Real estate market update

First quarter 2024

a.s.r. real estate

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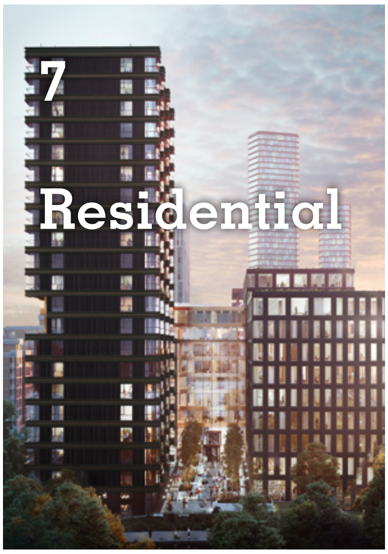
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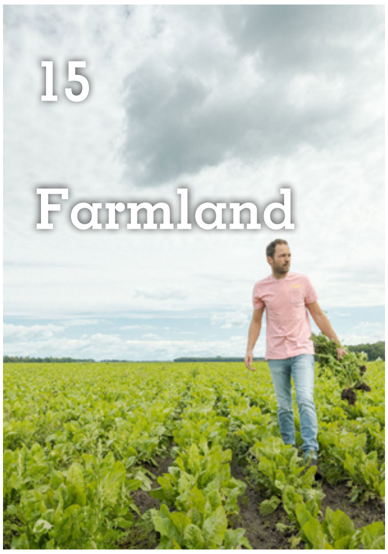
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Economy

Economic growth is expected to rebound in the Netherlands in 2024. Government spending will fuel growth, particularly in healthcare, defense, and infrastructure. Household spending is rising too, but this is accompanied by a slight increase in unemployment. However, inflation is expected to decrease gradually, which will boost consumer confidence and purchasing power.

GDP growth (y-o-y real)	Q1 2024[1]: **-0.1%**	Q4 2023: -0.5%	↗
Consumer prices (y-o-y inflation (HICP))	Mar 2024: **3.1%**	Dec 2023: 1.0%	↗
Consumer confidence (Average balance)	Mar 2024: **-22**	Dec 2023: -29	↗
Unemployment (ILO unemployment rate)	Mar 2024: **3.7%**	Dec 2023: 3.3%	↗
Private consumption (y-o-y consumer spending)	Q1 2024[1]: **0.9%**	Q4 2023: -0.2%	↗
Producer confidence (Average balance)	Mar 2024: **-4.8**	Dec 2023: -5.7	↗

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

Economic growth expected to rebound from last year's contraction in 2024. The Dutch economy is expected to show minimal growth (0.1% quarter-on-quarter) in the first quarter of 2024. Economic growth is expected to be modest during the rest of the year, after a turbulent period in the first three quarters of 2023. The preceding two years of rapid economic growth led to overheated supply chains and historic tightness in the labour market, while the conflict in Ukraine resulted in an energy crisis and a sharp increase in food prices. The response to this from the central banks led to a modest slowing of the economy in 2023, but there was still year-on-year growth. In the meantime, the labour market also remained very tight. Economic growth in 2024 and 2025 is expected to be 1.1% and 1.6% respectively, with growth this year driven mainly by government spending, with higher increased spending in areas such as healthcare, defence, and infrastructure. Economic growth will continue to be moderate after 2024. Global trade and household spending is expected to remain limited in the coming years. The global economy is still hampered by geopolitical uncertainties that could impact global trade and energy markets again, albeit to a lesser extent than in 2022 and 2023. In addition, the new Dutch government that is still in formation and the policies it intends to pursue still constitute an uncertainty regarding the economic development of the Netherlands in the years ahead.

Household spending is rising on the back of the recovery in (real) incomes. Private consumption in the Netherlands contracted for the first three quarters of 2023, but rose 0.4% for the full year after a very positive fourth quarter (1.8% growth compared to the preceding quarter). The main reason for this was high inflation, which had a significant effect on real income. However, there was still slight growth in total real income of around 0.3%, due to social benefits and income from assets. While consumers spent more on services, such as insurance, restaurants and events, they remained selective with respect to food and beverages, as this sector contracted the most in 2023. On the other hand, there was also slight growth in spending on 'other goods', which includes energy. Private consumption is expected to recover significantly in 2024 and 2025 however. Wages are still in the process of catching up, fuelling the recovery of real incomes. Inflation is moreover forecast to decrease further in 2024.

1 Estimation based on full-year forecast

These developments, coupled with measures from the government to increase purchasing power, will result in households having more disposable income in 2024. Private consumption is thus expected to increase by 2.7% and 2.4% in 2024 and 2025 respectively.

The number of jobs is stable, but the unemployment rate is increasing slightly. The significant increase in wages in 2023 and 2024 is not only a result of the inflation peak in 2022, it is also related to the tightness in the 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 throughout 2023 (Statistics Netherlands, 2024). The average unemployment rate was 3.5% in the fourth quarter of 2023, but increased to 3.7% in March 2024. As in previous years, the unemployment rate in the Netherlands is well below the eurozone average of approximately 6.8%. With some delay, the cyclical downturn of the first three quarters of 2023 is reflected in the labour market in 2024, partly due to substantial wage increases. The number of bankruptcies and layoffs is expected to rise, although this is still at a historically low level. Any further increase in unemployment will however be limited, as there are still many vacancies in other sectors. In fact, the average unemployment rate is forecast to be 3.7% in 2024 and 3.9% in 2025.

