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Netherlands Real Estate Strategic Outlook
September 2017

We have maintained our overweight call on the Netherlands. With the economic recovery well entrenched, improving market fundamentals should enable rent growth to remain firm across the real estate spectrum. With a favourable yield premium over other European markets, we expect further yield compression to sustain return outperformance. However, as a result of the recent sharp yield correction in the prime segment, investors in the search of higher returns are more willing to take on risk by targeting secondary locations. In this respect, they should stay cautious, given the polarisation of the market. Instead, the current high liquidity within the market should help to dispose of weak assets.

Strong economic momentum set to moderate

Economic conditions in the Netherlands still paint a positive picture. In 2016, GDP growth remained above that of the Eurozone, buoyed by solid domestic demand and export activities. A combination of accommodative fiscal policies, rising private consumption and a labour market recovery has laid the ground for a predicted 3.0% GDP growth this year, which would be its fastest pace in a decade.[1]

Admittedly the outcome of the general election in March this year has relieved investors from concerns over a 'Nexit' referendum. However, this has also resulted in a greater political fragmentation, and attempts to form a coalition government have proved difficult. Nonetheless, proposals to extend dividend withholding tax exemptions could boost FDI into the country.

Fewer prime retail opportunities

Following a wave of domestic retailer insolvencies in recent years, the Dutch retail market recovery is gathering pace, with consumer sentiment and retail sales figures on the rise in recent months. International retailer penetration is also increasing, and expanding from the top five cities to the top 20 cities.[2]

However, the divergence in market conditions between the prime pitch and secondary locations is growing, the latter witnessing significant rising supply and rent reductions.[2] Consequently, investors' appetite for core products is strengthening, being reflected by the widening yield gap between prime and country average over the last five years from 25 to 100 basis points.[3] Our prime retail rent growth forecasts in the Netherlands remain favourable for dominant centres, and returns are set to outstrip many other Western European countries in the next five years.

Insatiable investor appetite

This year is poised to become another record year in the Netherlands, with 12-month rolling real estate investment volumes totalling €14 billion midway through 2017. Foreign investors have continued to increase their exposure to the Dutch market in their search for higher yields. For example, overseas players in Amsterdam represented around 80% of investment volumes during the first half of the year.[4] Similarly, alternative sectors such as hotels and student housing are increasingly sought-after, currently offering attractive returns. In 2016, residential was the best performing sector achieving 15.8% total returns.[5]

[1] Oxford Economics, August 2017
[2] Cushman & Wakefield, Q2 2017
[2] PMA, April 2017
[3] Cushman & Wakefield, Q2 2017
[4] Real Capital Analytics, Q2 2017
[5] INREV, May 2017

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Source: Real Capital Analytics, August 2017.Note: Past performance is not indicative of future results.

Fierce competition for Amsterdam offices

On the back of stronger employment growth, 12-month office take-up in Amsterdam increased by 42% in the second quarter of 2017. [6] Following the recovery in demand for office space and the quasi absence of new completions, vacancy has been declining sharply over the last three years.

Given that the current office pipeline under construction remains modest relative to the size of the stock, availability should continue to fall in the near term. Nonetheless, reduction in supply has mostly consisted of the withdrawal of obsolete space through conversions into hotel and residential purposes, at a pace of around 600,000 square metres each year since 2013 in the Randstad.[7] Thus, should the need for new space in those sectors slow, office vacancy could start rising again, although central areas where demand is high should be less impacted.

The scarcity of prime product for sale is pushing investors toward more core+ and value-added strategies, as illustrated by the rise in portfolio deals on the market. Alternative sectors such as student housing and healthcare are gaining ground, offering higher yields than the traditional real estate sectors. [9]

Dutch logistics still on target

The logistics market in the Netherlands is still gaining ground, as demand for distribution centres remains strong and triggers further falls in vacancy for grade A space. However, rental growth has been held back due to increasing speculative construction activity. Where land supply is not an issue, developers are taking advantage of the low yield environment and can adjust rents accordingly for potential users.

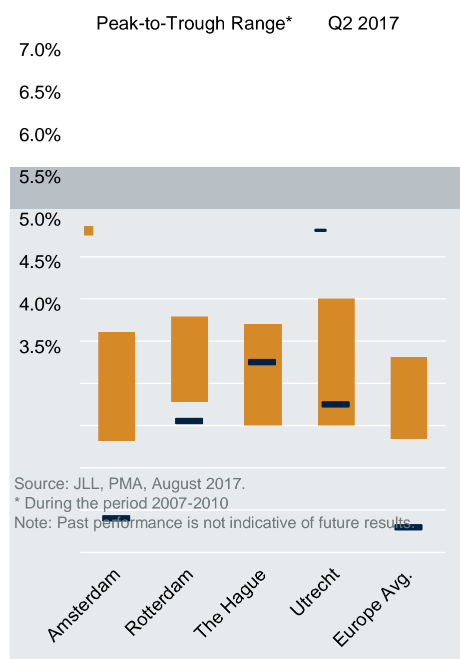
But in a context of supply-chain reconfiguration and buoyant e-commerce growth, requirements for logistics space should remain solid for some time. And given the tightness of grade A supply, we expect aboveaverage rental growth in the prime segment. With yields expected to fall further, we anticipate returns in line with the European average over the next five years.

Additionally, rising consumer spending and fast online sales growth bode well for urban logistics to outperform in large metropolitan areas such as Amsterdam. Given the strong competition for land in these densely populated areas, there are still good prospects for a rise in the rental premium for this space.

Focus on the Randstad area

Accounting for more than 37% of national GDP and specialised in the financial and TMT sectors, the Randstad megalopolis could offer opportunities beyond Amsterdam. With stronger yield correction in Amsterdam than in other cities recently, potential for further compression is piquing investors' interest in the region. Although the office market in Rotterdam is weakened by high supply and relatively subdued leasing activity, the lack of grade A space leaves room for rental growth at least in the best locations where companies are progressively relocating. Utrecht is emerging as a new attractive spot in the Netherlands, on the back of the great connectivity to Amsterdam, the positive demographic outlook, the ongoing urban renewal and more affordable rents.

Prime Office Yields - Peak & Trough



Source: JLL, PMA, August 2017.
* During the period 2007-2010
Note: Past performance is not indicative of future results.

[6] JLL, Q2 2017
[7] JLL, Q1 2017
[9] Savills, June 2017

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Adverse changes in law and regulation including environmental laws and regulations, zoning laws and other governmental rules and fiscal policies; Environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established;

Changes in the relative popularity of property types and locations;

Risks and operating problems arising out of the presence of certain construction materials; and

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