Real estate market update

Third quarter 2023

a.s.r. real estate

Contents

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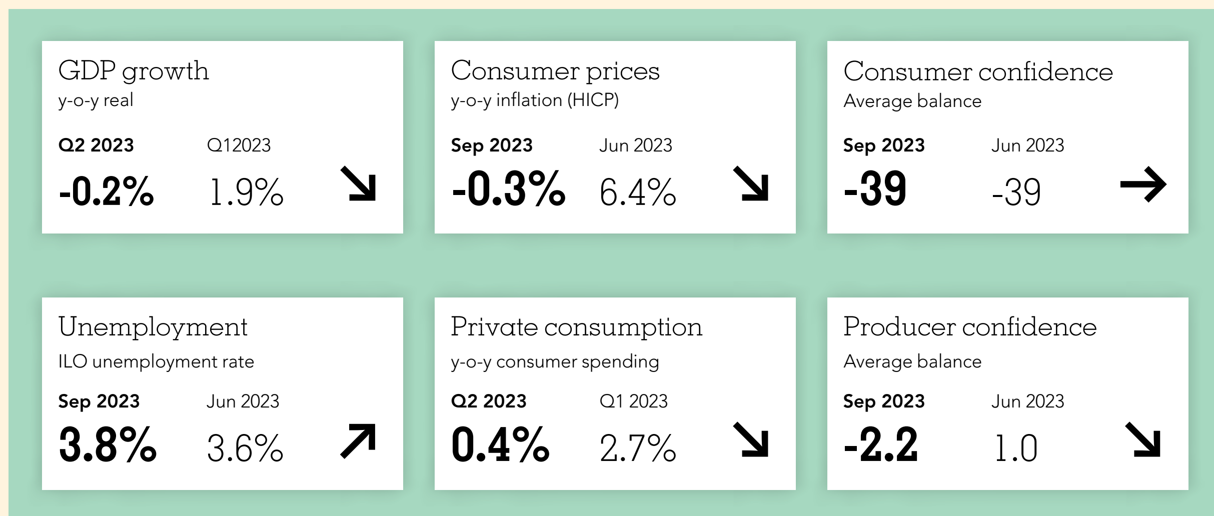
Economy

After two strong, resilient years, the Dutch economy is experiencing a cooling-off in 2023. Now that inflation stays persistent, purchasing power and company investments remain under pressure. In the meantime Central Banks are withholding further rate hikes as economic growth for 2024 will likely remain low.



Source: Statistics Netherlands (CBS), Eurostat, a.s.r. real estate, 2023 | The arrows refer to the experienced change over the comparison period.

After two strong, resilient years, the Dutch economy is experiencing a cooling-off in 2023. The first half of the year showed mild economic contraction, which was particularly prevalent in the industrial sector, where industrial production has declined since a peak was reached in April 2022. Now that inflation proves to be persistent, purchasing power remains under pressure, leading to household spending constraints. However, the tight labour market, increased wage growth, and government support serve to relieve some of these pressures. In addition, government spending provides an additional economic boost. As a result, the Dutch economy is projected to grow by 0.7% in 2023 and by 1.4% in 2024. This economic slowdown will result in a slight easing of the labour market tightness and will further cool down inflation.

Employment growth is slowing, but the tight labour market remains resilient. The number of bankruptcies is gradually increasing, and the employment rate in the private sector no longer experiences growth. Nevertheless, the unemployment rate in the Netherlands remains low and the availability of jobs continued to be high, allowing individuals to transition quickly to new employment opportunities. That said, the unemployment rate is expected to rise slightly to 4.0% in 2024, mainly because relocation and reschooling of employment takes time.

Inflation is trending downward but is expected to remain elevated. The initial inflation shock resulting from rising energy and food prices has steadily eased since its peak in September 2022. However, despite earlier expectations of a more rapid decline, relatively high inflation persists, which is noticeable in elevated core inflation figures. While general consumer price increases are expected to land at 3.9% (annual average) at year-end 2023, core inflation is expected to be 5.7% by the end of the year. Core inflation is not projected to decrease until in 2024, but even then it is still expected to remain at 3.5%. As a result, Dutch inflation is expected to be slightly higher than the eurozone average. The combination of a tight labour market and relatively high inflation leads to higher wage increases. Collective labour agreement (CLA) wages for the private sector will increase by 5.9% in 2023 and 5.4% in 2024. While wage growth supports purchasing power, it may also contribute to further price increases.

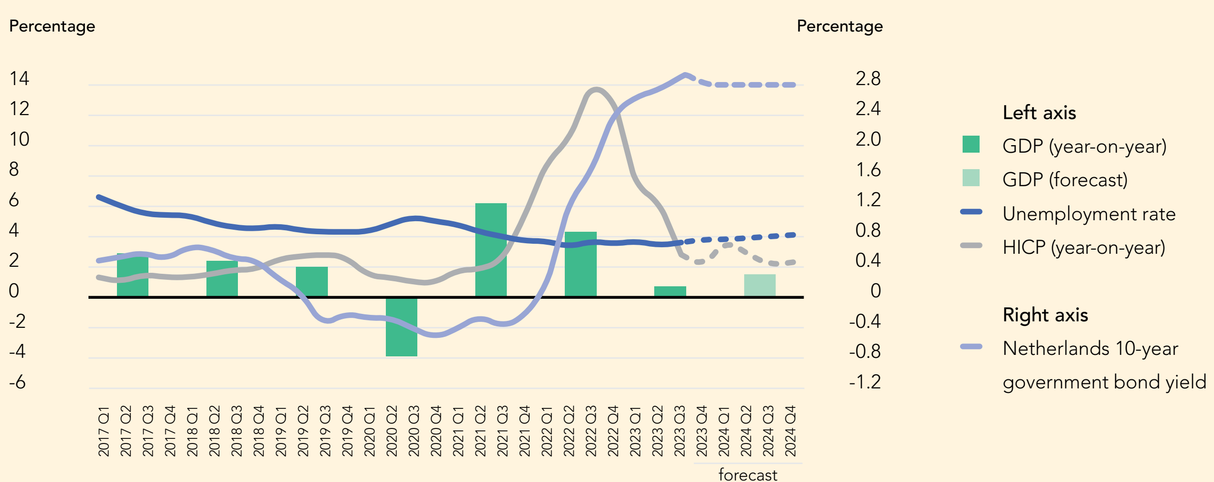
Consumer confidence has been stable since early 2023. After having reached a record low in September and October 2022 (-/- 59), consumer confidence has