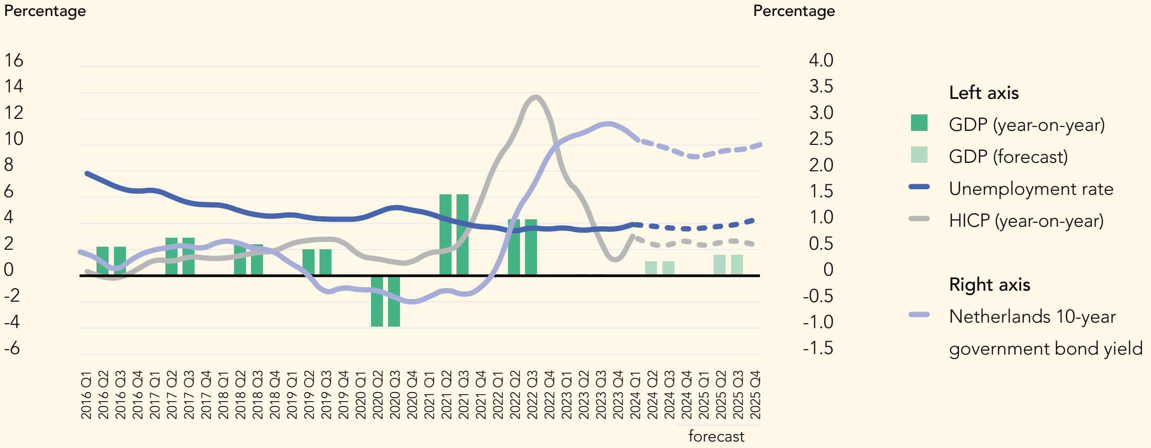
Consumer prices remain high in 2024, a gradual decrease towards 2% is expected beyond 2025. The initial inflation shock from rising energy and food prices has been steadily easing since its peak in September 2022. In the fourth quarter of 2023, consumer prices were actually lower than in the preceding year, declining 1.0% in October 2023. The main contributing factors to the decline in consumer price increases in 2023 were energy and fuel prices, and food prices. But consumer prices once again increased in the first quarter of 2024, rising 3.1% by the end of March, as an after-effect of the steep fall in inflation one year earlier. Inflation for the full year is expected to be lower than the 4.1% registered in 2023. Energy prices will stabilize, as will core inflation. Despite the removal of the energy price ceiling, consumers will pay less for their energy in 2024 than in 2023, as market prices have fallen to a level that is lower than the price ceiling. Core inflation is also declining as businesses have largely ceased passing on higher energy costs in the prices of their goods. However, there is still an upward effect from wages, particularly on price inflation in services. Consumer prices (HICP) are thus forecast to reach an average increase of 2.7% in 2024 and 2.5% in 2025.

Consumers confidence increases. Having reached a record low in the third quarter of 2022 (-59), consumer confidence rose gradually throughout 2023 and the first quarter of 2024, ending March at -22. Due to the economic and geopolitical uncertainties, consumers are not yet optimistic on the Dutch economy. However, consumers are on average expecting their financial situation and the overall economic situation to improve next year.

Bond yields declined as a result of positive financial market sentiment, but central banks remain cautious. Investors become more interested in the yields on long-term government bonds, especially compared with short-term rates, which in turn led to a decline in the yields on these bonds. This was due to a conviction in the financial markets that the central banks would cut their policy rates in the course of 2024 as it seemed that they were succeeding in slowing the rapid increase in consumer prices. However, in March the ECB emphasised that domestic and international price pressure was still high. The ECB is particularly monitoring the rapid growth in wages, as this still looks to be too high to allow a return to a 2% inflation rate in 2025. The expectation is still that the first cut in its policy rate could occur in 2024.

After increasing in the first two months of 2024, the 10-year Dutch government bond yield remained virtually unchanged in March, ending the quarter at 2.62%. This was due to the perception that along with the ECB, other central banks worldwide were more likely to cut rates in the second half of 2024 rather than the first half of the year. Especially now it looks as though June will be too soon for the US Federal Reserve Bank to cut its policy rate due to the continuing high level of US inflation. For the remainder of 2024, it is expected that the 10-year Dutch government bond yield remains around its current level (2.5-2.8%). In the second half of the year, assuming a rate cut from the ECB, bond yields are expected to decline as well to an average of 2.4% for 2024.

Figure 1 Dutch economic indicators



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

Retail

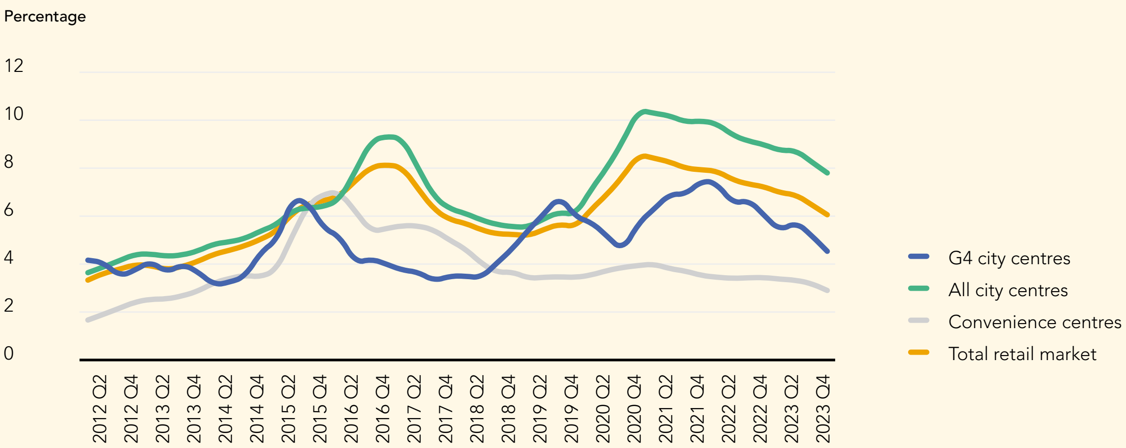
Retail turnover volumes turned positive for the first time since Q1 2022, driven by better consumer confidence and lower inflation. Moreover, market rental value growth held its positive momentum although mixed sector performance and rising bankruptcies reflect ongoing market challenges. Improving consumer purchasing power, struggling and winning retailers, sets up another polarisation phase on the Dutch retail market.

Consumer spending showed first signals of recovery. For the first time since Q1 2022, retail turnover volumes grew (+ 0.3%) in Q4 2023, primarily due to a gradual increase in consumer confidence. Although consumer confidence is still below its historical average (-/- 10), in March (-/- 22) it was substantially higher than in January (-/- 28). Furthermore, more employees were partly compensated for the rise in inflation in 2022 and 2023. This delayed compensation gave consumers confidence to increase spending in some sectors. Detailed analysis of sector volumes however reveals significant variations and continued frugality on the part of consumers. The largest positive contributions came from clothing and online shopping with volume growth of 3.3% and 5.1% respectively, while electronics (-/- 4.5%) and DIY (-/- 4.1%) continued to suppress volume growth.

