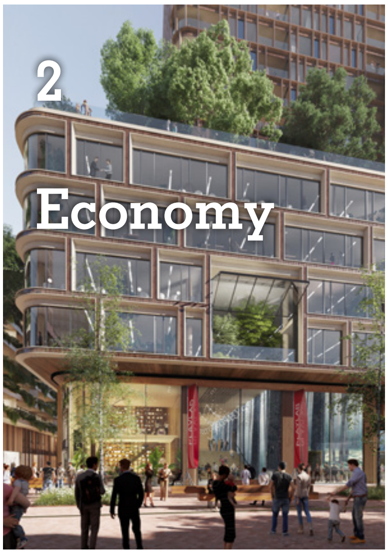
Real estate market update

Second quarter 2024

a.s.r. real estate

Contents

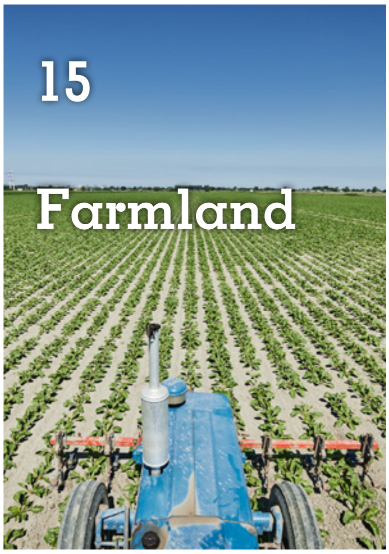

2
Economy


4
Retail
ZARA


6
Residential


9
Offices


12
Science parks


15
Farmland

Economy

Economic growth in the Netherlands is expected to rebound in 2024. Modest private consumption growth is driven by factors as, rising house prices, continuously low unemployment, increasing consumer confidence and real wage growth. Inflation is gradually slowing, which has led to a first rate cut since 2019, but risks remain due to (macro) uncertainties.

GDP growth	y-o-y real	**Q2 2024[1]**	**0.5%**	Q1 2024	-0.7%	↗
Consumer prices	y-o-y inflation (HICP)	**June 2024**	**3.4%**	Mar 2024	3.1%	↗
Consumer confidence	Average balance	**June 2024**	**-23**	Mar 2024	-22	↘
Unemployment	ILO unemployment rate	**June 2024**	**3.6%**	Mar 2024	3.7%	↘
Private consumption	y-o-y consumer spending	**Q2 2024[1]**	**2.2%**	Q1 2024	1.1%	↗
Producer confidence	Average balance	**June 2024**	**-2.4**	Mar 2024	-4.8	↗

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

The Dutch economy is expected to grow in the second quarter of 2024 for the first time after three consecutive quarters of negative growth. Economic growth in 2024 is expected to be 0.5%. This is positive again after the negative growth in 2023, but slightly below the 15-year average (1.2%). An economic growth of 1.3% is forecast for 2025.

Modest private consumption growth in 2024 is driven by factors such as rising house prices, low unemployment rates, increasing consumer confidence, and real wage growth. Unemployment has remained fairly stable for the last four quarters, and is forecast to stay at a relative low level of 4.0% by 2026. Contract wage growth at companies is projected to average 6.0% in 2024. This, combined with lower inflation and reduced income taxes, results in higher real wages for workers.

Despite a steady increase in consumer confidence in 2023 and the first quarter of 2024, consumer confidence declined slightly to -/- 23 in Q2 2024. Due to the economic and geopolitical uncertainties, consumers became slightly more negative about the economic situation in the Netherlands over the next 12 months during the second quarter of 2024, also affecting their willingness to make purchases, despite the increase in real incomes in 2024.

The economic impact of the coalition agreement is likely to be limited. Following a period of government formation, a coalition has been formed by four parties (PVV, VVD, NSC, and BBB). The coalition agreement affects various sectors in the Netherlands. While increased investment is planned for the healthcare and defence sectors, overall budget cuts are expected in the years to come.

As a result of the coalition agreement, GDP growth is expected to rise by 0.1% a year. Unemployment is projected to decline 0.3% by the end of 2028. The same applies to government debt, which will decline by 0.4%. It should also be noted that the economic impact of the coalition agreement may still change when it is implemented.

1 Estimation based on full-year forecast

Inflation is gradually and steadily declining. The inflation surge of 2021-2023 is gradually fading in the Netherlands, Europe, and the United States. However, the final steps toward the 2% inflation target set by the Federal Reserve (the Fed) and the European Central Bank (ECB) are proving to be the most challenging.

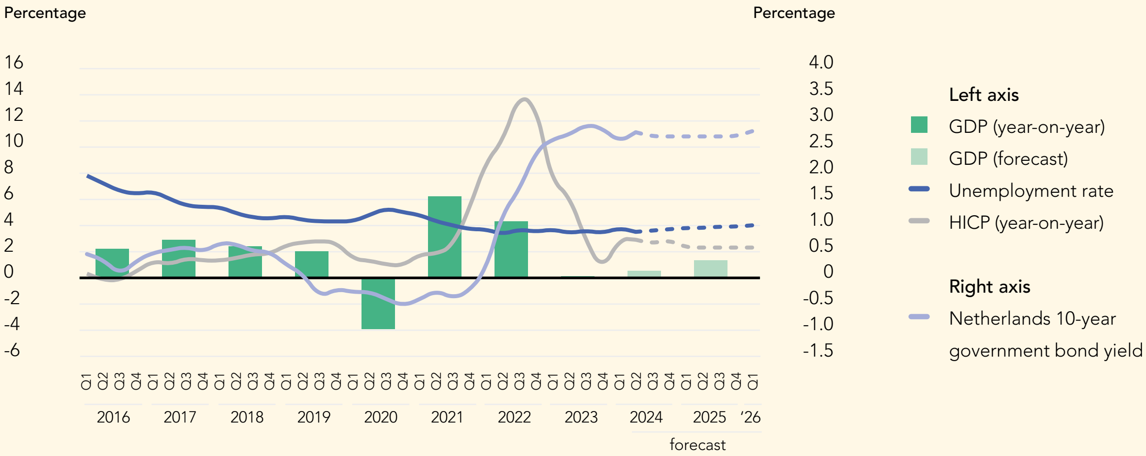
In the second quarter of 2024, inflation reached 3.4%. Inflation is expected to remain stable for the rest of the year and for 2025, before gradually declining to 1.8% in 2026. Additionally, core inflation (excluding energy and food) is projected to decline gradually from 2024 to 2026, reaching 2.0%. A similar trend is occurring in the eurozone, the situation in the Netherlands is not significantly deviating from the eurozone.

