The Netherlands – December 2020

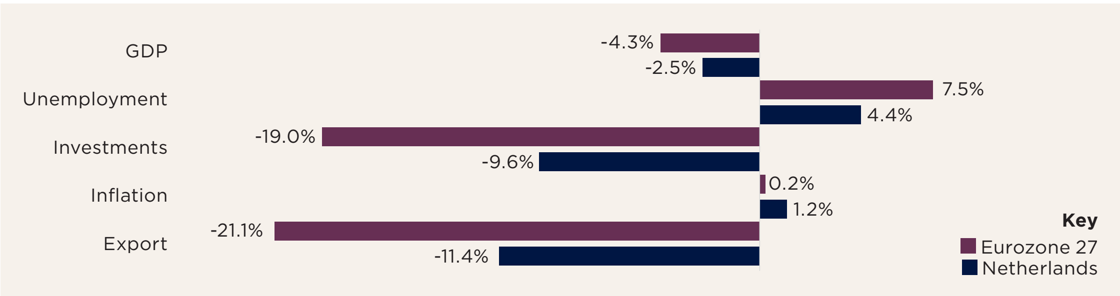
MARKET IN MINUTES

Savills Research

Moving beyond COVID-19: New challenges ahead in 2021

The outbreak of COVID-19 in the Netherlands and the subsequent containment measures have unquestionably impacted economic activity across the country and continue to do so. As a result of the first wave of the coronavirus pandemic, the Dutch economy was severely hit in the second quarter, suffering a historic contraction of -8.5%. As restrictions were eased in the third quarter, the economy recovered with an unprecedented quarterly growth of +7.7% compared to Q2. Although this recovery was exceptional, it has not been sufficient to make up for the damage caused in the first half of 2020. Consequently, the economy is currently -2.5% smaller compared to its size at the end of 2019. While this pandemic-induced contraction may appear unfavourable, the Dutch economy continues to outperform the EU GDP average of -4.3%. In addition, the Dutch economy is faring better than the EU average with regard to unemployment rates, investments, export and inflation. Therefore, the Netherlands seems to have been less severely hit by the economic impacts of COVID-19 than its European counterparts. Reasons for this include a lower than average governmental response* to COVID-19, a strong economy prior to the outbreak of COVID-19, a favourable sector composition, a solid digital infrastructure and the provision of large-scale financial support packages by the Dutch government during the first and second wave to stave off mass bankruptcies and rising unemployment.

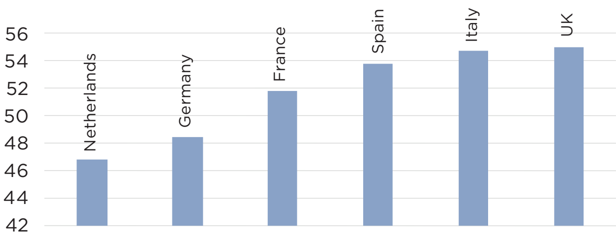
Graph Performance on key macroeconomic indicators (annual YOY %-change)



Source CBS

Looking ahead, prospects for the fourth quarter of 2020 and first quarter of 2021 are less promising, as the Netherlands entered a new lockdown, with measures that include the closure of the hospitality industry and non-essential stores. The Netherlands Bureau for Economic Policy Analysis (CPB) is therefore predicting a further contraction of 1.2% as this year draws to a close. Until a successful vaccine is authorised, the economic situation for 2021 will remain largely unpredictable as containment measures will continue to disrupt the Dutch economy, especially those sectors which are most vulnerable to the effects of COVID-19.

Graph Average government response to COVID-19 less stringent than in other large EU economies (index 0 to 100, 100 = strictest)



Source Oxford University

*This is a composite measurement based on nine response indicators including school closures, workplace closures and travel bans.

