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REAL ESTATE

We're seeing a cautious recovery in the Dutch commercial real estate sector

We expect demand for commercial real estate in the Netherlands to recover cautiously in the coming year due to an expected pick-up in economic growth, lower prices and stable interest rates. Investment volumes are also rising



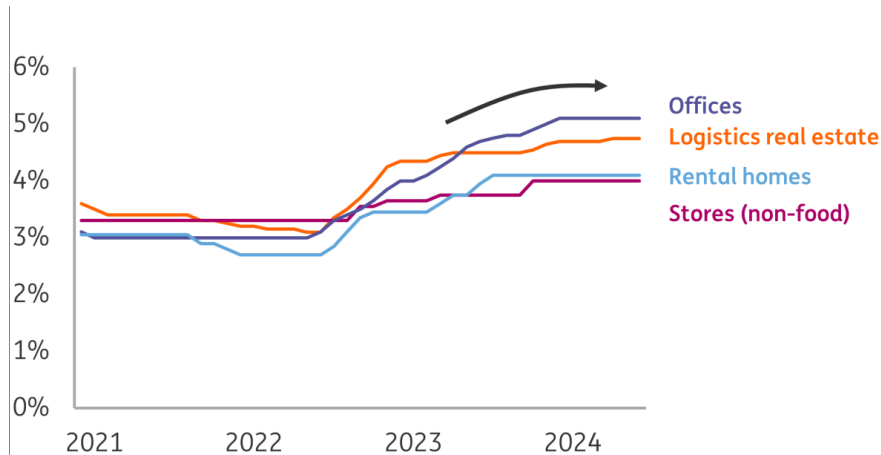
The Terrace Tower development is a recent addition to Amsterdam's commercial real estate space

Commercial property market takes cautious first step towards recovery

Results for the first six months of the year seem to indicate that the Dutch commercial property market is cautiously moving towards recovery. Investment volumes in the first half of the year were [44% higher](#) than in the first half of 2023, based on figures from real estate consultant CBRE. That's despite investor activity being relatively low compared to previous years. Also, the stable net initial yields (the expected net rental income in the first year divided by the purchase price) suggest that recovery in the commercial property market is near.

Net initial yields stabilise in 2024

Net initial yield of properties in prime segment*



* Offices on the Zuidas in Amsterdam, shops (high street) and flats in Amsterdam, logistics property in the Venlo transport corridor in Rotterdam.
Source: CBRE Research

Recovery down to improving growth and stable interest rates

We expect that the improving economy and stable interest rates could cause investor demand in the commercial property market to rebound. The limited vacancy risk helps prevent a further decline in demand from property investors. Thus, our picture compared to six months ago remains largely unchanged, with the only key difference being that we expect interest rates to fall less quickly.

- **Economic growth ahead:** the Dutch economy contracted 0.5% in the first quarter, but the outlook for the rest of the year looks more positive. As an open economy, the Netherlands is expected to benefit from increasing international trade. In addition, households will consume more in the coming months as nominal wages grow faster than prices.
- **Past the interest rate peak:** the European Central Bank decided in June to cut policy rates by 25 basis points after a series of increases, as it is confident that eurozone inflation is moving towards the 2% target over the medium term. If inflation remains in check, the likelihood that the ECB will cut interest rates (slightly) further over time increases. Together with the realised price declines in the property market, this could increase property investors' willingness to buy.
- **Vacancy risk remains limited:** the structural scarcity of (rental) residential and logistics property limits the vacancy risk in these segments. In the office market and the retail segment, although user demand is decreasing, the contraction of supply (through demolition and transformations) provides some counterbalance. The limited risk of vacancy reduces the likelihood of a further decline in demand from property investors.

Refinancing problems limited so far, but risks remain

Commercial property refinancing problems have been limited so far. Looking ahead, it cannot be ruled out that refinancing problems may increase and the commercial property market may cool further as a result. Since 2022, the risk of refinancing problems has increased due to the rapid rise in interest rates, write-downs in the commercial property market and tighter financing conditions. If real estate investors are unable to refinance maturing loans in full and cannot put in enough equity, this could increase the number of foreclosures, thus fueling a cooling of the commercial property market.

□ Rental properties: leasing out increases, write-downs remain limited

A Supreme Court case on the legality of contractual rent increases in the private rental segment is causing housing investors to postpone purchases of existing rental properties. In addition, the introduction of the Affordable Rent Act has reduced residential rental yields. In combination with the higher interest rates, investors are more often choosing to sell rental homes on the owner-occupied housing market, usually after the incumbent tenant leaves. Due to rising owner-occupied house prices, write-downs in the residential investment market remain limited. However, the size of the rental housing stock is decreasing, not least because many rental homes are being sold to private homeowners.

□ Logistics properties: scope for further rental growth persists

User demand for logistics property is increasing due to the pick-up in international trade. In addition, the increasing role of e-commerce continues to increase user demand. At the same time, limited space for new construction may cause the already existing scarcity of logistics properties to continue for longer. These factors create room for further rental growth, and the prices investors are willing to pay for logistics property may rise as a result.

□ Shops (non-food): no further downgrades, shift to e-commerce priced in

A combination of lower inflation, higher wages and an improving housing market are resulting in higher consumer spending, and obviously, the High Street benefits most from that. The structural shift to e-commerce will further reduce the number of physical shops in the coming months. As investors have been pricing in this shift for some time, this will not cause further depreciations in the retail property market.



Offices: uncertainty about shift to home working makes investors cautious

More bankruptcies, staff shortages, and the shift to working from home are inhibiting demand for office space. Uncertainty about the structural effect of WFH makes investors reluctant to make new acquisitions, which will continue to put downward pressure on office prices in the near future.

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