Bankruptcies moved towards their historical average. Consumer selectiveness and higher costs pushed more retail formats into bankruptcy. Bankruptcies almost doubled y-o-y in Q4 2023, and were up 50% on Q3 2024. Yet, one could argue that the retail market is has now returned to normal territory, as bankruptcies in Q4 (98) were comparable to the Q4 2009-2023 average (91). Pressure on retail profits remained strong, although inflation is gradually normalising. Floor turnover growth needs to counterbalance the continuing rise in collectively negotiated wages. Innovation could help. Savvy retailers will use A.I. to cut labour costs, decrease dependency on highly sought-after retail staff and to enhance on- and offline consumer experience.

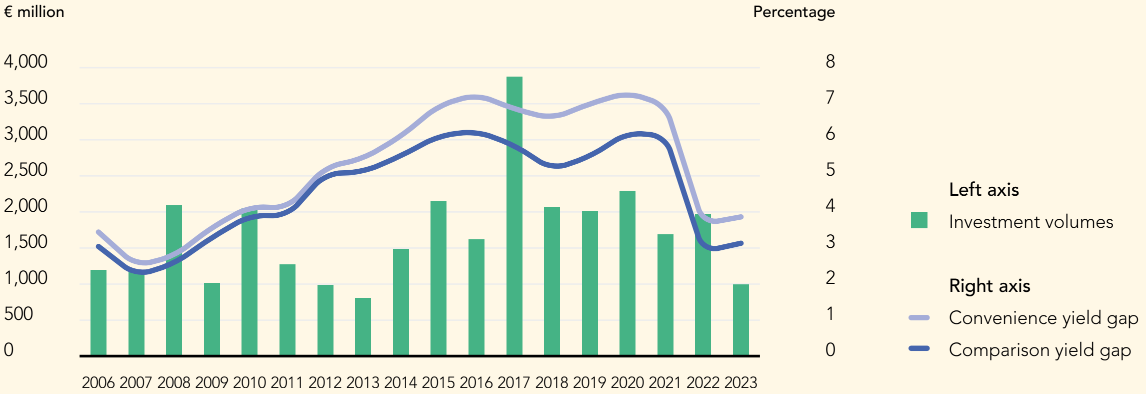
Positive occupier market momentum continues. Year-on-year market rental growth increased to (+1.2%) in Q4 2023. Convenience assets remained solid (+3.9%), whilst high street market rents were virtually stable (-/- 0.3%). The q-o-q figures confirm the positive market rent momentum for the total retail market (+0.5%), high street (+0.3%) and convenience retail (+0.8%). More retailers (such as Decathlon) are expanding as cost increases have eased and, in some cases, competitors have gone bankrupt (such as Perry Sport and Aktiesport) due to unclear positioning and failure to adapt to efficient omnichannel strategies. Financial vacancy rates (four-quarter moving average) continued to trend downwards. G-4 city centre vacancy rates approached their lowest level (4.5%) since Q3 2020.

Figure 2 Financial vacancy rates[1]



Source: MSCI, a.s.r. real estate, 2024

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



Source: MSCI, CBRE, ECB, 2024

Private investors took charge during low tide in the investment market. The investment landscape continued to be shaped by economic fluctuations and shifting market dynamics. Investment volumes dipped again in Q4, as yields continued to increase and investors took a cautious stance. Investment volume in 2023 was accordingly 50% lower than in 2022. The convenience and supermarket segments experienced more upward pressure on yields than high street assets, because some leveraged convenience investors ceased purchasing assets. Interestingly, the low investment dynamic created opportunities for private investors, as institutional investors were less active than usual and some were still reducing their retail exposure. Typically, these active private investors targeted small assets with potential to add value in Dutch city centres.

Outlook

Polarisation leads to division in high streets. Forecasts of improvement in consumer purchasing power and the prospect of a return to normal levels of inflation are giving retailers more breathing space in the medium term. In the meantime, collectively negotiated wages are still putting pressure on profitability, approaching 7% y-o-y growth in Q4 2023, while the recovery of consumer spending is still fragile and gradual. Outdated retail formats are still at risk of bankruptcy, which is likely to push up vacancy rates in secondary and tertiary high streets. Strong and up-to-date retail formats are able to capture market share from retail formats in decline and are increasingly (re)locating to primary high street locations. The dynamic between successful and failing retailers is leading to a new phase of polarisation in the Dutch high streets.

Interest rate backlash is slowing the recovery of investments. It looks likely that the ECB will cut its interest rate in the second half of 2024. European inflation is gradually easing and marginal European GDP growth would benefit from lower interest rates. Lower interest rates and positive market rental value growth will convince more (institutional) investors to acquire retail assets. Moreover, due to expensive refinancing and the need for capital to match redemption requests and/or capex needed for redevelopment or refurbishment to more sustainable assets, might result in slightly higher investment volumes in 2024.

1 Yield gap calculated on reversionary yields and 10-yrs Dutch government bond rate.

Residential

Owner occupier prices rose since mid-2023 due to tight labor market, income growth and stabilizing mortgage rates. Moreover, continued solid market rental growth and stabilizing yields indicate a new price balance of residential investments after a 15.8% decline since Q3 2022. Proposed rental regulation will have impact on residential returns, although strong fundamentals could counterbalance its effect.

Increasing prices on the owner-occupied market since mid 2023. House prices started to increase again in the second half of 2023, driven by tightness in the labour market and positive income growth resulting from considerable wage increases throughout 2023. Household disposable income was thus maintained during a period of high inflation, and many households still had the means to purchase a new home. In parallel, supply of homes-for-sale continued to decline due to caution among consumers in the housing market, due to the steep increase in mortgage rates at the beginning of 2023. Mortgage rates were again falling by the end of 2023, when the ECB signalled that it would implement policy rate cuts as soon as July 2024. House prices thus increased (quarter-on-quarter) by 1.7% in the fourth quarter of 2023, followed by 2.4% in the first quarter of 2024.