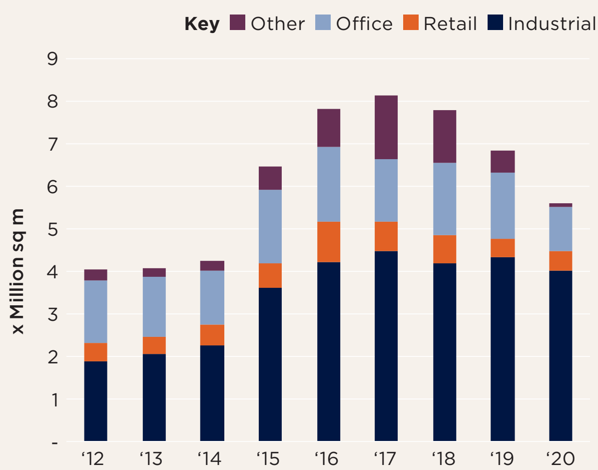
RISK AVERSITY AMONGST INVESTORS

The shift towards core investment products is becoming increasingly apparent in the Dutch investment market as a result of COVID-19. A lack of transactional activity in value-added and opportunistic real estate, compounded by the uncertainty caused by the pandemic, means that current investment volumes are lower than previous years. The final quarter of the year is expected to alleviate the lower volumes from the previous quarters, as Q4 is historically a stronger quarter and Dutch property transfer tax will rise to 8% next year for investors, increasing the likelihood that more investment decisions will be made before we enter 2021. The total predicted investment volume for 2020 is estimated between €15 and €17 billion, depending on the exact consequences of the transfer tax.

TAKE-UP VOLUMES BELOW AVERAGE: INDUSTRIAL REMAINS RELATIVELY STRONG

The uncertainty in the Dutch economy as a result of COVID-19 and the ensuing implications for COVID-prone sectors is also reflected in the Dutch occupier market. Compared to 2019, take-up volumes have been down -18% in the first three quarters of 2020. While this decline might seem limited, most of the take-up volume is the result of a relatively strong first quarter of 2020, before the outbreak of COVID-19 hit in the Netherlands and the corresponding impacts had not yet been foreseen. The second and third quarter showed a sharp decline, 27% and 24% respectively, compared to a year ago. Major discrepancies can be noted amongst the different sectors. While the industrial sector (-3%) has remained relatively strong in 2020, the take-up of offices (-38%) and hotels, leisure and restaurants/bars (category 'other' -89%) showed a significant decline compared to the five year average. The resilience of the industrial sector is attributable to the growth of e-commerce, the temporary storage of supply and nearshoring, which surged even more due to the outbreak of COVID-19. In contrast, the decline in take-up of offices and the category 'other' is a consequence of the tightening of COVID-19 containment measures such as working from home, travel bans (resulting in a 70% drop in tourism) and the closure of restaurants and bars for a number of months in 2020. These shifts per sector have also had their impact on the Dutch investment market.

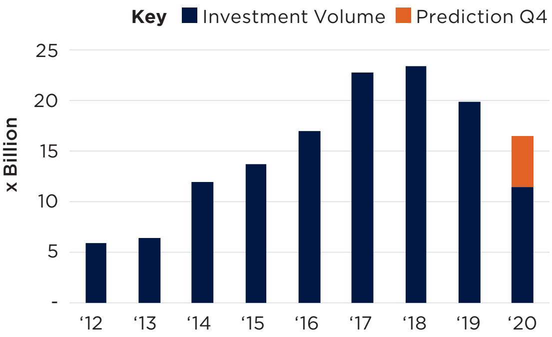
Graph Total take-up volume Q1-Q3 2020 compared to previous years



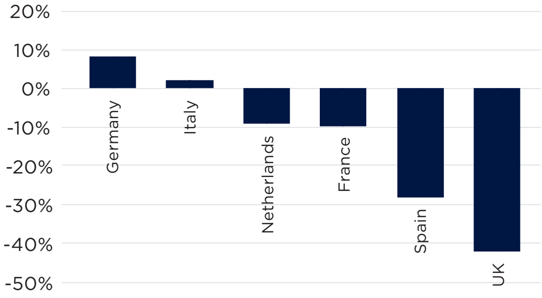
Source Savills Research

INVESTMENT VOLUMES IN Q4 ARE EXPECTED TO RISE BEFORE THE START OF 2021

Although COVID-19 is having an impact on the global investment market, the effects on countries such as the Netherlands and Germany are relatively limited compared to their European counterparts. The Dutch investment market has only shown a 10% decline in investment volume compared to its five year average, which is significantly less than countries such as Spain or the UK. The primary reasons for investors to choose the Netherlands and Germany are the transparency of the market and the stable political and economic situation.



