The Netherlands – August 2020

Effects of COVID-19

savills

COVID-19 has accelerated trends in the real estate market, but so far 2020 is still above average

In recent months, COVID-19 has had a tremendous impact on our society and the economy. Despite the fact that consequences in the long and medium term are not yet clear, an image is beginning to form of the consequences of the coronavirus crisis for the economy and the real estate market.

What has become clear, however, is that certain trends that had already begun to gain momentum have accelerated as a result of COVID-19. Examples include the proportion of online purchases by consumers. This share has risen steadily to over 10% in recent years. Due to COVID-19, e-commerce revenues have risen by dozens of percentage points in recent months. Now, almost 15% of all consumer spending takes place online. This trend has consequences for the type of demand for real estate: after all, demand for brick-and-mortar stores is declining in favour of the logistics real estate market. Remote working is yet another trend. In recent years, people have begun working from home more often, and this trend has accelerated due to COVID-19. As a result, offices are taking on different functions and companies are looking for flexibility, including in the office space they lease. This trend was also clearly visible in recent years.

Does this mean that COVID-19 is likely to cause seismic shifts in the Dutch real estate landscape? And how has the Dutch real estate market performed so far in 2020?

IN RECENT YEARS THE DUTCH ECONOMY HAS PERFORMED BETTER THAN THE EURO AREA

This is still the case. According to the most recent Eurostat figures, the economy of the Eurozone contracted by more than 12.1% in the last quarter, while the Dutch economy contracted by 8.4%. The Dutch economy is looking relatively stable in other areas as well, for example when it comes to relatively low public debt, which has risen in recent months from 50% of gross domestic product (GDP) to approximately 63%. However, in recent months other countries have also taken considerable support measures, resulting in the Netherlands still being one of the few countries in Europe with relatively low public debt.

Table
Key macroeconomic indicators

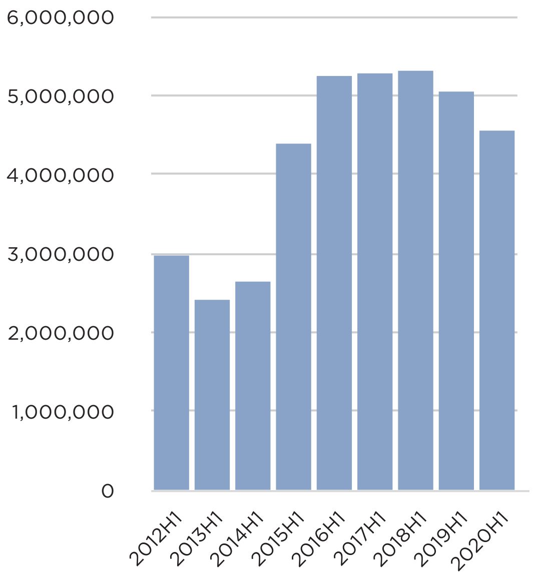
	The Netherlands	Euro-zone
Unemployment Rate (2020)	4.3%	7.8%
GDP growth (change 2020Q2 and 2020Q1)	-8.4%	-12.1%

Source Eurostat

This gives the Dutch government capability to take further action in the near future if necessary, but it will be impossible to extend support measures indefinitely. In the end, the economy will have to recover on its own. The first signs of recovery are already visible.

Due to the effects of COVID-19, both consumer and producer confidence have demonstrated a strong decline. Consumer confidence dropped to -28.7 in April, compared to 3.7 in February. The quick rate of recovery is striking, however. Last month this figure was already back up to -8.7. Compare this to the financial crisis of 2008-2009, when this figure dropped to -23.5 in February of 2009. At that time it took almost a year for producer confidence to reach a level comparable to where it is now. The present recovery is indicative of a sharp downturn followed by a strong recovery.

Graph
Total decline in take-up volume is relatively limited



Source Savills Research

UNCERTAINTY LEADS TO POSTPONED RELOCATION DECISIONS

The total decline of the take-up volume amounted to only 10% (H1 2020 compared to H1 2019). The relatively small 'other' category, that covers leisure, hotels and cafes, bars and restaurants, showed the most significant decline (-56%). Of the more traditional categories such as offices, retail and industrial space (including logistics), only office take-up showed a decline (-17%). It is noteworthy that office take-up in the first quarter showed an increase of +26%. Demand dropped (temporarily) starting in the second quarter, bottoming out in May. From then on, the market appeared to recover to some degree, a fact that is especially visible in the increase in the number of flexible leases concluded in July (+117%) compared to the month of April.

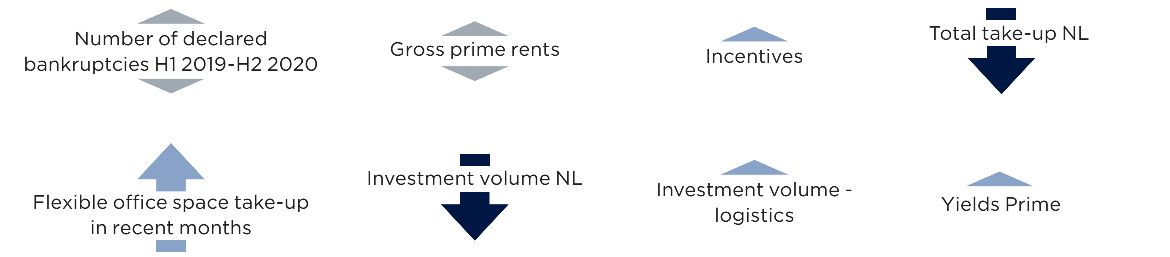
THE NEW WAY OF WORKING 2.0

A lot has been said about the impact of working from home on the demand for office space. Despite the current drop in user activity in the Dutch real estate market, the demand for office space is not expected to decline structurally. Before the coronavirus crisis, working from home was already embedded in the Dutch working culture, with approximately 26% of workers already working from home frequently and 14% on a regular basis. This has made the Netherlands one of the frontrunners in the area of remote working.

