



REPORT

Savills Research

The Netherlands - Autumn 2020

City Special Utrecht





Question What is the situation in Utrecht? Which sectors dominate the market in Utrecht? And which conclusions can be drawn in connection to the local and regional office market?

Introduction The Dutch economy has grown strongly in recent years. This growth has resulted in an increase in the demand for office real estate. This definitely also applies to the office market in Utrecht. The average take-up of 174,696 sq. m. over the last five years signified an increase of 21.5% percent compared to 2014, and compared to an increase of 14.1% in the five largest cities in the Netherlands (the G5) as a whole. The period of permanent growth ended abruptly several months ago. The COVID-19 crisis resulted in the first worldwide economic recession in years. The economy in the Netherlands also contracted by 8.4% in the second quarter of 2020 compared to the first quarter of this year.



Utrecht in times of COVID-19

Various pillars of the Utrecht office market

Economic uncertainty resulting from the COVID-19 crisis mainly caused a drop in demand in the nationwide office market (including Utrecht) in the period immediately following the lockdown. This effect was immediately visible.

Take-up in Utrecht

For the first time in years, the take-up in Utrecht showed a decline in 2020H1 compared to 2019H1 (-50.9%). This sharp drop was caused by the fact that office occupiers were forced to take a step back for the time being. After all, due to current economic uncertainty it has become more difficult to estimate their growth

prospects for the coming years and how much office space they will be needing in the future. The degree to which companies will actually divest of office space, or even lease additional space, currently mainly depends on the effects of COVID-19 on their business operations.

The impact of COVID-19

Major differences between companies and corporate sectors are to be expected. The negative impact of COVID-19 on sectors such as hospitality and catering, culture, and transport will be much more significant than, for example, the impact on IT services and companies

in the corporate sector. When considering the office market, cities with a relatively large number of businesses that are negatively affected by COVID-19 will witness a greater impact on the local office market than cities that have a relatively high number of businesses that are vulnerable to the effects of COVID-19.

What is the situation in Utrecht? Which sectors dominate the market in Utrecht? And which conclusions can be drawn in connection to the local and regional office market? Before zooming in on the situation in Utrecht, we will discuss the situation nationwide.

-50.9% For the first time in years, the take-up in Utrecht showed a decline in 2020H1 compared to 2019H1

An economic downturn

Economic contraction in 2020, but major differences between corporate sectors

For the first time since 2014, the Netherlands is facing an economic downturn. The Bureau for Economic Policy Analysis (CPB) is expecting a contraction of more than 5.1% by the end of 2020. This prediction is based on the condition that there will be no second wave of the coronavirus. In the event of a second wave, the economy may even continue to contract in 2021 and the unemployment rate may reach 10%.

In the Netherlands, the Chamber of Commerce uses 21 categories for business sectors. Major differences can be observed between these sectors. The sectors taking the biggest hits are the hospitality industry, culture, sports

and recreation, industry and trade (also known as sectors vulnerable to the effects of COVID-19). In the hospitality industry for example, the number of bankruptcies doubled in June 2020 compared to January 2020. Even in the event of a rapid recovery, it is expected that roughly 40% of businesses in the above-mentioned sectors could face liquidity problems, according to parties including De Nederlandsche Bank (DNB), Rabobank, AMRO and ING. And in the event of a less speedy recovery, this share will rise to over 50%. Sectors that appear almost entirely exempt from these problems include healthcare, education, IT, public services, specialist services, financial services and business services.

Table Economic recession is on the horizon, unemployment peak expected in 2021

Business sector	2020	2021
Unemployment in the Netherlands	4.3%	6.5%
Gross Domestic Product Netherlands	-5.1%	+3.2%

Source Bureau for Economic Policy Analysis

These sectors are very well represented in Utrecht and together are responsible for 68.9% out of a total of approximately 290,000 jobs, while these sectors are 'only' responsible for 54.4% of jobs nationwide. Utrecht is home to fewer businesses active in a category vulnerable to the effects of COVID-19, which is partly due to the fact a large number of businesses in Utrecht

appear to be making it through the crisis relatively unscathed. Only 23.4% of employment in the city is generated by businesses active in these sectors. In the Netherlands as a whole this is 37.5% and in the other G5 cities this figure is even higher. Only The Hague is an exception, because industry and trade are less dominant in there.

Table Utrecht is home to a relatively small proportion of vulnerable business sectors

Business sector	The Netherlands	Utrecht	Amsterdam	Eindhoven	Rotterdam	The Hague
Hospitality	5%	4.2%	7.8%	3.5%	4.8%	1.9%
Trade	16.7%	9.8%	12.4%	11.5%	12.2%	10%
Transport & Storage	4.6%	5.3%	2.9%	4.2%	8.8%	3.5%
Industry	9%	2.8%	2.3%	10.3%	5.7%	1.8%
Culture & Leisure	2.3%	1.5%	2.4%	1.4%	2%	1.9%
Total	37.5%	23.6%	27.8%	30.9%	33.5%	19.1%

