



The Netherlands - Autumn 2020

 **CITY SPECIAL**
Savills Research

Amsterdam ICT saves the day





Question What is the state of the Amsterdam office market after years of limited vacancies and less restrictive municipal policy with regard to new-builds?

The Amsterdam economy has grown strongly in recent years.

In Amsterdam the strong economic growth has resulted in, among other things, an increase in the demand for office space, mainly between 2014 and 2017. The average take-up of 565,481 sq m between 2014 and 2017 signified an increase of 57% percent compared to 2013, while this was 20% in the other largest cities in the Netherlands. The take-up showed a slight decline in the following years as a result of a strong increase in the shortage of qualitative office space. Due to growing demand the vacancy rate dropped from 14.9% in 2014 to 6.2% in 2020. In a number of Amsterdam office areas, the vacancy rates have even dropped to far below the friction level as a result of the ever-growing economy, limited new-builds and a decrease in the stock due to conversions of offices to homes. As a result, the Amsterdam market was highly overstrained, making it difficult for businesses to find suitable office space in the best locations.

This period of increased growth appears to be coming to a temporary end now, due to the economic uncertainty resulting from COVID-19. The question of how the demand for office space will actually develop in the coming period is difficult to answer at this time, as this strongly depends on how the economy will develop and on companies' future strategies for working from home without losing synergy in their businesses.

Although it is uncertain how this will turn out exactly, the demand for office space is expected to decline in the coming years. Examining the current state of the Amsterdam office market reveals the market's level of resilience to a potential drop in demand as a result of the pandemic. What is the state of the Amsterdam office market after years of limited vacancies and less restrictive municipal policy with regard to new-builds?

“The Amsterdam market was highly overstrained, making it difficult for businesses to find suitable office space in the best locations.”

Overview Amsterdam's economic growth is above national average and European metropolitan regions

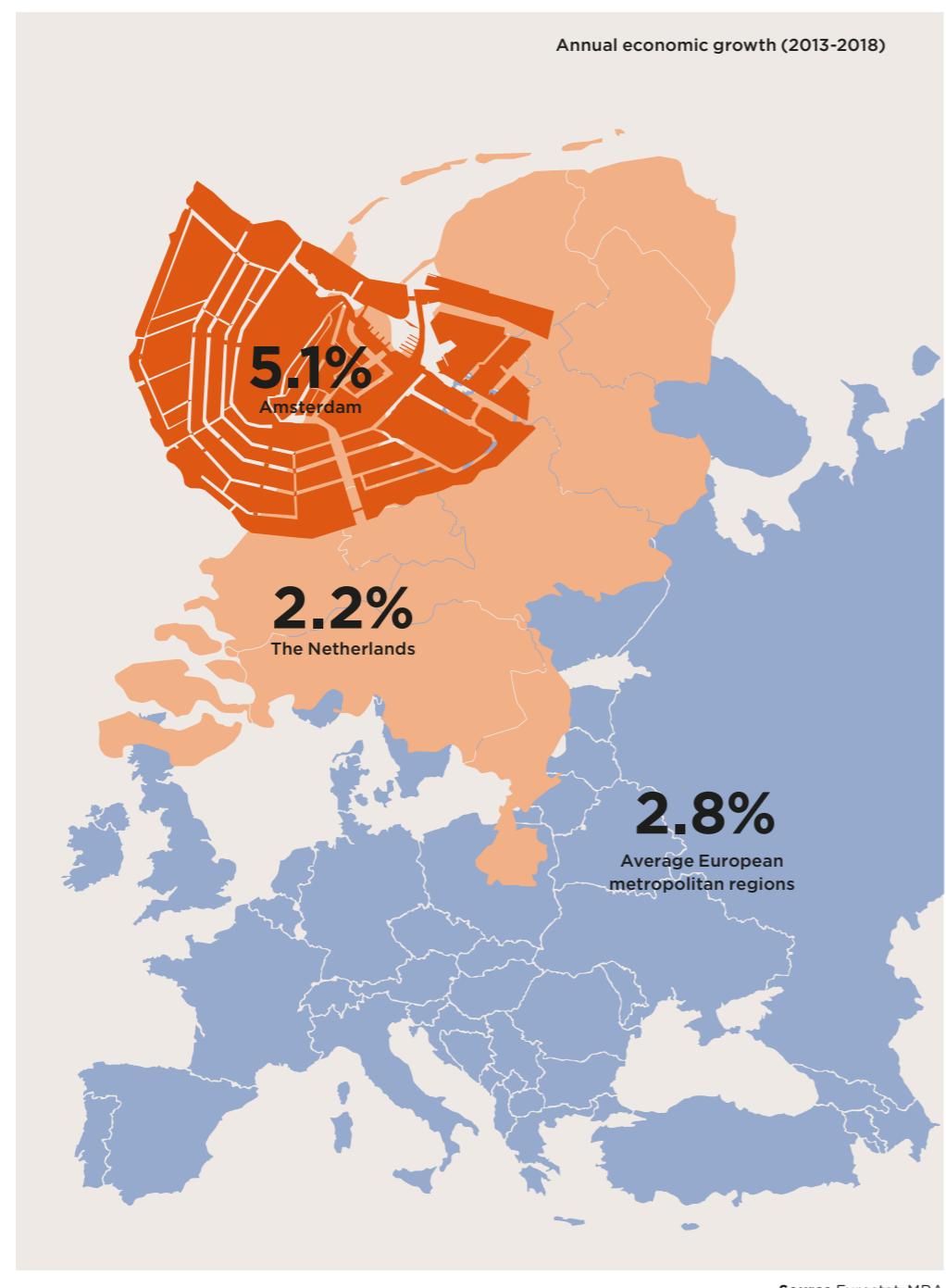


Table Population growth in Amsterdam

City	Population growth until 2040	Number of residents by 2040
Amsterdam	+17.5%	1,030,900
The Hague	+13.1%	619,500
Rotterdam	+14.4%	746,100
Utrecht	+20.8%	433,200
Eindhoven	+16.1%	271,600
The Netherlands	+6%	18,421,400

