PATRIZIA

INVESTMENT COMPASS

THE NETHERLANDS

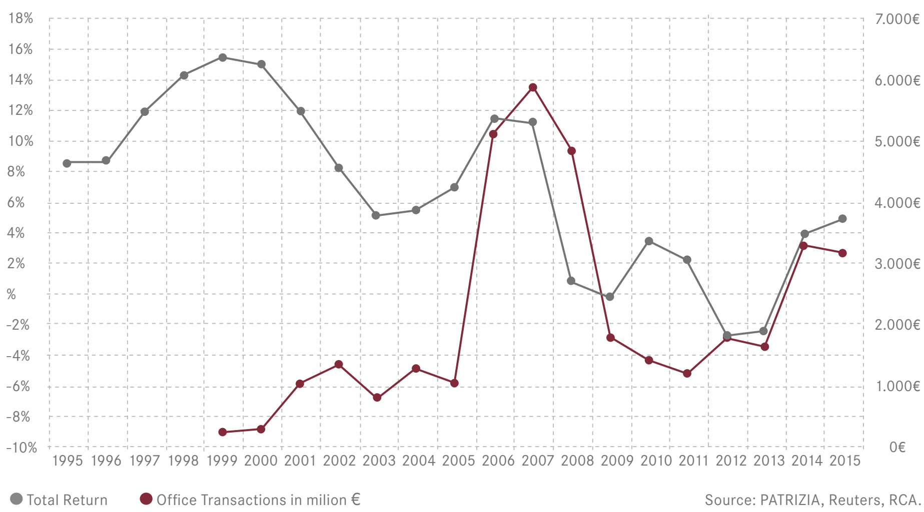
06|2016

DUTCH OFFICES RECONSIDERED

Many investors, especially from Germany, still associate sky high vacancy rates and significantly falling property values with the Dutch office market, symbolized by the Amsterdam city fringe or out of town office locations. But with the improvement of the Dutch economy during the last years and investments in Dutch residential as well as retail rising, it is time to look at the Dutch office market again, as fundamental changes are under way.

First of all, after some hard years between 2009 and 2013, Dutch office total returns have recovered, with office investment transactions following suit, to a large extend driven by international institutional investors. Since 2014, office investment transactions above EUR 100 million (portfolios and singles assets) can be seen in the Netherlands again, pointing to a enhanced attractiveness of Dutch assets in an European context.

OFFICE TOTAL RETURN AND OFFICE INVESTMENT VOLUMES IN THE NETHERLANDS



Source: PATRIZIA, Reuters, RCA.

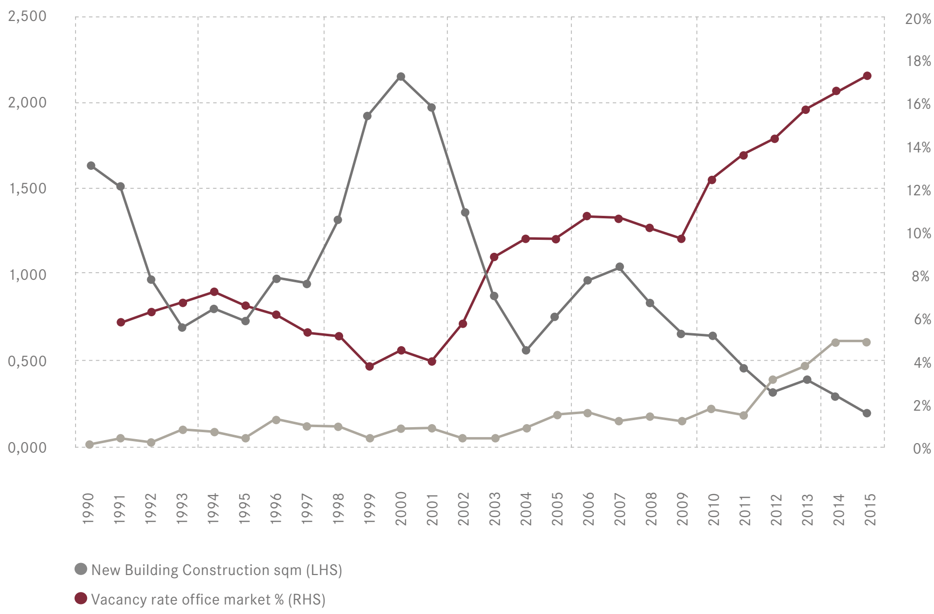
In addition the supply side of the Dutch office market is stabilizing, indicating a turnaround in the current year. Since 2009, supply levels - measured by the vacancy rate – increased continuously reaching 17% in 2015, a historically high level. But unlike in the past, these vacancy levels are not ascribed to a construction boom, as the percentage of available accommodation accounted for by new construction at year end 2015 was only about 2%, equating to round about 200.000 sqm. In addition the demolition and especially the transformation of unused offices to residential or other uses continued in 2015 on the high level seen in 2014. This development improves especially the situation as far as city centres and (peripheral) office districts are involved, as these locations often form a solid basis for attractive residential developments due to the regularly very good public infrastructure available. Given the cautious financing behaviour of banks limited new offices developments can be expected for 2016 and the coming years. In addition conversion or withdrawals will continue to play a major role in the agglomeration areas of the Netherlands, as the development of residential rents and prices will support the appeal of conversions. Overall, this will lead to a situation in which the vacancy rate on the Dutch office market should start to decline, supporting the office market performance going forward.

