DUTCH PROPERTY MARKET OVERVIEW

Economic outlook

The Dutch economy continues to perform well relative to the rest of the eurozone. For 2020 economic growth is forecast at 1.5%, versus a 1.0% growth forecast for the wider Eurozone.

The continued strength of the economy has resulted in a low unemployment rate of 3.5% at the end of 2019. Employment growth in the service sector is outpacing wider employment growth, which is having a positive effect on office demand. Not only do we see that corporates require more space, but also that the war for talent has put the focus on high-quality space in prime locations.

Investment market

Investment volumes have been high for several years, but 2019 was a record year with € 20.8 billion of transactions. Residential is the most popular sector, followed by Offices. In the office market an investment volume of € 5.9 billion was recorded, down 2% compared to 2018. The volume decline in Offices is more due to a lack of supply of available investment product than a shortage of investor demand. The data suggests that international investors remain the most active investors in Dutch offices.

In previous years the focus for investors was primarily on the Amsterdam market and selectively on other G4 cities (the four largest cities in The Netherlands). In 2019 the regions gained popularity, with 70% of all transactions taking place outside the traditional G4. This trend also resulted in a substantial increase in the number of smaller deals. No less than 84% of transactions were smaller than € 20m.

The focus on regional markets is in contrast to what we were expecting a year ago. At the end of 2018 we saw Dutch banks retracting from some of the more provincial markets and we were expecting a slowdown in transactions and selectively in pricing. Interestingly, the regional and secondary markets have been supported by the entry of new participants in the Dutch financing market in 2019. International investors and financing platforms have filled the void left by the Dutch banks, albeit at higher interest rates than the traditional banks. Financing is now no major consideration and is generally easy to obtain for the most liquid sectors of Residential, Offices and Industrial.

Office market

According to CBRE the best word to describe the state of the Dutch office market in 2019 is ‘scarcity’. This is true both for the occupational side and the investment side. Whereas in previous years the fall in the vacancy rate outside the larger cities was to a large extent driven by change-in-use projects, in 2019 it was mostly net absorption that contributed to lower vacancy.

In many prime locations the vacancy rate is now historically low. These low levels are fuelling rental growth in most markets. In the G4 prime rental levels are equal to or in excess of previous peaks.

Amsterdam

In Amsterdam the vacancy rate is down to 1.5%, compared to an average of 7.6% over the past 10 years. Amsterdam is now starting to see the effect of a local planning environment in which new supply has been limited for years. In combination with a high level of demand, as the city benefits from a continued influx of people, there is a shortage of supply. Rents are going up as a result.

The Netherlands, and in particular Amsterdam, is becoming an increasingly popular destination for expats. The Amsterdam population is forecast to grow by 150,000 in the next 15 years, whilst the highest population growth in the Netherlands (percentage-wise) is expected to be in Utrecht.

Prime Office gross initial yields in Amsterdam are now in line with Paris and Frankfurt at 3.0%, with assets currently on the market at a yield level of under 3%. These levels are substantially lower than the gross initial yield of 5.4% for NSI’s Amsterdam portfolio.

In Amsterdam prime rents are now € 500 psm, achieved both in the city centre and the South Axis market, and prime rents are likely to rise above this level in 2020. CBRE is expecting 7% rental growth in 2020.

In search for product we see that investors are bidding up all kinds of office assets, including secondary assets in more peripheral locations and potential redevelopment projects.

Other markets

Utrecht is arguably the second office market after Amsterdam, achieving rents of € 285 psm and yields of 4.5%. This market will see a significant pick up in new supply in the coming years, mostly around the central train station. We do not view this as a threat but consider it to be a positive trend that will help cement Utrecht’s position as core office market for investors.

The market in Rotterdam is lagging Amsterdam, but the direction of travel is similar. The vacancy rate at the end of 2019 is 9.7% versus a 10-year average of 17.4%. Prime rents in

Rotterdam are now € 245 psm. CBRE is expecting 2.5% rental growth in 2020.

The Hague, which in terms of stock is the second largest office market in The Netherlands, has benefitted from redundant office space being transformed to residential use and from the government increasing their need for space. The vacancy rate has declined from over 10% in 2016 to below 4% in the CBD and city centre today. There is a shortage of good quality offices and rents are rising. Following a 10% increase in prime rents in 2019 to € 220 psm, further growth is expected in 2020.

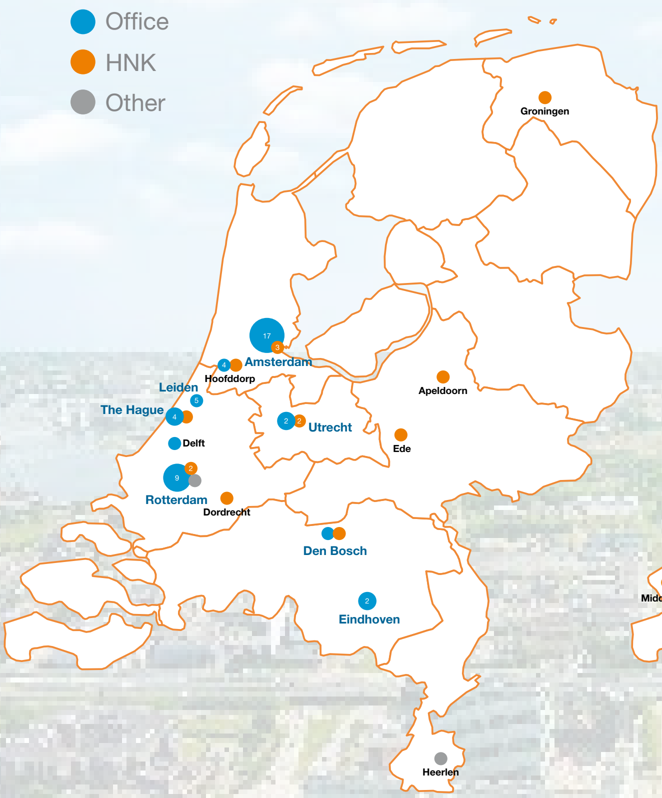
Eindhoven's office market is establishing itself as a core office market. Most investors are nowadays referring to the G5 instead of the G4. Eindhoven is the heart of the "Brainport district", attracting (international) high tech businesses dependent on a skilled labour force. The local economy is thriving and demand for office space is strong, resulting in rental growth. A challenge for Eindhoven is the relatively old office stock. Investments to modernise existing stock or to develop new space are slowly picking up. The investment market in Eindhoven is no longer driven by local interest, but has started to attract international capital, resulting in a pick-up in capital values.

FINISHING THE ASSET DISPOSAL PROGRAMME

NSI had another successful year in its asset rotation strategy in 2019. It now holds 65 assets in 17 markets, of which 90% are Offices in target cities. This finishes the asset disposal program as set out in the strategic review announced in February 2017, allowing to shift the focus even more to acquisitions and the development programme going forward.

In 2019, NSI was a net seller of assets, creating € 97 million in capacity to help fund its development pipeline. During the year 30 assets were sold for € 129 million, at on average a 7% premium to book value. These disposals comprised 21 smaller office assets, eight retail assets and one industrial asset. As a result of these disposals NSI has exited a further 14 cities in 2019. Two office assets were acquired during the year, in Amsterdam and Leiden, at a combined cost of €32 million.

TOTAL PORTFOLIO



DISPOSALS 2016-2019