Source Statistics Netherlands

Utrecht is expecting the most rapid urbanisation

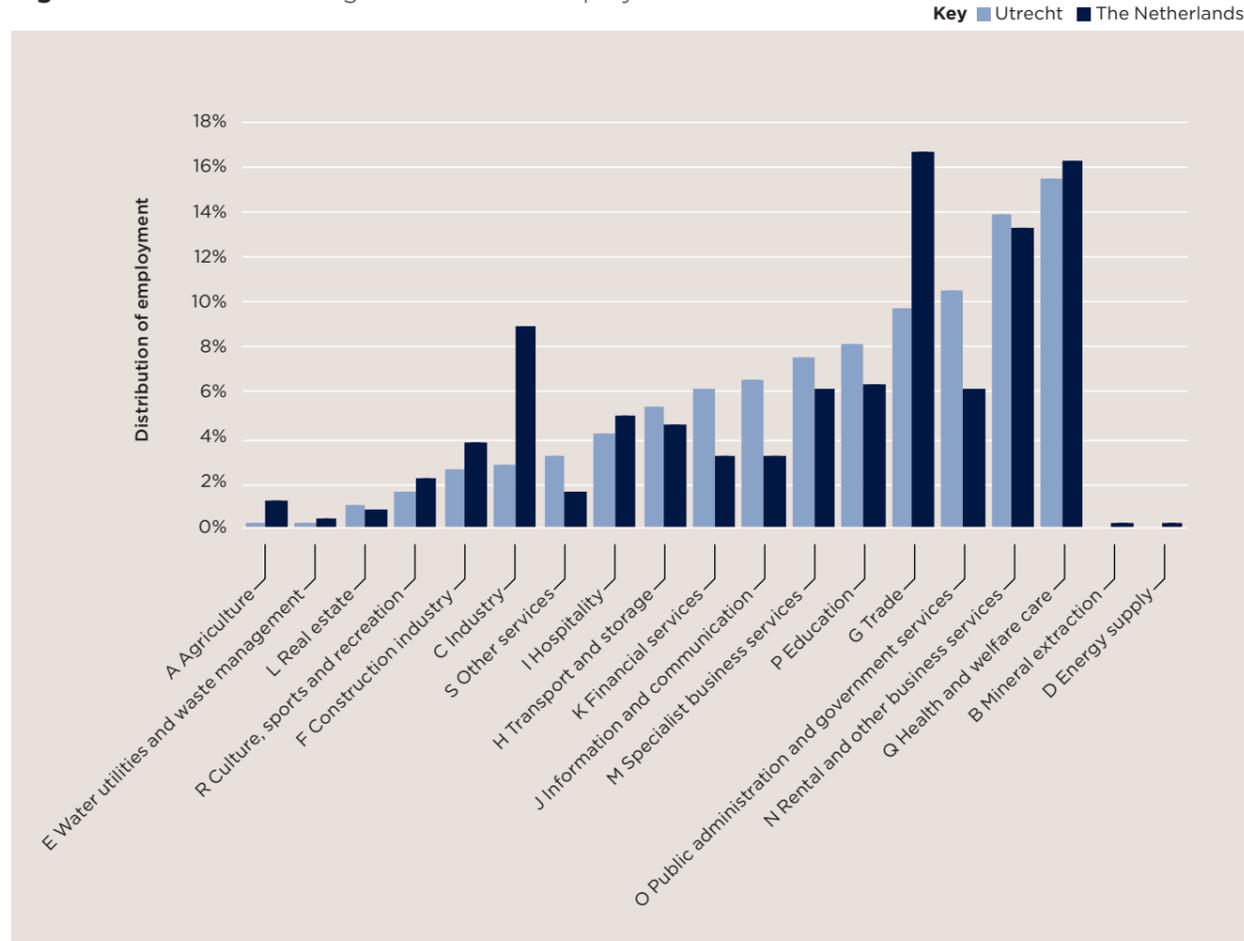
City	Population growth until 2040
Amsterdam	+17.5% ++
The Hague	+13.1% ++
Rotterdam	+14.4% ++
Utrecht	+20.8% +++
Eindhoven	+16.1% ++
The Netherlands	+6% +

Fastest growth observed in one-person households

Type of household	Expected growth 2020-2040
Total	+19%
One-person	+29%
Single parent	+21%
Families	+20%

One-person households looking to move to an urban environment are very interested in living in a city like Utrecht. It is striking that the number of residents in the under-20 category will continue to rise in the coming years. This is partly the result of a growing number of students flocking to the city, thanks to the appeal of Utrecht University and the attractiveness of the city itself. Attracting these young target groups creates a more dynamic city and will ultimately lead to an appealing labour market for the various types of companies with offices in Utrecht.

Figure Utrecht has a strong distribution of employment



Source Statistics Netherlands

The foundation of the Utrecht economy is diverse

In addition to a relatively small proportion of businesses vulnerable to the effects of COVID-19, Utrecht also has a wide variety of businesses. As a result, Utrecht is less dependent on the performance of a specific sector.

This conclusion can be drawn not only by comparing the city of Utrecht to the Netherlands as a whole, but also by noting the striking fact that in comparable cities, one sector tends to dominate. In The Hague, for example, almost a quarter of all jobs are in the public sector, and in Eindhoven more than one fifth is dependent on 'other' business services. The most dominant sector in Utrecht is healthcare. This sector is 'only' responsible for approximately 15.6% of jobs, however.

