Real estate market update

Fourth quarter 2023

a.s.r. real estate

Contents

Economy

After two strong, resilient years, the Dutch economy experienced a cooling-off in 2023. Rate hikes by central banks have proven to be successful thus far, with inflation moving back to an acceptable level in the course of 2025. Still economic growth for 2024 and 2025 will likely remain low.

GDP growth (y-o-y real)	**Q4 2023[1]: -0.5%**	Q3 2023: -0.8%	↗
Consumer prices (y-o-y inflation (HICP))	**Dec 2023: 1.0%**	Sep 2023: -0.3%	↗
Consumer confidence (Average balance)	**Dec 2023: -29**	Sep 2023: -39	↗
Unemployment (ILO unemployment rate)	**Dec 2023: 3.5%**	Sep 2023: 3.8%	↘
Private consumption (y-o-y consumer spending)	**Q4 2023[1]: -1.9%**	Q3 2023: -0.4%	↘
Producer confidence (Average balance)	**Dec 2023: -3.4**	Sep 2023: -2.2	↘

Source: Statistics Netherlands (CBS), Eurostat, a.s.r. real estate, 2024 | The arrows refer to the experienced change over the comparison period.

In the fourth quarter of 2023 the Dutch economy continued to contract, with a modest recovery expected in 2024. The Dutch economy is expected to continue to contract, as it has been doing for the first three quarters of 2023. However, economic outlooks suggest that economic recovery will be modest in 2024 and 2025 as a result of a minimal increase in consumer spending, slightly offset by increased government spending. Furthermore, geopolitical uncertainties are still hovering over global economies that might impact global trade and energy markets again, but to a lesser extent than in 2022 and 2023. In addition, the new Dutch government, which is in the process of being formed, and its proposed policies remain an uncertain factor on the economic development of the Netherlands in the years ahead.

In contrast to the above, financial markets showed a very positive sentiment in the fourth quarter. As a result, almost all investment categories ended up in positive territory in 2023. The positive fourth quarter is largely attributed to investors' expectations that inflation will continue to decrease in 2024 without deep recessions, and that central banks will reduce their policy interest rates, perhaps as early as the first half of 2024.

In 2023, economic activity stagnated, but will rebound to some extent in 2024. Due to the decline in global trade, sharply rising interest rates and high inflation, year-on-year economic growth is expected to decrease to 0.1% in 2023, after a strong 2022 (4.4%). On a quarterly basis, the Dutch economy has been contracting since the first quarter of 2023, marking a technical recession. This recession can be largely attributed to the contraction of Dutch exports, as a result of the slowdown in global trade growth. This, in turn, can be attributed to less consumer demand and business investments due to tightened monetary policies worldwide. In 2024 economic growth is expected to rebound to a modest 0.3%. Government spending is expected to contribute the most, with higher expenditures in areas such as healthcare, defense and infrastructure. After 2024, economic growth will remain moderate. It is expected that global trade and household spending will remain limited. In addition, market interest rates will not decrease significantly, although it must be noted that risk-free rates have been decreasing in November and December, which is also a result of the financial markets' positive sentiment in the fourth quarter.

Household spending remains under pressure due to high inflation, significantly impacting real incomes. In line with the economy, private consumption also contracted in the first three quarters of 2023 and is expected to keep decreasing in the fourth quarter as well.

1 Estimation based on full-year forecast

For 2024, household consumption will increase by 0.4%, reflecting the modest growth in real disposable incomes. In 2024, the government is supporting purchasing power through measures such as a minimum wage increase, child allowance increase, and rental subsidies. Additionally, households will see a modest recovery in real incomes due to higher nominal wage growth combined with a cooling down of consumer price increases.

Both the number of jobs and the unemployment rate remain stable. The significant (expected) increase in wages in 2023 and 2024 is not only a result of the inflation peak in 2022, but is also related to the tight labour market. While the number of bankruptcies gradually increased in 2023, the number of jobs in the Netherlands remained relatively stable at approximately 11.5 million jobs throughout 2023. In 2023, the Dutch unemployment rate hovered between 3.3% and 3.8%, which are record lows. The Dutch unemployment rate is one of the lowest in the eurozone. The average eurozone rate moved approximately 3 percentage points above and ended 2023 at 6.4%. For 2024, the Dutch unemployment rate is estimated to increase slightly, to 4.0%.

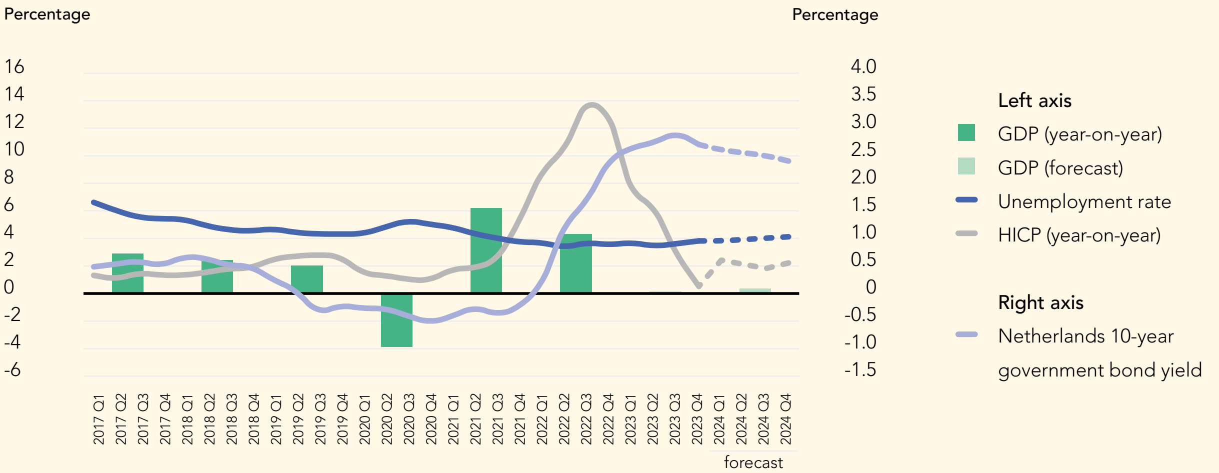
Although consumer prices will remain high in 2024, a gradual decrease towards 2% is expected in 2025. The initial inflation shock resulting from rising energy and food prices has been steadily easing since its peak in September 2022. The annual average of consumer price increases (HICP) for 2023 was 4.1%. This is attributed not only to the diminishing economic activity but also to the sharply decreased energy prices. On the other hand, food prices (including alcohol and tobacco) in 2023 were more than 11% higher than the year before. In 2024, the projected inflation will decrease to 2.9%, with energy prices remaining almost stable, followed by an average price increase of 2.2% in 2025.