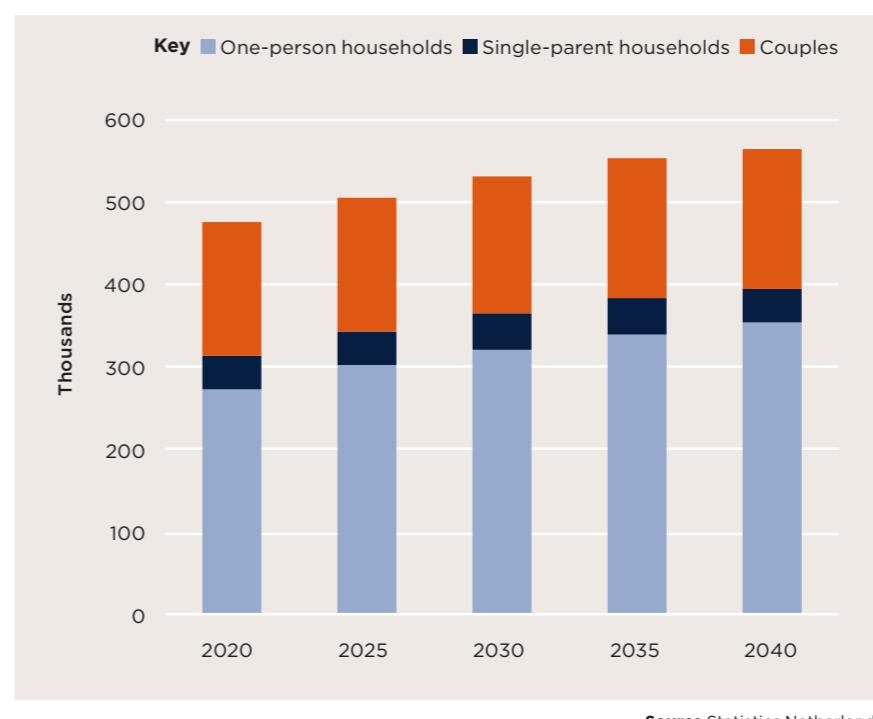
Source Statistics Netherlands

Amsterdam to reach 1 million residents by 2040

The number of residents in Amsterdam is expected to exceed the 1 million mark in 2040. However, as a result of COVID-19, the city's population has shown a decline for the first time since 1985, due to the departure of knowledge workers. This is only expected to be a short term disruption of the growth. The stable Amsterdam economy and the city's appeal to international knowledge workers offers a positive outlook for the long term. Figure: Household development Amsterdam One-person households looking to move to an urban environment are very interested in

living in a city like Amsterdam. This group will grow by 33.5% until 2040. It is striking that the number of residents in the under-20 category will continue to rise in the coming years, a trend that is partly the result of a growing number of students flocking to the capital, thanks to the appeal of the two universities 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 Amsterdam.

Graph Household development Amsterdam



ECONOMIC CONTRACTION IN 2020, REORGANISATIONS ON THE HORIZON DESPITE NOW SCHEME

For the first time since 2014, the Netherlands is facing an economic downturn. The Bureau for Economic Policy Analysis (CPB) believes a contraction of more than 5% by the end of 2020 can reasonably be expected. In the event of a second wave, the economy may even continue to contract in 2021 (-2.8%) and the unemployment rate may reach 8.5%.

Table

Economic contraction is on the horizon, unemployment peak expected in 2021

	2020	2021
Unemployment in the Netherlands	4.3%	5.9%
Gross Domestic Product Netherlands	-5%	+3.7%

Source Baseline scenario Bureau for Economic Policy Analysis

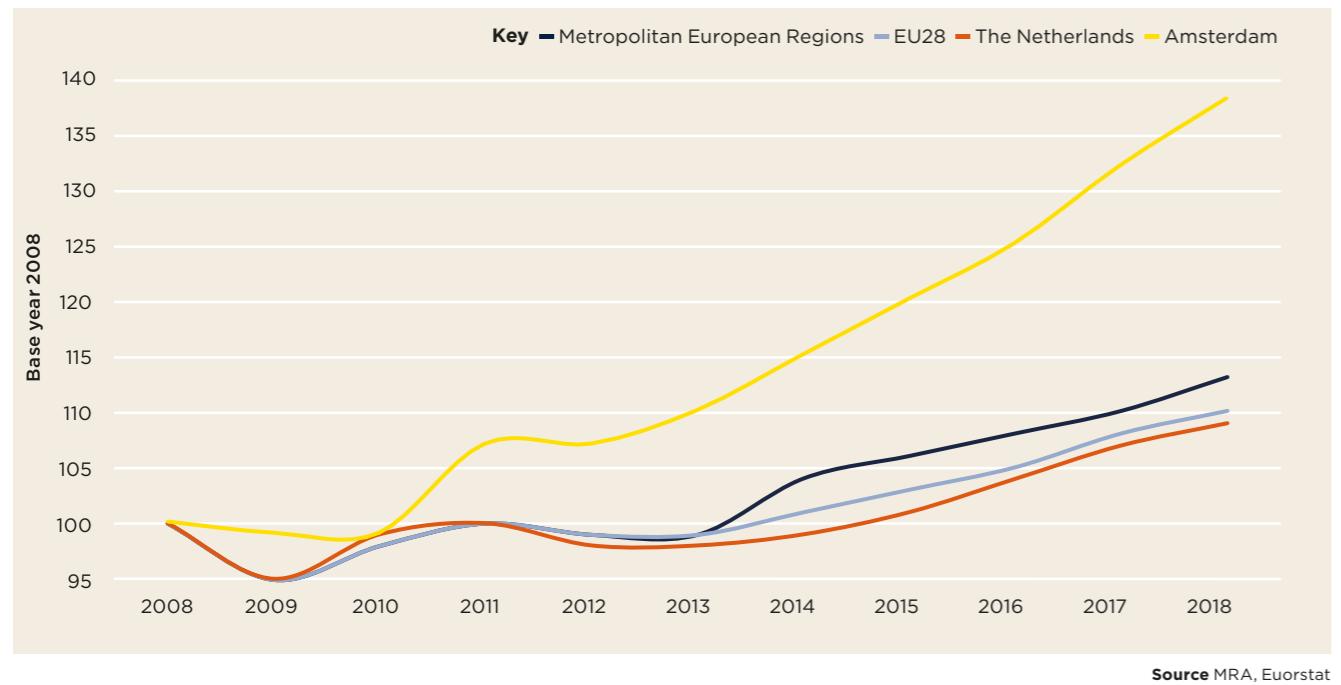
A relatively large number of differences can be observed between business sectors. The sectors taking the biggest hits are the hospitality industry, culture, sports and recreation, transport, industry and trade. In the hospitality industry for example, the number of bankruptcies doubled in June 2020 compared to January 2020. The problems for office-related employment are not yet visible in the number of bankruptcies, partially due to the extensive support measures (NOW) from the government. Despite these support measures, several large businesses have announced reorganisations, such as KLM, Uber, TATA Steel, Booking.com, BAM, Shell and ID&T.

Due to COVID-19, the concerns about the economy and, as a result, the office market have increased. After all, reorganisations and rising unemployment generally lead to a drop in demand. Amsterdam is no exception. For the short term the outlook is less optimistic, while several bright spots can be observed for the longer term.

“The problems for office-related employment are not yet visible in the number of bankruptcies, partially due to the extensive support measures (NOW) from the government.”