so far remained relatively stable in 2023, ending the third quarter at -/- 39, which is still very low historically. Due to many economic and geopolitical uncertainties, and increased interest rates that affected the housing market, consumers remain relatively pessimistic about the Dutch economy. In addition, they are reluctant to make large purchases in the coming year. In fact, consumer spending decreased by 1.6% in the second quarter of 2023, compared to the previous quarter.

Increasing interest rates further contribute to the economic slowdown. Central banks are still in the middle of lowering inflation by increasing interest rates so that demand for goods and services will slow down. During the third quarter, the European Central Bank (ECB) introduced two additional rate hikes of 25 basis points each, increasing the policy rate to 4.0%. As a result, banks are now charging higher interest rates on loans to businesses. This, in turn, suppresses business investments, which are projected to grow by just 0.4% in 2024. Now that the ECB has raised the interest rate in four additional steps of 25 basis points each since March, it is expected that the interest rate peak is approaching. In general, analysts do not expect additional rate hikes. Again, persistent core inflation is still worrying the ECB, although recent inflation figures are favourable and economic activity is effectively decreasing. While there are many factors to account for, it could take about a year for the effects of interest rate hikes to manifest themselves in the economy.
As a result, the monetary tightening will still be felt by businesses and households in 2024.

Developments in government bond rate are slowing down, but still trending upwards. Capital markets seem to have priced in the rate hikes for some time now, as the interest rate of 10-year Dutch government bonds has fluctuated between 2.5% and 3% since the beginning of the year, but it is trending upwards. The eurozone average was slightly higher, i.e. approximately 30 basis points, at the end of September. Going forward, a less volatile risk-free rate could also be a sign of cautious optimism and stabilization on the financial markets, especially now that it seems that the ECB has reached the end of its rate hikes. Still, the Dutch Central Bank (DNB) has warned commercial Dutch banks that the increase in interest rates over a short period of time might increase credit risks in the next few years. Higher corporate debt poses a significant risk as it calls for short-term refinancing, presumably at a higher interest rate. DNB highlights the vulnerability of banks due to elevated costs and urges them to increase their buffers. Additionally, it advises the Dutch government to prepare for potential setbacks, considering the impact of higher interest rates on the national public debt and potential budget deficits.

Figure 1 Dutch economic indicators



Source: Statistics Netherlands, Eurostat, Dutch Central Bank (DNB), Consensus Forecast, ECB, a.s.r. real estate, 2023

Retail

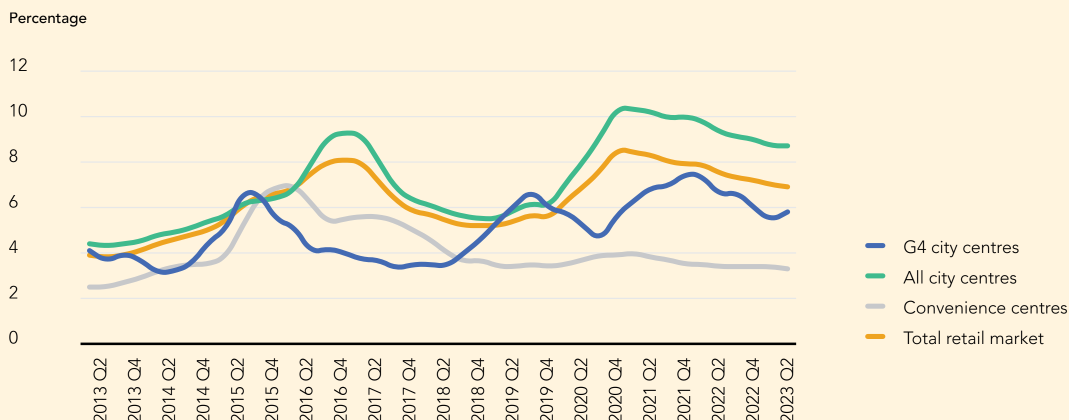
Consumer selectivity and high costs contributed to a rise in retail bankruptcies, while the city center redevelopment and investment market continued to face challenges due to rising interest rates and the repayment of COVID-19 support. Nonetheless, redevelopment potential and/or area development drove several retail transactions with risk-on equity investors on the buying end.

Retailers experienced increased revenue though declined sales volume. The Dutch retail sector saw a 6.1% increase in revenue compared to the previous year, but the sales volume decline was 3.9%. Consumers remained selective in their purchases in Q2 2023. Consumers were especially selective in the historically volatile clothing sector. The year-on-year (y-o-y) sales volume declined by 7.3%. Supermarkets (-/- 2.6%) performed relatively well, as consumers are re-evaluating their food expenditure, favouring more economical alternatives over costly specialty stores and catering venues. Consumer confidence and consumer purchase intent turned slightly more positive as consumers were more optimistic about their financial prospects in the medium term.