Underlying inflation is also expected to decrease significantly. Core inflation fell from 6.4% in 2023 to 3.0% in 2024 and will fall to 2.7% in 2025. Core inflation figures provide a better representation of price developments compared with headline inflation, as it excludes the volatile prices of energy and food. Within core inflation, the price developments of industrial goods, such as cars, furniture, and clothing, have almost returned to pre-pandemic pace. However, inflation remains high in the price development of services, which determines the majority of core inflation and is heavily dependent on wage cost developments.

Consumers are becoming slightly less pessimistic. After having reached a record low in September and October 2022 (-/- 59), consumer confidence slowly increased throughout 2023, ending the year at -/- 29. Due to many economic and geopolitical uncertainties, consumers remain relatively pessimistic about the Dutch economy. However, now interest and mortgage rates have started to decrease slowly since November 2023, the housing market could gain in consumer interest, although the risk-free rate was once again moving upwards in the first half of January 2024.

Decreasing bond rates as a result of positive financial market sentiment. As it seems likely that central bank policies are succeeding in combating the elevated consumer price increases, it is expected that policy rates might decrease in 2024. As a result, long-term government bond rates gained more investor interest, especially compared with short-term rates, which in turn resulted in a decrease in such bond rates. While the yield of 10-year Dutch government bonds moved above the 3% mark before November, it continued to decrease until the end of December, ending the year at approximately 2.3%. Although initial expectations were that the 10-year Dutch government bond rate would remain at or around 2.8% in 2024, this forecast has been adjusted downwards to 2.5% .

Figure 1 Dutch economic indicators



Source: Statistics Netherlands, Eurostat, DNB, Consensus Forecast, ECB, a.s.r. real estate, 2024

Retail

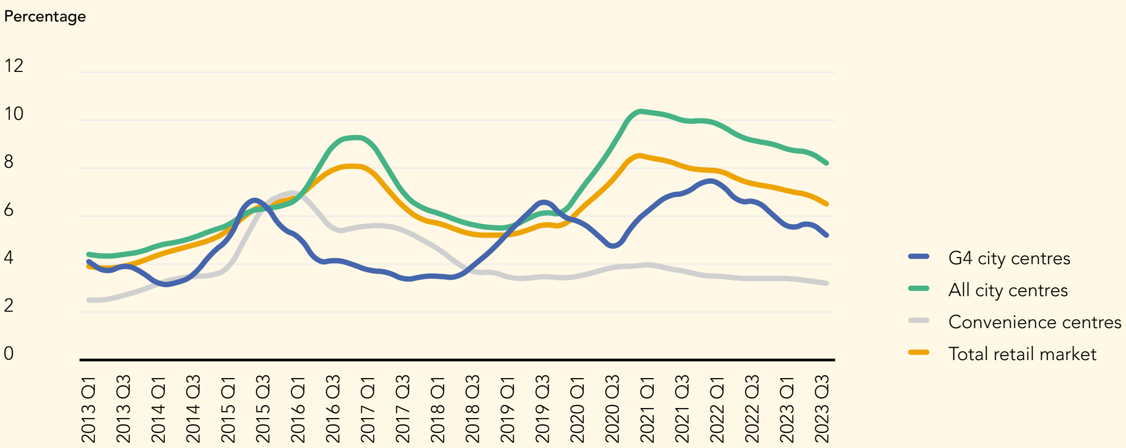
Consumer spending continued to face an uphill battle and retail yields remained under upward pressure, but signs of resilience emerged. Market rental growth turned positive for the first time since Q1 2020 and the Q3 investment volume equaled the historic average. Although bankruptcies rose, the worst of retailers' cost increases appears to be over and consumer confidence is recovering.

Rising costs continued to exert pressure on consumer spending. Retail turnover grew by 4.5% compared to previous year. However, the turnover volume continued to decrease by -/- 2.9%. Consumers remained frugal as average loan increases only partly compensated the steep price increases of retail purchases since 2021. Additionally, this is the first time the quarter-on-quarter retail turnover (-/- 0.6%) decreased since Q4 2021. Particularly, clothing and shoes saw steep y-o-y sales volume declines (-/- 8.5% and -/- 7.6%). Supermarkets retained a relatively better performance (-/- 2.9%). In the online retail market, the same differences emerge. Online food spending outperformed (+ 18.1%), whereas total and non-food year-on-year turnover growth remained low. Conversely and looking forward, consumer confidence and purchase intent are on the rise as consumers expect their financial situation to improve substantially in the medium term. Consumer confidence rose from -/- 39 (September 2023) to -/- 29 (December 2023).