The Dutch economy is closely intertwined with the international economy, meaning it is exposed to disruption in value chains. Geopolitical turbulence in combination with rising real incomes, increased private consumption, and a less restrictive policy by the European Central Bank, could pose additional inflation risks. This could result in reduced consumer purchasing power, and in lower economic growth. Additionally, businesses may reduce investment.

The first interest rate cut has happened, but the 10-year government bond yield is rising. The ECB lowered its policy rate by 25 basis points to 4.25% in June 2024, it's the first rate cut since 2019. However, the Federal Reserve (Fed) has not yet seen room for a less restrictive policy. Despite inflation gradually moving toward the target, it is still higher than desired.

Despite the cut by the European central bank, the yield on the Dutch 10-year government bonds has increased by 20 basis points since March, standing at 2.82% at the end of Q2. The 10-year bond yield is thus well above its 15-year average of 1.3%. This indicates that the market remains cautious and aware of potential risks.

Figure 1 Dutch economic indicators



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

Retail

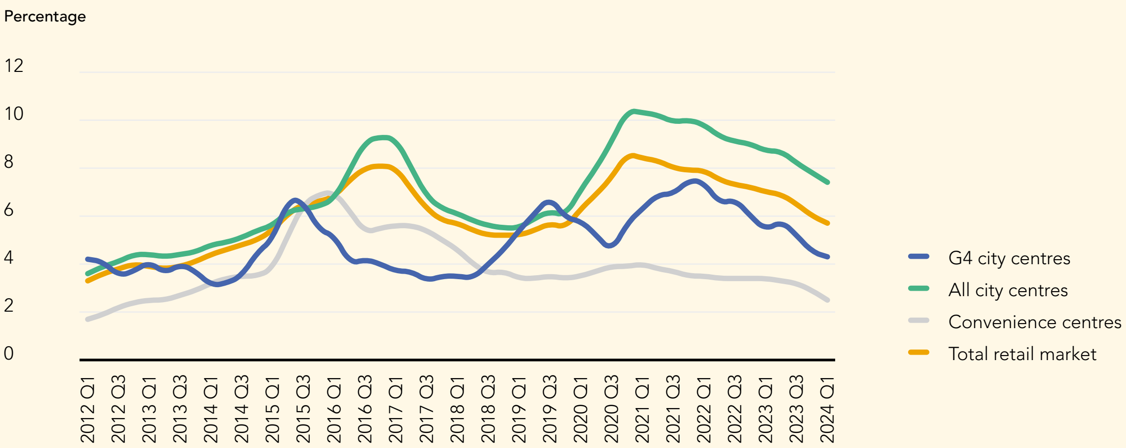
Consumer spending continued to recover in Q1 2024, with total retail turnover volume growing by 2.2%. On the other hand, retail bankruptcies increased annually, but decreased quarterly. Annual comparison market rental value growth turned positive for the first time in 11 years and vacancy rates kept declining. Moreover, investment market activity showed signs of recovery, driven by private investors.

Consumer spending recovery continues, but remains fragile. The positive trend in physical consumer spending continued in Q1 2024. Total retail turnover volumes grew by 2.2%, supported by strong volume growth of clothing (8.3%). More surprisingly, DIY-stores volumes turned positive again (+3.8%), boosted by the swift residential owner occupier price recovery. Contrarily, consumer electronics (-/- 5.2%) and supermarkets (-/- 1.7%) are still dealing with volume decline and consumer confidence seemed to stabilise at a relative low level (-/- 23 in June). This proves the consumer spending recovery is in process, but is also fragile. Most Dutch consumers are partly compensated by wage increases for the compounded inflation, which continues to trigger selective consumption.

Retail bankruptcies remain around historic average. Most retailers are showing more resilience than expected, although elevated costs, selective consumers and delayed COVID-19 payments still prove a big challenge. Retail bankruptcies in Q1 rose on an annual basis (+18%), but decreased (-/- 13%) on a quarterly basis. From a historic perspective (96), bankruptcies were at a normal level (86) in Q1 2024. Costs and consumer demand remain challenging, but the biggest challenge retailers are facing is finding sufficient and professional personnel. Especially smaller retailers have troubles finding and retaining staff, with some forced to limit opening hours.

Comparison rental growth turned positive for first time in 11 years. Both market rental value growth (MRVG) and vacancy rates kept their positive momentum. Though the G4 comparison MRVG turned positive multiple times (e.g. in 2015-2019), annual MRVG of comparison retail turned positive for the first time since Q1 2013 in Q1 (+0.6%), whilst convenience MRVG accelerated from 3.6% to 4.1% in Q3 2023. G4 comparison MRVG is slightly (+1.1%) above the comparison average, although dynamics differ from city to city. The Hague is outperforming with 4.5% annual MRVG. Likewise, expansionary retailers (e.g. UNIQLO, Wasbar and Mr. Marvis) and ongoing transformation pushed vacancy rates lower. The total retail market vacancy rate moved below the 6%-mark and both convenience and G4 comparison retail followed this trend. However, smaller city centres still suffer from higher vacancy rates as oversupply continues to threaten the occupier market dynamics.

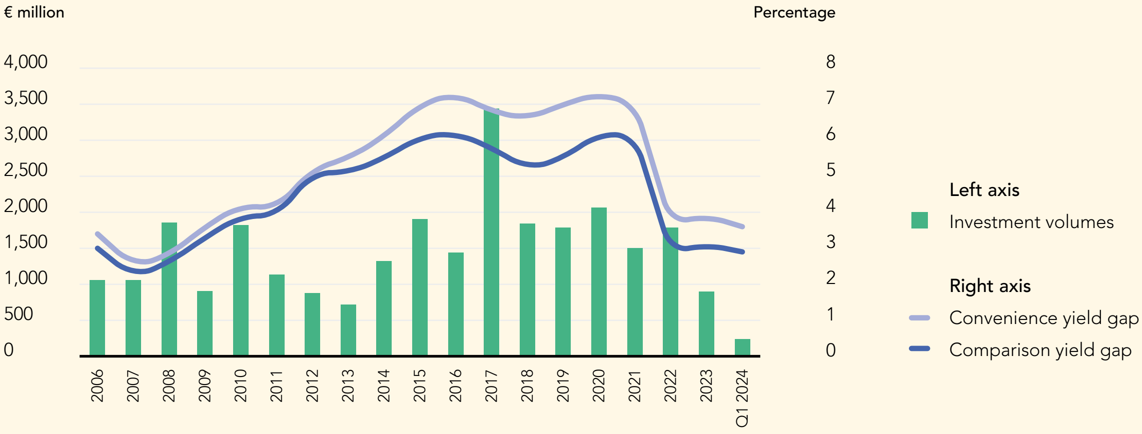
Figure 2 Financial vacancy rates[1]