Selective consumer and high costs pushed up retail bankruptcies. The combination of high costs (rent, wages and purchases), COVID-19 repayment obligations and conservative consumer spending are pushing up retail bankruptcies. Despite this increase, the preliminary number of bankruptcies until August (172) was still far below the 2009-2022 average (263) . The government's COVID-19 support package delayed the problems of outdated and vaguely positioned retailers in a market with fierce (online) competition. The emergence of ecommerce companies such as Coolblue and bol weighed down the market share of traditional electronics retailers such as BCC in the past years. The latter filed for bankruptcy as did Big Bazar, whilst others are trying to prevent bankruptcy (i.e. Shoeby).

Mixed signals on the occupier market. The continued city centre vacancy rate decline stabilised in Q2 2023. In the G4 cities, the average city centre financial vacancy rates rebalanced at 5.8%, as retailers continued to decide to relocate to and consolidate at high or higher footfall locations. Moreover, the redevelopment of redundant retail locations has become more challenging since interest rates increased sharply. This resulted in continued negative y-o-y city centre market rental value growth of 2.4%. However, most recent transactions on prime G4 high streets are on market rent levels, but also the G4 city centre y-o-y growth is still negative (-/- 2.3%). That said, convenience retail occupiers still compete for retail locations. The y-o-y market rental value growth accelerated from 2.2% in Q1 to 3.2% in Q2 2023.

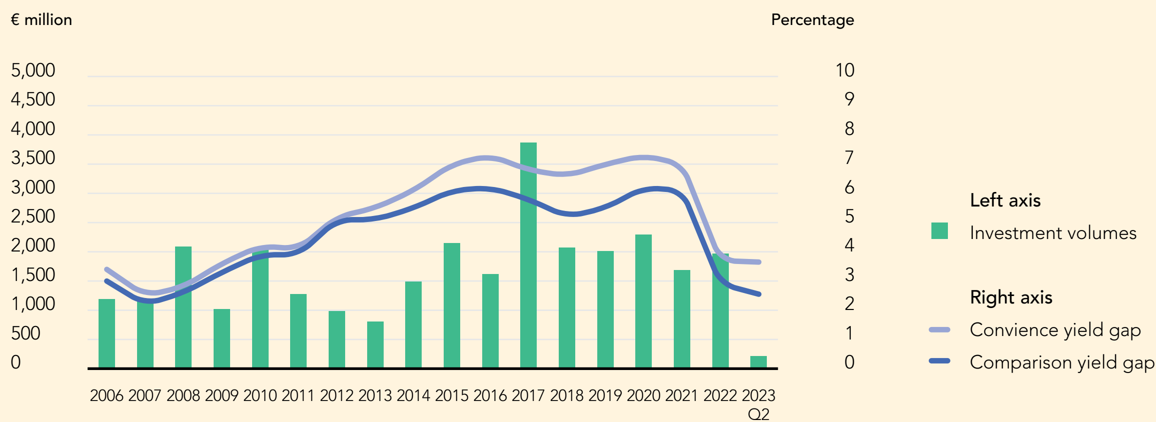
Figure 2 Financial vacancy rates[1]



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

Outlook

Repayments of COVID-19 government support challenge recovery of occupier market. Economic normalisation, with relatively stable interest rates and lower inflation, should give consumers more confidence to purchase durable goods in 2024. This normalisation also gives retailers perspective to control rising costs. However, many businesses are struggling with the repayment of COVID-19 government support, especially since consumers are expected to stay selective in retail purchases in the short term. We expect more vacancy in smaller Dutch city centres and secondary and tertiary high streets as cost pressures are forcing outdated retail concepts into store closure or to downsize and relocate to primary high streets.

Convenience market rents are expected to increase less, as both consumers and supermarket chains have become more price-aware about groceries and purchases.

Full equity buyers could re-energise investment market. The ECB elevated their base interest rate to a record high 4.0% in September. It is unsure at the point whether the ECB will now stop raising interest rates. However, the investment market has yet to absorb ECB's latest hikes. Both buyers and sellers need more time to adjust to these changing financial circumstances. Full equity investors might move first to buy modest-sized assets on primary high streets in the G8 or dominant convenience assets or retail assets with development potential. Market fundamentals are encouraging on G8 primary high streets and continue to be robust for convenience assets. This, in combination with attractive tenancy and relatively good pricing compared to other real estate sectors, might convince full equity investors to get to acquire retail real estate.