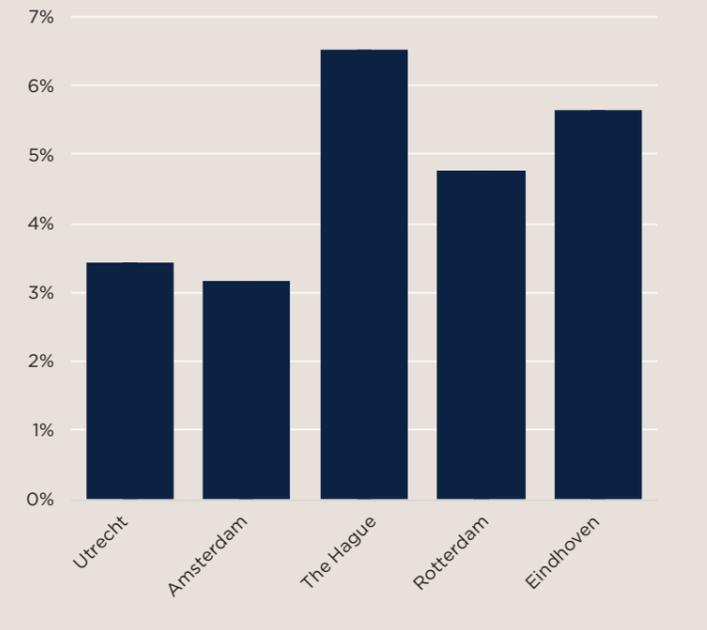
The strong distribution of employment in Utrecht is also demonstrated by an analysis of the spread of business sectors in major cities, which shows that the distribution coefficient in Utrecht is only 3%, whereas this coefficient is structurally higher in other G5

cities. The distribution coefficient expresses the deviation from the average share per urban business sector. The greater the deviation from the average share per urban business sector, the smaller the distribution of employment is in a city.

“The most dominant sector in Utrecht is healthcare. This sector is responsible for approximately 15.6% of jobs”

Figure the distribution coefficients of employment in Amsterdam and Utrecht are the lowest of the G5

Due to diversity and the presence of a relatively large share of businesses not vulnerable to the effects of COVID-19, the impact on the office market appears to be limited. However, in order to estimate the absolute impact it is important to also take into account the expected effects of COVID-19 on the use of office space in general. Factors to consider include the effects of working from home, the changing role of office buildings and social distancing measures.



Source Savills Research

Before the coronavirus crisis, working from home was already embedded in certain business sectors, particularly in Utrecht

A lot of articles are currently being published on the impact of working from home on the demand for office space. Despite the drop in occupier activity in the Dutch real estate market, the demand for office space is not expected to decline structurally. After all, working from home was already embedded in the Dutch working culture before the pandemic, particularly when viewed in an international context. Approximately 26% of workers had already been working from home frequently, and 14% on a regular basis. This means the Netherlands is 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. As a result, changes associated with remote

working are much more limited in the Netherlands compared to other countries, and the effects of working from home were already reflected in office use. In addition to differences between countries, major differences can also be observed between the various business sectors in the Netherlands in terms of the proportion of people working from home. For example, before the coronavirus pandemic, 68.7% of people in the IT sector, 48.1% in the public sector, 33.1% in the healthcare sector and 47.5% in the business services sector had already been working from home on a regular basis, with the average of remote workers across all sectors at 34%. These sectors are strongly represented in Utrecht (68.9%), which is why the impact on the demand for office real estate in this city is expected to be relatively less disruptive compared to other cities, a prognosis that is also confirmed by the results from a survey of several major businesses in Utrecht.