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

1 Four-quarterly moving average.

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



Source: MSCI, CBRE, ECB, 2024

Investment market activity grows. A slight increase in the Dutch 10-year government bond yield pushed down the yield gap, as retail reversionary yields remained almost stable. Retail capital values are still absorbing the impact of yield expansion in Q1, although the yield impact in 2022 and 2023 was lower than the office and residential market. Although the latest Q1 figures still show subtle investment volumes, more recent market reports write about increasing investment dynamics. Increased footfall, market rental value growth, elevated consumer spending power and lower policy interest rates all play their part in the first signals of investment market recovery. Private investors are more active than institutional parties, though, and most asset deals are small as financing remains difficult. An exception is the Rokin Plaza deal, which is located at Kalverstraat 11-17 – Rokin 12-16 (UNIQLO and Pull & Bear) in Amsterdam, because of its asset and investment size. It is a good example of (wealthy) private investors taking position in the Dutch retail market.

Outlook

Fundamentals improve on occupier market. The outlook for the occupier market is improving. Expected economic normalisation will push up consumer purchasing power and will bring retailers relief from steep price increases. Moreover, the stable economic outlook will convince successful and financially solid retailers to (re)locate. This could lead to more MRVG, particularly on supply-bounded primary high streets in G4 city centres. Retail bankruptcies could still push up average vacancy rates. However, competitors might be increasingly eager to claim their positions on Dutch retail high streets now the economy is normalising and omnichannel retailers might effectively tap into growing consumer purchasing power.

Private investors remain key on investment market. June marked the first ECB interest rate cut since 2019 and more cuts are expected in 2024 if inflationary pressures remain low. This will accelerate the decreasing impact of interest rate hike on retail yields, which in turn helps to increase the attractiveness of retail investments. Still, retail spreads (versus 10-year Dutch bonds) are far below their historic average. This in turn will keep institutional investors vigilant in expanding retail exposure. Fund managers are staying cautious because of expensive refinancing, and possibly redemption requests. However, enhancing fundamentals could continue to trigger equity-driven (private) investors to buy smaller high street and convenience assets, pushing up liquidity and investment volumes.

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

Residential

Owner-occupier prices have recovered and are past the levels seen before the dip. Moreover, capital growth of rental properties is also showing signs of recovery with the yield shift cooling down and strong market rental value growth. On the other hand, the new rent regulation is in effect and could hold back some investors. However, long-term core investors are likely to remain active as market fundamentals remain strong.

Owner-occupied market

House prices have recovered and are rising. Prices for owner-occupied dwellings have passed the levels prior to the dip of 2022 and 2023. Rising house prices are partially due to the consistently low unemployment rate, wage growth and the increasing housing shortage. Moreover, the ECB cut interest rates in June 2024. Since December 2023 mortgage rates for new loans have been declining, further contributing to the rise in house prices of 2.4% (q-o-q) in the first quarter of 2024. Which resulted in an increase of 9.9% y-o-y in the number of transactions on the owner-occupied market in the first quarter. This was followed by a 19.2% increase in transaction volumes in the first two months of the second quarter of 2024 compared to the same period in 2023, confirming the recovery in the owner-occupied market.

Residential investment market

Devaluations seem to have bottomed out and show signs of recovery. The income return has increased slightly to 3.2% after the decline in capital value since the third quarter of 2022. Although year-on-year capital growth is still negative (-/- 3.6%), the latest available figures (Q1 2024) show that capital values have bottomed out and even increased slightly by 0.3% (q-o-q).

Market rent yields continue to increase. Market rent yields (reversionary yield) increased by 5 basis points to 4.96% in the first quarter of 2024. This is the second consecutive quartile with a decreasing yield shift (q-o-q), indicating a slowdown. With the interest rate cut, rising capital values and the stagnation of the yield shift it looks like a new equilibrium has been reached, although the implementation of new rent regulation and rent indexation lawsuits could provide some uncertainty for the residential outlook.

Market rental value still rising as supply of rental properties remains low. Market rental value growth increased to 6.7% year-on-year in the first quarter of 2024. Despite a new spike in inflation, rental growth is still outperforming inflation, as shown in figure 5. With construction trailing demand, strong market rental value growth will continue to support indirect returns.

Outlook

Owner-occupied housing prices will continue to rise. Strong fundamentals, the persistent housing shortage, and lower mortgage rates support continued growth in the owner-occupier market. House prices are expected to increase by 6% in 2024 and a further 4% in 2025.

Rent regulation in effect. The rent regulation has been adopted and is effective from 1 July 2024. How it will affect the supply of rental housing is still uncertain. However, the cap on annual indexation and a larger regulated segment (186 WWS points) could have the opposite effect to that intended as declining investor interest and increasing individual sales could increase the shortage of available rental dwellings. On the other hand, long-term core investors aiming for affordable rents are likely to remain active, as capital values are stabilising and market rental value growth continues to grow.

Coalition agreement to have a limited impact on the residential market. Annual GDP and purchasing power are set to increase above the baseline by 0.1% and 0.2% respectively, unemployment will be below the baseline by 0.3%. This is expected to have limited impact on the residential market, as the effects will be outweighed by more fundamental developments such as the housing shortage, collectively negotiated wage development and mortgage rate fluctuations. The measures aimed at increasing income and purchasing power of lower to middle income households could enhance the demand for lower and mid segment housing. Although rising prices could still decrease affordability.

Fundamentals remain strong. Demographic growth is expected to remain at a high level and new-build production is expected to continue to lag demand. With the lowering of interest rates, the investment market is expected to pick up again, but the effect of this could be offset by the rent regulation. Consequently, the shortage in the rental market is expected to persist, as will low vacancy rates. Increasing owner occupier values will enhance capital growth, in turn making owner-occupier properties less affordable, which will support rental growth. This is expected to lead to positive and consistent rental growth and positive capital growth, albeit limited by regulation.