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

Residential

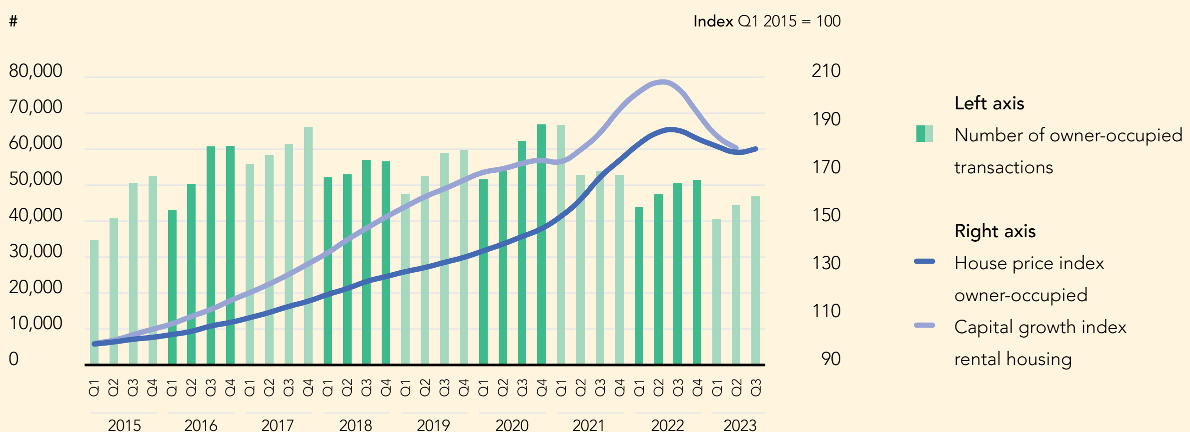
Four quarters in a row the residential investment market experienced the impact of higher interest rates, resulting in a slowdown in transactions and price corrections. While major yield increases seem past us, uncertainties remain due to political and economic developments. However, strong market fundamentals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

The impact of rising mortgage rates has made its mark on the residential real estate sector, but prices are increasing again. In the third quarter of 2023, transaction prices in the Netherlands experienced an increase after two quarters of price decreases. Prices increased by 1.2% compared to the second quarter of 2023. So far, mortgages rate increases have been more modest in 2023 than in the year before, in line with the risk-free rate development. By the end of the third quarter, mortgages rates had moved towards 5%[1]. In addition, more actual third-quarter market data from the Dutch Association of Real Estate Brokers (NVM) also shows that the average transaction price increased compared to the quarter before. This might indicate that the market is adapting to a new equilibrium, allowing households to adjust their pricing expectations to their updated borrowing capacity. It should be noted, however, that this increase can be attributed to the seasonal effect, as price increases are generally steeper during the summer months.

Fewer homes for sale, while the number of transactions increased. The third quarter showed a decrease in homes for sale (-/-8% compared to Q2 2023). This supports the most recent price increases as the market is tightening again and market dynamics are decreasing.

The third quarter of 2023 shows an increase in owner-occupied residential transactions on a quarterly basis, with 46,900 transactions recorded (Statistics Netherlands, 2023). Despite this uptick in market activity, it is likely that 2023 will see approximately 6% fewer transactions than the previous year. Third-quarter data from NVM, which is more 'at market', shows a slight decrease in transactions compared to the previous quarter. This can be attributed to the seasonal effect, which usually results in fewer real estate transactions during the summer months.

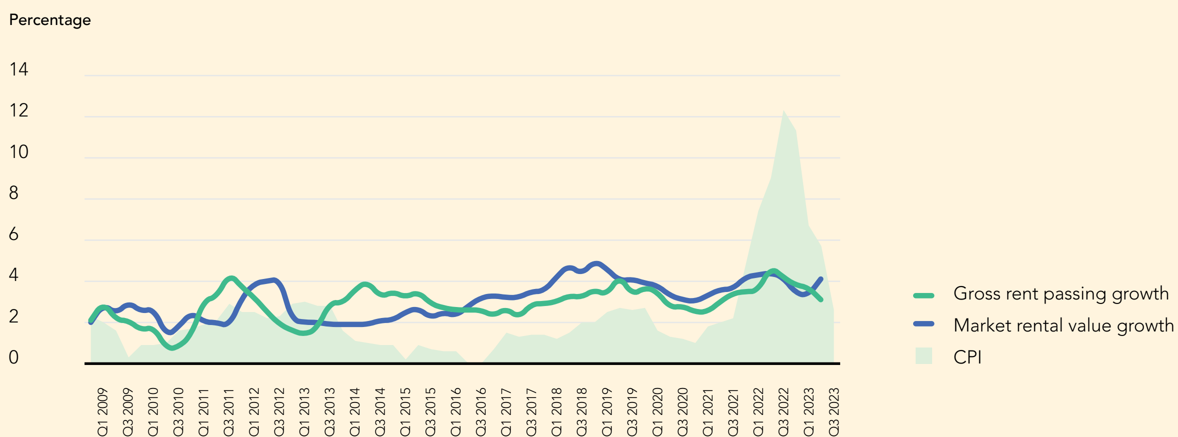
Figure 4 House price developments and number of transactions involving existing owner-occupied homes



Source: Statistics Netherlands, MSCI, 2023

1 Based on annuity mortgages with a 10-year fixed rate and 100%.

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



Source: Statistics Netherlands, MSCI, 2023

The residential investment market entered its fourth quarter of consecutive devaluations. The second-quarter figures for 2023 are the latest available data from MSCI. With an additional contraction of 2.3%, capital values of residential real estate have fallen by 14.3% since the third quarter of 2022. The residential investment market has not experienced such a decline in capital value since the inception of the quarterly benchmark in 2008.

Rising interest rates and subsequent increases in (risk-free) government bond rates since the start of 2022 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, which leads to price decreases. Yields at market rent (reversionary yield) had increased by 18 basis points to 4.7% by the end of the second quarter, slightly less than the yield shift in the two 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 coming quarters: now that interest rates are showing a more stable development.

The decrease in capital value since the third quarter of 2022 has led to an increase in income return. While the income return hit an all-time low of 2.6% at the end of 2022, it had increased to 2.8% at the end of Q2 2023.