Bankruptcies rose yet remained below the historic average. The combination of selective consumers and rising costs contributed to a growing number of retail bankruptcies. The preliminary number up until November (233) is higher than 2021 and 2022, but remains well below the 2009-2022 (January-November) average (362). Outdated retail formats with heavy online competition continue to be troubled. One of the most noticeable examples is Sports Unlimited Retail, the mother company of Perry Sport and Aktiesport, that filed for bankruptcy in December. Several companies are interested in a partial re-start. Although bankruptcies have negative impact on the occupier market, these events provide opportunities for some retailers, of which MediaMarkt transforming eight of the former 58 BCC shops into MediaMarkt shops is an example.

Occupier market fundamentals improved. For the first time since Q1 2020, the retail market achieved positive year-on-year market rental growth (+0.3%) in Q3 2023. Rental transactions at or above market levels are occurring more often on the better high street locations. Retailers are still grappling with rising costs (rent increases, rent repayment, and labour market tightness), but the most significant cost increases appear to be over. The year-on-year market rents of convenience assets remained solid (+3.6%). The financial vacancy rates continued to trend downwards. The G4 city centre vacancy rates approached their lowest rate (5.2%) since Q3 2020.

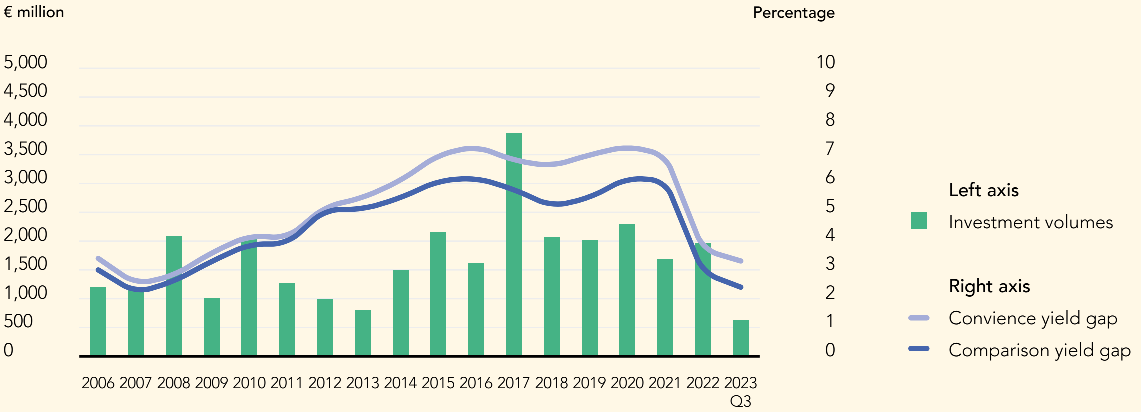
Figure 2 Financial vacancy rates[1]



Source: MSCI, a.s.r. real estate, 2023

1 Four-quarter moving average

Figure 3 Retail segment yield gaps[1] and retail investment volumes



Source: MSCI, CBRE, ECB, 2023

Retail investment volumes relatively high in Q3. The signals in the investment market are relatively positive. The retail market is also undergoing repricing, but the rising year-on-year investment volumes in Q3 (+19%) were a positive exception in the real estate market. The Q3 investment volume (€ 375 million) equalled the 2006-2022 Q3 historical average (€ 367 million). Nonetheless, the convenience and supermarket segments were experiencing more upward pressure on yields than high street assets as various levered convenience investors quit purchasing assets. Risk-on equity investors seized their opportunity though, and were actively searching and buying assets with relative good pricing and redevelopment potential.

Outlook

Occupier market better equipped to overcome challenges. The expected recovery in consumer purchasing power forecasts and expansion plans of international retailers support the retail occupier market. The expected gradual inflation decrease also provides retailers with some relief regarding increased costs. However, smaller Dutch city centres and secondary and tertiary high streets still face oversupply and the repayment of COVID-19 government support remains challenging. The dynamics in the retail market remain challenging, but the prospects for consumer spending and the user market are improving. Moreover, convenience market rental growth remains strong, despite increased financing costs. Therefore, we expect subtle market rental growth for the retail market as a whole in 2024.

Repricing enters next phase. In October, the ECB ceased its interest rate hikes. Since then, the Dutch 10-year government bond yield has fallen from 3.3% in October to 2.5% by mid-January 2024. This suggests that the market is anticipating lower interest rates as European inflation appears to have passed its peak. Consequently, real estate pricing might rebalance earlier than expected. This is especially true for retail, as strong devaluations made pricing relatively attractive. However, problems in refinancing of leveraged retail funds could lead to an increase in investment supply when loans mature, and sales (partial or otherwise) emerge as the best option. Occupier fundamentals are improving and repricing is gradually decreasing, but economic headwinds continue.
We expect slightly higher investment volumes but continued pressure on retail values in 2024.

1 Yield gap calculated on retail's reversionary yield and Netherlands 10-year government bond yield

Residential

In 2023 the residential investment market experienced the impact of higher interest rates, resulting in a slowdown in transactions and price corrections. While major yield increases seem past us and price recovery is expected in the second half of 2024, uncertainties remain due to political and economic developments. However, strong market fundamentals offer potential for future growth despite short-term challenges.

After three negative quarters, owner-occupied house prices have been increasing since the third quarter of 2023. In the fourth quarter of 2023, transaction prices in the Netherlands experienced an increase of 1.7% compared with the third quarter of 2023. This means that after approximately 6% of house price decreases since Q4 2022, the housing market seems to have left the impact of rising mortgage rates behind. In fact, the borrowing capacity of many Dutch households did not suffer significantly. The main reason has been the average wage increase in most Dutch households, offsetting the mortgage rate increases throughout 2022 and 2023. In addition, many households could still rely on additional savings built up during the pandemic. Also, the newbuild pace is not picking up steam yet so there is no increased supply to meet the high demand.