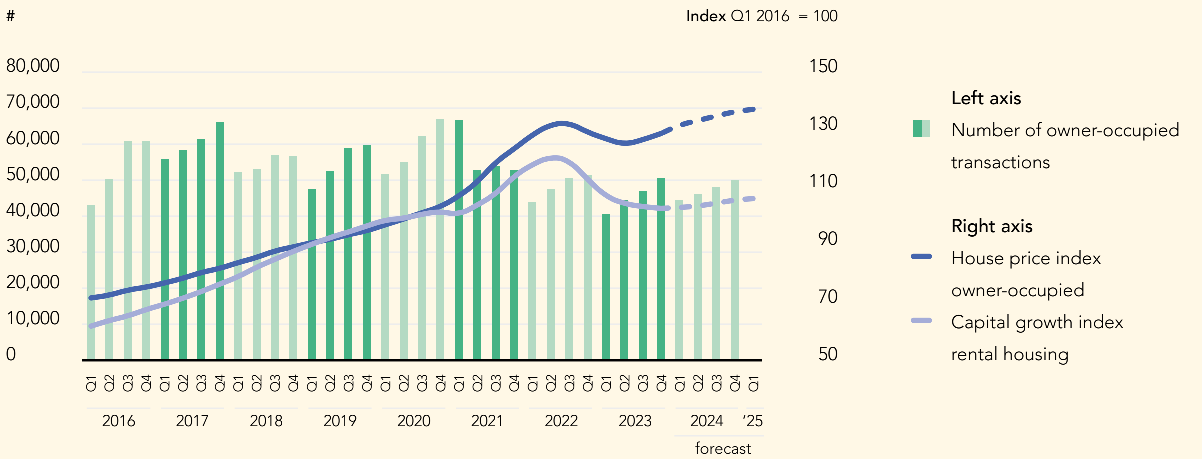
Table 1 Owner-occupied and residential investment market indicators

Owner-occupied	Q2 2024 q-o-q	Q2 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	1.1%	(0.1%)	(0.6%)	(0.5%)
Capital growth	0.3%	(3.4%)	(3.6%)	(3.6%)
Income return	0.8%	3.4%	3.1%	3.2%
Market rental value growth	1.6%	7.3%	6.5%	6.7%

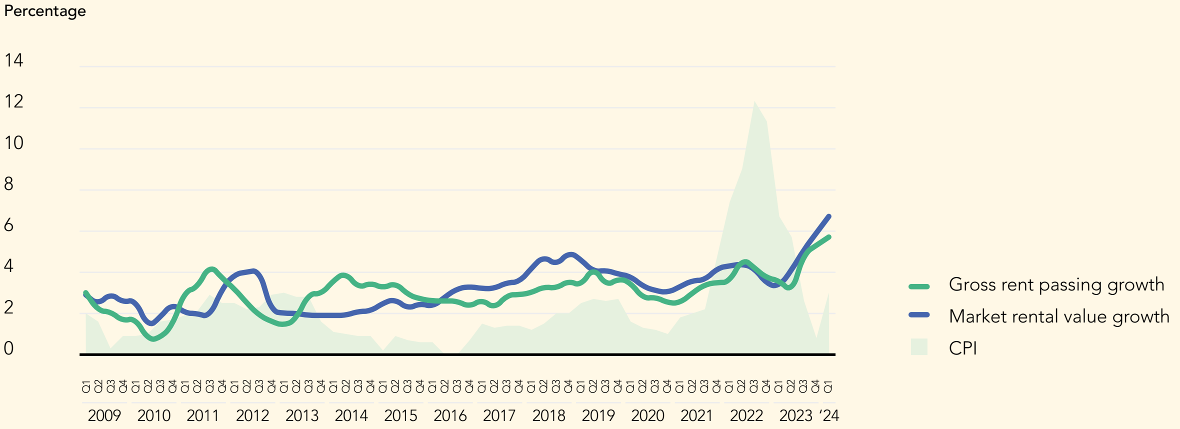
Source: Statistics Netherlands, MSCI, 2024

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



Source: MSCI, Statistics Netherlands, 2024

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



Source: MSCI, Statistics Netherlands, 2024

Offices

Office take-up pulls towards the G5, which show stable low vacancy, versus an increasing national vacancy. Limited high-quality and sustainable supply drive further polarization on the Dutch office market.

Office take-up remains low; there is an increasing movement towards Amsterdam and other G5 cities, which now account for 76% of national take-up. Take-up in the first quarter of 2024 stayed low, with a slight increase compared to take-up in Q4 2023, as shown in figure 2. Comparing Q1 2024 with Q1 2023, we see a year-on-year increase in rental activity of +15.3%. This indicates that office occupiers are more confident regarding a recovery in the economy and more occupiers have better ideas on how to use office space in the hybrid workplace. The largest share of take-up transactions in the Netherlands is increasingly in the country's five largest cities, namely 76.2%. This increasing share (Q4 2023 = 62%) exemplifies the polarisation of office locations. Frontrunner Amsterdam has been overtaken by The Hague this quarter: In Q1 2024 take-up in Amsterdam was roughly 38,500 m^2; take-up in The Hague was around 60,000 m^2.

Office occupiers are actively starting to use office space equipped for remote and hybrid working. The national and G5 vacancy rate has increased. The vacancy rate in the Dutch office market rose to 12.0% in the first quarter (Q4 2023: 11.1%). By comparison, the average vacancy rate of offices in Amsterdam, Eindhoven and Utrecht increased. At the end of the first quarter, 8.65% of office space remained vacant in Amsterdam, whilst in Q4 2023 the average vacancy rate was 7.95%. Eindhoven has an increased vacancy rate of 4.91% (Q4 2023: 4.19%) and vacancy in Utrecht increased from 5.89% to 6.36%. Vacancy in The Hague declined slightly by 0.48%, and Rotterdam stabilised at 5.71%. The G5 mobility hubs (IC locations) show a stable vacancy rate, at 5.8% less than half of the national average, see figure 4.

Average rent levels remained stable at national level in the first quarter, with 3 of the 5 largest cities showing prime rent increases. At €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 in the past quarter, however prime rents in Eindhoven, The Hague and Utrecht showed year-on-year increases, notably in Eindhoven, where prime rents jumped from € 225 per sq. m. in the first quarter of 2023, to € 255 per sq. m. in the first quarter of 2024. Prime rents in the Hague increased from €225 to €230 and prime rents in Utrecht increased from €305 to €315 per sq. m. Amsterdam prime rents (in the Zuidas Central Business District) were stable for the 6th consecutive quarter, but are still the highest at €500 per sq. m.

A deep dive into market rental value growth (MRVG) shows remarkable differences between office quartiles. The difference between the benchmark and the best performing quartile has been growing since 2020 (see figure 3). In 2023, the benchmark recorded 2.5% MRVG, whereas MRVG in the best quartile was 4.9%, driven by both variances in office location and asset-specific features. Occupiers are increasingly focusing on a few office locations with excellent connectivity, located in a multifunctional area and preferably close to talented professionals.

On 1 July, the obligation for CO2 registration of employee mobility for companies with 100+ employees will take effect in the Netherlands. This will only increase the degree of polarisation in the office market.. Also, the younger generations are seeking more and more social interaction and an ideal working environment. This, together with the ESG obligations, has led to a narrower definition of core real estate among investors, mainly due to the increasing vacancy risk for buildings that do not meet these conditions.