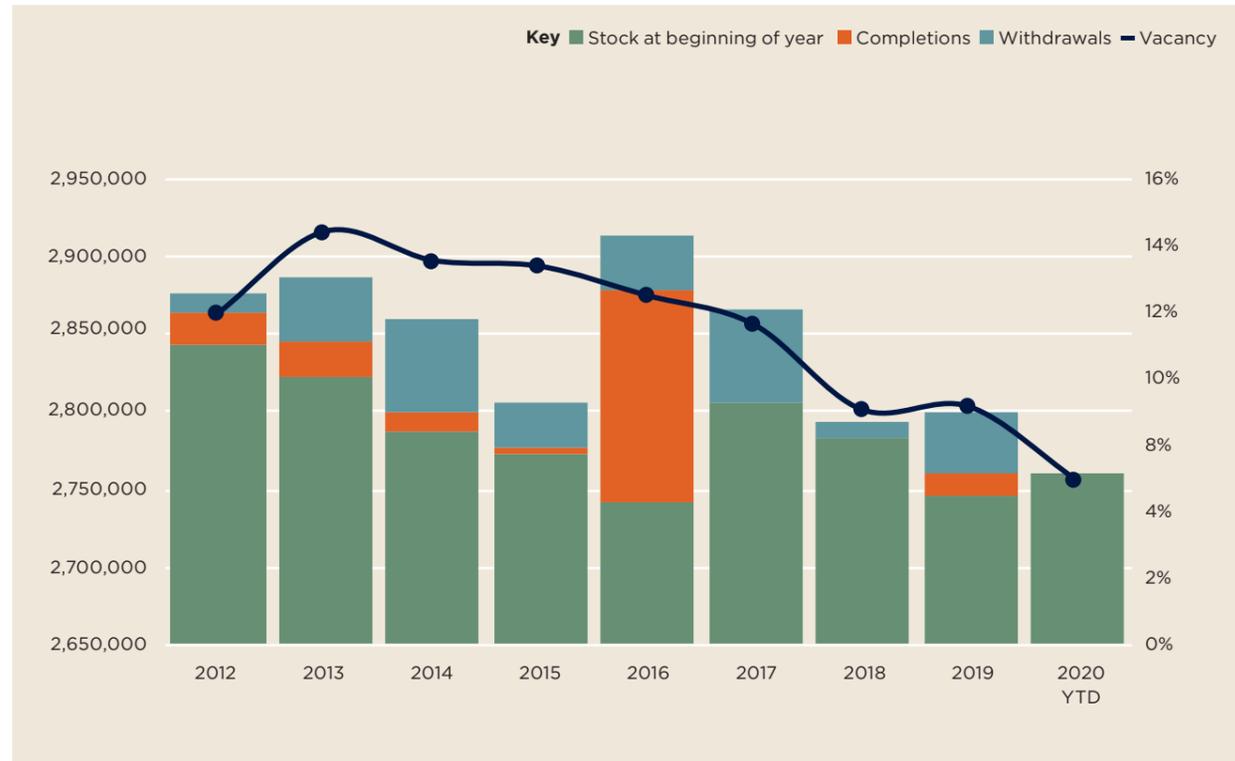
“Many of our employees had already been working from home on a regular basis, as remote working became part of our strategy from the moment we moved to Utrecht. As a result, the impact of COVID-19 on our office use is non-existent”

CHANGES TO THE ROLE OF OFFICES HAVE BOTH POSITIVE AND NEGATIVE EFFECTS ON THE DEMAND FOR OFFICE SPACE

Because more people are currently working from home, it seems likely that less office space will be needed in the long term. However, as a result of COVID-19, more employees are once again viewing the office as a place to get together. But meeting spaces require more square footage. Another important fact to consider is that, particularly in the short term, office occupiers will require more square footage in order to comply with social-distancing measures. Despite the fact that the precise impact on the future demand for office space remains unclear, it cannot be said that the effects of working from home will definitely result in a need for less office space. It is likely that the dip in the take-up of office space in Utrecht, which was clearly visible in the second quarter of 2020, will prove to be less structural in nature.

On top of that, the supply-demand ratio in the Dutch office market, and specifically the office market in Utrecht, has improved significantly in recent years, which is also shown by an analysis of vacancy and stock figures. As a result, the market should be able to bounce back, even in the unlikely event that the drop in demand lasts longer than expected.

Figure The replacement of low-quality office buildings with high-quality new-builds in Utrecht has resulted in a healthy supply-demand ratio and has vastly rejuvenated and modernised the office stock in Utrecht.



Source Savills Research

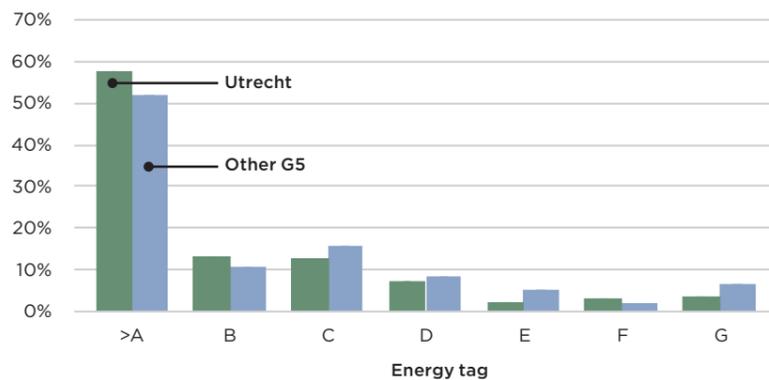
Stock rejuvenation leads to a more sustainable office stock

Although some cities are still dealing with a high vacancy rate and a lack of rental growth, the situation in the office market in Utrecht could not be more different.

The most important areas, Utrecht CBD, Kanaleneiland, Leidsche Rijn and Papendorp, were given an important quality boost that included new offices but also the addition of new functions such as homes and leisure.

This is also apparent when looking at the energy labels of the office stock. Energy labels are excellent indicators of the technical and economic condition of office stock. This analysis shows that offices in Utrecht are generally 'younger' in economic and technical terms than offices in the other G5 cities. Approximately 58% of the Utrecht stock has energy label A or higher, compared to the other G5 cities where this share is 6 percentage points lower.