Fewer homes for sale, while the number of transactions increased. The first quarter of 2024 saw a decline in homes for sale of 7% compared with Q4 2023 and as much as 25% compared with a year earlier. Data from Statistics Netherlands for the first quarter of 2024 show a 12% decrease in owner-occupied residential transactions on a quarterly basis, with 44,400 transactions recorded, as shown in table 1 and figure 4. This is in line with the seasonal and annual development of transactions that normally peaks towards the end of a year. First quarter data from NVM show a decline in transactions of 18% compared with the previous quarter. Again, the first quarter is almost always a weaker quarter in terms of sales volume. Over the past five years, there has been a decline of more than 17% in home sales on average in the first quarter of the year compared with the fourth quarter of the preceding year. Over a thousand more homes were sold than in the first quarter of 2023, representing a modest increase of approximately 4%.

Devaluations in the residential investment market are stabilising. The latest available data from MSCI are for the fourth quarter of 2023. With an additional contraction of 0.6%, capital values of residential real estate have fallen 15.8% since the third quarter of 2022. There has not been such a decline in the capital value in the residential investment market since the inception of the quarterly benchmark in 2008. Nevertheless, the quarterly data are showing signs of stabilisation.

Increasing market rents and stabilizing yield shifts indicate a new price balance. Rising interest rates and subsequent increases in (risk-free) government bond yields since the start of 2022 have led to a tightening of spreads with net yields in the residential investment market. As a result, investors are becoming more reluctant to buy, thus widening the bid-ask spread and causing lower prices. Yields at market rent (reversionary yield) had increased by 8 basis points to 4.9% by the end of 2023, which is a smaller yield shift than during the four prior quarters. While a new spread between the risk-free and residential net yield has yet to be established, the upward movement in yields is expected to cool down and stabilize in the first half of 2024. In addition, strong market rental value growth indicates that future price developments are likely to be positive.

The decline in capital value since the third quarter of 2022 has led to an increase in income return. While income return hit an all-time low of 2.6% at the end of 2022, it increased to 3.1% at the end of Q4 2023, mostly driven by the decline in capital value.

Market rental value growth is accelerating due to persistent pressure on available supply of rental properties. Market rental value growth ended the fourth quarter at 5.9% year-on-year. With the significant slowing of inflation since the peak in 2022, both market rents and theoretical rents are again higher than inflation, as has been the case for almost eight consecutive years, as shown in figure 5.

Outlook

Price increases in the owner-occupied residential market set to continue. Better-than-expected wage growth, a slowdown in new home construction, lower mortgage rates and persistent pressure in the residential market are the basis for the more positive sentiment in 2024 compared to last year. While economic and geopolitical uncertainties remain, house prices are expected to grow by 6% in 2024 and an additional 4% in 2025.

Interest returns in the residential investment market. Investor interest in residential investments is returning, due to the persistent housing shortage and the stability of rental flows, especially in affordable rental segments. Interest will still be somewhat suppressed in the first half of this year however, due to the difference in price expectations between buyers and sellers. If interest rates and government bond yields continue to decline over the course of 2024, the gap between buyers and sellers will narrow, resulting in a new price balance. In addition, an increase in allocation to residential real estate by investors is expected.

Decline in capital values in 2023 still an obstacle to sales of new-build properties to investors. In combination with less available liquidity among non-core investors, the dynamics in the residential investment market will largely consist of the sale of existing complexes. In addition, the residential investment market is facing the impact of proposed government regulation on rent control and a cap on annual indexation. In the short term, this is dampening appetite for residential real estate among value-add, opportunistic and smaller 'buy-to-let' investors. That said, long-term core investors are expected to continue to be active, especially equity-only investors and those willing to invest in new-build homes to improve the technical quality of their portfolios whilst still aiming for affordable rents. At this point, only the Dutch States General have to approve the proposed government regulation, which could lead to implementation of the measures on 1 July 2024.

Fundamentally, the residential market remains strong. While demographic growth has accelerated in 2022 and 2023 and is likely to remain at a relatively high level, production of new-build homes is not yet picking up steam. In fact, with tightening environmental regulations, again due to the nitrogen emissions issue and the continuing increase in construction costs, many development projects are facing difficulties at various stages. Furthermore, development projects for the owner-occupier market are still suffering somewhat from a lack of interest from potential homebuyers, especially those in the higher price tiers. For the residential investment market, strong market fundamentals mean that the outlook for rental growth will remain positive, as the residential rental market is still attractive and demand from occupiers is high. Mid-priced rental properties in particular seldom experience any vacancies. As a result, (market) rental growth is likely to persist in the coming years, even with the proposed market regulation in the liberalised sector, ultimately justifying a positive capital growth forecast for this year.

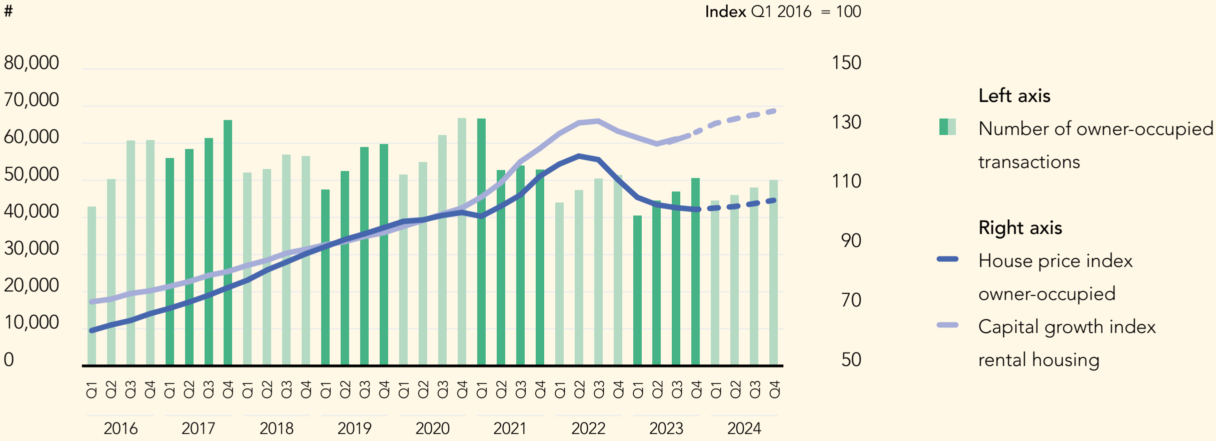
Table 1 Owner-occupied and residential investment market indicators

Owner-occupied	Q1 2024 q-o-q	Q1 2024 y-o-y
House price growth	2.4%	3.8%
Number of transactions	(12.0)%	9.9%