Fewer homes for sale, while the number of transactions increased. The fourth quarter showed a decrease in homes for sale (-11% compared with Q3 2023 and even -26% compared with a year earlier). Data from Statistics Netherlands for the fourth quarter of 2023 show a slight increase in owner-occupied residential transactions on a quarterly basis, with 50,500 transactions recorded. Despite this uptick in market activity, 2023 saw 5.5% fewer transactions compared with the previous year. Fourth quarter data from NVM show an increase in transactions of 9% compared with the previous quarter. Comparing the increase in transactions with the aforementioned decrease in homes for sale supports the most recent price increases, as the market is tightening again and consumers have less choice.

Devaluations on the residential investment market are stabilising. Third quarter figures for 2023 are the latest available data from MSCI. With an additional contraction of 0.9%, capital values of residential real estate have been decreasing since the third quarter of 2022. Nevertheless, quarterly data are showing signs of stabilisation as devaluations are slowing down.

Quarterly yield shifts upwards are decreasing, hinting at a new price balance in the first half of 2024. Rising interest rates and subsequent increases in (risk-free) government bond rates since the start of 2022 have tightened the spread with the net yield of the residential investment market. As a result, investors are becoming more reluctant to buy, thereby widening the bid-ask spread that leads to price decreases. Yields at market rent (reversionary yield) increased by 12 basis points to 4.8% by the end of the third quarter, which is a smaller yield shift than during the three prior quarters. While a new spread between the risk-free and residential net yield has not yet been found, the upward yield shift is expected to cool down in the fourth quarter of 2023 and first half of 2024: as market interest rates have already been decreasing in the fourth quarter thus narrowing the yield spread, it is expected that we have surpassed the majority of yield increases.

From an occupier perspective, there remains persistent pressure on the available supply of rental properties in the residential market. This is reflected in the market rental value growth, which ended the third quarter at 5.1% year-on-year.
Now inflation is cooling down, both market rents and theoretical rents are outperforming inflation again, as they have done for almost eight years in a row, as shown in Figure 5.

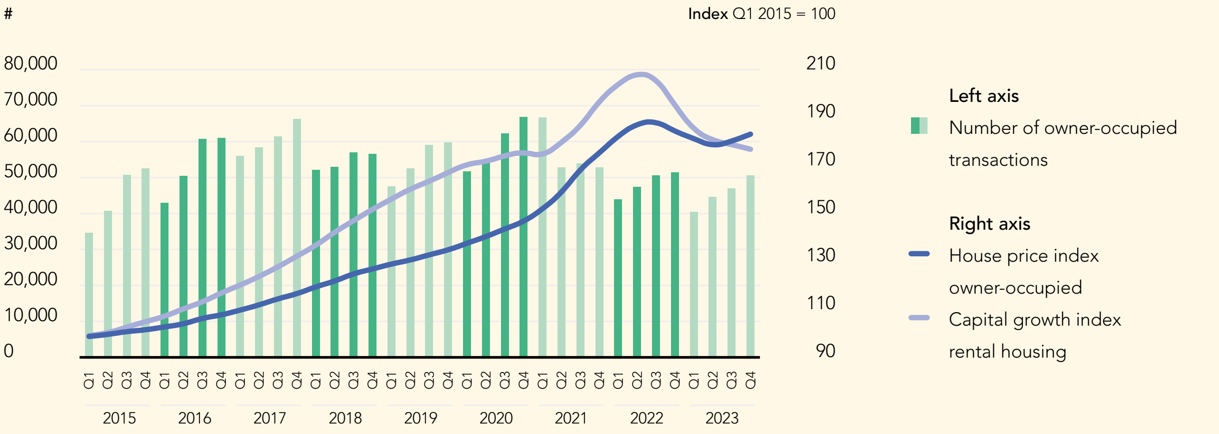
Outlook

Price corrections on the residential market have slowed down, recovery expected in 2024. After three quarters of devaluations, the owner-occupied residential market has seemed to be picking up momentum since the third quarter of 2023. Better than expected growth of wages, a lagging newbuild pace and a persistent pressure on the residential market are at the basis of a more positive sentiment going into 2024. While economic and geopolitical uncertainties remain, house prices are expected to grow by 3% in 2024 after a decrease of 2.8% in 2023.

Short-term uncertainties remain now the formation of a new Dutch government remains uncertain. On the residential investment market, rising interest rates have caused a drop in the yield spread between the higher risk-free rate and the residential investments yield since the end of 2022. This resulted in a substantial yield shift and subsequent devaluations. Expectations are that this revaluation of the residential risk premium will continue in the fourth quarter although at a milder rate (-1% compared with the third quarter of 2023). For 2024, a new price balance between buyers and sellers will most likely be found resulting in positive revaluations in the course of 2024. From an occupier perspective, the residential rental market remains attractive and highly sought after. Mid-priced rental properties, in particular, hardly experience any vacancies. As a result, (market) rental growth is likely to persist in the years ahead.