Two factors underlying the development of yields. Firstly, prime office yields in the G5 were stable in Q1. Secondly, the benchmark is still reporting the impact of yield shift. Consequently, average office values are still under pressure, although the yield impact is gradually declining. As in the occupier market, this exemplifies the increase in polarisation on the investment market, regarding both office location and sustainability demands at asset level. In the meanwhile, Q1 investment volumes (€235 mln) are still below the 2006-2023 average (€654 mln). Nonetheless, y-o-y investment volume growth was positive (37%), which could be a sign that liquidity is starting to recover. This in turn will give highly anticipated market pricing information.

Outlook

Slowly increasing activity in the investor market; market polarisation is leading to divergent different outcomes for segments. Inflation is slowing and the first ECB interest rate cut materialised at the beginning of June. Forecasts indicate that inflation could return to the desired 2% level by 2025.
As a result, activity in the office investor market could pick up. However, we still expect low transaction volumes from a historical point of view, as the market still needs to find a new price balance between buyers and sellers. In the meanwhile, we expect increasing polarisation on the investment market as vacancy rates and MRVG continue to diverge.
In the short term, capital is mostly from Dutch origin, however we think that foreign investors with diverse investment strategies could show increased interest once average yields have stabilised.

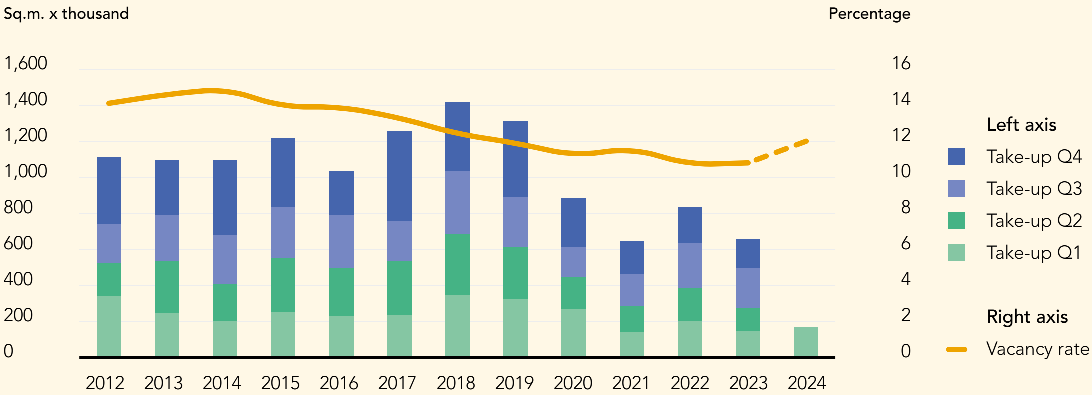
Office occupiers are contributing to greater polarisation by demanding easily accessible offices equipped with amenities and strong sustainability credentials. Economic growth is expected to remain low in 2025, and relatively high interest rates will keep demand subdued. In addition, hybrid and remote working is reducing overall demand for offices compared to previous years, especially before 2019. The focus point of demand will increasingly pivot to highly accessible, sustainable, high-quality office space with better floor plans designed for hybrid working, excellent office technology and more amenities. These modern sustainable office assets at the right locations could tap into more MRVG, as office development remains relatively low.

Table 2 Market indicators

Market indicator			Q4 2023	q-o-q growth	1-year growth	3-year growth
Rent	Average rent / sq.m.	NL	€ 150	0.0%	0.0%	7.1%
	Average prime rent / sq.m.	G5 IC	€ 330	0.0%	2.0%	7.1%
	Prime rent / sq.m.	NL	€ 500	0.0%	0.0%	9.9%
Stock	Stock (sq.m.)	NL	52,580,107	0.1%	0.0%	0.0%
Take-up	Take-up (sq.m.)	NL	171,057	6.5%	15.3%	21.7%
Vacancy	Vacancy (sq.m.)	NL	6,292,110	8.3%	18.9%	3.9%
	Vacancy rate (%)	NL	12.0%	0.9%	1.9%	0.5%
		G5 IC	5.8%	0.1%	0.2%	0.6%
Yield	Prime yield (%)	Prime CBD (Zuidas)	5.1%	0 bps	85 bps	210 bps
		Other CBDs (G5)	6.5%	0 bps	95 bps	240 bps
		Major provincial cities	7.7%	0 bps	80 bps	225 bps