Figure Utrecht has a younger stock than the G5 average



Source Savills Research

A number of sub-areas are popular business locations

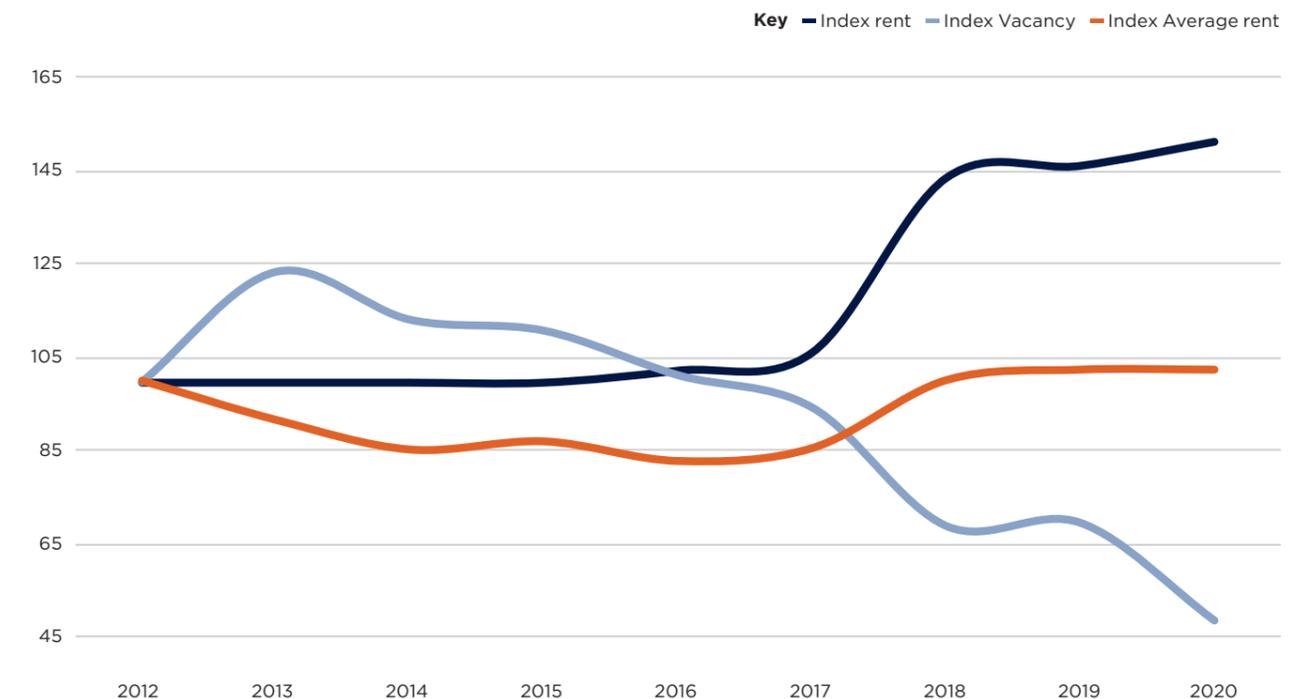
Due to these quality improvements and continuing demand, vacancy rates have dropped to a historically low level of 5.3%.

This drop represents a decline of 50% compared to the 2016 level. The vacancy in the CBD (2.6%) has even dropped to below friction level. The vacancy rates have not only dropped in the CBD, but also in more secondary areas such as Kanaleneiland (5.1%) and Papendorp (3.8%). These office areas previously saw a higher vacancy rate of over 15%. As a result of this shortage, the rents for high-quality offices in particular have increased considerably, especially in the CBD (+51.3%). The increase in rents in the CBD is the result of area developments and the fact that high-quality

office space is becoming available in the first place, such as in WTC Utrecht. These types of buildings used to be in limited supply in the city.

Of course not all sub-areas in Utrecht have witnessed sharp increases in rents, and rents remained stable in areas such as Rijnsweerd, De Meern and West. Papendorp and Kanaleneiland showed a slight increase in rent rates. As a result of these different rent developments, the average rent rose by 2.3% between 2010 and 2020.