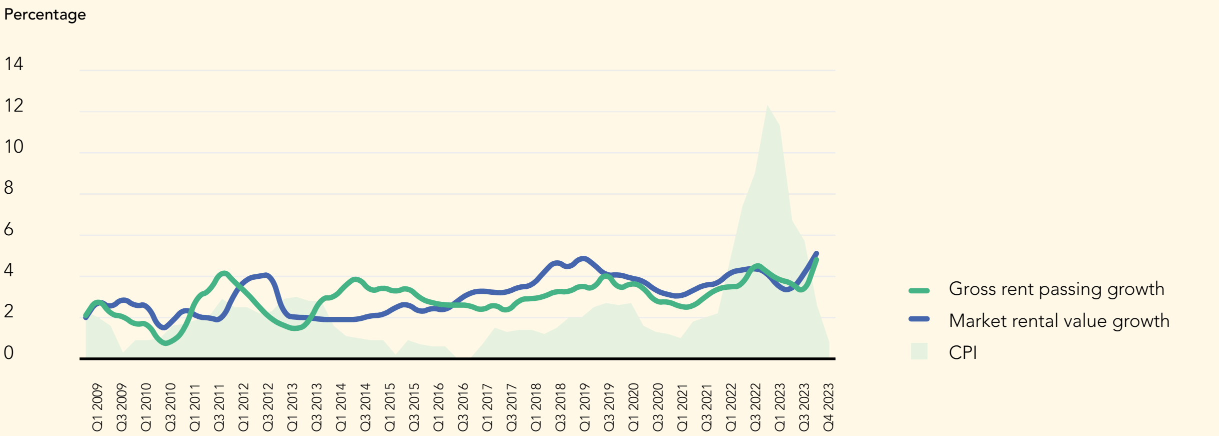
Nevertheless, the residential investment market is faced with the impact of the proposed government regulations on rent control and the cap on annual indexation. At this moment in time, it is unclear if the current 'caretaker' government will still present the proposed measures to the Dutch parliament for approval, or if a newly established government will take over. One way or the other, the proposed regulatory changes are still likely to be introduced. The residential market is considered one of the key priorities in the Dutch economic landscape and most political parties are keen on making the housing market more accessible to all income groups.

Figure 4 House price developments and number of transactions involving existing owner-occupied homes



Source: Statistics Netherlands, 2024, MSCI, 2023

Figure 5 Rental growth and Dutch CPI (y-o-y % change)



Source: Statistics Netherlands, 2024, MSCI, 2023

Offices

The Dutch office market has undergone price corrections throughout 2023 as a result of global interest rate hikes. However, recovery is expected in the course of 2024, but economic uncertainties and hybrid working will have an additional impact on office occupancy in the years to follow. Still, average and prime rents keep increasing as demand for high-quality and sustainable office space increases.

Office take-up regains momentum but is still below the historic average. In the third quarter of 2023, take-up increased considerably compared to the quarter before but it is still below the historic third-quarter average of 243,700 sq. m. (see Figure 6). At approximately 209,100 sq. m., take-up was 82.5% higher than in the second quarter of 2023 but 13.1% lower than in the third quarter in 2022. It seems that the market has regained momentum, at least in the Netherlands' five largest cities (G5), where the largest share of take-up transactions still takes place. Indeed, the G5's quarterly share of 75.9% in the take-up has not been this high since 2018. Unsurprisingly, Amsterdam had the largest share of the total with 40.7%. This is partly due to the fact that the capital has the largest office market, but even when taking into consideration Amsterdam's historic average share of 27.7%, the capital's office market remains highly attractive.

The Dutch vacancy rate remained stable, while G5 submarkets saw an increased absorption of vacant office space. The vacancy rate in the Dutch office market remained stable at 10.9% in the third quarter. By contrast, the average vacancy rate of offices near IC railway stations in the G5 decreased, albeit only slightly. At the end of the third quarter, 5.2% of office space remained vacant, whereas this was still 5.4% at the end of the quarter before. This is in line with the supply/demand gap observed in the market, especially when it comes to A-grade office space. The five largest cities all show a considerable gap between the available properties and the demand for properties.
In Eindhoven, for instance, more than two-thirds of the office demand in 2023 focused on A-grade offices. By the end of the third quarter, however, only 13% of the available office stock matched this specific demand (see Figure 7).

Average rent levels remained stable in the third quarter. With €150 per sq. m., the Dutch average office rent remained at the same level as in the previous quarter. Average office rents in the G5 cities also remained stable throughout 2023 and largely outperformed the Dutch average. The only exceptions were The Hague and Eindhoven, where the average rent stayed at € 140 and € 145 per sq. m., respectively. Amsterdam was the outperformer again in the third quarter, with an average rent of € 275 per sq.m. (Q2 2022: €270).

In Q3 2023, the Dutch prime rent in the Zuidas Central Business District stood at € 500 per sq. m. for the third quarter in a row, and prime rents rose in Utrecht, The Hague and especially Eindhoven.