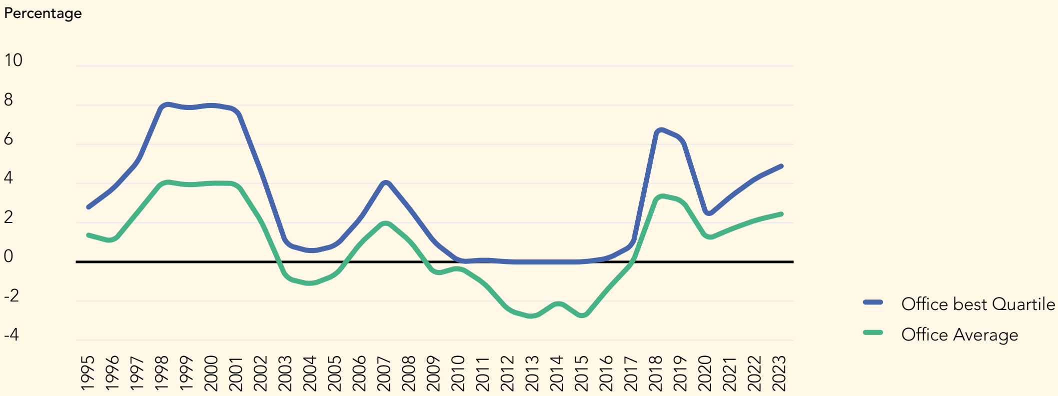
Source: CBRE, 2024

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



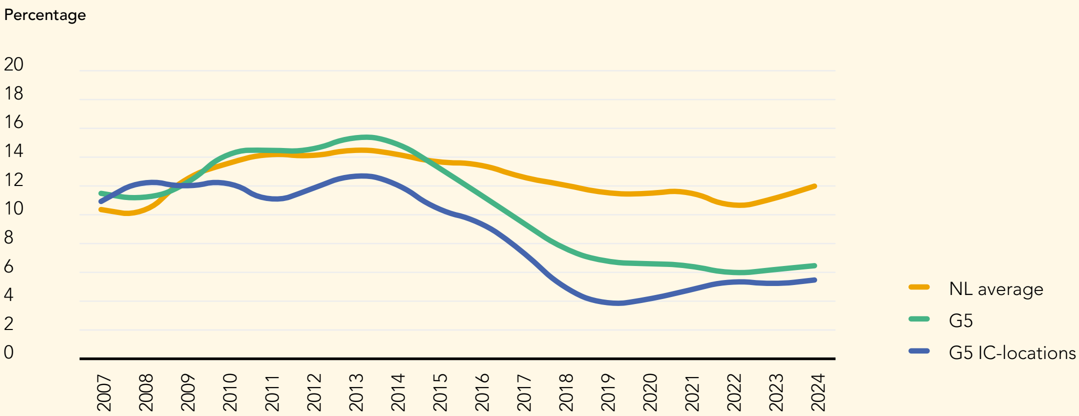
Source: CBRE, 2024

Figure 7 Market rental value growth benchmark and best quartile



Source: MSCI, 2024

Figure 8 Vacancy rates G5-IC locations decrease, while NL average vacancy increases



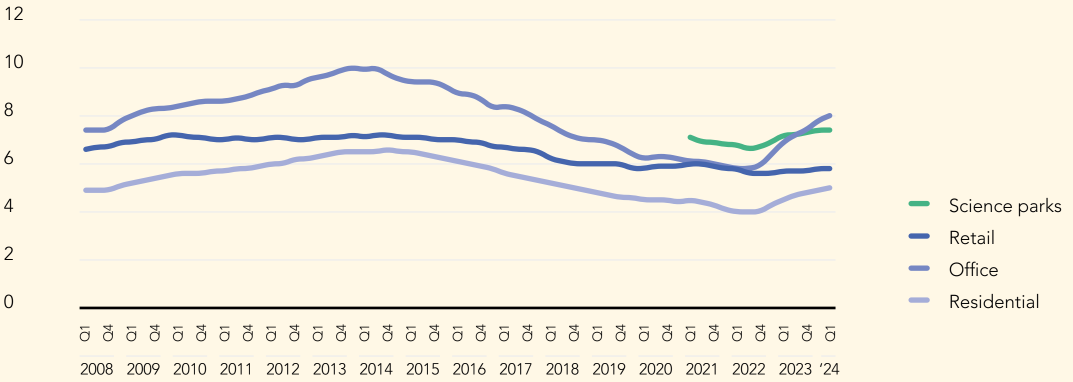
Source: CBRE, 2024

Science parks

The Dutch science park real estate market appears to have become a more mature and stable market. Recovering levels for start-up funding provide a positive outlook. Despite the established coalition agreement, the country's long-term competitiveness remains uncertain, as the new cabinet aims to restrain attracting foreign talent, but also pinpoints alleviating regulatory and administrative burdens for small to midsize businesses.

The Dutch science park real estate market appears to have become a more mature and stable market. Potential falling interest rates and recovering levels for start-up funding provide a positive outlook. Despite the established coalition agreement, the country's long-term competitiveness remains uncertain, as the new cabinet aims to restrain attracting foreign talent, but also pinpoints alleviating regulatory and administrative burdens for small to midsize businesses.

Figure 9 Gross reversionary yields



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

Developments

After a slowdown in 2022 and 2023, moving from Q1 to Q2 2024 the Dutch science park real estate market seems to be in calmer waters:
- Activity is slowly increasing again, however transaction volume 2024 Q1 stays low compared to 2022.
- Prime rents stabilised on the top 5 Dutch Science Parks[1].
- Take-up but also vacancy remains low, due to built-to-suit developments and tight supply of suitable lab and office space.

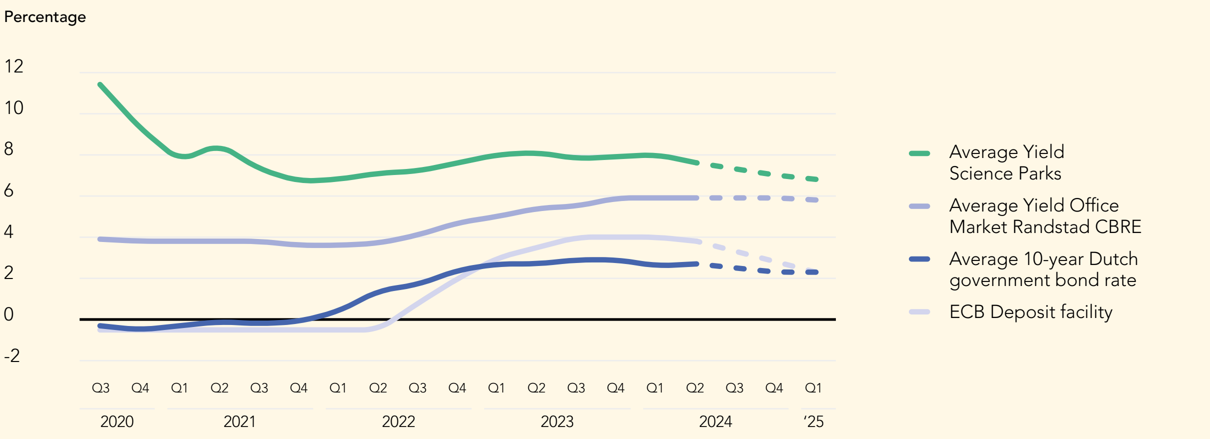
The stabilization of the science park market is following normalization of inflation and interest rates.
It is assumed that this downward trend in ECB rates will have a lagged downward effect on the office market and the science park yields, as based on the reversionary yield, both types of assets are more or less equally attractive to investors in terms of their risk-return profile (see figure 9). As shown in figure 10 the historical yield spread of the general office market has been around 400 BPS (Randstad yields vs ECB deposit facility). Currently this spread is around 200 BPS. In order for yields to drop, it is expected that market will first balance itself again to the historical spread.

That said, based on the trend in gross reversionary yields (see figure 9) the lag in effect on the science park market is expected to be larger as it has proven to be more robust than the office market past two years.

In the first quarter of 2024 Dutch start-ups raised a total of € 1.05 billion in venture capital, which is the largest quarterly sum in two years.
Interesting to note is that despite this record, the amount of investments decreased and therefore ticket sizes went up (Quarterly Startup Report; dealroom.co, Golden Egg Check, KPMG, ROM's, NVP, Techleap, InvestNL, dSa). One explanation for this trend can be found in the growing role of the Dutch Regional Development Agency's (ROM's) in the 'pre-seed' and 'seed' phases, in where they help start-ups to create a solid base. Involvement of venture capital funds moved towards a later phase, where there are proven positive results. In this phase venture capitalists are more critical, but once on board they go all in, so businesses grow with a more rapid pace and could move towards a more mature office.

