NETHERLANDS REAL ESTATE STRATEGIC OUTLOOK

Mid-Year 2021

IN A NUTSHELL

_ We expect economic growth in the Netherlands to be somewhat slower than elsewhere in Europe, but population and household growth are forecast to be higher than average, particularly in the major cities.

_ Dutch residential continues to offer attractive opportunities, particularly in the Randstad region where demand and supply fundamentals support further rental appreciation.

_ We maintain a positive view on logistics but have some concerns on the level of supply in corridor locations. Amsterdam's hotel market looks well placed to benefit from the revival of tourism and travel.

The Netherlands has now entered a period of economic recovery. Looking forward, the Dutch economy is forecast to grow at a slower rate than the European average over the next ten years, yet the outlook for other real estate market drivers remains solid. Indeed, with strong population and household growth projections, we see the best opportunities in the residential sector. We also continue to favour the urban logistics sector, although building scale in this market is challenging. However, for corridor logistics we have seen a notable increase in development, which could limit rental growth going forward. With offices facing new challenges as a result of increased home working, we remain selective towards the sector globally. Nevertheless, we still see opportunities in 'next generation' office space in the right locations. As challenges for retail persist, the sector will likely face further losses over the coming years.

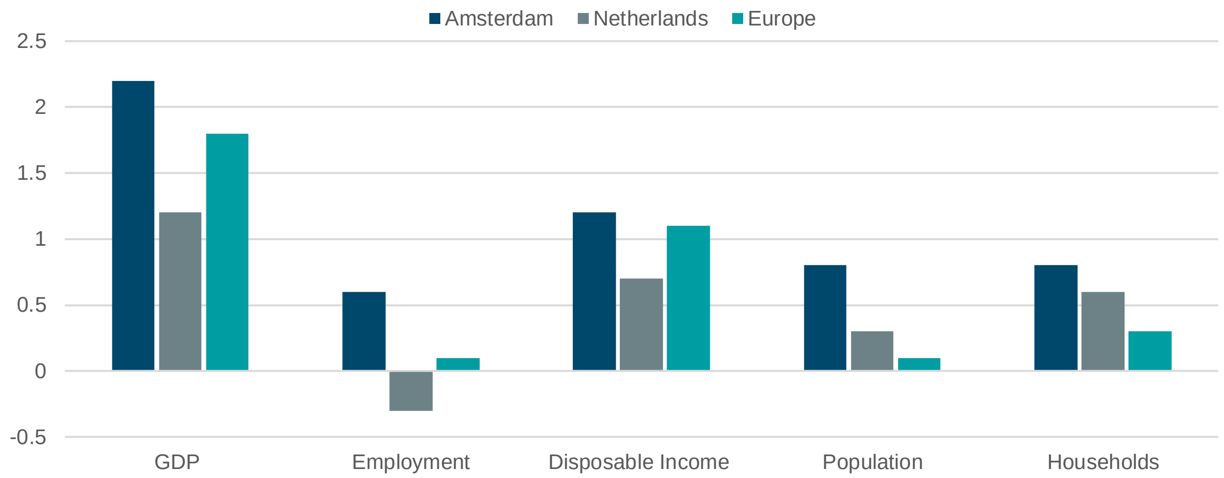
Amsterdam and major Dutch cities to exceed the national average

The Dutch economy shrank by 3% in 2020, somewhat less severe than the E.U. average fall of 4.6%.[1] With increasing numbers of Covid-19 infections and further national lockdown measures implemented during the early part of 2021, the Netherlands recorded slight further economic decline in the first quarter. The country has now entered a period of consumer-led economic recovery, although having fared better than many of its European counterparts during the downturn, the Dutch recovery is anticipated to be more subdued over the coming years.

However, Amsterdam and other major Dutch cities are expected to comfortably outperform both the national and European averages for GDP, employment and personal income growth over the next ten years. In addition, at the national level the Netherlands is expected to record above-average population and household growth.

[1] DWS, Oxford Economics, July 2021

ECONOMIC DRIVERS (% P.A., 2021-2030F)



Source: DWS, Oxford Economics, July 2021. F = Forecast. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Dutch real estate proves resilient

According to the MSCI Pan-European Quarterly Property Fund Index, the Netherlands was one of the strongest-performing markets over 2020, a trend that continued into the first quarter of this year. Within the Balanced Funds subset of the index, the country recorded annual all property capital value growth of 1.9% and a total return of 5.6% as of March 2021, making it one of the best performers over the past 12 months.[2]

In the investment market, while transaction volumes in 2020 were lower than in previous years, on the whole investment held up better than elsewhere in Europe, driven by strong investment in the residential and logistics sectors.[3] With a relatively high yield spread over Dutch government bonds, and with bond yields expected to stay low for the foreseeable future and a geographically diversified investor base looking for attractive returns, we think that property yields have room to compress further.