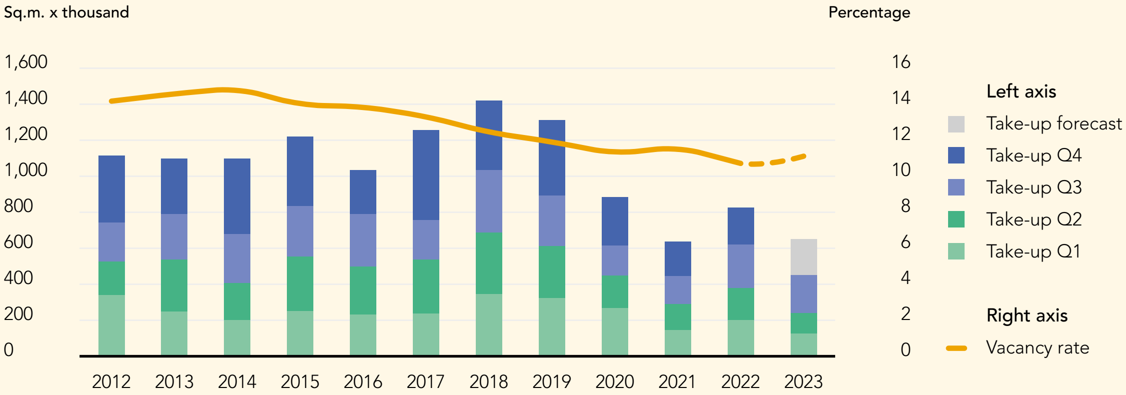
Office market yields once again increased, further contracting market values. In response to the ECB's rate increases, (prime) market yields have been expanding six quarters in a row, including in the third quarter of 2023. Prime yields in the top central business district (i.e. Amsterdam) and other CBDs in the G5 (i.e. Rotterdam) increased by 10 and 20 basis points respectively, while the yield in major provincial cities remained stable in the third quarter. Although these yield increases are still resulting in contracting market values, the increase is levelling off, indicating a potential stabilisation of values in the course of 2024. At the end of 2022, the yield gap relative to prime office yields (Amsterdam Zuidas) had narrowed to 160 bps, but it had increased to almost 200 basis points again by the end of Q2 2023. As risk-free rates have started to fall in the fourth quarter in the wake of the ECB's announcement that it is most likely done with policy rate hikes, the yield gap with prime offices is slowly increasing again. While further yield increases and subsequent price corrections are not unlikely, the current yield gap and corresponding long-term risk premium is well on its way to a healthy level.

Outlook

Real estate office values remain under pressure in the short-term, but market polarisation is still present. Although inflation has not yet cooled off to the level central banks had hoped for, the ECB announced that it is most likely done with policy rate increases. Current economic developments indicate that by 2025 inflation might be moving back to the desired 2% level. As a result, it is expected that the office transaction market still has to adapt to a new price balance between buyers and sellers in the first half of 2024. While the whole market is facing these headwinds, the yield development of the various segments of the market indicates that the polarisation in the market will further increase. CBDs in the G5 have seen smaller yield corrections than their counterparts in smaller cities throughout the Netherlands.

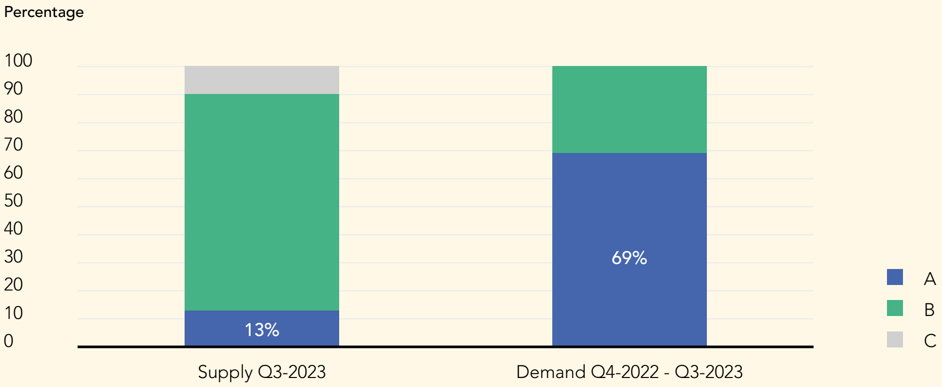
General economic uncertainty limits additional demand for office space, but A-grade offices remain highly sought after. The economy is expected to only grow slightly in 2024 and the relatively high interest rates are limiting corporate investments. As a result, general demand for offices will be lower than in prior years, especially before 2019. However, a changing economy could cause new businesses and sectors to thrive going forward, which might curb the fall in demand for office space, especially in the most sought-after markets. In general, the focus of demand will more and more pivot to sustainable, high-quality office space, as the importance of energy costs savings increases and general ESG obligations will increase.

Figure 6 Take-up of Dutch office space (x 1,000 sq.m.) and annual vacancy rate



Source: CBRE, 2023

Figure 7 Supply/demand gap for A-grade office space in Eindhoven



Source: JLL, 2023

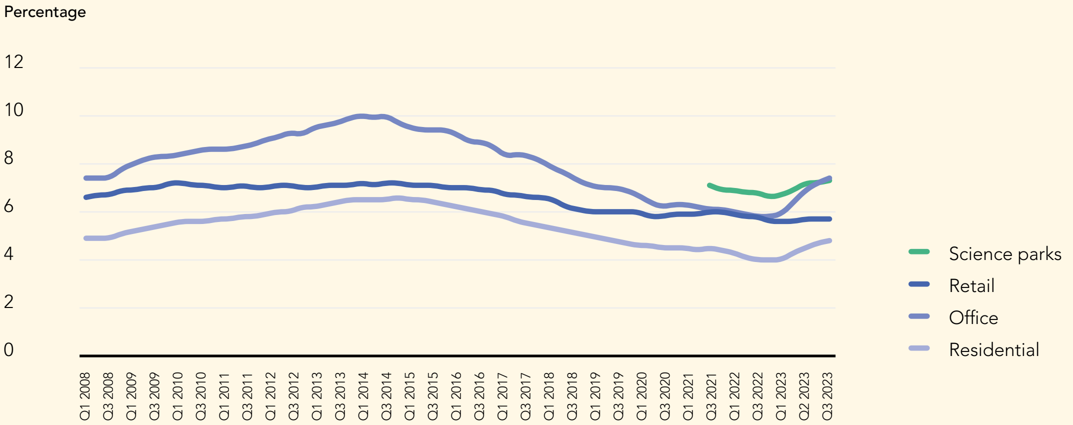
Science parks

The Dutch science park real estate market is adjusting amid stabilised interest rates. Larger venture capital deals on science parks signal positive trends despite a dip in funding for start-ups. Economic challenges like layoffs and industrial downturns, coupled with the uncertain outcome of the election cast shadows on the country's long-term competitiveness.