Rental	Q4 2023 q-o-q	Q4 2023 y-o-y		
	Total	Single-family homes	Apartments	Total
Total return	0.1%	(6.3%)	(6.0%)	(6.1%)
Capital growth	(0.6%)	(9.2%)	(8.8%)	(8.9%)
Income return	0.8%	3.2%	3.0%	3.1%
Market rental value growth	1.3%	6.4%	5.7%	5.9%

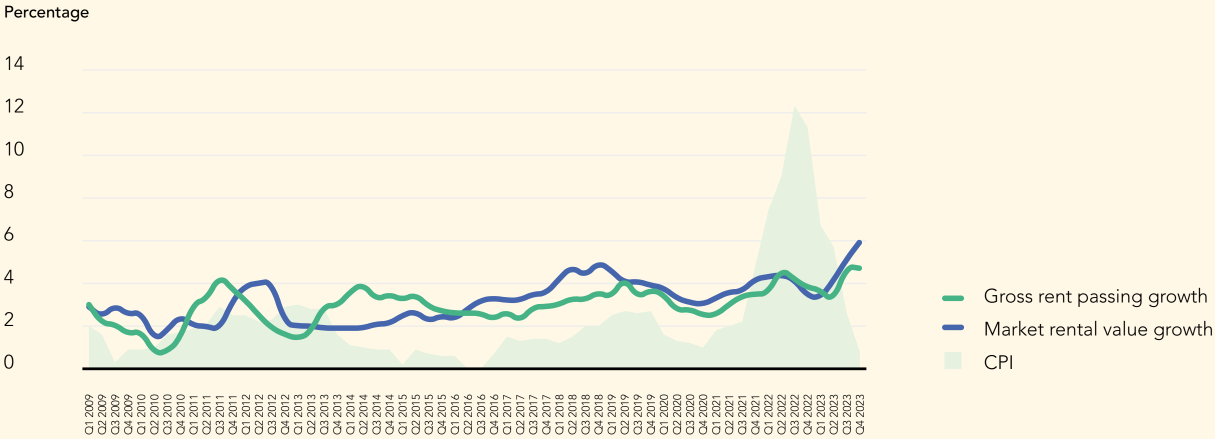
Source: Statistics Netherlands (CBS), MSCI, 2024

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



Source: MSCI, Statistics Netherlands (CBS), 2024

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



Source: MSCI, Statistics Netherlands (CBS), 2024

Offices

In 2023 annual office take-up reached its lowest point since 2012, while yields continued to face upward pressure. However, the vacancy rate remained relatively stable and demand for grade-A office space remained strong. More polarisation is expected on both the occupier and investment markets.

Historically low office take-up; pull towards Amsterdam and other G5 cities. Take-up in the fourth quarter of 2023 slowed down compared with the previous quarter and was in line with the first two quarters of 2023, resulting in the lowest recorded annual take-up since 2012, as shown in figure 6. At approximately 143,400 sq. m., take-up was 31% lower than the previous quarter and the fourth quarter of 2022. Office occupiers were more hesitant to rent more or alternative office space. Also, companies have been facing additional challenges since 2022, such as increased costs and rising interest rates that led to more cautiousness among office occupiers. Although the dynamic on the office market has slowed, it seems that the market is regaining momentum, at least in the G5. The largest share of take-up transactions is still in the Netherlands' five largest cities: 69.5% of the total take-up in the Netherlands.

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 relatively stable at 11.1% in the fourth quarter (Q3 2023: 10.9%). Conversely, the average vacancy rate of offices near IC railway stations in the G5 decreased, although only slightly. At the end of the fourth quarter, 5.1% of office space remained vacant, while this still was 5.2% at the end of the previous quarter. After three years of a gradual increase of this submarket's vacancy rate, it is showing a downward trend since the start of 2023. This is in line with the supply/demand gap that is being observed in the market, especially when it comes to A-grade office space. The five largest cities all show a considerable gap between the actual available properties and the demand for them. As shown in figure 7, 65% of the office demand in 2023 focused on A-grade offices. By the end of the fourth quarter however, only 44% of the available office stock matches this specific demand.

Average rent levels remained stable in the fourth quarter. With €150 per sq. m., the Dutch average office rent remained on the same level as the previous quarter. In fact, the average rent remained on the same level throughout 2023. Average office rents in the G5 cities also remained stable throughout 2023 but showed a small increase in the fourth quarter: €352 per sq. m. compared with €349 per sq. m. in the prior quarters. This is still a considerable outperformance of the Dutch average. Only in The Hague and Eindhoven were the average rents stable at €140 and €150 per sq. m., respectively. Amsterdam was again the outperformer in the fourth quarter, with an average rent of €280 per sq. m. (Q3 2023: €275).

The Dutch prime rent in the Zuidas Central Business District stood at €500 per sq. m. for the fifth quarter in a row. In the same quarter, the prime rents in Utrecht and Eindhoven increased by €15 and €5 to €315 and €255 per sq. m., respectively. The way CBRE determines prime rents is through prime transactions of at least 1.000 sq. m. in the center of a building. For higher floors and smaller surfaces, rents over €500 per sq. m have been achieved, such as in Amsterdam Tower Ten of the WTC building.

Office market yields once again increased, further contracting market values. In reaction to the ECB's rate increases throughout 2022 and the first half of 2023, prime market yields have been expanding seven quarters in a row, including the fourth quarter of 2023. Prime yields in the top central business districts (i.e. Amsterdam) and other CBDs in the G5 (i.e. Rotterdam) increased both by 30 basis points, while the yield in major provincial cities increased by 40 basis points, after a stable third quarter. At the end of 2022, the yield gap of prime office yields (Amsterdam Zuidas) had narrowed to 160 bps. However, it had increased to almost 225 basis points by the end of Q4 2023. While further yield increases and subsequent price corrections are not unlikely, the current yield gap and corresponding long-term risk premium is well on the way to a healthy level. It is therefore expected that the largest price corrections are now in the past.