Occupier market pressure remains. From a tenant perspective, there is 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 second quarter at 4.1% year-on-year. This is still below the increase in consumer prices in the second quarter, but well above the historic average of consumer price increases. Now that inflation is cooling down, both market rents and theoretical rents are expected to return to outperformance of inflation, as they did for nearly eight consecutive years (see Figure 5).

Outlook

Price corrections in the residential market are slowing down, sentiment for 2024 is positive. After three quarters of devaluations, third-quarter data from NVM shows that the owner-occupied residential market has found a new price balance. While households relying on a mortgage to buy a home had fewer financial resources in 2022, better-than-expected growth of wages and a persistent pressure on the residential market are at the basis of our revised market outlook. While some economic uncertainties remain, house prices are expected to drop by just 4% in 2023, followed by 1% growth in 2024.

Short-term uncertainties remain now that the Dutch government has resigned. On the residential investment market, rising interest rates caused a drop in the yield spread between the higher risk-free rate and the residential investments yield in 2022. This has resulted in a substantial yield shift since the fourth quarter of 2022. Expectations are that this revaluation of the residential risk premium will continue in the fourth quarter of 2023, albeit at a milder rate. In addition, the residential investment market is faced with the impact of the proposed government regulations on rent control and the cap on annual indexation. Although the government resigned in July 2023, the proposed regulatory changes will likely still be presented to the houses of Parliament for approval as the residential market is considered one of the key priorities in the Dutch economic landscape, which is too pressing to postpone until a new government has been installed.

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 will likely persist in the coming years.

Residential market fundamentals remain strong, but the development sector is facing difficulties. Apart from the market sentiment for the coming two years, the fundamentals of the residential market remain strong from a valuation perspective. While demographic growth accelerated in 2022 and is expected to remain at a relatively high level in 2023 and beyond, the construction of new-builds has not yet picked up speed. The situation is aggravated by the fact that rising interest rates, combined with increasing development costs, are making new-builds increasingly less affordable. Only 3,300 new-builds were sold in the second quarter of 2023. This is a historic quarterly low. Developers are not yet willing to lower their prices as some of them are already experiencing financial difficulties and are urging the government to provide assistance to (first-time) home.

Offices

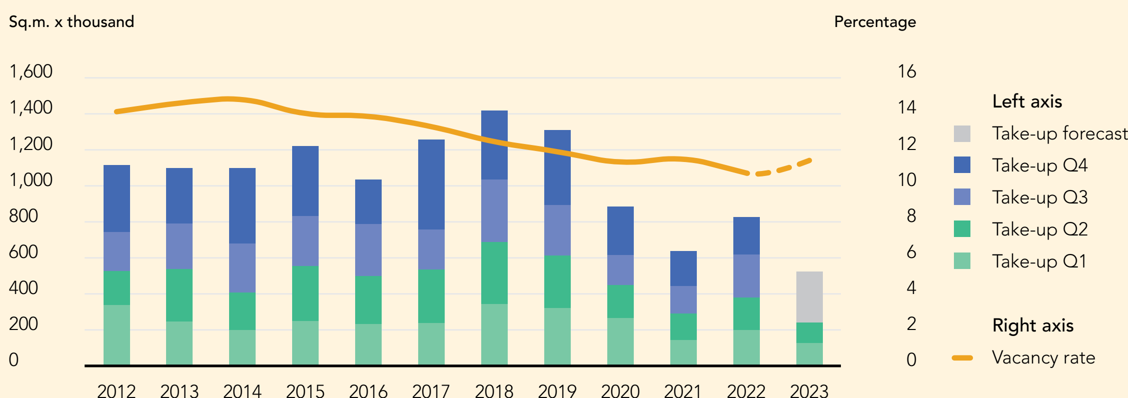
Since mid-2022 the Dutch office market has undergone price corrections as a result of global interest rate hikes. While the outcome is still unclear, economic uncertainties and hybrid working will impact general office occupancy in the next five years. Still, average and prime rents keep increasing as demand for high-quality and sustainable office space increases.

Office take-up slowed down, in line with the cooling down of the economy. Take-up in the second quarter of 2023 decreased compared to the quarter before and the same quarter last year (see Figure 6). At approximately 114,500 sq.m., take-up was nearly 10% lower than in the first quarter of 2023 and 36% lower than in the second quarter in 2022. This indicates that the dynamic on the office market is visibly slowing down, which could be the result of rising interest rates and the cooling down of the Dutch economy. The largest share of take-up transactions was still found in the G5, indicating that office users mostly keep wanting to be located in the most sought-after submarkets. Especially The Hague, which is the political capital of the Netherlands, excelled in this regard, accounting for 30% of the total second quarter take-up. The Hague's share has never been this high.

The average vacancy rate of the G5 submarkets decreased, while the national vacancy rate increased. Compared to the first quarter of 2023, the vacancy rate in the Dutch office market increased by more than 1 percentage point, rising to 11.4% (Q1 2023: 10.3%). By contrast, the average vacancy rate of offices near IC railway stations in the G5 decreased, ending the quarter at 5.4% (Q1 2023: 5.5%). Since the start of 2020, the vacancy rate at these locations has gradually increased, also because of the completion of a number of developments and redevelopments (especially in Amsterdam). The trend that was seen in the previous quarter might indicate that more supply is being absorbed by the market than is being added to the market. Still, given that a transitional vacancy rate of 5% to 7% is considered healthy, 5.4% is on the lower end of that range. This tells us that office space near public transport hubs in the larger cities is still the most sought-after.