As interest rate hikes are coming to an end, real estate valuations are entering calmer waters. The average reversionary yield of a bespoke science park benchmark, as defined by a.s.r. real estate, increased slightly to 7.30% at the end of the third quarter. This corresponds to a 15 bps increase compared with the previous quarter, which is lower than the yield shift of 20 bps that the office market experienced in the third quarter (see Figure 8). The yield of traditional offices currently stands at 7.35%, 5 bps higher than the science park benchmark.

Based on the reversionary yield, science park and office assets are more or less equally attractive to investors in terms of their risk-return profile. Despite little market evidence, the devaluations of traditional offices are being caused by the deteriorated macro-economic environment. Rising interests rates have resulted in a relatively larger yield shift for traditional offices than for science park assets. This is likely tied to the long-term fundamentals of R&D-related real estate and investors' flight to higher returns and increased familiarity with this asset class.

Figure 8 Gross reversionary yields



Source: MSCI, a.s.r. real estate, 2023

Lower venture capital, but more notable deals on Dutch science parks. In the third quarter of 2023, Dutch start-ups raised € 465 million in venture capital, which is a decrease of nearly 15% compared with the previous quarter. Among the larger deals, more start-ups located on Dutch science parks are listed, with invested capital ranging from € 40 million to € 14.5 million. Notable companies include SMART Photonics and Nearfield (High Tech Campus Eindhoven), MYCB1 Group (Amsterdam Science Park), Meatable (Leiden Bio Science Park), HyET Solar (Kleefse Waard) and VSPARTICLE (former tenant of YES!DELFT). The number of larger deals is increasing, which is a turning point from the past quarters. In Q4 2023, TOPdesk, a spin-off of IT company OGD, managed to attract € 200 million from CVC Growth Funds, a first entry in the Dutch market for the British investor. Currently, TOPdesk is located near the city centre of Delft, while OGD is located next to the TU Delft Campus.

In 2023, several larger corporates announced layoffs to cut costs in the deteriorated economic climate of heightened inflation and interest rates. These include companies with R&D departments, such as Signify, VDL and FrieslandCampina. Layoffs are expected to be company-wide, and R&D departments and innovation budgets are likely to be affected. The Dutch industrial sector, which is closely connected to the high tech sector, has shown lower average daily production numbers since the beginning of 2023.

Among industrial sectors, production in chemistry and electronic devices has decreased the most compared with 2022. The downturn from these sectors could be attributed to elevated gas prices for the former and post-COVID-19 consumer behaviour for the latter.

Outlook

Fundamentals of the science park occupier market relatively more robust. Compared with the traditional office market, science park assets are relatively more resilient to devaluations. This is largely related to remote working being less applicable to knowledge-intensive activities and spatial demand from specific sectors, such as life sciences and high tech.

The further impact of the worsened global economic climate with potential more layoffs in knowledge-based sectors pose a risk for the science park market. Although university campuses tend to be frontrunners in sustainability, some older science park stock could become less marketable due to the more extensive climate ambitions and increasingly strict regulations.

Results of the Dutch general election are likely to lead to a centre-right government. Major topics of this election were migration control and social security. Both the PVV and NSC political parties are inclined to halt or stop immigration, which will apply to knowledge workers and international students as well. Formation negotiations are ongoing as of writing. Therefore, implementation of policies of the new government and their consequences remain unknown for the economic competitiveness of the Netherlands in the long-term.

Farmland

Confidence in the agricultural sector remains below average, while farmland prices rise amid policy uncertainties. In addition, derogation conditions on manure production are imposed, requiring adjustments to legislation, while a €500 million buyout scheme assists for farmers that are marked as 'peak loaders' of nitrogen emissions.

€ 200 million for a large-scale approach to biobased construction. The Dutch ministries of the Interior (BZK), Infrastructure and Water Management (I&W), Agriculture, Nature and Food Quality (LNV), and Economic Affairs (EZK) are allocating € 200 million to encourage the widespread use of biobased construction materials. Biobased construction represents a highly promising method to reduce the environmental impact of agriculture, industry, and construction. With lower carbon emissions and reduced reliance on non-renewable raw materials, as these materials continually regenerate, the National Approach to Biobased Construction (NABB) aims to establish a new national market for the large-scale cultivation, processing and application of biobased building materials. This provides farmers with the prospect of a sustainable revenue model, while ensuring builders have sufficient access to sustainable materials. Additionally, it contributes to a circular economy.

Implementation of Derogation Conditions on Manure Production in the Netherlands. The European Commission has granted the Netherlands a derogation decision under the Nitrates Directive, imposing conditions on the maximum quantity of animal manure. The Netherlands must adjust its legislation to comply with these conditions. This decision allows farmers to spread manure for a few more years, provided that vulnerable water or other areas reach a healthy level more quickly. The national manure production ceiling must be reduced by about 10% in 2025. The national manure production ceiling will be adjusted by 1 January 2024 in line with the derogation decision's conditions.

Buyout schemes for nitrogen reduction have reasonable interest. The government has allocated € 500 million for the national termination arrangement for livestock businesses (Lbv), which will be divided among pig farmers (€ 115 million), poultry farmers (€ 115 million) and dairy farmers (€ 270 million). This budget has been made available to buy out farmers as a solution to the nitrogen crisis. From the more than three thousand peak loaders, at least 974 farms have expressed interest. The buyout schemes are part of the government's peak load approach for significant reduction in overload on nitrogen-sensitive nature. The Lbv includes a compensation of 100% for the loss of production value. The Lbv-plus includes a compensation of 120% for the loss of production capacity.