“Thanks to the mix of capital, availability of ICT talent and a great sales market, the city provides the ideal mix for the growth of ICT companies.”

Graph Economy in Amsterdam grew faster than other European Metropolitan Regions



ICT is one of the most important drivers of the Amsterdam economy

The Amsterdam economy has grown significantly in the recent decade.

Amsterdam has not only grown considerably compared to the Dutch average, but also compared to other urban regions in the European Union. The Amsterdam economy grew by three times as much compared to other European cities in the period between 2008-2018.

The economic growth was predominantly driven by the activities in financial services, specialist business services, and ICT (information and communication) in particular. These sectors are the largest when compared to the other G5 and account for over 30% of the total employment in Amsterdam. The share of ICT is expected to rise even further in the future, at the expense of the financial sector for example. In the financial sector a decline in the number of available jobs has been caused by the emergence of new competitors, such as FinTech and further automation. In the last three years approximately 13,000 jobs have been added in the capital's ICT sector,

which constitutes a growth of approximately 12% per year with a major share for tech businesses. The fastest growing businesses in terms of employment are Picnic, Adyen, Takeaway, Swapfiets and MessageBird. The largest tech employers in Amsterdam are Booking.com, TomTom, Picnic and Adyen. In addition to these major employers,

Amsterdam also boasts plenty of start-ups and scale-ups. The visualised pyramid clearly shows how the tech ecosystem is built up in the city of Amsterdam. Thanks to the mix of capital, availability of ICT talent and a great sales market, the city provides the ideal mix for the growth of ICT companies.

Graph Amsterdam is the most important city in the Netherlands when it comes to IT Services (2020)

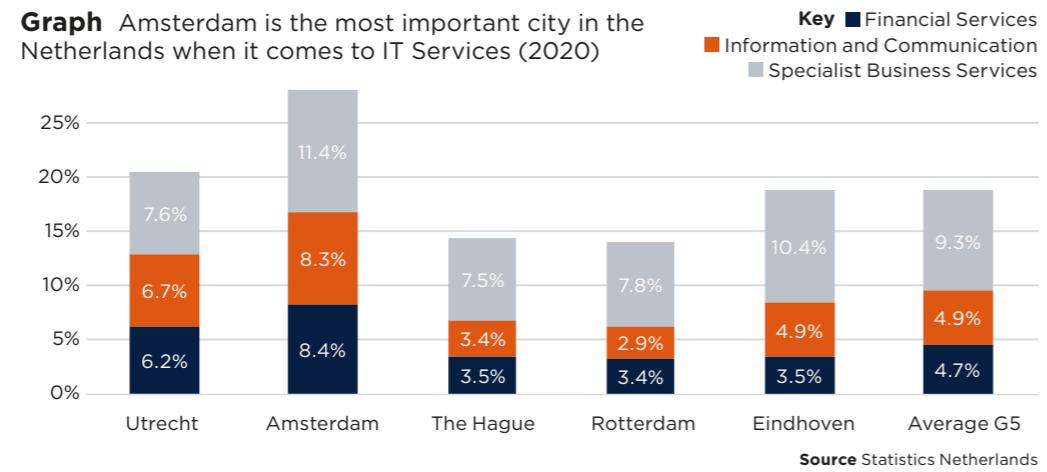
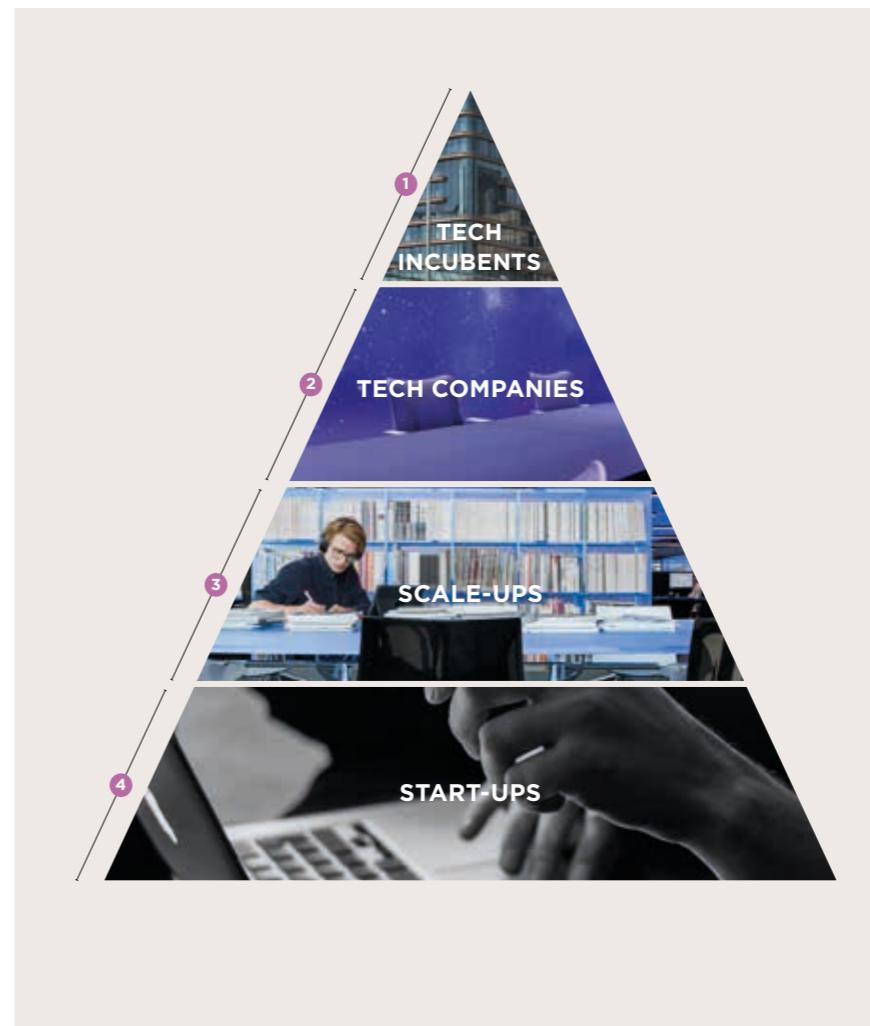


Figure Pyramid of the tech ecosystem in Amsterdam



① Companies like Booking.com

② Companies like Adyen, mollie

③ Companies like PicNic, WeTransfer, Bunq

④ Companies like Norihealth, Atium, Maxwell

Source Dealroom.com

The value of the tech ecosystem grew from €10 billion in 2015 to €73 billion in 2020. Adyen (€42.5 billion) and Takeaway.com (€13.8 billion) belong to one of the most valuable tech companies in Europe founded after the year 2000. This puts Amsterdam in third place after London (€157 billion) and Berlin (€79 billion). From an international standpoint, this makes Amsterdam one of the frontrunners in terms of tech companies. This also clearly shows in the relatively high density of start-ups and venture capital per resident. Advantages for companies looking to settle in Amsterdam include the relatively affordable office rental prices compared to

other European cities. Despite COVID-19, the long-term outlook for the Amsterdam ICT sector is positive thanks to a growing workforce, the ability to attract talent and plenty of capital. This means there are prospects for future demand for office space. The expectations for the other dominant sectors are moderately optimistic, with the legal services sector, accountancy sector and external consultancy services sector mainly expected to do well due to demand. The prognosis for the financial services sector is less optimistic as technological innovations could in time replace employees (Rabobank, MRA).

