Alternatives Research
Real Estate

February 2022

NETHERLANDS REAL ESTATE STRATEGIC OUTLOOK

First Quarter 2022

IN A NUTSHELL

_ We expect economic growth in the Netherlands to lag other European countries, but real estate fundamentals – especially for residential and logistics – remain robust.

_ The Dutch residential market is expected to be a top European performer based on supply-demand imbalances, household income growth and urbanisation.

_ Demand for logistics remains high and yields are trending lower. Our preference is for urban and other supply-constrained markets over corridor markets, where supply is expected to ramp up.

The Dutch economic recovery is expected to be disrupted by recently introduced Covid-19 restrictions. The lockdown imposed in late December helped to bring down infections but will likely impact near-term economic growth. Trade and exports have made a full recovery, but consumption is still well below 2019 levels. Looking ahead, GDP growth is expected to lag the European average over the next five years, although the formation of a new government coalition could boost growth, with substitutional fiscal spending in the next few years.

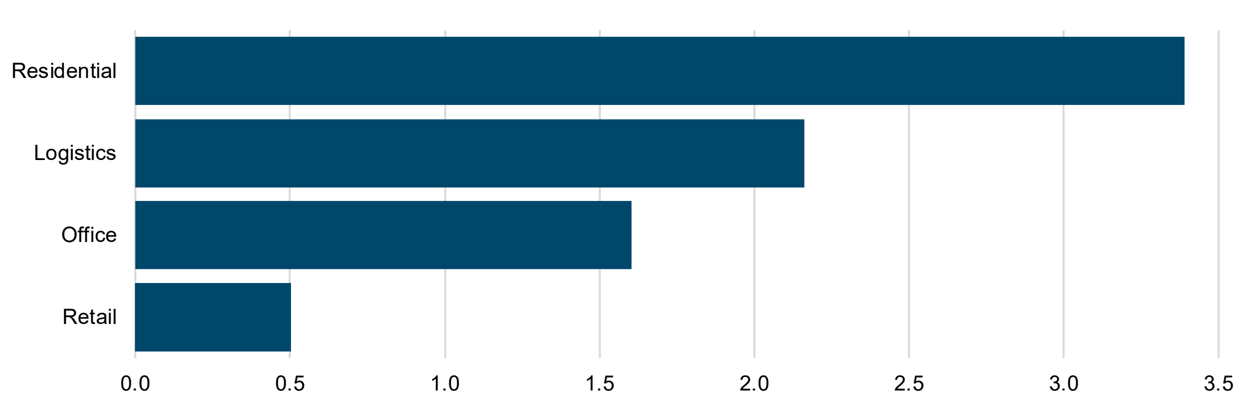
Residential and logistics well-placed for future rental growth

The outlook for real estate in the major Dutch markets remains robust despite modest country-wide economic growth. Drivers of real estate demand including household income, online consumer sales and imports are expected to outperform GDP growth, while Amsterdam and Rotterdam are also expected to outperform the country average on measures such as population and job growth.

We continue to have a strong call on Dutch residential, where our outlook for rental growth is comfortably the highest of the traditional real estate sectors. Strong disposable income growth, urbanisation, rising house prices, tight supply and a lack of good-quality rental stock all make for a strong investment case.

International trade and e-commerce tenants are driving demand for logistics space. Logistics rental growth is expected to remain strong over the next few years, particularly in key supply-constrained markets. In the medium-to-long term, we expect logistics rental growth to revert closer to inflationary levels once a new supply-demand equilibrium is reached. We foresee modest rental growth in the office sector based on increased work-from-home adoption rates and occupiers rethinking their office footprint. In the retail market, rents are expected to continue to fall as online sales gains more market share at the expense of in-store sales.

Prime Rental Growth Forecast by Sector, 2022-31f (% p.a.)



Source: DWS, December 2021.
Note: F= forecast. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

Focus on Amsterdam and Randstad residential

Dutch residential remains our top investment strategy in the Netherlands. House prices have risen substantially over the last few years, especially in Amsterdam, meaning homeownership has become increasingly unattainable in the major cities. In addition, Amsterdam and Rotterdam also continue to benefit from urbanisation and an influx of expats. Looking ahead, we expect Amsterdam to be one of the top performing markets in Europe, driven in part by further yield compression as investors compete for access to good-quality product. Our investment strategy focuses on affordable residential in suburban areas in Amsterdam and the Randstad. We would also focus on affordable residential schemes in commuter locations within the Randstad.

