DUTCH PROPERTY MARKET OVERVIEW

Economic conditions

The Dutch economy has not been immune to the global coronavirus pandemic in 2020, with an estimated GDP contraction of -4.3%. This is less severe than the -7.3% projected for the Eurozone as a whole, as the Government provided substantial fiscal support to the economy.

The Dutch Government stimulus has been to businesses facing a major fall in turnover and to the labour market, amongst others. As a result, 2020 was a year with the lowest number of bankruptcies in the past 20 years, whilst the unemployment rate at the end of November was still only 4.0%.

Large parts of the economy were impacted in 2020, including the wider tourism industry, bars and restaurants, many retailers and the cultural sector. In contrast, some sectors like supermarkets have performed well. Going into 2021 it is – at least for now – more of the same, and as one of the most open economies in the world, a Dutch economic recovery from here will largely depend on the global economic outlook.

Occupational office market

2020 started as a landlord's market with rental growth in Amsterdam, Utrecht, Rotterdam, Eindhoven and The Hague. The market changed almost overnight in late March, as the uncertainty related to coronavirus forced many corporates to delay relocation decisions and put extension requirements on hold.

Take up for the entire Dutch office market is estimated to be 34% lower than in 2019, according to Cushman & Wakefield. Yet, despite of the lower take up during the year, the overall Dutch office vacancy rate is estimated to be at a near cyclical low of circa 8-9% at the end of 2020.

Starting with a circa 8% vacancy rate the Dutch office market may be able to weather a small increase in corporate bankruptcies and a more structural move to WFH in 2021. Much will dependent on how corporate occupiers view their long term space requirements and when economic activity will return to normal. At NSI we have been discussing the topic of WFH topic extensively and we refer to page 14 for our detailed view on WFH its impact on demand.

Amsterdam

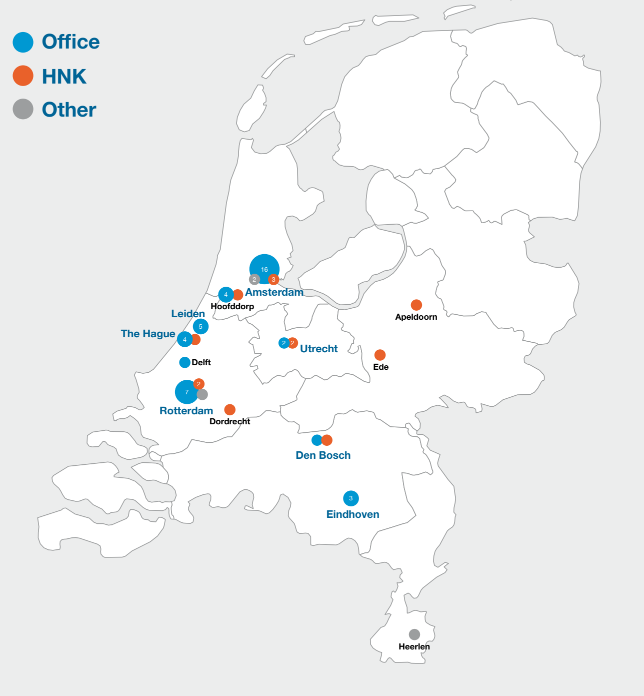
The overall Amsterdam office vacancy rate at the beginning of 2020 was just over 3%, with the vacancy in prime areas like the South Axis and the city centre even lower at 1% and 2.5% respectively, well below frictional rates.

Office take-up in Amsterdam increased in 2020, following a low take-up in 2019 because of the very low vacancy rate at the time. Q1 2020 was strong and by the end of Q3 take-up for 2020 was already close to 2019 levels, according to JLL.