Outlook

Capital value remains under pressure on the short-term, but market polarisation fuels different outcomes for different segments. Although inflation has not yet cooled down to the level the central banks had hoped for, the ECB announced that they are not likely to continue with policy rate increases and are even hinting at rate cuts in the course of 2024. 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 entire market is facing these headwinds, the yield development of the different segments of the market indicate that the polarisation is increasing further. 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 grow only 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 previous years, especially before 2019. However, a changing economy could cause new businesses and sectors to thrive, which might curtail the fall in demand for office space, especially in the most sought-after markets. In general, the focus point of demand will pivot more and more to sustainable, high-quality office space, as the importance of energy costs savings increases and general ESG obligations become more important. This has led to a narrowing of the definition of core real estate among investors. This is mainly due to the increasing vacancy risks for buildings that do not meet these conditions.

Office occupiers also contribute to more polarisation by demanding easily accessible offices, equipped with amenities and high sustainability requirements. While some companies choose quality to accommodate the young generations of office employees, there were also sustainable reporting obligations coming into force, for instance CSRD. Moreover, large companies (≥100 employees) have to report the carbon emissions of their workforce's commute and business travel as of 1 July 2024. The appeal of office locations close to railway stations is expected to increase, as travelling by train with Dutch Railways (NS) is carbon neutral.

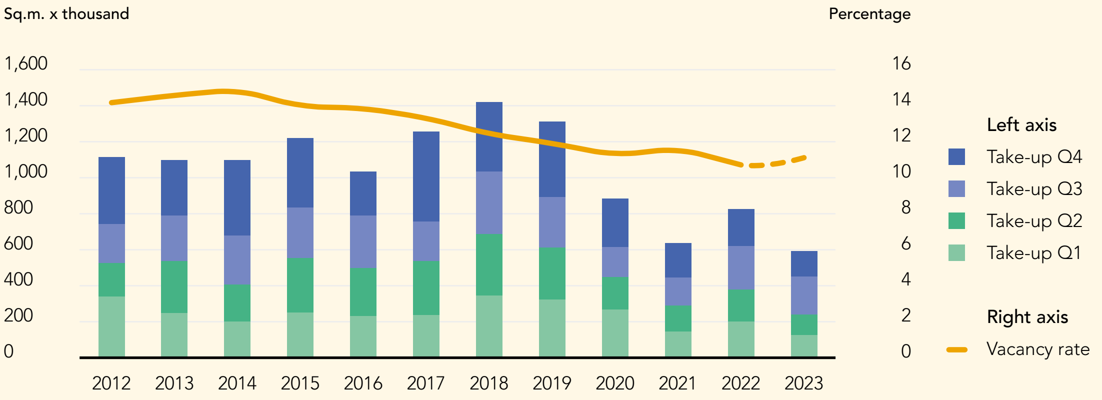
The scarcity of A-grade offices results in at least 20% higher rents compared with the stock without these features. At the same time, more than half of all office-occupiers are willing to pay a premium for A-grade office space.

Table 2 Market indicators

Market indicator			Q4 2023	q-o-q growth	1-year growth	3-years growth
Rent	Average rent / sq.m.	NL	€ 150	0.0%	3.4%	7.1%
	Average prime rent / sq.m.	G5 IC	€ 352	0.8%	1.6%	11.4%
	Prime rent / sq.m.	NL	€ 500	0.0%	0.0%	9.9%
Stock	Stock (sq.m.)	NL	52,354,352	0.2%	0.1%	0.7%
Take-up	Take-up (sq.m.)	NL	143,369	-31.4%	-30.6%	-46.5%
Vacancy	Vacancy (sq.m.)	NL	5,812,266	1.7%	8.6%	-0.3%
	Vacancy rate (%)	NL	11.1%	0.2%	0.9%	-0.1%
		G5 IC	5.1%	-0.1%	-0.3%	1.0%
Yield	Prime yield (%)	Prime CBD (Zuidas)	5.1%	0.30%	1.10%	2.10%
		Other CBDs (G5)	6.5%	0.30%	1.20%	2.30%
		Major provincial cities	7.7%	0.35%	1.10%	2.25%

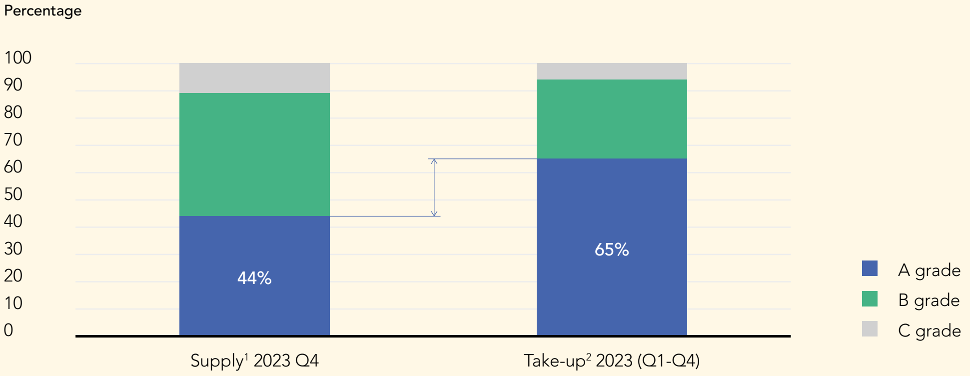
Source: CBRE, 2024

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



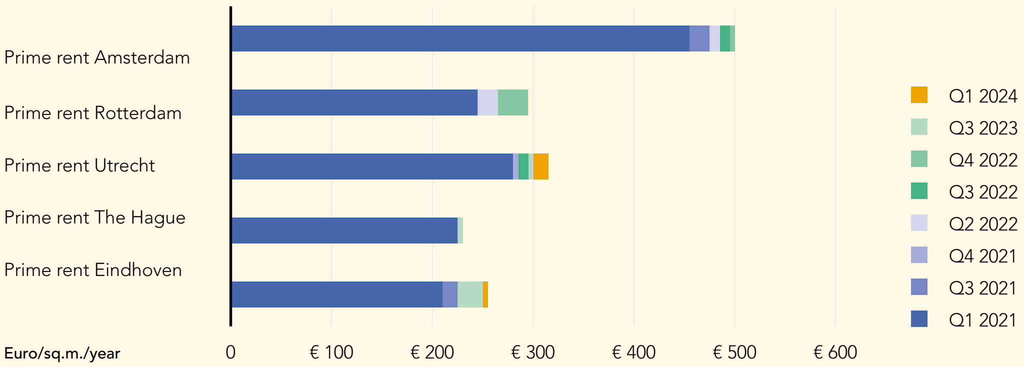
Source: CBRE, 2024

Figure 7 Supply/demand gap for A-grade office space in G5: Amsterdam, Rotterdam, Utrecht, Den Haag, Eindhoven