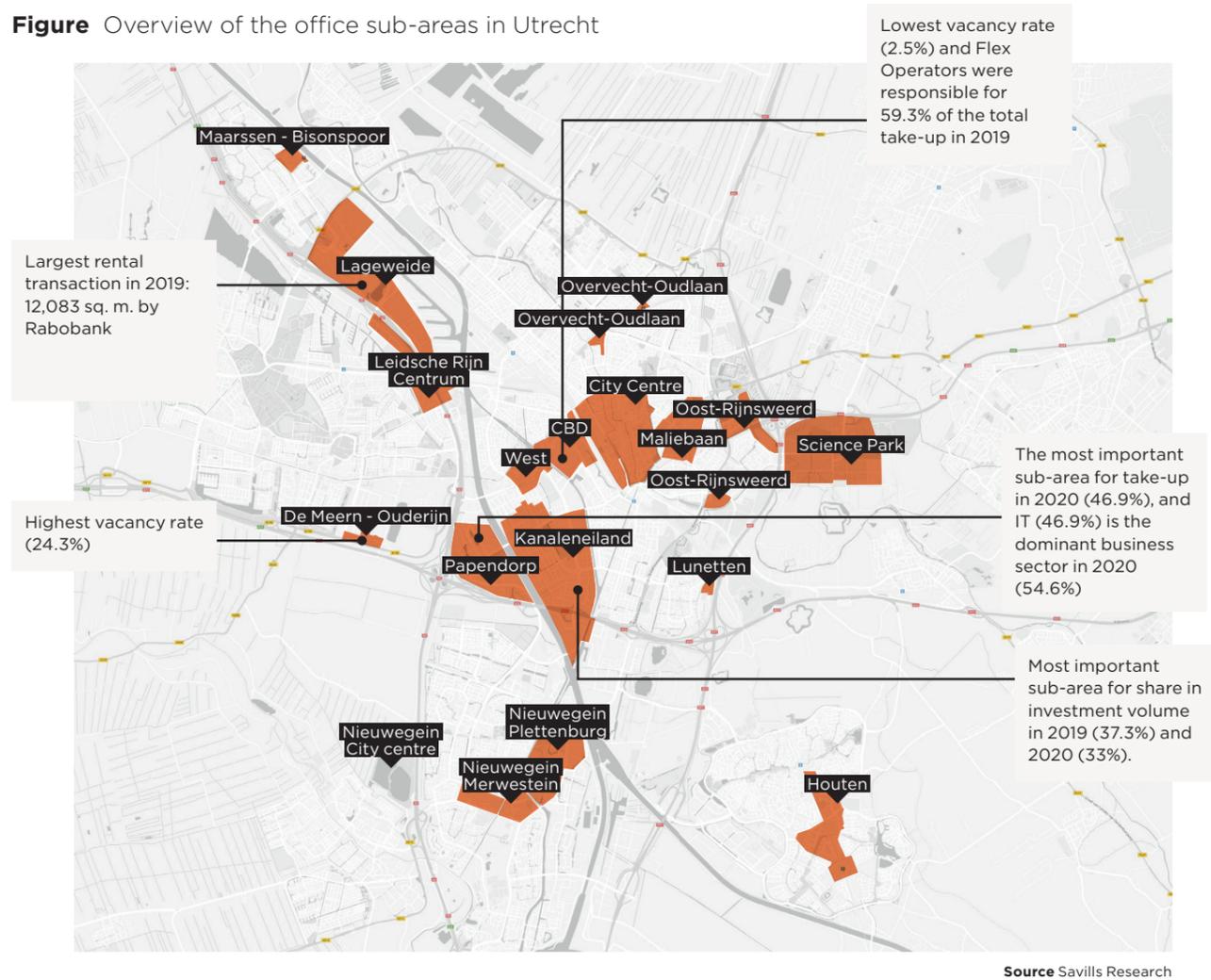
Figure Polarisation in the rental market in Utrecht



Source Savills Research

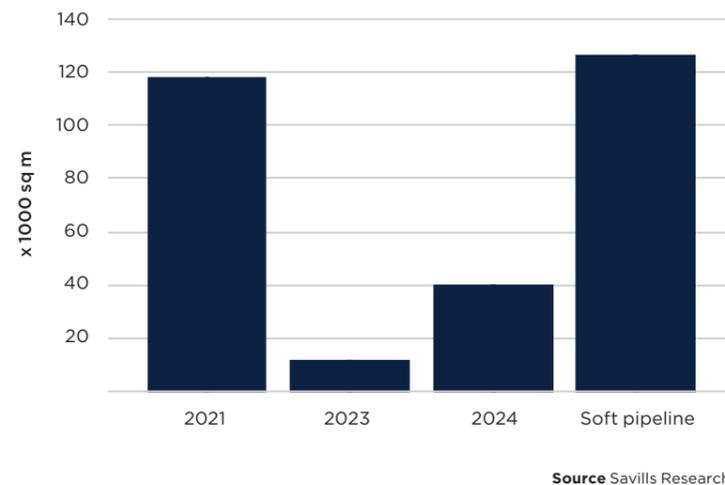
💡 Vacancy rates in Utrecht have dropped to a historically low level of 5.3%. This drop represents a decline of 50% compared to the 2016 level 🙏

Figure Overview of the office sub-areas in Utrecht



Despite the fact that, in recent years, the CBD contributed significantly to the growth of the office market in Utrecht, other areas such as Papendorp, Kanaleneiland and West also contributed their fair share. In 2019, for example, Kanaleneiland was by far the most popular sub-area among investors, and the largest rental transaction of 2019 took place in Lage Weide. Partly as a result of continuing demand, plans for a considerable number of new-build developments are still going ahead. These plans amount to an additional 296,900 sq. m. of office space between now and 2024. Although this is a significant amount, not all office development plans have been finalised, because construction on certain projects will only begin once 50% of the office space has been leased. It is important to be aware of the fact that some of the metres added have already been pre-let. A modest share of 27% (approximately 46,000 sq. m.) has not been pre-let. Even the unlikely event that none of this will be leased, the result will only be an increase in the vacancy rate of approximately 1.5%. Does this mean that COVID-19 has had no impact on the office market in Utrecht?