PATRIZIA
WERTE ENTSCHEIDEN

NEW BUILT CONSTRUCTION, DEMOLITION AND VACANCY IN THE DUTCH OFFICE MARKET

Furthermore, the demand side improves considerably, as the high unemployment rate begins to decline, as job growth has returned in 2015 which is set to increase in 2016. The reason that unemployment has not fallen more strongly is the increase in the supply of labour, as the number of people who were not, or no longer, active in the labour market and who are currently seeking employment but have been unsuccessful in their search to date has increased.

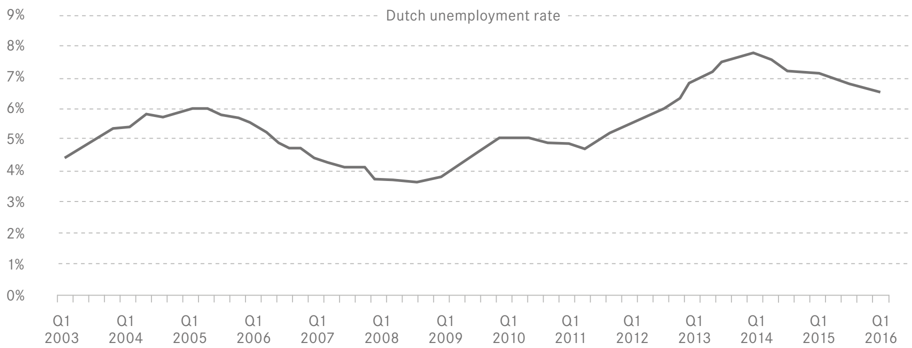
This development will delay a strong improvement on the labour market for some time, but it will improve the Dutch economy's long-term growth potential cushioning to some extend the increase in labour costs since the crisis due to increased employers' social security premiums. Interestingly, the improvement in the labour market is not limited to the Randstad; it's a country wide phenomenon.



Source: PATRIZIA, De Nederlandsche Bank.

DUTCH UNEMPLOYMENT RATE

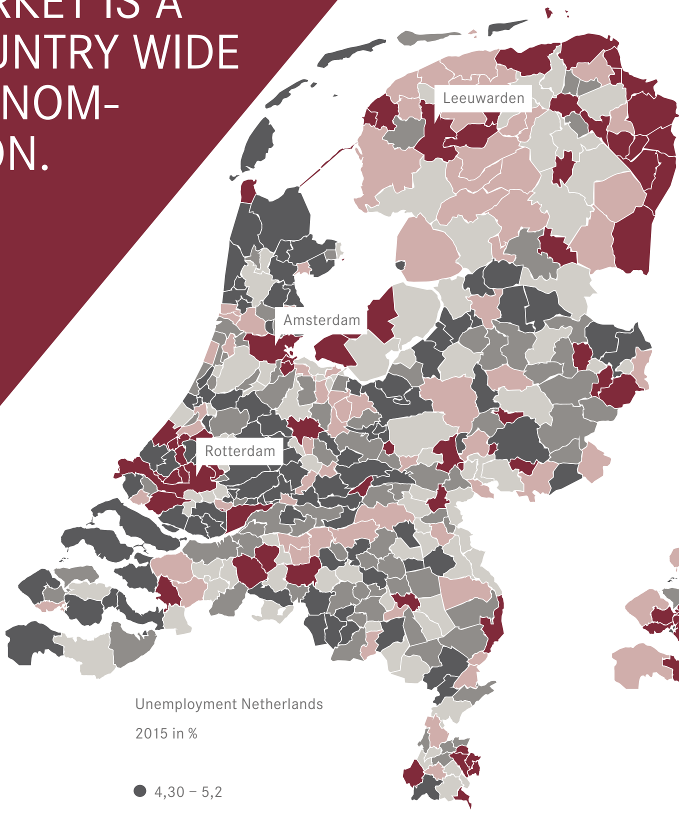
As a consequence, take up levels in the Netherlands continued their solid development seen in the years before with country wide take up of around 1.2 million sqm in 2015. Breaking down the take up figures shows, that accessibility by public transport is an important point for office users, as approx. 40 % of the take-up in 2015 was realised within 750m (walking distance) from a railway station.