Source: JLL, 2024

Figure 8 Prime rent development (Q1 2021-Q1 2024)



Source: CBRE, 2024

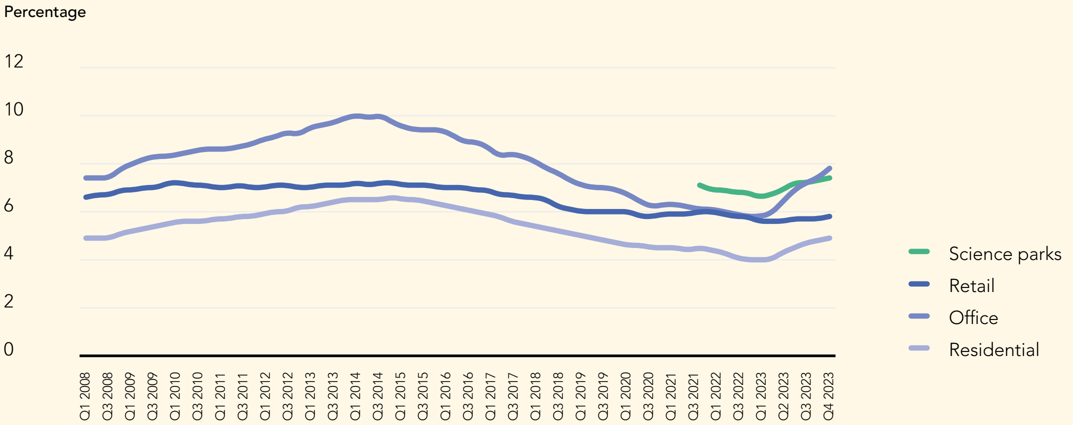
Science parks

Science Park valuations seem to have entered calmer waters with yields enduring relatively little upward pressure. Long-term and R&D-related fundamentals remain promising and investors are gaining familiarity with science parks. Despite fluctuations, venture capital funding showed positive momentum in Q4 2023, with VectorY Therapeutics securing €129m. Conversely, political shifts may pose challenges for the knowledge-based economy, potentially impacting talent acquisition and the business climate negatively.

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, continued to increase to 7.4% at the end of the fourth quarter. This corresponds to a 6 bps increase compared to the previous quarter, which is lower than the yield shift of 36 bps that the office market experienced in the fourth quarter (see Figure 9). The yield of traditional offices currently stands at 7.8%, 35 bps higher than the science park benchmark.

Based on the reversionary yield, science park is maturing as an asset class: investors are currently accepting a lower risk premium for science park real estate compared to traditional office assets. Despite little market evidence, the devaluations of traditional offices are caused by the deteriorated macro-economic environment. According to MSCI, more dynamic is expected on the office real estate market, but the bid-ask spread must narrow first. Rising interests rates have caused 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 9 Gross reversionary yields



Source: MSCI, a.s.r. real estate, 2024

Developments

Despite run-up in venture capital during the fourth quarter, funding deaccelerated in 2023. In Q4 2023, Dutch start-ups raised € 620m in venture capital, representing an increase of nearly 33% compared to the previous quarter. However, on an annual basis, this figure is 17% lower compared to 2022. The largest deal originates from a company founded in 2020 on the Amsterdam Science Park. VectorY Therapeutics, a biotech company, focuses on antibodies in order to develop treatment for neurodegenerative diseases, secured an amount of € 129m from one of Europe's largest healthcare investor EQT Life Sciences and Dutch-based venture capital firm Forbion.

Limited number of real estate transactions is also affecting the science park market. Throughout 2023, the volume of real estate transactions declined to a minimum. The environment of heightened interest rates has led to a standstill among both buyers and sellers in the science park market. Combined with rising costs, occupiers' uncertainty to expand their real estate footprint increased, especially for younger companies. However, a turn of tides is on the horizon, with a normalizing trend in both consumer price increases and interest rates. This could lead to more activity in the transaction market. Various new developments are ongoing or announced, such as Breakthrough Properties developing a new European head office for Neogene Therapeutics at the Amsterdam Medical Business Park. In addition, the European headquarters of the Taste, Texture & Health division is being constructed at the Biotech Campus Delft for dsm-firmenich.

Outlook

Fundamentals of the science park occupier market relatively more robust. The science park occupier market has shown to be relatively less impacted by the remote working trend than the traditional office sector. While the supply is often outdated, occupier fit is more relevant in the science park sector than the office sector. Some of the vacant, obsolete stock could be refurbished. The elevated costs related to ESG ambitions put pressure on outdated stock located on less attractive science parks. Investor familiarity with science park assets is gaining momentum, especially among investors that are focused on life science companies as a result of the pandemic and fundamentals tied to an aging demographic. Other key technological areas, such as photonics, AI and quantum could become more of interest as a result of refocused attention by the government.

Uncertain policy changes for the knowledge-based economy, but business climate gains political attention. The victory by the rightwing parties could lead to additional controls on the influx of immigrants. For the knowledge-based economy, restriction of expats does not bode well for companies in the search for talent. In addition, to secure access to higher education for Dutch students, more universities are planning to limit the number of international students. Companies like ASML, NXP and Boskalis have raised concerns, suggesting that the government should enhance the Dutch business climate to retain these multinationals in the Netherlands. Current developments indicate that the caretaker government is formulating a plan to inject an initial investment for infrastructure, tax exemptions, funding for educational institutions into the larger Eindhoven region. The next cabinet is tasked with further investments in the broader business climate in the Netherlands.

Farmland

The Agro Confidence Index declined due to lower milk prices and increased costs for dairy farmers. Sustainability issues in farming are as relevant as ever, with the Dutch government offering financial support and facilitating buyout schemes, although Europe is relaxing its regulations. Interestingly, farmland prices rose by 7.4% whilst transactions volumes dipped due to ongoing policy uncertainty.