OUTLOOK FOR THE ICT SECTOR

Despite COVID-19, the long-term outlook for the Amsterdam ICT sector is positive thanks to a growing workforce, the ability to attract talent and plenty of capital. This means there are prospects for future demand for office space. The expectations for the other dominant sectors are moderately optimistic, with the legal services sector, accountancy sector and external consultancy services sector mainly expected to do well due to demand. The prognosis for the financial services sector is less optimistic as technological innovations could in time replace employees (Rabobank, MRA).

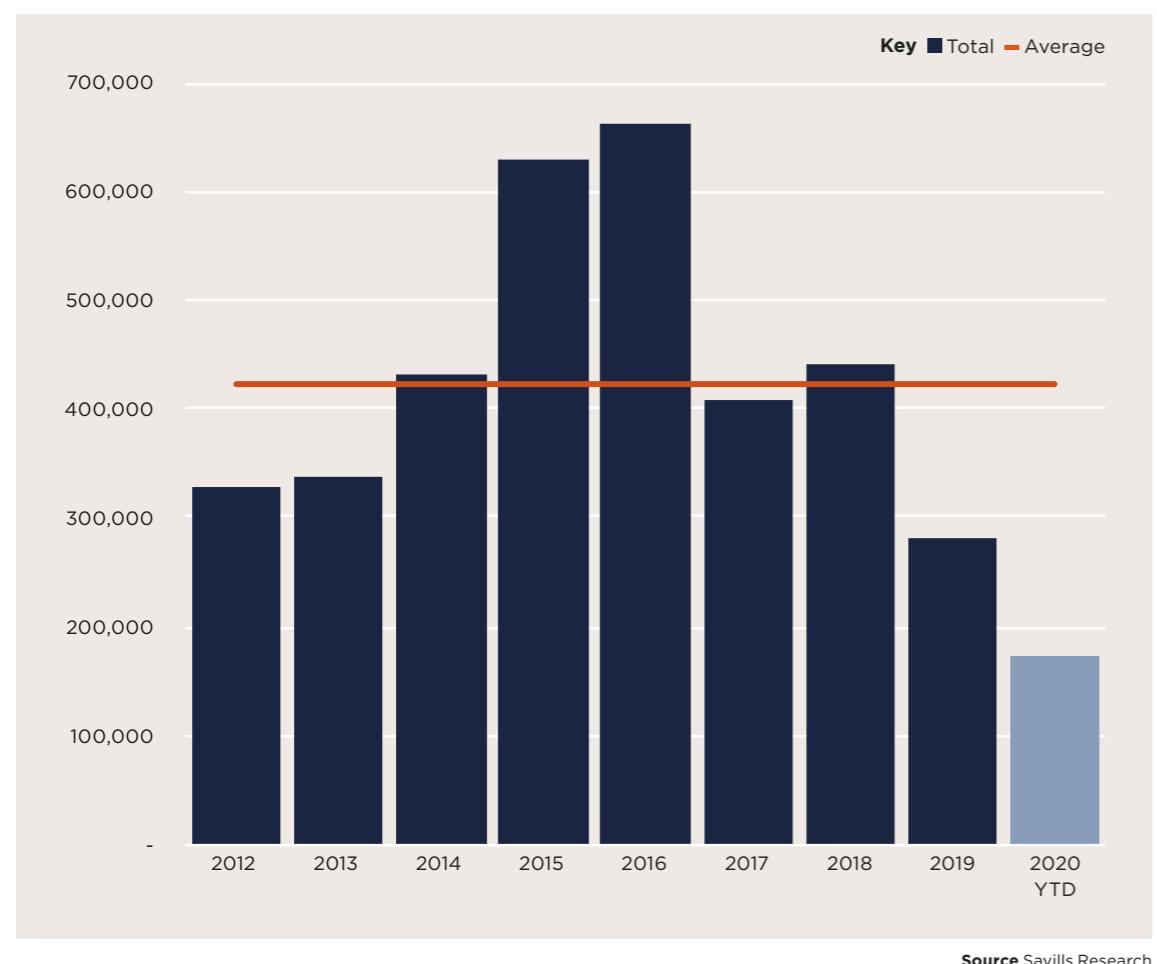
Table Amsterdam has the highest density of start-ups in Europe

	Growth of workforce (2020-2035)	Number of start-ups per 1,000 residents	Venture Capital per capita	Prime office rent per square metre (2020Q2)
Amsterdam	11.1%	1.10	€291	€450
London	12.5%	1.07	€626	€1076
Berlin	6.9%	0.73	€688	€493
Paris	2.3%	0.56	€232	€932
Munich	5.1%	0.29	€216	€444

Source Dealroom, Savills Research

Drop in the demand for office space, despite growth in the ICT sector

Graph So far a significant decline of the take-up can hardly be observed

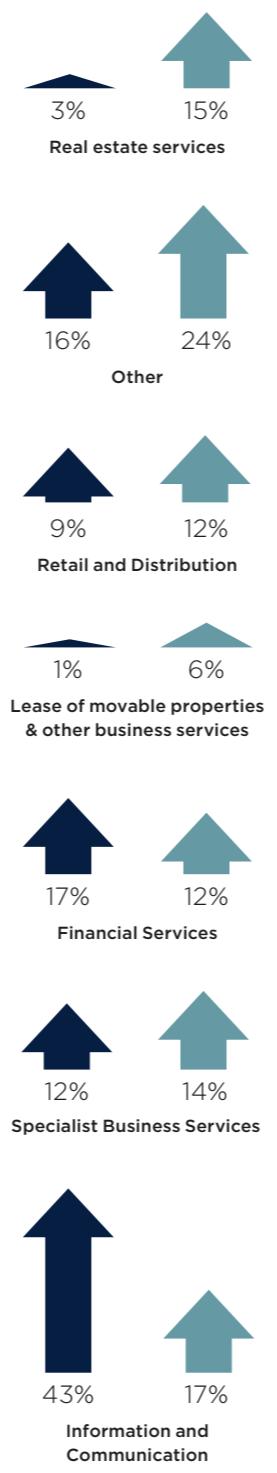


This also becomes clear when the take-up in 2020H1 is compared to 2019H1 (+17%), a growth that is mainly the result of the rental transactions of Adyen (16,000 sq m) and Uber (30,000 sq m), together responsible for 26% of the take-up in 2020H1. Aside from these deals, take-up definitely fell in 2020Q2. In 2020Q2, the take-up volume fell by 17.8% compared to 2019Q2. Not only did the volume go down, but

there was also a shift in the type of businesses active. Businesses in the ICT sector, business services sector and specialist sectors were responsible for the largest share in take-up in 2020YTD, at 71.6% compared to 42.4% in 2019. ICT had by far the largest share in the take-up at 42.9%, and not only thanks to Adyen and Uber. Other examples of companies renting office space in 2020 include Sentia, Hiber and Surfly.

