. In October 2017, the unemployment rate stood at 4.5 percent, according to Eurostat, which implies a year-on-year drop by one percentage point.

Growing Investment Volumes on the Dutch Commercial Real Estate Market

The high-level liquidity and transparency of the Dutch real estate market create opportunities for property acquisitions that are more attractive than elsewhere in Europe. Transaction costs and red tape are comparatively moderate. The Netherlands also has a positive risk/reward profile. This makes the country attractive for investments, especially in the office and retail segments in Amsterdam.

The Randstad Region has Great Potential

However, investments in commercial real estate focus not solely on Amsterdam, the country's largest city. Demand is also high for office, retail and logistics properties in the Randstad region, particularly in The Hague, which is the seat of parliament and government, and in Rotterdam, home to the largest port in Europe. One of the main office locations is Amsterdam's South Axis between the historic town centre and the airport. The Randstad metro region, which includes the areas in and around Amsterdam, Haarlem, Leiden, The Hague, Delft, Rotterdam, Dordrecht, Gouda, Utrecht, Hilversum and Almere, has a combined population of around eight million people. The Randstad accounts for 20 percent of the national territory and more than 40 percent of the country's population.

Decline in Vacancies and Rising Rents Boost the Appeal of the Office Market

The sound situation on the labour market has caused a decline in office vacancies. The trend is facilitated by the demand-based construction of new floor space, and the active urban development policy pursued in response to massive office vacancies at the height of the financial crisis. The current demand for floor space is driven by companies from the sectors of finance, consulting, technology, media, and by co-working platforms. To some extent, it is also attributable to the UK's imminent withdrawal from the EU. For instance, Amsterdam will become the new home of the European Medicines Agency (EMA), which is leaving London in the wake of the Brexit. Investments in Dutch office real estate rose by 8.8 percent to 6.3 billion euros during the first nine months of 2017. As a result, prime initial yields have lately dropped to 3.5 percent.

Rising Retail Property Rents

A robust consumer climate and growth in the tourist business translate into sound parameters in the retail sector. Retail property rents in the high-street pitches of Amsterdam continue to follow an upward trend. Prime retail rents have been growing at an annual rate of 3.5 percent. Between January and September 2017, investments in the retail real estate segment totalled 1.9 billion euros, up from 1.2 billion euros during the prior-year period.

Stable Political Climate

A new Dutch government is now in place after many months of coalition talks. Consisting of four parties, the governing liberal-conservative coalition took its oaths of office on 26 October 2017. While it is generally expected to continue the pro-business policy of the previous administration, it will probably cut taxes, initiate of building modernisation program, and roll back some of the urban planning restrictions. The one policy measure that stands out is the announced VAT hike.

MARKET PECULIARITIES

Leases Fully Inflation-Indexed

The Dutch office market offers a number of opportunities for investors. For one thing, lease agreements are structured in rather landlord-friendly ways. Rents are tied to the consumer price index, and thereby safeguard investors adequately against inflation. Moreover, tenants generally cover the day-to-day operating costs and possible maintenance costs.

Amsterdam's South Axis as Blueprint for European Office Districts

The leading office location in the Netherlands is the so-called South Axis of Amsterdam, located halfway between the airport and the historic town centre. Pinpoint urban planning measures that included conversions, an increased housing share and expanded gastronomy and retail zoning have seriously upgraded this urban area. In fact, the location has become a fascinating blueprint for office districts elsewhere in Europe

OUTLOOK

MARKET OUTLOOK

Going forward, the Netherlands will continue to benefit from its favourable geographical location and the two major ports of Amsterdam and Rotterdam. Another major factor in this context is the country's proximity to the German market. The Dutch Kingdom is Germany's fourth largest trading partner. As logistics centre, transshipment hub, and as investment destination for international corporations, the Netherlands plays a key role in mainland Europe. Amsterdam is considered one of the most attractive alternatives for those companies and institutions that are pulling out of London in the wake of the Brexit. The decision to relocate the European Medicines Agency (EMA) has had a signal effect. This agency alone, which employs around 600 staff, is visited by around 30,000 business travellers a year. Many international corporations continue to favour Amsterdam as the most attractive location in continental Europe — for instance as group headquarters following cross-border mergers. Particularly the Netherlands' highly liquid commercial property market therefore offers a wide range of attractive investment opportunities for both domestic and foreign players. These include office assets as well as logistics and retail real estate. Although the price level in the most attractive locations is relatively high, rents are expected to keep rising. Moreover, the risk of a possible trend reversal is deemed negligible for the time being.
The development is supported by the currently robust business cycle, the strong growth forecast, and the steady increase in employment figures. It is complemented further by a very stable, transparent and business-friendly political environment that will remain in place under the new government.

All things considered, it is therefore safe to project a continued upward price trend for commercial real estate in the Netherlands. The outlook is further supported by keen demand as a result of the great situation on the labour market, which is causing the continued decline in vacancy rates to coincide with further rental growth.

