

Entering a new decade

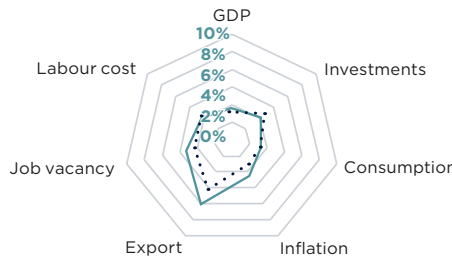


Shifts, challenges and outlook for the Dutch real estate market in 2020

As we enter a new decade, the Dutch economy has seen growth for 21 consecutive quarters. This is one of the longest periods of uninterrupted growth since the 1990s. Consumer spending continues to increase (+1.8%) and investment remains at an all-time high. Unemployment is at one of the lowest levels seen this decade and is expected to remain stable. Overall, the Dutch economy is outperforming the Eurozone average on almost every economic indicator. Although the Dutch economy is performing well, some key economic indicators such as exports and GDP have edged downwards compared to 2018. This is linked to increasing international uncertainty due to factors such as Brexit and international protectionism. Despite these uncertainties, the Dutch real estate market continues to attract investors, which has led to high investment volumes in recent years. Due to the healthy economic situation, the investment volumes of the past years have doubled in comparison to 2007, the last record-breaking year. Remarkably, the uncertainties mentioned above should actually have been factors slowing

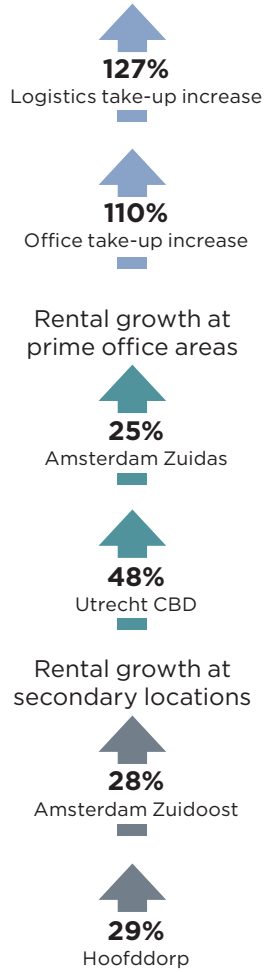
down the Dutch real estate market. However, it shows no signs of slowing down at all. From an economic perspective, all the key indicators are still showing 'green'. So as we enter the new decade, what is the outlook for the next few years and are there any clouds looming on the horizon for the Dutch real estate market?

Performance on key economic indicators — Netherlands annual YoY %-change. --- Eurozone



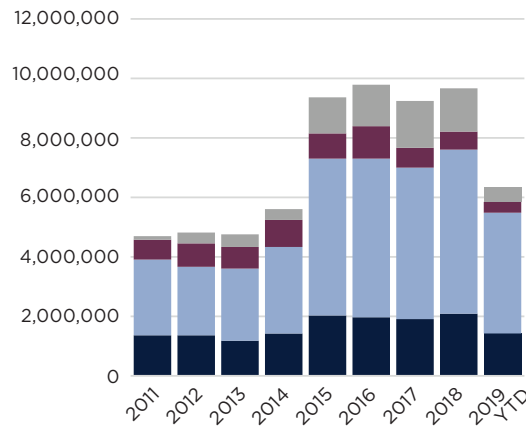
Occupier Market

Differences in the Dutch occupier market between 10 years ago and now:



In summary the Dutch occupier market has seen diversification in terms of asset classes and locations, which is providing a strong foundation.

Take-up (sq m) Key Office Industrial Retail Other



STABLE DEMAND IN THE DUTCH OCCUPIER MARKET

The occupier market has been performing well across all real estate sectors except for retail in recent years, although there have been changes. Firstly, the Dutch occupier market has become more diversified over the past decade. Office and retail were the most important markets 10 years ago, while logistics was the fastest-growing asset class due to the growth in online retail. Secondly, the demand for office space at strategic locations has increased, especially at transit hubs. Due to limited development at strategic locations, there is persistent scarcity. The shortage of office space is particularly evident in Amsterdam Zuidas (South-Axis) and Utrecht CBD, where rents have risen in recent years. As a result of scarcity and rental growth at prime office locations, companies also have been moving to secondary locations such as Hoofddorp and Amsterdam Zuidoost (Southeast). As a result, demand is rising, vacancy rates are falling and rents are on the increase in these secondary locations, too.