Figure
ICT is the most important sector in Amsterdam office take-up (2020YTD)

Key ■ 2020 ■ 2019



This shift did not just occur in Amsterdam, as the ICT share rose by an average of 5% in the most important European cities. In terms of relative growth of ICT in the share of the take-up, however, Amsterdam takes pride of place (26.5%), which compares to the previously indicated growth of the sector in general. FinTech is an important subsector, whereas the ICT travel sector shows a decline.

At this time, there is relatively more demand for office space from the ICT sector than before, but less demand in a general sense. Despite the fact that office-bound employment in Amsterdam is not expected to show a sharp decline, future demand for office space will also partly be determined by the developments regarding remote working resulting from COVID-19. At the moment the outlook for the changing role of the office is unclear as companies have expressed varying views on the matter. Netflix for example has indicated that they want to make a 100% return to the office, while Blackrock will be striving for a 70% occupancy rate post-COVID-19. So some companies do recognise the advantages of working from home right now, which will have a clear impact on the occupancy rates of offices. An advantage for the Dutch office market is that working from home is not a completely new trend in the Netherlands, compared to other European cities. As a result, the impact is expected to be more limited.

Pre-COVID-19, working from home was already partially embedded in Dutch working culture. Approximately 26% of workers had already been working from home frequently, and 14% on a regular basis, mainly in the ICT sector (68.1%). This means the Netherlands is one of the frontrunners in terms of remote working. In the entire

Table
ICT has a higher share of the take-up in 2020YTD compared to 2019

	2019	2020 YTD
Amsterdam	16.5%	42.9%
London	19.4%	20.2%
Paris	11%	8.6%
Berlin	14%	25.5%
Munich	14%	19%
Average of EU cities*	15.9%	20.8%

*Amsterdam, Madrid, London, Berlin, Paris, Warsaw, Lisbon, Dublin, Prague, Frankfurt (Savills Research)

euro area, only 6% of people used to work from home on a regular basis. 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, employees are once again viewing the office as a place to get together.

Despite this expectation, the actual effects on the office market will not become visible for quite some time. This is due to the fact that many leases for office spaces do not end for several years. To adequately assess the risk for an increase in vacancy, it is interesting to review the share of dominant tenants. Which part of the market is influenced by a limited number of tenants but with a large volume (6.9 percent of the total office stock)?

It is striking that current tenants are at present also taking a step back, taking stock, and not taking any action yet. This means new office rentals are limited and come with important conditions such as flexibility and options for subletting. Companies who have recently agreed long-term contracts and whose incomes are dwindling will be trying to sublet their office space in order to save costs.

Summary

In short, Amsterdam has a varied range of tenants, which is an advantage for the stability of the market in the short term. However, the actual effects of COVID-19 will only be visible in the long term. Despite the accelerated growth of remote working due to COVID-19, the function of the office will remain considerable in the long term. After all, offices play a vital role in the ability to develop a company culture, create team cohesion and, as a result, further business development. In addition, we expect that the effects on the demand for offices in the Netherlands will be far less negative than in the surrounding countries. After all, remote working was already much more embedded in Dutch office culture than in other countries.

In the short term an economic downturn and reorganisations may be looming, resulting in a potential drop in demand on the Amsterdam office market. Should there be a structural drop in demand in the long term, then it will be important to obtain an overview of the current supply in order to determine the consequences for the Amsterdam office market.

Table

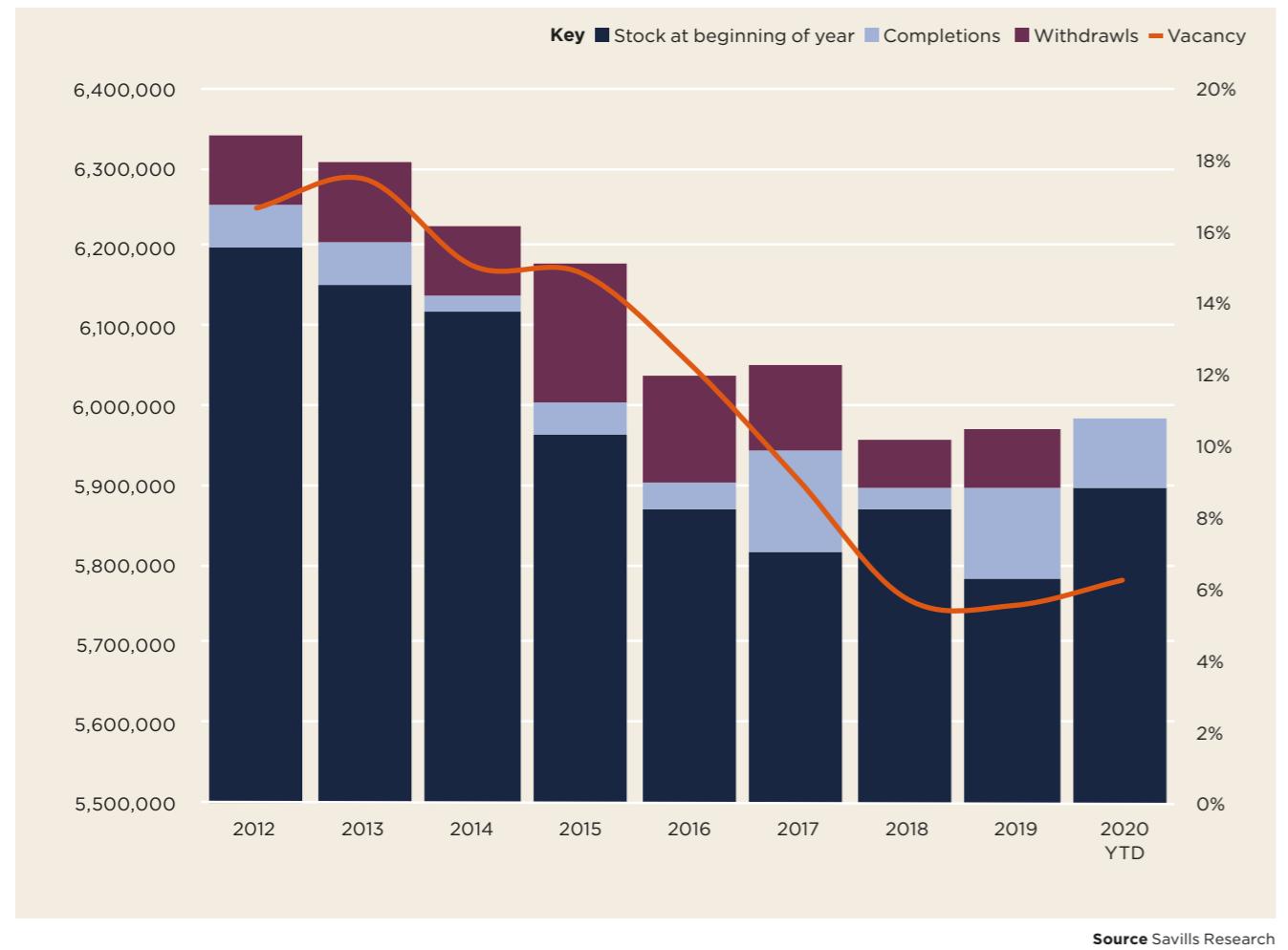
Overview of dominant tenants in Amsterdam (2020), excluding owner-occupier use

