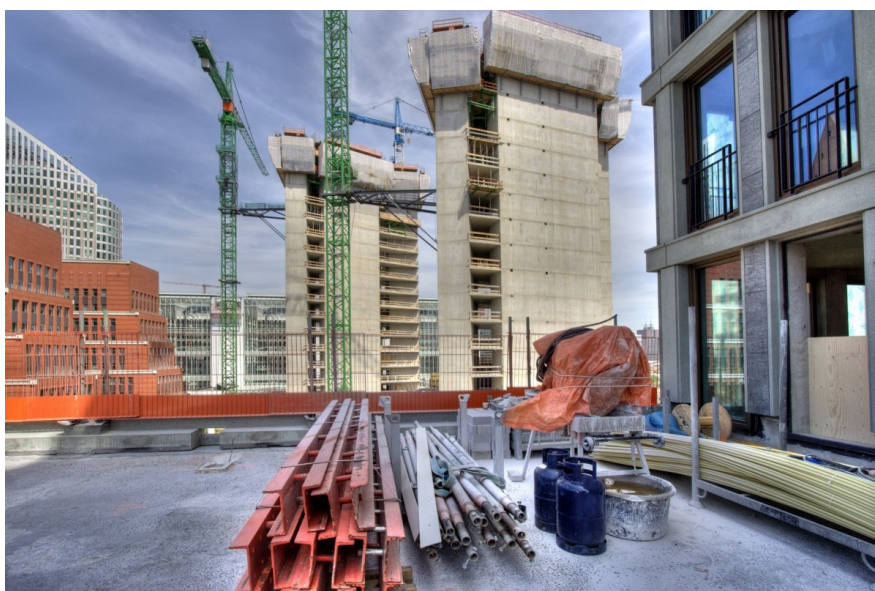


## Signs of a 2024 recovery emerge for Dutch commercial real estate

Increased interest rates and investor risk perceptions of the real estate market are set to put downward pressure on real estate prices in the Netherlands until mid-2024. Demand is expected to pick up after that, but we expect a fair bit of divergence in the timing and pace of recovery for the residential, retail, office and logistic segments



Office buildings under construction in The Hague

### Real estate market hit hard by higher interest rates

The sharp rise in capital market interest rates throughout 2022 has seen the investment volume (the total value of all investment transactions) in the Dutch real estate market fall by more than 60% in the first half of 2023 compared with the same period last year.

Investors are still reluctant to make purchases in the commercial real estate market and are no longer willing to pay current market prices due to rising interest rates and major economic uncertainties. The prices of larger transactions, in particular, have fallen significantly, and the drop in prices of smaller transactions has been much lower. Even so, we do expect further price declines in this part of the market before investor demand picks up.

## Real estate market cools further in first half 2024

We expect to see further price declines in the commercial real estate market in the first half of 2024. While the possibility of slightly lower interest rates may provide upward price pressure, three key developments will continue to apply downward pressure in the near future:

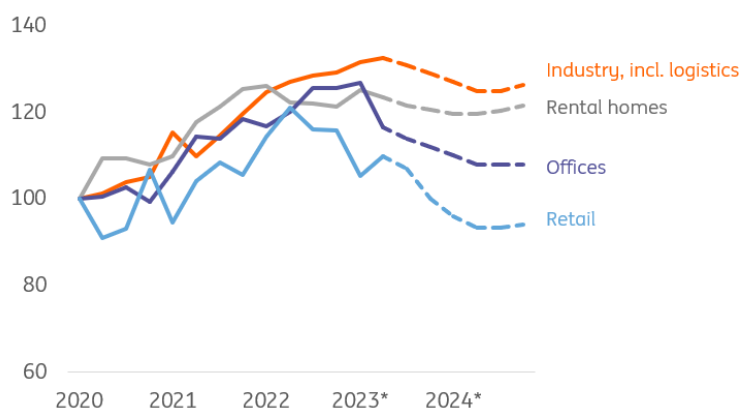
- **Investors are unwilling to pay current prices because of higher interest rates and increased uncertainties.** Prices have not yet adjusted completely to the higher interest rates and economic uncertainties, and this will continue to put downward pressure on prices in the commercial real estate market for some time to come.
- **The cooling down of the economy will become more visible.** The sharp rise in capital market interest rates is working its way through the economy with a delay and will further slow down its growth. In the non-food retail market in particular, this will translate into more bankruptcies, business closures and higher vacancy rates in the coming period but will also slow user demand for offices and logistics real estate.
- **Refinancing issues will become more frequent but will remain limited.** Real estate investors whose financing expires will be looking for refinancing. This will not always be successful as a result of higher financing costs and lower collateral value due to lower property prices. This may increase the number of foreclosures and, therefore, increase downward pressure on property prices. For now, we expect the impact to remain limited in the coming year, in part because lenders set their lending conditions in such a way that there is room to absorb economic setbacks (such as higher interest rates).