Randstad residential well placed for strong performance

We continue to have a strong call on the Dutch residential sector, favouring the more affordable end of the market. In particular, Amsterdam is forecast to achieve some of the most attractive risk-adjusted returns of any city or sector across Europe. In fact, the wider Randstad region looks well placed for strong performance, boosted by a positive demographic and economic outlook, increasing purchase affordability constraints and a persistent imbalance between supply and demand. Available housing stock across the Netherlands has trended down over the last decade and vacancy is now exceptionally low, standing at around 1.5%.[4]

As such, our outlook for residential rental growth is comfortably the highest of the four main sectors in the Netherlands. Although rents underwent a slight correction in 2020 and this year we expect a relatively flat market, we are forecasting prime rent growth in Amsterdam to surpass 3% per annum from next year onwards.[5] Given the well-established nature of the Dutch residential market and notable investor competition, access to product across the major Randstad cities has become progressively more difficult. As such, increasingly we see opportunities in the suburbs and areas surrounding these cities, where pricing is often more attractive but market fundamentals remain solid.

[2] MSCI, June 2021
[3] RCA, June 2021
[4] CBS, July 2021
[5] DWS, July 2021

It is worth noting that at the start of 2021, real estate transfer tax on residential assets increased from 2% to 8% for institutional investors. Over the first half of the year, investors adopted a wait and see approach to assess the impact on pricing. However, over the second quarter, PRS yields remained stable across most Dutch markets and even moved in further in the likes of Rotterdam and The Hague.[6] Looking forward, over the five year forecast, we are forecasting prime yields in Amsterdam to move in by a further 50 basis points.

Polarisation in performance expected for urban and corridor logistics

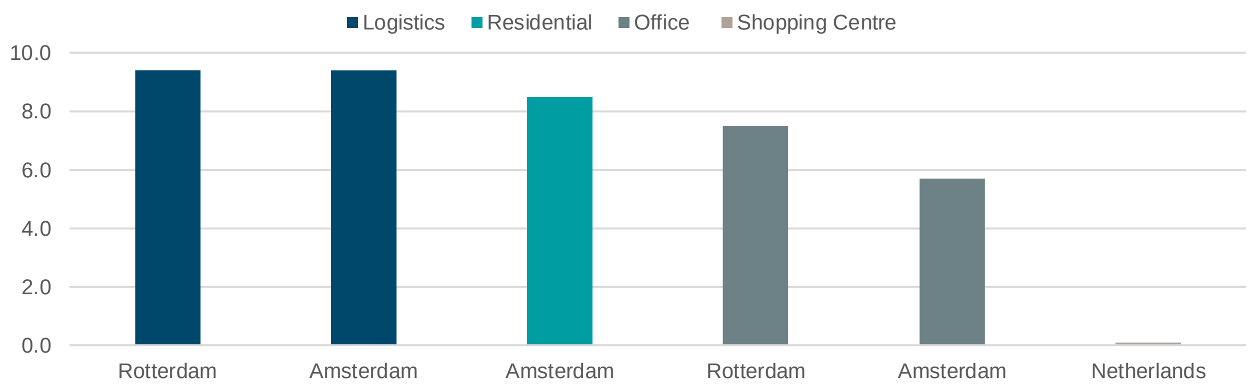
The logistics sector has been a strong performer in recent years and will likely continue to benefit from further growth in e-commerce. It is important to note, however, that this strong performance has encouraged developers, and speculative development is now at record highs. At present, demand is still outpacing supply and national logistics vacancy remains in check. However, further speculative development could dampen rent growth going forward. That being said, a scarcity of land to develop in urban locations, alongside competing land use from other sectors, is expected to maintain pressure on urban logistics rents. As such, we see the best opportunities in last hour logistics in the densely populated Randstad region.

Amsterdam's finance sector has so far benefitted from the U.K.'s departure from the E.U., with the Dutch capital taking over London's position as Europe's largest share trading centre at the start of 2021. However, any significant benefit to the office market has yet to be realised. Going forward, we believe that the acceleration of remote working could well dampen office demand over the longer term and our rent growth outlook is now somewhat weaker than prior to the pandemic. That being said, we continue to see opportunity in 'next generation' office buildings in the right locations. ESG considerations will also be at the forefront of both occupier and investment decisions.

In the retail sector, the situation still looks particularly difficult. With dramatic declines in high street and shopping centre footfall, and increasing vacancy across all markets, retail rents and capital values fell significantly last year. Structural changes – most notably the shift to online spending – are firmly expected to continue impacting the sector going forward and we anticipate further rental decline over the coming years.

Amsterdam's hotel market looks well placed to benefit from a recovery in tourism. Covid-19 has had a severe impact on the sector, as investment volumes have plummeted and pricing has moved out by 50 basis points.[7] While challenges certainly remain, the loosening of travel restrictions saw a rush for flight and accommodation bookings, providing reassurance that the appetite for travel remains strong. With Amsterdam being a popular and supply-constrained market, budget and midscale hotels in the city centre are expected to perform well over the medium term. However, the window of opportunity is expected to be short, as pricing will likely move quickly with the expected recovery in tourist numbers.

PRIME TOTAL RETURN OUTLOOK (% P.A., 2021-2025F)



Source: DWS, July 2021. F = Forecast. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

[6] CBRE, July 2021

[7] CBRE, July 2021

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