However since vacancy remains low on the science park market, one could suggest supply matches demand well, meaning start-ups in the (pre-)seed phase find their space in value-add assets, whereas growing businesses can move towards built-to-suit core assets.

Figure 10 Yieldspread



Source: a.s.r. real estate, CBRE, ECB, 2024

1 Leiden, Utrecht, Amsterdam, Delft and Eindhoven

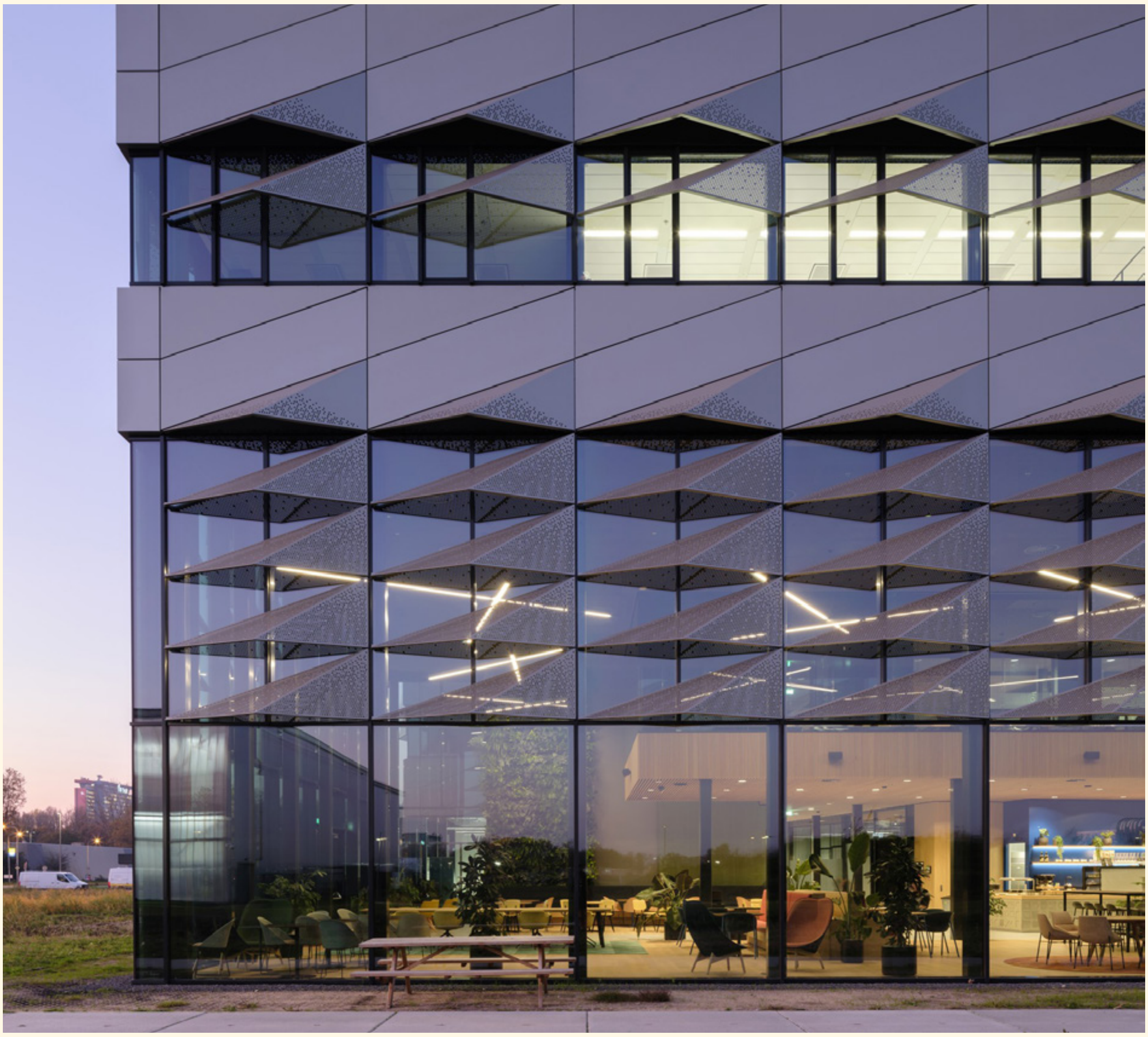
Outlook

The fundamentals of the science park occupier market remain notably robust. Unlike the traditional office sector, the science park occupier market has been less impacted by the shift towards remote working. Although much of the existing supply is outdated, the relevance of occupier fit is significantly higher in the science park sector compared to the office sector. There is potential for refurbishing some of the vacant, obsolete stock.

Elevated costs associated with Environmental, Social, and Governance (ESG) ambitions are exerting pressure on outdated stock in less desirable science parks. However, investor familiarity with science park assets is increasing, particularly among those focused on life science companies, driven by the pandemic and the aging demographic's underlying trends.

Moreover, other critical technological areas, such as photonics, artificial intelligence (AI), and quantum technology, are poised to attract heightened interest due to the government's renewed focus. Recent initiatives, including increased funding and supportive policies, aim to bolster innovation and development in these sectors. Additionally, the growing emphasis on sustainability and green technologies is likely to spur further investment in science parks, as they become hubs for cutting-edge research and development. This evolving landscape presents significant opportunities for investors and occupiers alike, solidifying the importance of science parks in the future economic and technological growth.

Besides venture capital investments, attracting talent is a key factor in a country's competitiveness and a good business climate. After a long period of political uncertainty due to the general elections, in May 2024 the cabinet formation led to a coalition agreement in broad outline. The formation should lead to a more clear political course, however due to some contradictory statements, such as the aim to limit immigration of all sorts – and in this context most important the limitation of labor, knowledge and study migration – and prioritising the availability of talent, the political effects on the competitiveness of the Netherlands remain unclear.



Farmland

The new cabinet must promptly address manure issues and clarify agricultural policies to provide long term stability. Despite short-term European policy relaxations, challenges persist with nitrogen and water quality regulations. Increasing demand for Dutch products continues to drive up farmland prices.

Agro Confidence Index: organic farmers are more confident. The total Agro Confidence Index fell by 2.5 points in the first quarter of 2024 to 0.4 points. The index is still slightly 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. Confidence among organic farmers has only been measured since this quarter. The index for organic farmers stands at 15.5 points, which reflects a higher confidence compared to conventional farmers. This is mainly driven by better expectations about the medium term. The total index reveals decreased confidence in dairy farming, arable farming, greenhouse horticulture, and poultry farming, while pig farming and organic farming see increased confidence. Field horticulture shows minimal change.