Average rent levels remained stable in the second quarter. 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 largely outperformed the Dutch average. The only exceptions were The Hague and Eindhoven, where the average rent was stable at € 140 and € 145 per sq.m., respectively. Amsterdam was again the outperformer in the first quarter, with an average rent of € 275 per sq.m. (Q2 2022: € 270). The prime rent in the Zuidas Central Business District stood at € 500 per sq.m., for the third quarter in a row.

Figure 6 Take-up of Dutch office space and annual vacancy rate



Source: CBRE, 2023

Table 1 Market indicators

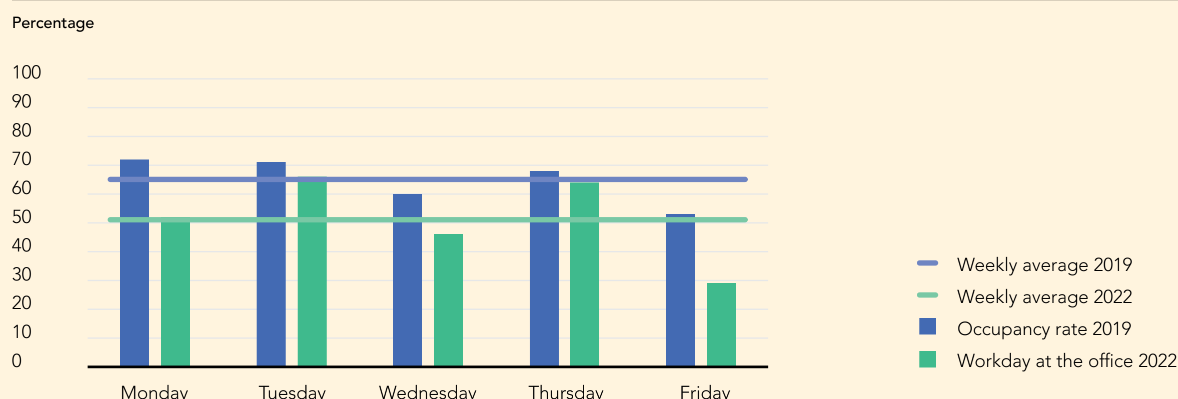
Market indicator	Q2 2023	q-o-q growth	1-year growth	3-year growth
Average rent / sq.m. NL	€ 150	0.0%	7.1%	7.1%
Average prime rent / sq.m. G5 IC	€ 346	0.0%	4.1%	7.4%
Prime rent / sq.m. NL	€ 500	0.0%	3.1%	5.3%
Stock (sq.m.) NL	51,624,660	0.2%	0.2%	0.8%
Take-up (sq.m.) NL	114,547	(9.6%)	(35.8%)	(36.7%)
Vacancy (sq.m.) NL	5,868,378	10.7%	4.9%	3.1%
Vacancy rate (%) NL	11.4%	1.1%	0.5%	0.3%
Vacancy rate (%) G5 IC	5.4%	(0.2%)	0.6%	1.9%
Prime yield (%) – Prime CBD (Zuidas)	4.7%	0.45%	1.60%	1.60%
Prime yield (%) – Other CBDs (G5)	6.0%	0.45%	1.80%	1.85%
Prime yield (%) – Major provincial cities	7.3%	0.45%	2.05%	2.05%

Source: CBRE, 2023

Office market yields continued to increase, further contracting market values. In order to tackle inflation, central banks, including the ECB, have raised their key interest rates since the third quarter of 2022. In response, (prime) market yields have now increased for six consecutive quarters, including the second quarter of 2023. Prime yields in the top central business districts (i.e. Amsterdam), other CBDs in the G5 (i.e. Rotterdam) and major provincial cities increased by 160, 180 and 205 basis points, respectively, in one year's time (see Table 1). This shows that, while buyers and sellers of office assets are seeking an equilibrium in terms of pricing in the new economic climate, the most sought-after submarkets – the CBDs of the G5 – faced the least yield corrections. At the end of 2022 the yield gap relative to prime office yields (Amsterdam Zuidas) had narrowed to 160 bps. That said, the gap had increased to nearly 200 bps by the end of Q2 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 its way to a healthy level.

Hybrid working is here to stay, but office workers have been consistently returning to the office. While the COVID pandemic accelerated the trend towards working from home, a significant share of the Dutch office workforce was already working from home to some extent before the lockdowns were introduced. After all measures had been lifted in 2022, more and more office workers returned to the office. On Tuesdays and Thursdays in particular, occupancy rates in 2022 were similar to those in 2019, as shown in Figure 7. This again indicates that, while office space will be used differently in the future and the office will be regarded more as a place for meeting, collaborating and socializing with colleagues, the majority of the existing office stock will still have to stay in use to accommodate all office workers. However, usage is unevenly distributed across the days of the week.

Figure 7 Share of working day at the office (2019 vs. 2022)



Source: CBRE, 20233

Outlook

Real estate office values will contract, with continued market polarisation. Current economic developments indicate that interest rate hikes by central banks are coming to an end. Inflation has not yet cooled down to a level that the central banks had hoped for, but further rate increases will be minor. As a result, the office transaction market is expected to be affected by the search for a new price balance between buyers and sellers for the remainder of this year, with a stable yield development in 2024. While the entire market will be facing these headwinds, the yield developments in the different segments of the market indicate that the polarisation in the market will continue to increase. CBDs in the G5 have seen smaller yield corrections than their counterparts in smaller cities throughout the Netherlands.

General economic uncertainty and hybrid working might limit additional demand for office space. Now that many enterprises are struggling with uneven occupancy rates during the week, they will sooner or later start to reconsider their real estate strategy. As a result, general demand for office space might drop over the coming years, but there are also indications that the majority of office space will still be needed, although its usage will change. In addition, a changing economy could cause new businesses and sectors to thrive going forward, 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 increasingly pivot towards sustainable, high-quality office space as the importance of energy efficiency and general ESG obligations will increase.