## Structural scarcity as a crucial strut

While the real estate market is expected to cool down further in the first half of 2024, structural scarcity in the market for rental housing and logistics real estate mitigates the downward pressure on prices in these segments. And in the office market, sustainable offices on A-locations remain in demand due to limited supply. We therefore expect relatively small price declines in these segments.

## Dutch commercial real estate market recovery in the 2nd half of 2024

Commercial real estate price index, seasonally adjusted (2020 = 100)



Source: Statistics Netherlands (CBS)

\*Expectation, ING Research

## Recovery from second half of 2024

In our base case scenario, we expect that the commercial real estate market will reach its lowest price level in the second half of 2024. Important assumptions here are that capital market interest rates will at that point be slightly lower than they are now – and that the Dutch economy will be able to avoid a prolonged recession.

Given the different structural trends in the markets for residential real estate, offices, retail and logistics real estate, the timing and speed of the recovery will differ per segment. Below, we discuss the most important developments for each segment.

### Residential real estate

#### Certainty about future policies important precondition for recovery

Demand from housing investors will remain low in the coming period because of policy uncertainty, particularly that which surrounds the plans of the Dutch government to regulate the middle rented sector. At the same time, these uncertainties will increase the supply of residential homes by investors as the plan to regulate rents lowers expected investor returns on housing investments. Both developments play a role in increasing downward price pressure.

Nevertheless, further downward revaluations in the rental housing market are expected to remain limited due to the structural scarcity in the housing market. Moreover, the scarcity of homes is expected to increase in the coming years as new construction output falls short of expected potential household growth.

We expect prices of owner-occupied homes to rise again by next year, mainly due to the vast income growth of homebuyers in 2023 and 2024. Because of the option for investors to sell rental properties on the market for owner-occupied homes, the development of both rental and owner-occupied home prices follows a similar trend over time. The recovery of the owner-occupied housing market will therefore limit the cooling down in prices on the Dutch residential real estate market.

### Demand for sustainable offices on A-locations remains solid

The continued consolidation of service sectors and the cooling down of the economy will reduce user demand for office space – and adding to this are the more negative effects of working from home. An increasing number of employees have started to work from home since the Covid-19 pandemic, and the toll this has taken on office demand will soon become more apparent. This is largely a result of the lag between when companies decide to terminate existing leases, and the point at which they're actually able to do so. Additionally, companies needed some time to find out the effect of this trend on their office space needs. By now, companies have a much better understanding of this and will act on it more often in the near future.

The drop in demand will not affect all office segments equally. Sustainable offices on A-locations will suffer the least from the drop in investor demand in the coming period, which is due to both the limited supply of these offices and their future-proof nature.

## A gloomy outlook for non-food retail

In the short term, non-food retail sales are set to decline due to the cooling economy and relatively high inflation. Many retailers are also facing higher costs – including personnel and purchasing costs – while some also need to repay tax debts accrued during the pandemic. This is expected to translate into an increase in bankruptcies and business closures and also increases the likelihood of vacancies. In turn, this raises downward pressure on the investment value of retail properties in the non-food segment.

## Slowing price growth for logistics

In the short term, the logistics sector will be affected by the growth slowdown in China and the ailing German industry, as the consequent drop in international trade slows user demand for logistics real estate. However, we may also see some effects moving in the opposite direction –including the ways in which the pandemic has exposed the vulnerabilities of international production chains. This has increased the buffer stocks that companies want to hold and has a positive effect on user demand for logistics real estate as a result. In addition, the supply of logistics real estate is still low compared to demand, and the risk of long-term vacancy is therefore limited. This scarcity puts a floor under the prices of logistics real estate in the Netherlands.

### Author

#### Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).