DIFFERENCES IN THE DUTCH INVESTMENT MARKET, TODAY VERSUS 10 YEARS AGO:

10 years ago < 8%
now > 11%
Real estate allocation in investment portfolios compared to bonds and shares

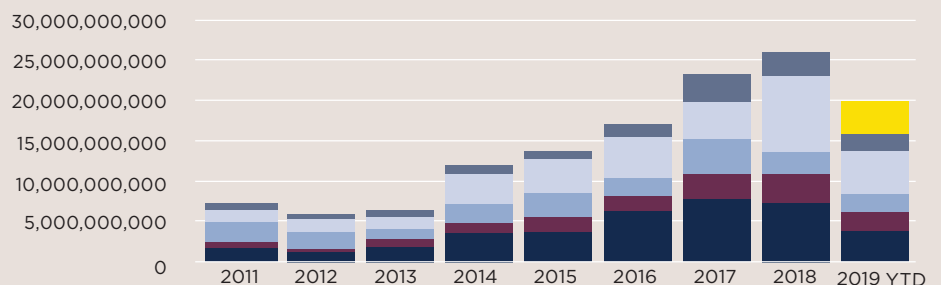
10 years ago 26%
now 47%
Influx of foreign capital

over the last 10 years + 1000%
Niche markets: Student housing and healthcare have significantly increased

STRONG ECONOMY REINFORCES THE ATTRACTION OF DUTCH REAL ESTATE

Due to the stable situation in the Dutch occupier markets in combination with the stable position of the Netherlands within the eurozone, investors have been attracted to invest in Dutch real estate in recent years. In particular, there has been an influx of foreign capital, which has grown from 26% in 2010 to 47% in 2019 (YTD).

Investment volume in € Key Office Industrial Retail Residential Other Savills forecast 2019



INVESTMENT VS OCCUPIER MARKET

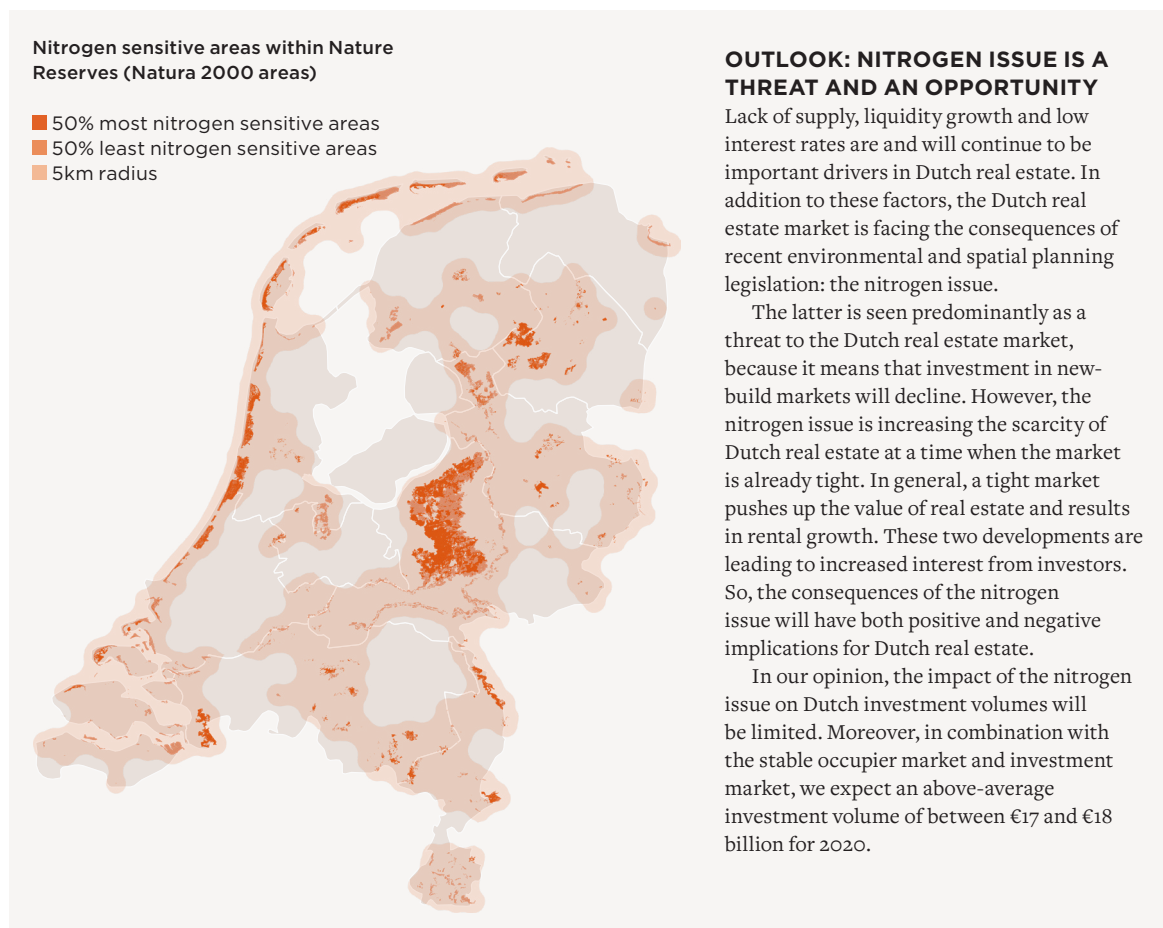
The investment market is following the lead of the occupier market, meaning that investors have also been willing to broaden their scope with regard to diversification and spread. Niche markets, such as healthcare and student housing, have been further professionalised with increasing interest from investors as a result. These markets have seen a tenfold increase in terms of volume over the last decade, underpinned by strong demographic demand.