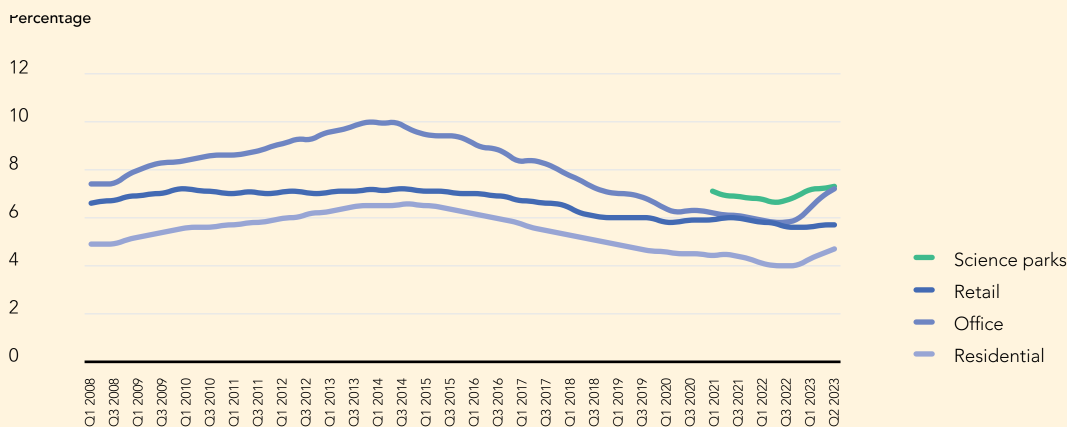
Science parks

Science park assets are more resilient to devaluations than traditional offices due to demand from knowledge-intensive sectors, and are expected to remain so in the near future. The global position of Dutch universities has improved compared to previous year. But, future policy could dampen influx of international students putting universities, companies and government at odds.

Real estate valuations under continued pressure. As interest rate hikes are coming to an end, finance costs remain high and devaluations across the real estate market are commonplace. The average reversionary yield of of a bespoke science park benchmark, as defined by a.s.r. real estate, remained fairly stable at 7.2% at the end of the second quarter. This corresponds to a 3 bps increase compared to the previous quarter (see Figure 8). The yield of traditional offices and science parks is currently at more or less the same level as upon inception of this benchmark.

Currently, based on the reversionary yield, science park and office assets are equally attractive to investors in terms of their risk-return profile. Despite little market evidence, the devaluations of traditional offices are caused by the deteriorated macro-economic environment. 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' increased familiarity with this asset class.

Figure 8 Gross reversionary yields



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

Increase in venture capital despite harsh financing climate. In the second quarter of 2023, Dutch start-ups raised € 544 million in venture capital, which is an increase by nearly 12% compared to the previous quarter. Start-ups that focus on biotechnology, cleantech and AI are commanding investor interest. Tagworks, a biotech company located near Radboud University Medical Center, was the subject of the largest investment round of € 60 million. The number of deals is constant, while this figure is trending upward in the long-term, especially compared to pre-pandemic levels.

More Dutch universities in the World University Rankings top 250. In the Times Higher Education ranking, each institute is scored on their performance for teaching, research environment, research quality, industry collaboration and international outlook. Delft University of Technology is the highest-ranking Dutch university in the global ranking, coming in at 48th position. This university excels specifically on industry collaboration and international outlook. The universities of Amsterdam, Wageningen, Leiden, Groningen and Rotterdam are also ranked in the global top 100 of universities.

Outlook

Fundamentals of the science park occupier market relatively more robust. Compared to 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. 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.

Despite the fall of the Dutch government, the bill regarding a limit on the number of international students was not deemed controversial.
The government, businesses and universities have conflicting interests on the influx of international students. The government wants to control the number of international students in order to allow for better allocation of public resources and to protect the Dutch language. However, universities and businesses stress the importance of job opportunities and the war on talent. The precise wording of the bill and the consequences for the knowledge economy are uncertain at this point in time.

Farmland

Short-term uncertainties about the future of the Dutch agricultural sector persist, heightened by the resignation of the Dutch government. On the other hand, government measures such as the national buyout schemes and several acceleration measures support the transition towards a sustainable sector.

Acceleration measures for the agricultural sector. At the end of August, the Dutch Cabinet decided on a number of measures regarding the necessary transition in agriculture. A total of € 175 million will be freed up for young farmers taking over an agricultural business, for strengthening the market for organic products, and for farmers who contribute to nature through landscape elements.

The Dutch government wants 15% of the agricultural space to be used for organic farming by 2030. Organic farmers are showing that sustainable entrepreneurship is possible and that organic agriculture can make a significant contribution to the sustainability goals. For this reason, it is important that the sales market for organic products is expanded. The government has made € 50 million available for the years 2025 to 2029 to develop and grow the sales market for organic products.

The government wants 10% of the agricultural space to be part of the green-blue network by 2050 . This involves creating landscape elements such as trees, hedges and ponds that promote biodiversity, and water and soil quality. To achieve this, the landscape elements plan, to which € 15 million has been added, will be kicked off in 2024. This gives agricultural entrepreneurs the opportunity to create more than 650 hectares of new landscape elements on their agricultural land.