Name tenant	Business sector	Rented surface area
Booking.com	ICT	76,711*
Uber	ICT	18,000
EMA	Specialist business services	38,812
PwC	Specialist business services	35,000
UWV	Healthcare and welfare services	28,932
Vattenfall	Production and distribution of and trade in electricity	26,000
Deloitte	Specialist business services	22,000
De Brauw	Specialist business services	24,000
ING	Financial Services	91,010
WPP	Specialist business services	19,500
Total		407,365 (this amounts to 6.9% of the total stock)

*Excluding new office

Source Savills Research

Graph supply-demand ratios have strongly improved in recent years



Slight increase in stock after the end of the building freeze

After the economic crisis, Amsterdam had an office vacancy rate of 17.2% (2013).

In total this removed 13.5% from the stock. The fast-declining vacancy in the following years did result in the ending of the building freeze in 2017. After all, Amsterdam began running the risk of losing companies as a result of the lack of available office buildings. This issue led to the slow promotion of office developments, not only in the city centre and South Axis, but also in other office areas with a reputation for being more monotonous such as Southeast, Sloterdijk, Houthavens, West-Axis and North. Despite the easing of the policy, little use has been made of this until now (557,778 sq m of new-build developments versus 838,229 sq m of conversions in the last 8 years) with a structurally low vacancy

rate of 6.2% as a result. This drop represents a decline of 50% compared to the 2016 level. Vacancies in 2020 have seen a slight increase. This is due to the fact that a large number of office floors have become available that have not been immediately taken up by the market. The vacancy rates have not only dropped in the downtown areas, but also in the former secondary areas such as Southeast (7.3%) and Sloterdijk (8.7%).

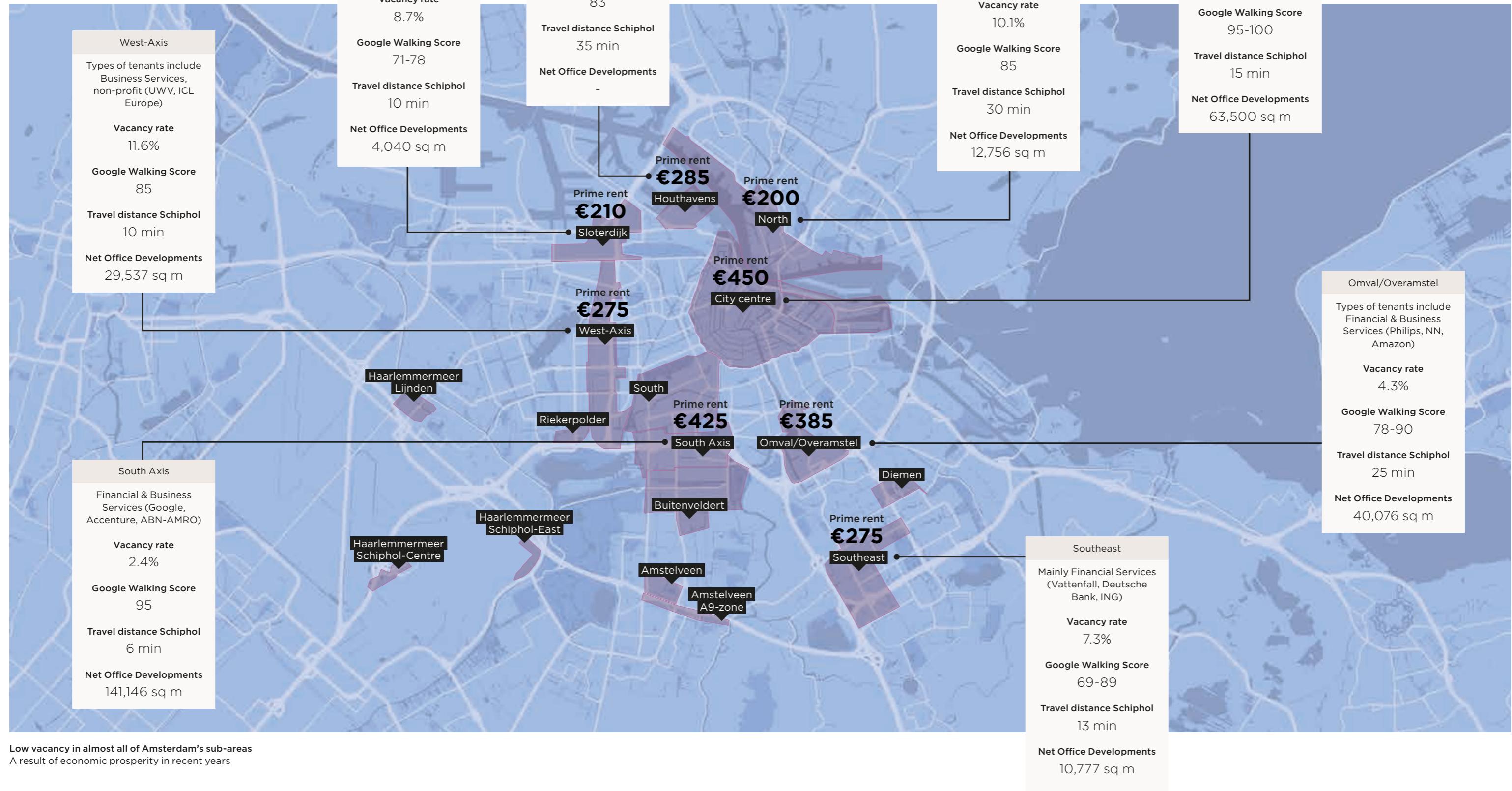
• The vacancy rates have not only dropped in the downtown areas, but also in the former secondary areas such as Southeast (7.3%) and Sloterdijk (8.7%).