Agro Confidence Index: prices and costs leads to more sombre mood under dairy farmers. Both a decline in the mood index and farmers' expectations about the medium term resulted in the Agro Confidence Index falling by 3 points in the fourth quarter of 2023. The index shifted from 6 points to 3 points and is therefore still below the long-term average, which stands at more than 11 points. Confidence in the dairy farming sector fell by 4 points on account of higher costs for the disposal of manure and decreased revenue due to lower milk prices. On the other hand, confidence in the arable farming sector rose with 6 points, mainly due to better future expectations, the result of Europe loosening its sustainability requirements in the short term. While the index is still in the green, the persistently low sentiment in the sector resulting from uncertainties surrounding major policy issues, such as nitrogen, derogation, agricultural agreement and water quality, remains.

Full results (in Dutch) are available here.

Dutch agricultural exports grows in 2023 due to price increases. The Netherlands exported agricultural goods worth € 123.8b in 2023, 1.6% more than 2022. This limited growth is the result of price increases, with the volume of exports decreasing in 2023. Imports of agricultural goods decreased by 3.3% (€ 83.9b in 2023). Of Dutch agricultural imports, 72.2% ultimately went abroad. Dairy and eggs (€ 12b), ornamental horticulture products (€ 11.5b), meat (€ 11.2b), potatoes and vegetables (€ 8.7b), and beverages (€ 8.1b) were the main export products. The majority of trade in agricultural goods occurred with EU countries. Approximately 71% of exports and 61% of imports were within the European Union (EU). Notably, in 2023, most agricultural exports went to neighbouring countries: Germany (24%), Belgium (12%), France (9%) and the United Kingdom (8%).

Dutch government to provide financial support of up to € 240m to young farmers and horticulturists starting or taking over businesses. The scheme is part of the Common Agricultural Policy (CAP) and is known as the "Establishment Support for Young Farmers". Young farmers and horticulturists often face a high financial burden in the initial period following a significant business purchase, making it challenging to invest in sustainability efforts. The amount will be disbursed through various subsidy programmes until 2027. The first round of applications will be open from 3 June to 2 August 2024, with a maximum grant of € 80,000 per applicant.

Buyout schemes for nitrogen reduction have reasonable interest. 1,343 agricultural farms have currently registered for the scheme. Most of the farmers signed up for the Lbv-plus scheme, which includes a compensation of 120 percent for the loss of production capacity. The distribution across the sectors:

Sector	# of signed farms
Pig farming	541
Poultry farming	203
Dairy farming	356
Veal calf farming	162
Multiple animal species	81

The Dutch government aims to allocate additional funds for the Lbv-plus. The objective is to provide subsidies to all entrepreneurs who wish to cease their operations, provided they meet the specified criteria. This additional arrangement is awaiting approval from the European Commission.

Prices of farmland continue to rise steadily; number of farmland transactions is still low. In the fourth quarter of 2023, the average price of farmland (12-month average) reached approximately € 78,800 per hectare. Compared to the average price of farmland in the same period a year ago, the price has increased by 7.4%. The average price for arable farmland has increased to € 90,900 per hectare (+7.6% yoy) and the land price for grassland has increased to € 69,400 per hectare (+4.8% yoy). While prices are increasing, the number of transactions declined by 11.1% to approximately 27,400 traded hectares on an annual basis. Uncertainties about policy and the economic outlook is causing reluctance on the farmland market.

Outlook

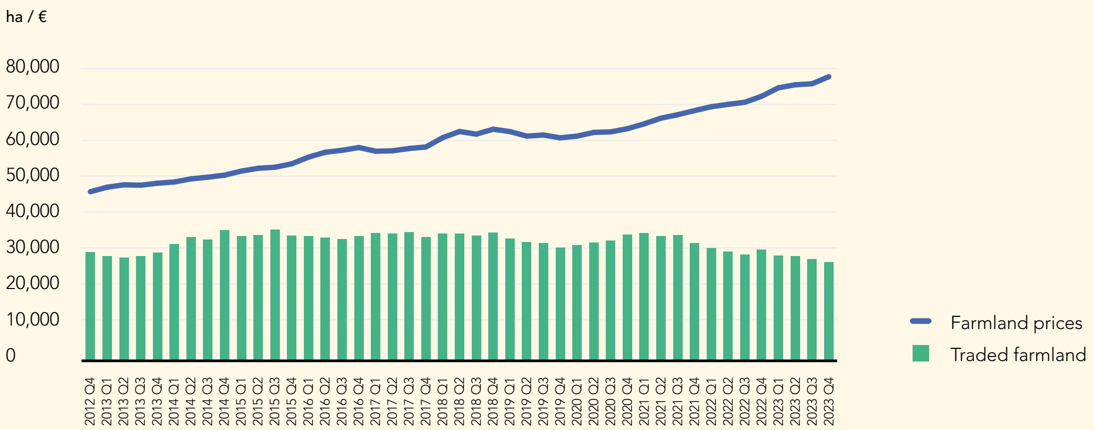
In the short term, uncertainty still prevails in the agricultural sector in the Netherlands and remains unchanged from the previous quarter. The formation of a new Dutch cabinet is ongoing, and what the consequences for the agricultural sector will be remains to be seen. European sustainability requirements were loosened under pressure from farmers, which mainly benefits arable farmers on the short term in terms of costs. On the other hand, the Netherlands still has to comply with rules regarding nitrogen and water quality. Various schemes are therefore available for solving issues in the short term, like nitrogen, but also stimulants to make the sector more sustainable. A growing economy will also see an increase in activities in the agriculture sector. With its international position, the demand for Dutch products and goods – and therefore farmland – is increasing. This leads to continuous upward pressure on farmland prices, but that is conditional on the earning capacity either remaining at the same level or improving.

Table 3 Farmland market indicators

Market indicator	Current	q-o-q growth	1-year growth	3-years growth
Export of agriculture goods (mln €)	€ 27,965	2.0%	(5.0%)	26.3%
Farmland (12m average)	€ 78,778	2.5%	7.4%	22.4%
Traded hectares (12m)	27,376	(3.0%)	(11.1%)	(22.0%)
Available farmland	1,803,000		(0.1%)	(0.6%)
Number of agri farms	50,360		(1.2%)	(4.4%)
Agro confidence indicator	2.8	(3.1)	(3.7)	(6.3)

Source: Statistics Netherlands (CBS), Kadaster, Wageningen Economic Research (WER), 2024

Figure 10 Farmland prices & traded farmland 2012-2023



Source: Kadaster, Wageningen Economic Research (WER), 2024

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