Overall, as a result of greater diversification in terms of sectors and location, the Dutch real estate market now has a stronger foundation than 10 years ago. The key changes highlighted in the occupier market and investment market have led to strong growth in rental, investment and liquidity across the main real estate asset classes over the last decade.

NITROGEN ISSUE

So far, so good. However, there is a challenge for Dutch real estate in 2020. Since the summer of 2019, nitrogen pollution has become a major issue within the Netherlands. The main consequence of this is that permits for new-build projects cannot be issued without further investigation. Consequently, new-build projects have been delayed and may be cancelled due to legislation imposed by the European Union. Currently, the Dutch government is investigating ways to tackle the issue of nitrogen pollution and resolve this issue for the future. The timing of this uncertainty and cancellation in relation to several new-build projects is unfortunate, since supply will not be able to meet rising demand going forwards.

Figure In 118 of the 160 Natura 2000 areas, nitrogen emissions exceed the threshold



Source Savills Research

OUTLOOK: NITROGEN ISSUE IS A THREAT AND AN OPPORTUNITY

Lack of supply, liquidity growth and low interest rates are and will continue to be important drivers in Dutch real estate. In addition to these factors, the Dutch real estate market is facing the consequences of recent environmental and spatial planning legislation: the nitrogen issue.

The latter is seen predominantly as a threat to the Dutch real estate market, because it means that investment in new-build markets will decline. However, the nitrogen issue is increasing the scarcity of Dutch real estate at a time when the market is already tight. In general, a tight market pushes up the value of real estate and results in rental growth. These two developments are leading to increased interest from investors. So, the consequences of the nitrogen issue will have both positive and negative implications for Dutch real estate.

In our opinion, the impact of the nitrogen issue on Dutch investment volumes will be limited. Moreover, in combination with the stable occupier market and investment market, we expect an above-average investment volume of between €17 and €18 billion for 2020.

THE NITROGEN ISSUE (PAS): BRIEF EXPLANATION

The court ruling by The Council of State on 29 May has closed a legal loophole that the PAS (Programme to Tackle Nitrogen Pollution) provided. The court ruling means that nitrogen pollution from construction activity may no longer be compensated by future measures because the effect of these cannot be estimated

accurately in advance. The aim of the policy was to do the opposite of what its name suggested since it would not deal with nitrogen emissions but would tolerate them in areas close to Natura 2000 areas, European nature reserves. Under the PAS, permission could be given for more emissions if they would be compensated by

expected positive reductions due to the future collective measures to be taken by the government as part of the PAS. As a result of the ruling, permits for multiple new-build projects have been revoked and this is impacting the pipeline of new-build developments. The map below shows the Netherlands's nitrogen sensitive areas.

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