City Special Amsterdam

Figure

Overview of the office sub-areas in Amsterdam



“The correlation between mixed urban development and the appeal of office areas becomes clear when the number of homes, shops, cafes, bars and restaurants is compared to the vacancy of offices.”

Mixed-use as a strategy for additional foundations

In addition to low vacancy, office buildings have become more mixed in regards to functions in recent years.

This mix resulted in additional stability, as also becomes clear from an additional analysis into the correlation between structural office vacancy and mixing of functions. After all, if the vacancy of offices in a mixed area is on the rise, the appeal of an entire area does not immediately decrease, because people also live and spend their free time there. However, in the past this has happened in areas such as Amsterdam Southeast and Sloterdijk. Mixed living-working-recreation areas in urban developments have advantages both for occupiers and for the owners of real estate. The correlation between mixed

urban development and the appeal of office areas becomes clear when the number of homes, shops, cafes, bars and restaurants is compared to the vacancy of offices (see below).

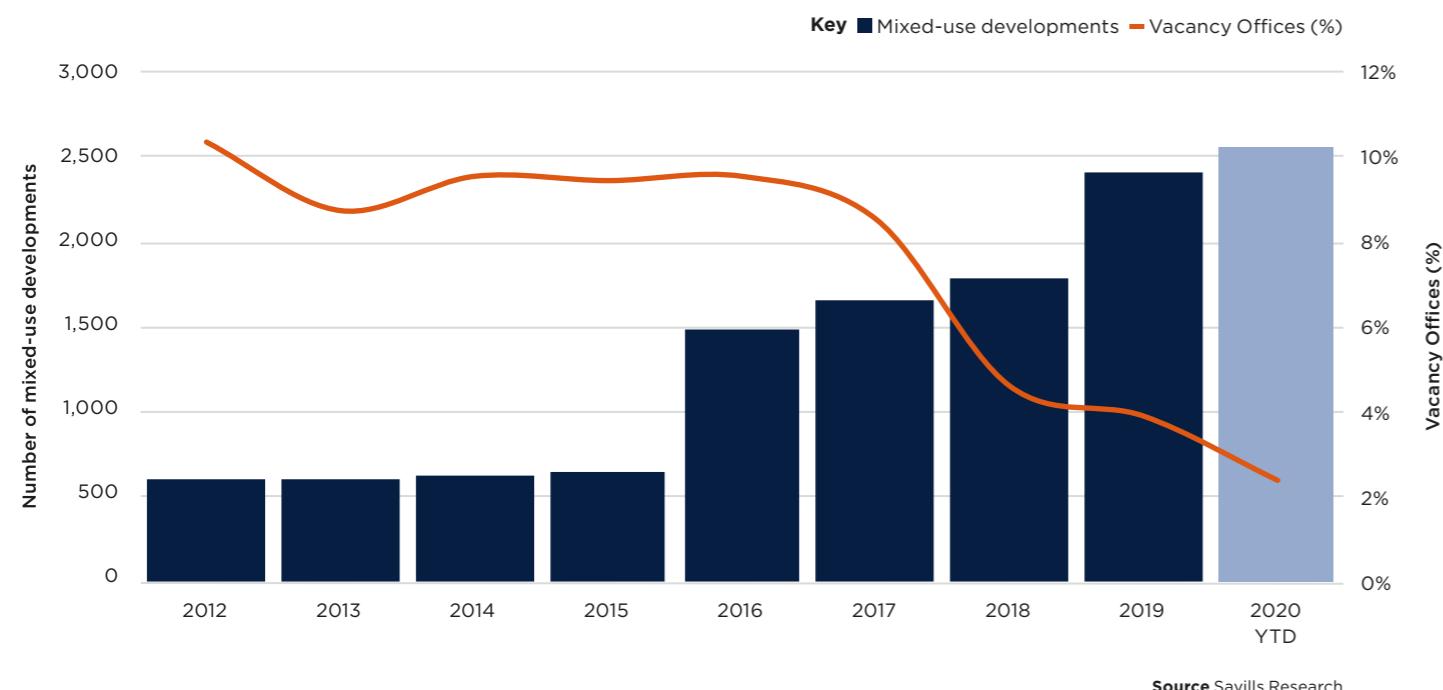
Considerable rental growth

Partially due to mixed urban development and declining vacancy, the Amsterdam office market has been able to show considerable rental growth in recent years. The average rent in Amsterdam rose by 26.7% between 2015 and 2020. The largest increases in rents took place in Riekerpolder (55.2%), West-Axis (55.2%), Houthavens (42.5%) and Southeast

(+28.2%), whereas areas such as South Axis (16.4%) and the city centre (23.3%) showed significant but much smaller increases.

The office areas mentioned, which used to be considered secondary, have now matured and in terms of quality and appeal are much closer to the quality and appeal of areas such as the city centre and South Axis. This is shown through rent levels, for example. The areas mentioned have caught up considerably. The levelling between primary and secondary in recent years is a sign that the Amsterdam office market has matured across the board and has become more stable as a result.

Graph Mixing of functions and structural office vacancy show a negative correlation in South Axis