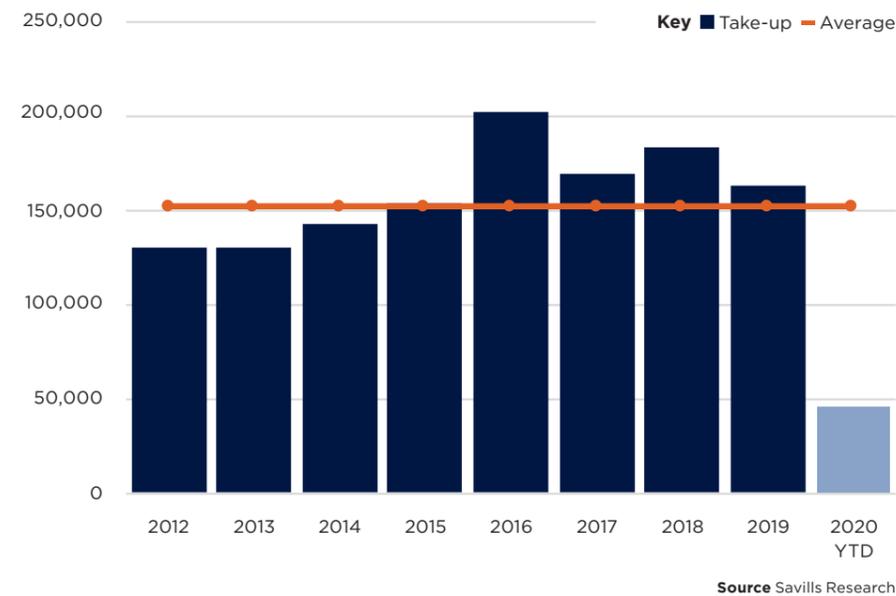
Figure development pipeline of Utrecht offices



A decline in take-up

Deferment of strategic leasing decisions leads to a decline in take-up

Figure Decline in take-up is caused by 2020Q2 developments



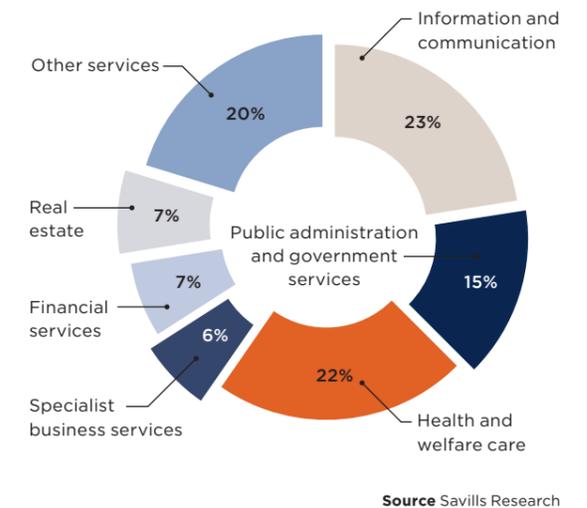
Recent months showed a clear decline in the demand for office space, which was mainly due to the fact that companies deferred their strategic leasing decisions as a result of economic uncertainty and declining revenues. Although 2020 was off to a great start, with a rise in take-up of 5.7% in Q1, Q2 showed a considerable decline in take-up volume. In the first half of 2020, total take-up fell by 50.9%. The impact of COVID-19 was not only visible in terms of volume. There was also a shift in the type of businesses active. Businesses active in sectors not vulnerable to the effects of the coronavirus crisis performed relatively well. Businesses in the healthcare sector, public sector and IT were responsible for the largest share in take-up in 2020, at 59.6% compared to 33.8% in 2019.

Another striking fact was that many of the leases signed in 2020 were for offices in Utrecht West, Kanaleneiland and Papendorp (areas that accounted for 35% of take-up in 2019). Previously, the CBD was more dominantly represented in the take-up volume. This shift is less the result of the effects of COVID-19 and is more due to the fact that, unlike in preceding period, no new-builds were completed in the CBD in recent months.

In addition to the shift in these sectors between 2019 and 2020, the average deal size and the number of transactions fell in 2020 compared to 2019. The size of the average transaction was 942 sq. m. in 2019, and a mere 560

sq. m. in 2020. Partly due to the consequences associated with COVID-19, occupiers now require smaller surface areas. This also becomes clear when looking at the flexible office market, which mainly offers smaller spaces or individual workspaces. After a sharp drop in occupancy in March and April, occupancy of operators' workspaces rose again in June and July. At the moment, occupiers are less likely to commit to longer leases due to the current economic uncertainty. Although, at least for now, occupiers appear to be opting for flexible and smaller workspaces, there are still businesses that are focusing on growth, such as X11 Media. Possible declines in demand are limited particularly due to the diversity in Utrecht.