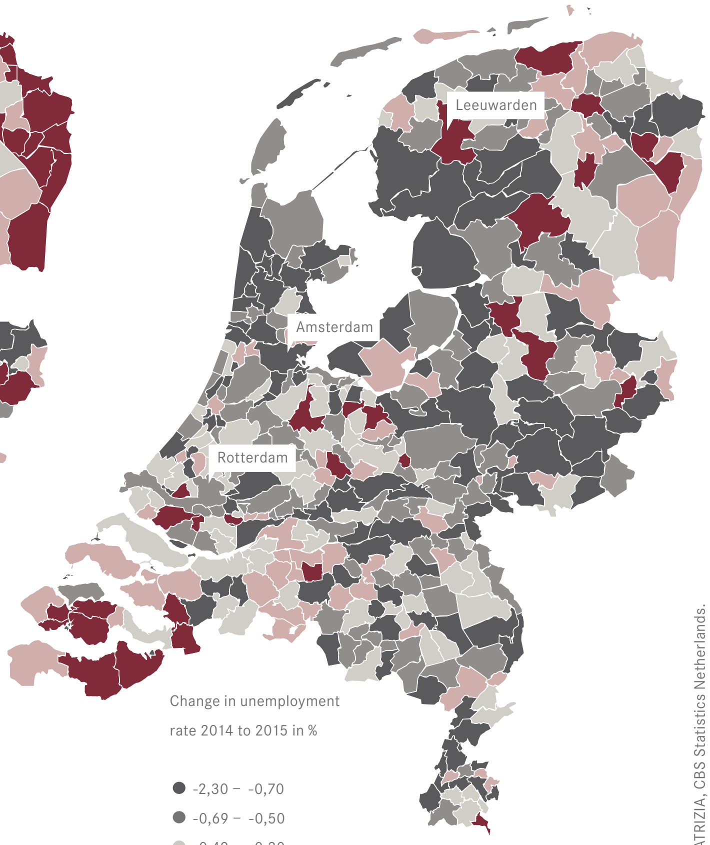


Source: PATRIZIA, Reuters.

Given the low construction level office demand not surprising focuses mainly on existing properties. About three quarters of all transactions involved office space of less than 5.000 sqm, with offices between 1.000 and 2.500 sqm being the most sought after segment (32 % of take up), followed by the 2.500 to 5.000 sqm category (22 %) and offices between 500 and 1.000 sqm (15 %). Looking at the demand side from a sector perspective, office demand from business services, the banking & insurance industry as well as the technology, media & telecom sector increased, while public authorities were less active.

THE IMPROVEMENT IN THE LABOUR MARKET IS A COUNTRY WIDE PHENOM-ENON.





Source: PATRIZIA, CBS Statistics Netherlands.

LABOUR MARKET DEVELOPMENT IN THE NETHERLANDS

Given the improvements on the supply and on the demand side rental levels increasingly indicate the turnaround of the Dutch office cycle, with rents stabilizing across the Netherlands. At the same time, the large cities in the Randstad, especially Amsterdam, saw the first indications of rental growth, especially in the higher quality segment. Nevertheless, rent-free periods as well as other incentives remain a fact of the Dutch office market. In this respect, serviced offices and a customer focused operation of multi-tenant office buildings becomes a crucial factor for institutional investors in order to benefit from the improvements seen in the Dutch economy.

Looking at the current developments in the Netherlands, it becomes obvious that international institutional investors are finally returning to the Dutch office market, after they successfully re-entered the residential and retail market during the last two years. Given the solid economic outlook vacancy rates should go down, creating the basis for rental growth supporting at the same time income returns and capital growth going forward. Overall this should bring Dutch office total returns back to levels of 5 to 8 percent p.a., mainly driven by income return levels but also supported by returning capital growth.