Arable farmers show improved sentiment due to reduced regulatory pressure, despite a challenging 2023 harvest and fluctuating prices. Decreased sustainability targets from Europe have relieved some pressure, particularly regarding crop protection. Dairy farmers face a confidence decline due to low milk prices and rising manure disposal costs.

a.s.r. and the Agro Confidence Index

In collaboration with Wageningen Economic Research, a.s.r. real estate introduced a new index this quarter that measures confidence among organic farmers. The new index aims to gain more insight into the similarities and differences between organic and non-organic farmers.
Full results (in Dutch) are available here

Addressing manure policy remain unclear. Dutch farmers are currently facing an acute manure crisis. For years, they were permitted to spread more manure on their land than what European regulations allow. The European Commission has declined to extend this derogation and is phasing it out, with the exception set to expire in 2026. As a result, farmers are now dealing with overcrowded manure storage facilities and high disposal costs. The acute manure crisis in the Netherlands threatens to worsen considerably in the next two years based on recent research by the Nederlands Centrum Mestverwaarding (NCM). Due to planned protection of water quality and intended expansion of nature, the manure surplus will more than double in 2030. The importance of solving the manure issues therefore features prominently on the pollical agenda. The new Minister of Agriculture, Wiersma, has inherited an action plan from her predecessor that includes measures that pose a challenge for the sector. These measures include skimming phosphate and animal rights during farm sales and implementing a cap of three cows per hectare of grassland by 2032. These initiatives aim to reduce livestock numbers and, consequently, manure production. As of now, the new cabinet's plans for addressing manure policy remain unclear, with the coalition parties openly disagreeing on the approach. This issue will thus take place of precedence on the on the pollical agenda this coming period, with many debates on the topic.

European act for regulation on nature restoration. The Council of the European Union formally adopted the regulation on nature restoration in June 2024. This law aims to put measures in place to restore at least 20% of the EU's land and sea areas by 2030, and all ecosystems in need of restoration by 2050. It sets specific, legally binding targets and obligations for nature restoration in each of the listed ecosystems: from terrestrial to marine, freshwater and urban ecosystems. The regulation aims to mitigate climate change and the effects of natural disasters. It will help the EU to fulfil its international environmental commitments, and to restore European nature. For the Dutch agriculture sector, this mainly concerns the use of agricultural land in the Netherlands and the consequences of this regulation for the earning capacity of Dutch farmers and horticulturists.

Prices of farmland continue to rise steadily; number of farmland transactions is still low. In the first quarter of 2024, the average price of farmland (12-month average) reached approximately € 78,100 per hectare

(Kadaster, 2024). Compared to the average price of farmland in the same period a year ago, the price has increased by 3.9%. Taken over a longer period, this means the price increase is slowing down. The average price for arable farmland has increased to € 89,900 per hectare (+3.0% y-o-y) and the land price for grassland has increased to € 70,600 per hectare (+5.1% y-o-y). While prices are increasing, the number of transactions declined by 2% to approximately 28,700 traded hectares on an annual basis. Uncertainties about policy and the economic outlook is causing reluctance on the farmland market.

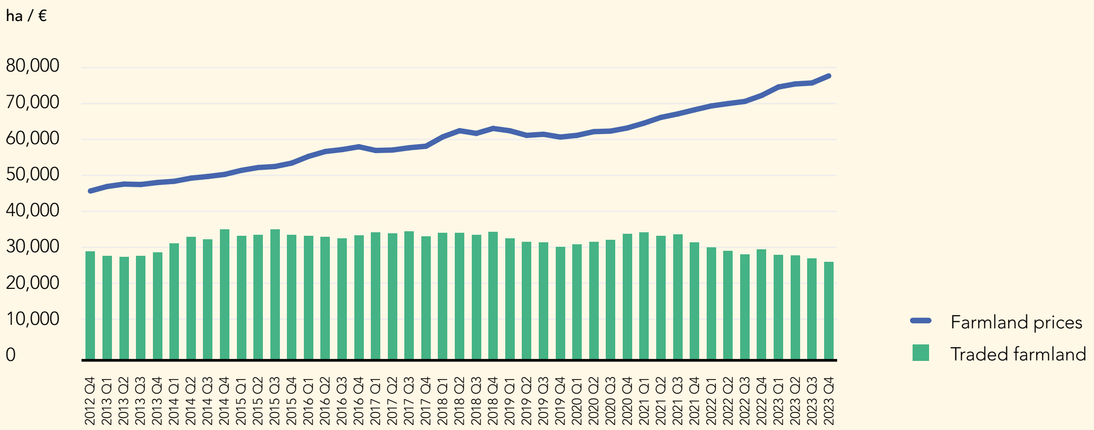
Major price adjustments in regular lease price revision. As every year, the Ministry of Agriculture, Fisheries, Food Security, and Nature (LVVN) sets the highest permissible fixed lease prices for regulated arable land and grassland, horticulture, agricultural buildings and agricultural homes. This is part of the regular lease price revision ("pachtnormen"), which comes into effect on 1 July each year. The regulated lease standards for farmland are determined annually on the basis of a five-year average of the yield of the land, the land reward, with a correction for the yield requirement of lessors. The 2024 lease standards for arable land and grassland are higher in all lease price regions than the 2023 lease standards. This varies from an increase of 16% up to 65% among regions. This major increase is partly due to the above-average revenues in 2022 and partly due to the above-average inflation of the past year.
The current lease system is under review due to the significant fluctuations in regulated annual lease prices across different regions, as illustrated in the table below. The new cabinet will continue to address this and look for a future-proof solution.

Table 3 Regulate lease price by farmland region

Farmland regions	2024 (€/ha)	2023 (€/ha)	Diff
Bouwhoek & Hogeland	956	790	21%
Veenkoloniën & Oldambt	547	420	30%
Noordelijk Weidegebied	723	621	16%
Oostelijk Veehouderijgebied	837	666	26%
Centraal Veehouderijgebied	889	649	37%
IJsselmeerpolders	1,836	1,398	31%
Westelijk Holland	729	518	41%
Waterland & Droogmakerijen	576	357	61%
Hollands/Utrechts Weidegebied	1,019	842	21%
Rivierengebied	959	791	21%
Zuidwestelijk Akkerbouwgebied	824	499	65%
Zuidwest-Brabant	1,216	949	28%
Zuidelijk Veehouderijgebied	1,031	750	37%
Zuid-Limburg	1,110	831	34%
Average NL	**861**	**669**	**29%**

Source: Ministry of LNV, Wageningen Economic Research (WER), 2024

Figure 11 Farmland prices & traded farmland 2012-2023



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

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