In the entire euro area, only 6% of people work from home on a regular basis. It can be said that the Dutch office market was already partially designed for working from home, which has made the impact on the demand for real estate less disruptive in the Netherlands. In addition, every tenant in the future will require more square metres per person as a result of social distancing and the changing role of office buildings. The impact of working from home on the demand for office space is expected to be limited in the Netherlands compared to other European countries.

The retail market and the industrial real estate market remained fairly stable compared to last year. When the lockdown was at its most extreme, demand in these sectors dropped entirely. Both sectors had a strong first quarter and a partial recovery in Q2, leading to a take-up volume in H1 2020 that stabilised at a level similar to 2019. Major differences could be observed in the office space market. The logistics market performed slightly less well with a 22% decline in take-up volume. The strong growth of e-commerce in this sector could not fully compensate the drop in demand in sectors such as automotive & fashion. All in all, COVID-19 has caused shifts in the market, but a structural loss in demand is out of the question.

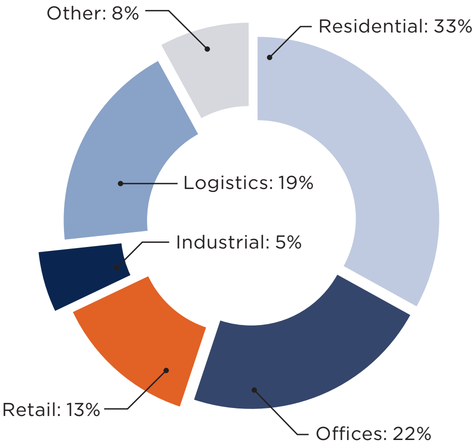
2020 SO FAR:



Source Savills Research

Graph

Investment volume 2020



Source Savills Research

SHIFTS IN THE INVESTMENT MARKET

Since the lockdown investors have increasingly shifted their focus to core investment products. As a result, residential investments, logistics and prime offices in H1 2020 amounted to approximately 75% of the total investment volume.

Despite a strong start in the first quarter of 2020 (+12% compared to Q1 2019), the investment volume in H1 2020 dropped compared to H1 2019. This decline is primarily the result of postponed investment decisions. At first, a number of transactions were concluded as usual during the lockdown. After a short period with very low market dynamics, an increase in investment activity could be observed. For example a number of transactions were completed that had been restarted after the lockdown, including the sale of Strawinskilaan 10 by Deka Immobilien to Aviva Investors for €85 million. In spite of these transactions, H1 investment volumes failed to reach the record levels of 2017, 2018 and 2019. With over €7 billion in investments, the volume was equal to that of 2016 and thus 11% higher than the 10-year average. This return of investor interest at the end of Q2 made sense. There is still plenty of capital available. According to Savills analysis, institutional investors across the globe had made over €200 billion available for investments in real estate in 2020. Currently almost 40% of this amount has not yet been allocated. The Netherlands is high on the list for investors in their search for investments with a limited risk profile.

Clearly, COVID-19 is also having an impact on the investment market and shifts have become visible. However, a complete 180 is out of the question.

OUTLOOK: COVID-19 IS A CATALYST FOR TRENDS

The outlook for the real estate market in the coming period will mainly depend on the effects of COVID-19 on the real economy in the event of a second wave. Based on the assumption that these effects will remain limited, real estate will remain an important investment category. This definitely applies to core products in the Netherlands. However, COVID-19 has resulted in an acceleration of trends that were already visible in previous years. Two notable examples in the real estate market are the growth of the logistics sector driven by the number of online sales, and the changing role of the office building (from workplace to meeting space). Both trends are now accelerating but so far have had only a limited impact on the amount and type of the demand for real estate. In the long term, COVID-19 is unlikely to cause any major shifts in the role of real estate. Experience and analysis of previous global recessions, such as the 2008-2009 financial crisis, reveal a considerable initial impact. Reviewing long-term effects reveals that both the positive and the negative impact on the 'static' world of real estate are often more limited than was thought at the time.

Sources Brainbay database, Savills Research, CBS, Eurostat, Capital Economics, Vastgoedmarkt

Savills team

Please contact us for further information

Clive Pritchard
Head of Country
c.pritchard@savills.nl

Bas Wilberts
Head of Residential & Hotel Investment
b.wilberts@savills.nl

Douglas van Oers
Co-Head
Logistics & Industrial
douglas.vanoers@savills.nl

Martijn Onderstal
Head of Valuation
martijn.onderstal@savills.nl

Jordy Kleemans
Head of Research
& Consultancy
jordy.kleemans@savills.nl