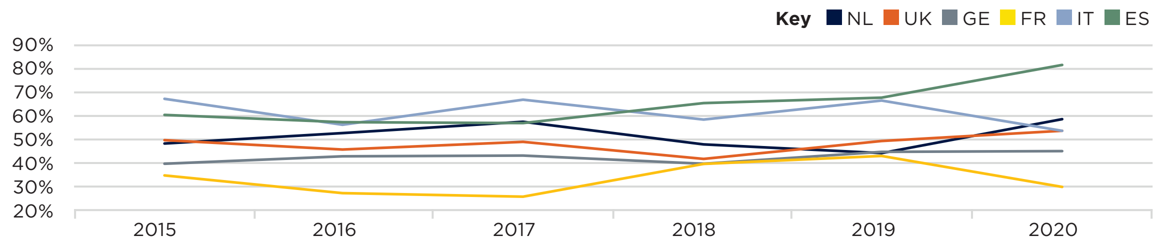
Graph European investment Q1-Q3 2020 vs. five year average (% change)



Source Savills Research

SHARE OF FOREIGN CAPITAL HAS RISEN CONSIDERABLY IN 2020 IN THE NETHERLANDS

One of the reasons why investment volumes in the Netherlands remain relatively stable is the increased interest of foreign investors in recent years. In 2020, the share of foreign capital in the Netherlands rose by 15.5% compared to 2019, which was the largest increase amongst the UK, Germany, France, Italy and Spain.



Source Savills Research

Despite the fact that the Netherlands is performing relatively well in both the occupier and investment market in comparison to other EU countries, diverse challenges await the Dutch real estate market in 2021.

CHALLENGES AWAITING THE DUTCH REAL ESTATE MARKET IN 2021

While COVID-19 will continue to dominate global agendas in the short term and economies in the mid term, the focus will most likely revert to pre-COVID-19 issues once vaccination of the general public has been rolled out in 2021. It is therefore essential to shed light on the challenges of tomorrow as this year nears its end. According to Savills, the main challenges of the Dutch real estate market for 2021 will be sustainability and the rise of ESG, the nitrogen policy, the increase in property transfer tax and the BREXIT.

Although these challenges will create uncertainty and complications while they last, in the long run they will refine established conventions and further strengthen the well-founded and resilient Dutch real estate market.

Sustainability and the rise of ESG

- Tackling climate change and sustainability is of increasing importance in the real estate sector.
- 2020 has proven that crises can pave the way for seismic changes.
- It is therefore essential for investors to rethink ESG strategies and incorporate sustainability into the built environment in 2021 and beyond.

Nitrogen Policy (PAS)

- As a result of the nitrogen policy implemented by the Dutch government, many new-build projects have been delayed or cancelled. This means that supply will not be able to meet rising demand going forwards.
- In the future, this will especially impact the residential and logistics markets and put pressure on the spatial constraints in the Netherlands.

Increase in property transfer tax

- As of 1 January 2021, property transfer tax will increase to 8% for all real estate investments in the Netherlands, leading to higher acquisition costs. This will especially make investments in residential properties less attractive in the short term.
- The exact effects on the property market are uncertain, but in comparable tax-regulation situations, long-term price impact was limited.

BREXIT

- Britain's departure from the EU has created a climate of economic and political uncertainty.
- Businesses may relocate to the Netherlands in the mid or long term, affecting demand for real estate. However, the exact implications are still unclear.

Sources Savills Research, CBS, CPB, Oxford University, Eurostat

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