In addition to traditional multi-family residential, operational residential assets – such as student housing and senior living – sit high on our list of key investment themes. Lack of good-quality student housing accommodation and growing numbers of international students bode well for future demand. Meanwhile, at the other end of the spectrum, the over 75-year-old cohort is also expected to grow rapidly. An increase in demand from the ageing Dutch population, coupled with an undersupply of high-quality and suitable senior living establishments, provides an attractive investment opportunity.

Selective approach to logistics given current pricing

The Netherlands benefits from its strategic position as a global trade centre with multi-modal distribution capabilities near Schiphol airport and Rotterdam port. Additionally, British exporters are considering the Netherlands in order to gain a foothold in Europe and mitigate the effects of Brexit.

Dutch logistics stock has grown by around 6% p.a. over the last five years, well above the previous five-year annual average of 2%. However, strong demand driven by trade and e-commerce tenants has easily outpaced new supply. With a significant amount of space currently in the pipeline, supply is set to continue to grow, although we expect good-quality new stock to be absorbed with relative ease.

We have a selective approach to logistics investments given current record-low yields and the risk of potential new supply. In our view, modern stock in supply-constrained submarkets is most likely to achieve sufficient rental growth to offset low yields. Markets such as Rotterdam port and urban locations in Amsterdam and Rotterdam remain attractive based on the return of global trade and the continued rise of e-commerce.

In a market with tight pricing, we also see an opportunity to redevelop and reposition old light industrial assets to last-hour logistics near Amsterdam and Rotterdam. Such a value-add strategy is supported by strong demand from third-party logistics tenants and healthy development margins.

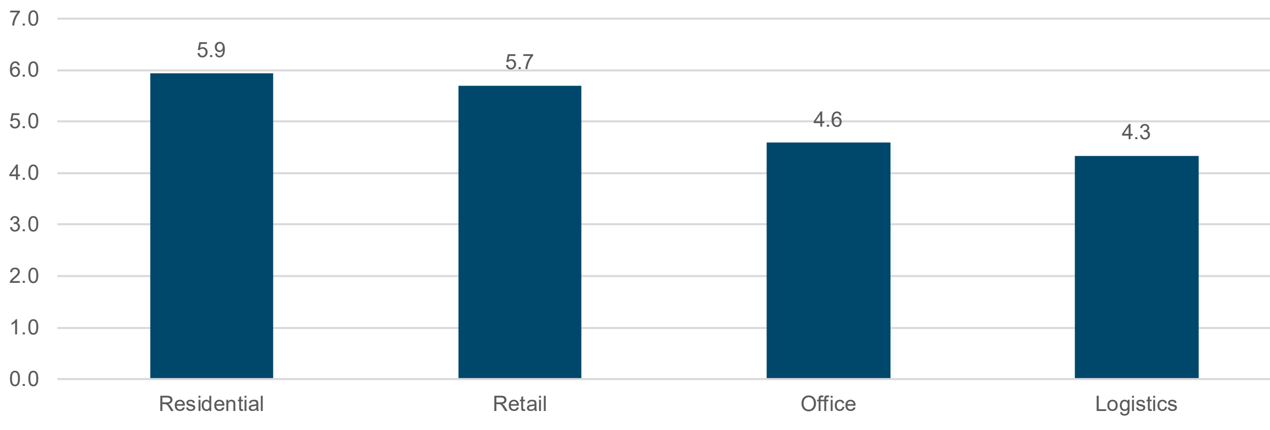
Office and retail redevelopment strategies

Increased work-from-home adoption rates stemming from the Covid-19 pandemic are likely to have a long-lasting impact on the office sector. Avoiding daily commutes and the noise from open-plan offices are two benefits many office workers will seek to maintain. Office occupiers will need to rethink their space, and the post-Covid office will most likely emphasize collaboration and drive social interaction. We expect a polarisation between well-located, good-quality office space and outdated offices in secondary locations. As such, prime office rents are expected to outperform average-quality offices.

We have a strong preference for refurbishment of old, but centrally located office stock over new build assets, in order to achieve additional return and reduce the associated carbon impact. Our 'Next Generation' office refurbishment strategy is aimed at high-productivity and growing tech markets. Amsterdam is a fast-moving tech hub with increasing venture capital funding, new start-ups, and continued growth in tech jobs. We are likely to explore opportunities to redevelop old stock to Next Generation standard in the fringes of the Zuidas or in emerging locations such as Sloterdijk.

The retail sector remains challenging, with declines in footfall and in-store spending. Structural change – most notably the shift to online spending – is firmly expected to continue and we anticipate further rental decline over the coming years. We see potential value-add opportunities in (partially) converting underperforming and secondary shopping centres to mixed-use schemes, including PRS, student housing, leisure, and flexible office.

Prime Gross Total Return Outlook, 2022-2031f (% p.a.)



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