Netherlands Market in Minutes The major themes for Dutch property in 2017

March 2017

What's inside?
In the first Market in Minutes of 2017 Savills briefly turns to 2016 before setting out the major occupier and investment themes impacting the market this year.

A quick glance back
The flourishing 2016 economy, coupled with the positive economic outlook, reflected in increased occupier activity.

Office take-up rose by 14.2% yoy to 1.44 million sq m. During the past year over 800,000 sq m was removed from the stock, mainly to be converted to residential use, resulting in much healthier supply levels.

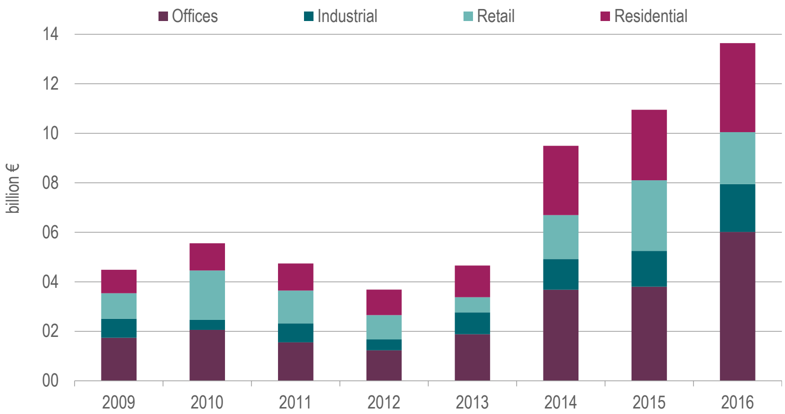
The logistics market saw a continued growth of demand for high quality e-commerce distribution centres and over 1 million sq m of new developments. The industrial market as a whole saw occupier demand increase by around 200,000 sq m to 4.3 million sq m in total, of which around 1.2 million sq m concerned logistics. Retail take-up reached 1.1 million sq m, up 40.7% from last year. It is worth noting that a significant part of the retail take-up was caused by a reshuffling in high streets due to bankruptcies of major retail chains.

The fourth quarter of 2016 lifted the investment volume to the highest level since the GFC. The total volume for offices, retail, industrial and residential increased from €11.0 billion to €13.6 billion (+24.6%).

The largest increase, in both absolute and relative terms, took place in the office sector: from € 3.8 to € 6.0 billion (+58.3%). The industrial/logistics market also saw a substantial increase: +33.1% to € 1.9 billion, while retail investments dropped by 26.3% to € 2.1 billion. Residential investments increased by 26.3% to a record high € 3.6 billion as institutional investors picked up a large share of developments.

GRAPH 1

Investment volume by sector: The 2016 investment volume reached € 13.6 billion (+24.6%)



Graph source: Savills

Major themes for 2017
Savills has defined five major trends shaping the 2017 property landscape.

1. Amsterdam booming
In many ways Amsterdam is pulling away from the rest of the Netherlands. The number of jobs increased by 3.9%, tourism has grown by 7%, house prices are up 18.1% yoy, residential developments are pulled forward and many new European HQs (including CBS, PVH Europe, Vistra, Under Armour, Palo Alto, Uber and Monsanto) leased office space in the Dutch capital. As this trend will continue in the years to come, pressure on all Amsterdam property sectors will increase further, creating overspill potential at other major cities.

2. Political and economic uncertainty
In 2016 the choices for Brexit in the UK and Trump in the USA increased political and economic uncertainty. In mainland Europe major elections are upcoming and the Greek bailout returned to the agenda. It has to be awaited how these will affect consumer confidence and the overall eurozone economy.

3. Battle for talent increases
The battle to attract and retain talent is substantially changing companies' location preferences. Our daily contacts with clients show us the increasing role of the HR department as they incorporate employee preferences in location decisions. As a result, areas providing an attractive mix of living, working, shopping, catering and leisure are the clear winners.

4. Increasing share Asian investments
The share of cross-border investments stood at a high inflow of 62.3% over the full year 2016. Large inflows

originated from the usual suspects: the USA, UK and Germany. Investments from Asia increased substantially and reached close to € 1.2 billion in 2016, as investors like Anbang, First Sponsor, GIC and KFCC invested heavily in the Netherlands. This trend will continue in 2017, although Savills does expect a fairly similar investor distribution.

5. Core & opportunistic are drying up
In 2016 some large single assets in Amsterdam were sold, including The Piet Hein Buildings, Hourglass, FOZ and Hollandia. Supply of these core assets is however drying up, causing increased interest in core+ assets in all major cities. On the other hand, a fair share of the large opportunistic portfolios purchased earlier in the cycle, have been re-sold and new opportunistic supply is scarce, resulting in investors having to move up to the value-add segment.

2017 occupier market

As the economy continues to grow this year, occupier demand will remain robust. Take-up in the office market will increasingly be focused on the best locations in the major cities. The logistics market will benefit from the increasing demand (exports, retail growth, e-commerce) and is in need of additional developments. The retail market is likely to show significant occupier activity, as major chains continue to optimise their location strategy.

In the most competitive locations rents for offices and logistics are under upward presssure. While at some specific retail locations this is also the case, the substantial oversupply in the retail market as a whole, keeps downward pressure on rents.

2017 investment market

While investor interest for the liquid core sectors (offices, residential, retail and industrial) will remain, Savills expects a further increase in alternative assets, such as hotels, care, and student housing, as these categories are maturing and provide higher yields.

Investments in core and opportunistic property will wind down as supply of this type of product is becoming increasingly rare, forcing investors to also look at the opportunities in the core+ and value-add markets.

Prime yields are forecast to remain under downward pressure, as investor demand keeps outstripping supply. At the same time, it has to be noted that room for further contraction is limited. This is less so in the value-add markets, where opportunities for yield contraction are larger, especially in the office market, where decreased vacancy contributes to higher investor confidence. Office yields remain under downward pressure and new prime transactions will be realised at gross yields (well) below 4.75%.

Within the logistics market, increasing user demand will continue to attract investors. While the 2016 yield contraction from 5.75% to 5.25% gross limits room for further contraction, it clearly shows the investors' appetite for this sector. New developments in the logistics sector will provide for investment opportunities, both for national and international distribution centres.

The retail market faces the biggest challenges as rental growth is pinpointed to only a limited number of shopping destinations. The major high streets will do well, as rents will likely increase and yields are expected to remain stable at 3.75%, but a fair share of shopping centres will need to adapt to changing consumer demands in order to retain or reclaim their position.

In many submarkets pressure on the residential rental market remains high, which should, also in 2017, result in high rental levels and occupancy rates. Many investors, including Dutch institutions, are aiming to expand their residential portfolio, resulting in very competitive yields and further willingness to invest in new developments.

"The value add market segment provides for interesting investment opportunities in 2017."
Jan de Quay, Netherlands Investments

Savills team

Please contact us for further information at +31 (0) 20 301 2000

Clive Pritchard
Investments
Head of country
c.pritchard@savills.nl

Jan de Quay
Investments
Head of department
j.dequay@savills.nl

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

Reinier Wegman
Investments
Head of sales
r.wegman@savills.nl

Wouter Stevens
Agency
Head of department
w.stevens@savills.nl

Jeroen Jansen
Research
Head of department
j.jansen@savills.nl

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.