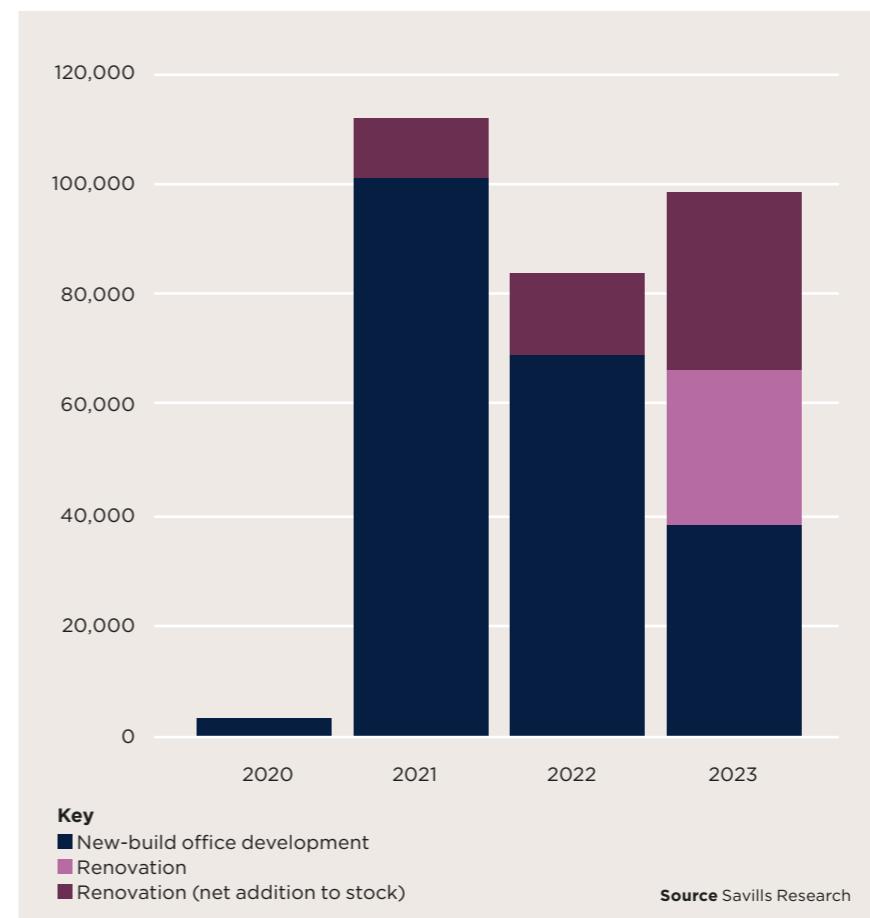
MIXING OF FUNCTIONS AS A STRATEGY OF KEEPING AREAS STRUCTURALLY APPEALING

Mixing of functions results in the fact that an area as a whole generates more appeal, and businesses tend to show a preference for specific location with a mixed function compared to other locations with a more limited mixing of functions.

The correlation between mixing of functions and structural vacancy becomes visible in South Axis for example. In this area, mixing of functions has been an important aspect from the start of the urban development. This far-reaching

mixing of functions is expected to contribute to the appeal and the stability of South Axis as an office area in the broadest sense. In areas where mixing of functions will continue to be a priority in the coming years, such as Southeast.

Graph Development pipeline of Amsterdam offices



Office developments in the pipeline increase the availability

On the supply side, the situation looks stable. However, the new-build developments that will be completed in the coming years will naturally change this situation.

These plans amount to an additional net 282,172 sq m of office space between now and 2023, 48.3% (approximately 135,640 sq m) of which has been pre-leased. What is left has not been leased yet and chances are that this will contribute to rising vacancy rates, particularly in the case of an expected economic downturn. Suppose that these square metres will not be taken up at all

in the coming years, then the vacancy rate will increase by a mere 2.5%. Even when including planned new-builds, the supply side continues to show a relatively stable situation. Despite the fact that the office's right to exist is undisputed, a drop in demand in the Amsterdam office market may be around the corner as a result of an economic contraction and potential reorganisations of businesses.

Should there be a structural loss of demand, then the Amsterdam office market will be able to take a hit, particularly compared to the previous crisis, as demonstrated by the relatively stable current supply.

Considering the fact that a drop in demand in the Amsterdam office market may be around the corner, investors are becoming more risk averse in making acquisitions in the office real estate market. This is why investors are shifting their focus to the core product, a trend that is visible across the board in the market.

EFFECTS ON THE INVESTMENT MARKET SLOWLY VISIBLE DUE TO STRONG FIRST QUARTER IN 2020

The Amsterdam investment market performed less well in 2020H1 compared to 2019H1 (-49.9%). This decline is mainly due to 2020Q2. Despite this decline there is still investment activity in the Amsterdam office market. Partially as a result of the low interest rates, there is still demand for core product: buildings in prime locations with long-term leases. This is shown for example through the sale of Strawinskylaan 10 by Deka Immobilien to Aviva Investors for €85 million, where the tenant in question still had a long-term lease.

This focus on core product was further strengthened in recent months but was already visible from 2019. In 2019 and 2020, the largest investments were in the city centre and South Axis sub-areas with approximately 40% of the investment volume. It is expected that this focus on core product will remain a reality in the coming period, considering the fact that investors tend to look for stability in uncertain times.

Graph Investment volume declines in 2020





In some locations the overstrained supply-demand ratios will become more balanced.

OUTLOOK

Despite the fact that the first effects of a drop in demand are not yet visible in the figures, it is expected that the demand for office space in the short term will decrease in Amsterdam. This is mainly due to the expected economic contraction as a result of COVID-19, but also to the accelerated development of the remote working trend that may result in a reduced demand for offices. As a result, in some locations the overstrained supply-demand ratios will become more balanced.

Shortage will be making room for more space in the coming year. The degree to which a drop in demand will take place is largely associated with the number of months that COVID-19 will continue to exert a hold on us and with the way companies will respond. At the moment the first views that have been shared show a great variety of opinions.

The main current advantage to the real estate market is that businesses are still bound by long-term leases. Only once these leases have ended and the consequences of COVID-19 have become clear will it be possible to take stock of the situation. Although it is impossible to predict the consequences with any degree of certainty, we believe that the long-term effects will be better than expected. Offices will continue to be necessary in order to build and retain teams and a company culture, making it impossible for companies to simply divest of large parts of offices in the long term.

An added advantage for the Amsterdam office market is that the supply-demand ratios were very stable and even tight in the pre-COVID-19 era. Even when there's a drop in demand, the market is able to take a hit and this will not immediately impact vacancy rates and result in negative rent development as we saw for example after the financial crisis of 2008/2009.



Flow Houthavens, Amsterdam

Key findings

The Amsterdam office market during the COVID-19 pandemic: more balanced than in 2008

1 Increasing unemployment and the possibility of reorganisations increase the risk of a drop in demand for offices in the short term.

However, at this time no major changes are visible in the Amsterdam occupiers market. The current demand comes mainly from ICT (42.9% take-up 2020), which is also a trend on a European level.

2 Remote working was already much more embedded in the Dutch office culture than in other European countries. We therefore expect that the

effects on the demand for offices in the Netherlands will be far less negative than in other European countries.

3 Due to the fact that the ten dominant tenants account for only 6.9% of the total Amsterdam stock, the risk for the Amsterdam office market is spread if one of these parties goes down.

4 Despite these mildly optimistic signs, a decline in demand cannot be ruled out in the short term. Should there be a structural loss of demand, then the Amsterdam office

market will be able to take a hit, particularly compared to the previous crisis, as demonstrated by the relatively stable current supply. The current supply-demand ratio is very healthy (6.2%). In addition to that, the office areas are more mixed in terms of functions and more spread out in terms of location, which is an advantage compared to the previous financial crisis in 2008.

5 The demand for core office real estate is still high due to the low interest rate and low coverage of pension funds.

42.9% The current demand for office space comes mainly from ICT, which is also a trend on a European level.



Sources Brainbay Database, BAK, Pitchbook, Dealroom, City of Amsterdam, Amsterdam Metropolitan Region, Eurostat, Statistics Netherlands, Oxford Economics, Capital Economics, Rabobank, Bureau for Economic Policy Analysis (CPB)

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