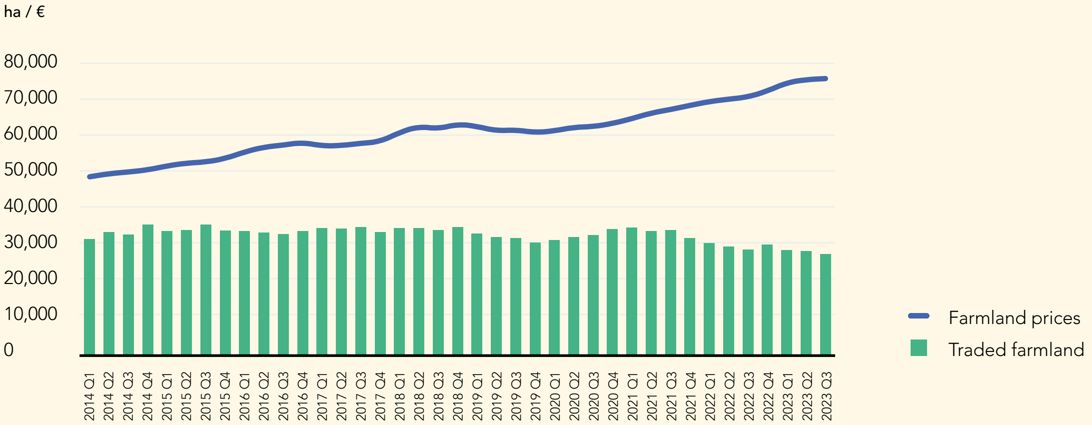
Agro Confidence Index: Differences between sectors keep the confidence in balance. The confidence that entrepreneurs in the agricultural sector have in their company increased by less than one point in the third quarter of 2023 compared with the second quarter of 2023. The index shifted from 5 points to 6 points and is therefore still below the long-term average that stands at more than 11 points. Confidence fell in the arable farming and dairy farming sectors by 4 and 1 point, respectively. The index is still positive, but the persistently low sentiment in the sector is due to uncertainties surrounding major policy issues, such as nitrogen, derogation, agricultural agreement and water quality.

In dairy farming, the current mood is due to lower confidence in the third quarter of 2023. The drop of 12 points in the mood index is greater than in the two previous quarters (-9 points). This index therefore amounts to more than 16 points. This is the lowest compared with the other agricultural sectors and is below the national average for the first time in a long period. The pessimistic mood is due to the sharp drop in milk prices. The rise in interest rates also has a negative impact on the mood. Dairy farmers have become somewhat more positive about the future.

Arable farmers had slightly less confidence in their own company in the second quarter than in the previous quarter. This may be due to the wet end to the season. There are major challenges in arable farming in the longer term, such as land use, crop protection and manure legislation. These themes are likely to determine future expectations.

Full results (in Dutch) are available here.

Figure 9 Farmland prices & traded farmland 2014-2023



Source: Kadaster, Wageningen Economic Research (WER), 2023

Prices of farmland continue to rise steadily; number of farmland transactions is declining. In the third quarter of 2023, the average price of farmland (12-month average) reached approximately € 76,800 per hectare. Compared with the average price of farmland in the same period a year ago, the price has increased by 7.1%. The average price for arable farmland has increased to € 88,800 per hectare (+8.5% year-on-year) and the land price for grassland has increased to € 68,900 per hectare (+5.2% year-on-year). While prices are increasing, the number of transactions declined by 4.1% to approximately 28,200 traded hectares on an annual basis. Uncertainties about policy and the economic outlook is causing reluctance on the farmland market.

Outlook

In the short term, uncertainty still prevails in the agricultural sector in The Netherlands and remains unchanged from the previous quarter. The formation of a new Dutch cabinet can take a while and it must be seen what the consequences will be on an agricultural agreement. In the meanwhile, stricter European policy is putting more pressure on the agriculture sector and certain steps will have to be taken to comply with regulations. Rules regarding water quality can have far-reaching consequences. On the other hand, stimulants for a sustainable sector are ongoing with subsidies and schemes. Farmland prices are still rising, but traded hectares are declining. The availability of land is scarce, so prices tend to rise due to the imbalance between supply and demand. On the other hand, 2022 was a good income year for farmers and this is likely to have resulted in opportunities to invest. The sector is slowly transforming to a more sustainable sector, which can be a bit bumpy with many turns.

Table 1 Farmland market indicators

Market indicator	Current	q-o-q growth	1-year growth	3-year growth
Export of agricultural goods (in millions)	€ 27,407	(6.5%)	(3.0%)	26.2%
Farmland prices (12-month average)	€ 76,826	0.4%	7.1%	21.0%
Traded volume (12-month, in ha)	28,216	(3.0%)	(4.1%)	(15.6%)
Available farmland (in ha)	1,804,372		0.0%	(0.6%)
Number of agricultural farms	50,980		0.0%	(3.3%)
Agri Confidence Indicator (0=neutral)	5.9	0.8	5.8	(1.2)

Source: CBS, Kadaster, Wageningen Economic Research, 2023

Contact

For more information on the research vision, please contact:

Vinoo Khandekar
researcher retail

vinoo.khandekar@asr.nl

Marco van der Spank
researcher residential and offices

marco.van.der.spank@asr.nl

Benny Ng
researcher science parks

benny.ng@asr.nl

Sander Radix
researcher farmland

sander.radix@asr.nl

Colophon

Text
a.s.r. real estate

Photography
Abe van Ancum, Nieuwegein
Corné Bastiaansen, Hilversum
Joni Israeli, Utrecht

Design
TD Cascade, Amsterdam

a.s.r.
de nederlandse
verzekerings
maatschappij
voor alle
verzekeringen

www.asrrealestate.nl