Sources: CBRE Research Real Estate Market Outlook 2017: The Netherlands // CBRE (Q3 2017) Viewpoint: New Coalition's Effect on Real Estate Market // CBS - Statistics Netherlands, 2017 // Colliers (Q1 2017): Office Market Amsterdam // Colliers (Q2 2017): Rents Map Logistics Market // Colliers (Q2 2017): Rents Map Office Market // Colliers (Q2 2017): Rents Map Retail Market // Colliers (Q3 2017): The Dutch Real Estate Market – Update August 2017 // Cushman & Wakefield (Q2 2017): The Netherlands – Industrial Market Snapshot // Cushman & Wakefield (Q2 2017): The Netherlands – Retail Market Snapshot // Eurostat & OECD (economic figures) // PBL "Cities in the Netherlands," 2016 // PWC (Q1 2017): 30 Emerging Trends in Real Estate Europe 2017 // Savills (Q4 2017): Spotlight: Logistics Property Market The Netherlands // Savills (Q4 2017): Netherlands Market in Minutes, October 2017

DATA SNAPSHOT

Key Ratios of the Dutch Office Market

(Source: Colliers, The Dutch Real Estate Market Update August 2017)

	Q2 2015	Q2 2016	Q2 2017	Expectations
Amsterdam				
Prime Yield (GIY)	5.90 %	5.40 %	3.50 %	↘
Prime Market Rent	EUR 360	EUR 375	EUR 415	↗
Schiphol / Hoofdorp				
Prime Yield (GIY)	5.75 %	5.75 %	5.00 %	↘
Prime Market Rent	EUR 325	EUR 350	EUR 350	→
Rotterdam				
Prime Yield (GIY)	6.25 %	5.75 %	5.25 %	↘
Prime Market Rent	EUR 235	EUR 235	EUR 230	→
The Hague				
Prime Yield (GIY)	6.50 %	6.40 %	5.75 %	↘
Prime Market Rent	EUR 225	EUR 225	EUR 225	→
Utrecht				
Prime Yield (GIY)	6.75 %	6.50 %	5.00 %	↘
Prime Market Rent	EUR 205	EUR 205	EUR 220	↗
Eindhoven				
Prime Yield (GIY)	8.00 %	7.75 %	6.50 %	↘
Prime Market Rent	EUR 185	EUR 175	EUR 180	→
Groningen				
Prime Yield (GIY)	8.50 %	8.50 %	7.50 %	↘
Prime Market Rent	EUR 135	EUR 135	EUR 135	→
Arnheim				
Prime Yield (GIY)	8.50 %	8.50 %	7.50 %	↘
Prime Market Rent	EUR 135	EUR 135	EUR 165	→
's-Hertogenbosch				
Prime Yield (GIY)	8.00 %	7.75 %	6.75 %	↘
Prime Market Rent	EUR 160	EUR 135	EUR 160	→

Randstad: the Netherlands' Business Region

(Source: Statistics Netherlands – 13 October 2017)

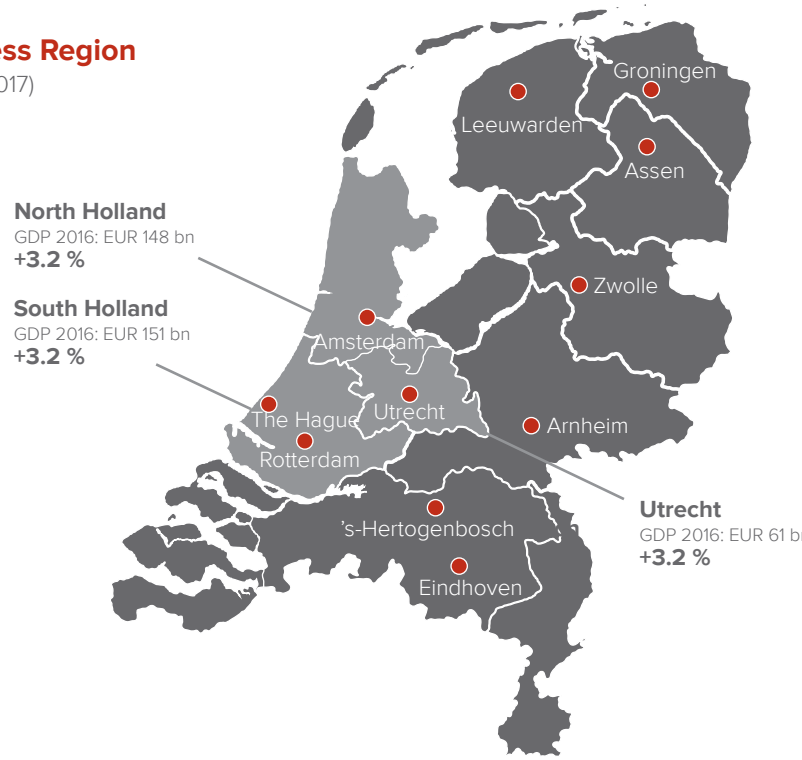
The three Randstad provinces compared to the country as a whole

> 20 % of the territory

> 40 % of the population

> 50 % of the GDP

> 14 % faster GDP growth



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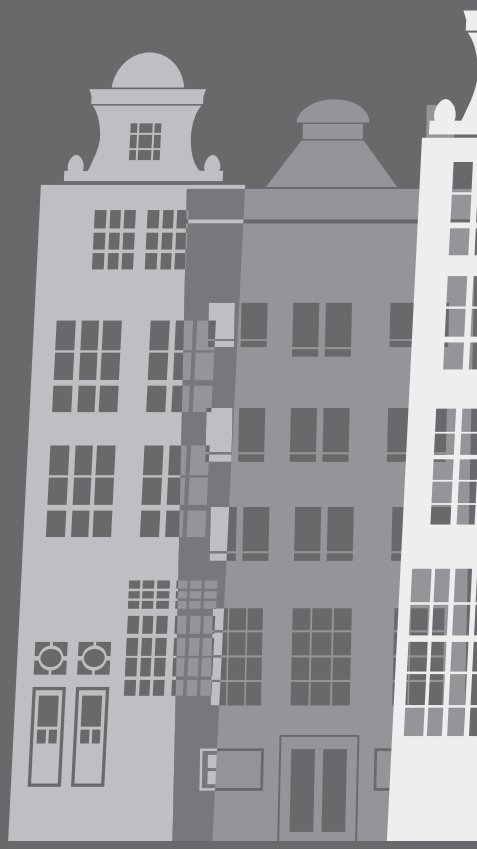

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