Buyout schemes available for nitrogen reduction. Two buyout schemes opened up on 3 July. These schemes are targeted at farmers who voluntary want to stop farming. These are the national buyout scheme for livestock farming locations ('Landelijke beëindigingsregeling veehouderijlocaties' (Lbv)) and the national buyout scheme for livestock farming locations with peak load (Lbv-plus). The buyout schemes are part of the government's peak load approach, which is meant to bring about a significant reduction in overload on nitrogen-sensitive nature. There are more than 3,000 peak loaders, some of whom are expected to take advantage of the scheme. The Lbv scheme offers a compensation of 100 percent for the loss of production value. The Lbv-plus scheme offers a compensation of 120 percent for the loss of production capacity. As it stands, 600 farmers have registered for the voluntary buyout.

Agro Confidence Index

'Confidence among farmers remains low, uncertainties determine sentiment.' The Agro Confidence Index fell by 2 points to 5 points in the second quarter of 2023 (first quarter of 2023: 7 points). While the index is still positive, the persistently low sentiment in the sector is due to uncertainties surrounding major policy issues, such as nitrogen, derogation, the Dutch Agricultural Agreement and water quality.

Dairy farmers' confidence recovered in the second quarter of 2023, landing at approximately 5.5 points (+5 points), which corresponds to the level of the last quarter of 2022. In general, the mood among dairy farmers continues to be positive, probably because the milk price is still relatively high.

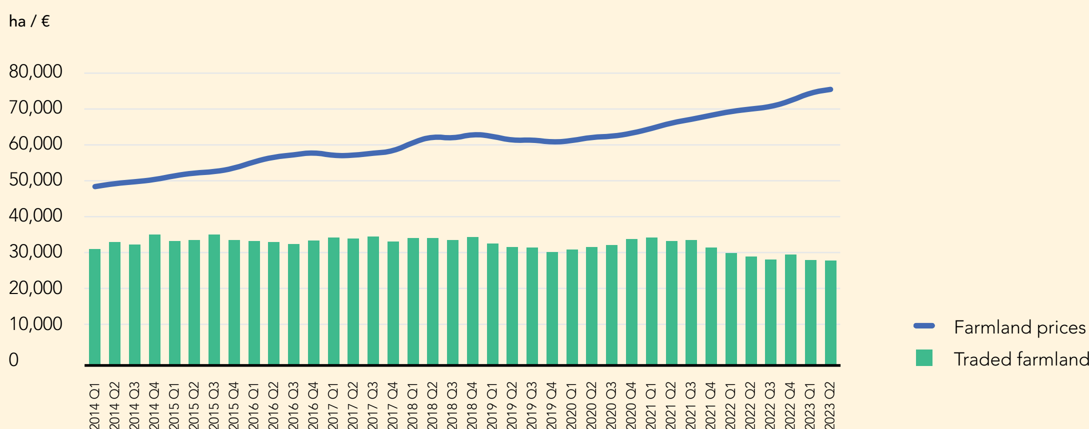
Arable farmers had slightly less confidence in the viability of their own business in the second quarter than in the previous quarter. The index fell from 8 to 6 points in the second quarter. Although the mood among arable farmers is slightly less positive than in the previous quarter, the index is still high historically speaking. This might be due to the challenging growing season. The spring was very wet, so crops were sometimes sown up to a month later than usual. Then came a month of drought, followed by flooding in July. As a result, farmers do not expect a top harvest. This is counteracted, however, by temporary scarcity on the market due to the late start of the harvest.

The fall of the Dutch government and the resulting longer period of uncertainty may also have had an effect here. Although livestock farming is being targeted in particular, greater pressure from regulations for arable farming is expected as well.

Full results (in Dutch) are available here.

Prices of farmland continue to rise steadily, number of farmland transactions is declining.
In the second quarter of 2023, the average price of farmland (12-month average) reached approximately € 76,500 per hectare. Compared to the average price of farmland in the same period a year ago, the price has increased by 7.6%. The average price for arable farmland increased to € 88,000 per hectare (+8.3% y-o-y) and the land price for grassland rose to € 68,300 per hectare (+6.3% y-o-y). While prices are increasing, the number of transactions declined by 4.0% to approximately 29,100 traded hectares on an annual basis. Uncertainties about policy and the economic outlook are causing reluctance on the farmland market.

Figure 9 Farmland prices & traded farmland 2013-2023



Source: Netherlands' Cadastre, Land Registry and Mapping Agency (Kadaster), Wageningen Economic Research (WER), 2023

Outlook

In the short term, uncertainties still prevail in the Dutch agricultural sector. The resignation of the Dutch government will cause an even further delay in the Agricultural Agreement. It remains to be seen how the process will develop further. It is clear to the government that time is running out. For the record, it should be noted that stricter European policy is putting more pressure on the agricultural sector. Rules regarding water quality can have far-reaching consequences in particular. All this is part of the road to a sustainable sector, which can be bumpy at times with many winding curves. Time will tell whether the right path is being followed.

Table 2 Farmland market indicators

Market indicator	Current	q-o-q growth	1-year growth	3-year growth
Export of agricultural goods (in millions)	€ 29,313	(2.2%)	2.8%	36.8%
Farmland prices (12-month average)	€ 76,551	1.1%	7.6%	20.8%
Traded volume (12-month, in ha)	29,081	(0.6%)	(4.0%)	(11.4%)
Available farmland (in ha)	1,804,371			(0.6%)
Number of agricultural farms	50,980			(3.3%)
Agri Confidence Indicator (0=neutral)	5.1	(1.9)	3.2	0.8

Source: Statistics Netherlands, Kadaster, WER, 2023

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