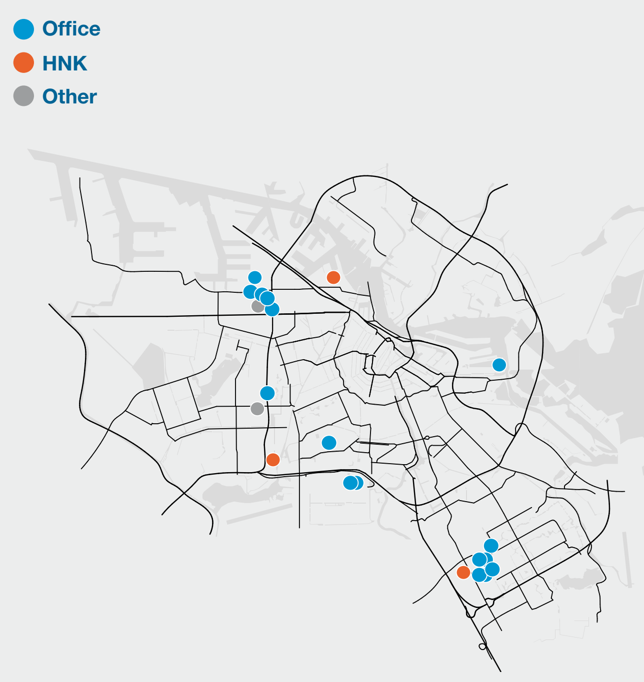
The vacancy rate has increased during the year to about 4%, with an estimated additional 1.5% of stock now available for sublet. Most of the sublet space is being made available for only relatively short periods of up to two/three years.

Rental levels have stabilised in 2020, whilst incentives have increased from 5% to now 10-15%, even for prime product on the

TOTAL PORTFOLIO



PORTFOLIO AMSTERDAM



South Axis. The market may have gone from being overheated to a state of equilibrium, with the outlook on balance still favourable.

Medium term there continues to be a clear risk of a shortage of good quality office stock, as a continued flow of domestic and international businesses move to Amsterdam or to the wider Randstad market. New potential future supply remains difficult to predict, but with an elevated uncertainty over tenant demand at present and only limited availability of speculative development finance the probably necessary increase in the office stock is not a given, except perhaps for the best submarkets. Longer term this is bound to fuel further rental growth.

Other markets

The Utrecht market had a difficult year, as some of the large corporates delayed or cancelled requirements. Take-up is down by more than 50% compared to take-up in 2019, admittedly a peak level, and has fallen to a level below the long-term average. Still, due to a high retention rate, the vacancy rate continued to fall in 2020 and now stands at just over 6% at year-end. Utrecht has several new office schemes scheduled to come to the market over the next couple of years, in particular near the main Central Station area, which could have a dampening effect on rental growth, in particular in the short-term.

Rotterdam saw a similar trend as Utrecht with take-up below historical averages. Yet, also in Rotterdam the vacancy rate continued to drop, to just below 9% for the city and significantly lower in the city centre. The vacancy rate in Eindhoven increased marginally to 7%. The Hague remains a very stable office market, as the Dutch Government is still the largest occupier in this market, resulting in a record low vacancy rate of 4%.

Demand for flex offices

Demand for flexible office space has been volatile in 2020. According to Savills requirements were down 54% year-on-year for the month of April, yet bounced back over the Summer with demand picking up in July (+8%) and August (+44%). Whilst subsequent data is not yet available, anecdotal evidence is that demand was steady in the second half of the year.

Amsterdam is the most popular location in terms of demand for flex space, making up 45% of all enquiries for flex space, mainly because of the nature of business activity in the city and the large supply of flex space available. In Amsterdam flex offices are now estimated to make up circa 6% of the total office stock. Utrecht (26% of enquiries) and Rotterdam (10%) are also popular destinations. Industry-wise business services (33%), the creative sector (20%) and tech companies (9%) are dominating demand for flex space in 2020.

Investment market

Investments in Dutch offices slowed in 2020, following a record level of activity in 2019. The investment market effectively froze in Q2 of 2020, as the high level of uncertainty over the long term implications of the coronavirus pandemic saw investors lowball bids or not bid at all for the few assets brought to the market in that period.

Transaction levels improved in the second half of the year and for the right product, in terms of location, quality, lease length, covenants, sustainability characteristics etc, pricing at year-end 2020 in markets such as Amsterdam and other prime locations was back or ahead of pre-crisis levels – especially with investors recognising that interest rates are likely to stay low for longer.

Whilst prime yields in Amsterdam are near 3%, in line with many other core European office markets, average office yields in Amsterdam are still higher relative to most other core European office markets.

Yields in Utrecht, Rotterdam and The Hague are now sub 5% for prime assets. Most of the investment demand for Dutch offices is still from international capital, which continues to be attracted by relatively low rents, a relatively strong economy and a relatively modest development pipeline.