Figure Take-up in 2020 is more concentrated in business sectors as a result of COVID-19

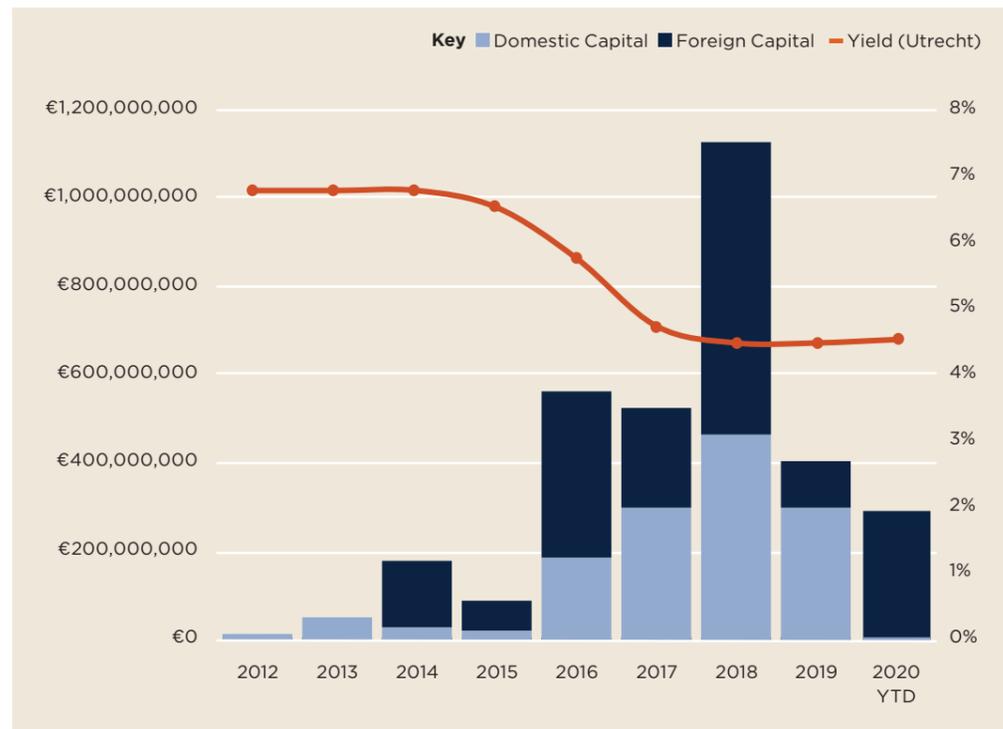


“ We are currently revising our strategy for office space and are looking to lease more space in the short term, because our current location is not big enough for teaching the same number of students while complying with the applicable coronavirus measures ” - X11 Media

Effects on the investment market slowly visible due to strong first quarter in 2020

The Utrecht investment market performed well in the first six months of 2020.

Figure decline in take-up is caused by 2020Q2 developments



Source Savills Research

The investment volume for offices rose by 69.3% in 2020H1 compared to 2019H1 and was mainly the result of an exceptionally strong first quarter in 2020. In 2020, Utrecht was mainly popular among foreign investors, while Dutch investors dominated the Utrecht office market in 2019 at 74%. The most important investment areas were Kanaleneiland and Papendorp with approximately 60% of total investment volume in both 2019 and 2020. The strong performance of these areas is mainly the result of considerable investments in making these areas more appealing, for example by mixing functions. The improved attractiveness has not gone unnoticed by investors.

Despite a strong first half of 2020, the first effects of COVID-19 on the Utrecht investment market are beginning to show. The most important reason is the fact that funding for non-core real estate has become more

expensive, not only in Utrecht but also throughout the entire country.

In uncertain economic times, investors also become more risk-averse, resulting in a higher demand for “core” offices. One prime example is a transaction in Leidsche Rijn, in which AM Development sold the Helix building to Principal during the COVID-19 crisis. This newbuild development comprises 10,000 sq. m. of lettable floor space.

Despite uncertainty caused by the coronavirus crisis, the Utrecht office market remains relatively stable for both occupiers and investors. Due to diversity and spreading, a large-scale drop in demand and soaring vacancy rates are not expected in the longer term either. This boosts investor confidence in both the short and long term.

Key findings

1 Utrecht is not dependent on one type of business sector, but is home to a wide variety of types of office occupiers. The coefficient distribution of employment is only 3% in Utrecht, compared to a structurally higher figure in most of the other G5 cities.

2 Compared to the Dutch average (37.5%) and the G5 average (28%), Utrecht is home to relatively fewer businesses (23.3%) that operate in sectors vulnerable to the impact of COVID-19.

3 The business sectors responsible for 68.9% of employment in Utrecht were already familiar with the concept of remote working before the coronavirus crisis hit and, as a result, the effects of working from home on the office market in Utrecht have been tempered.

4 Utrecht has a relatively young office stock compared to the G5. COVID-19 has caused shifts in the market, but a structural loss in demand is out of the question.

5 Shifts are visible in the occupier market in Utrecht. But market dynamics can still be observed in times of COVID-19. The most important current developments include a need for smaller spaces and greater flexibility among tenants and specific business sectors.

6 Despite the uncertainty caused by the coronavirus crisis, the Utrecht office market remains relatively stable for both occupiers and investors. This stability creates confidence for investors in the short and the long term.



Source Brainbay, Savills Research, Statistics Netherlands, Eurostat, City of Utrecht, Vastgoedmarkt, De Nederlandsche Bank



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An aerial, top-down view of a modern building's facade. The facade is composed of a grid of white panels, each containing a window. The windows are rectangular and arranged in a staggered pattern. The windows are dark blue, and the overall image has a clean, geometric aesthetic.

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