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# STATE OF AFFAIRS

# THE NETHERLANDS OFFICE MARKET

In 2013, the office market in the Netherlands was still dealing with some very serious challenges. The occupational market in particular was having a bad time indeed. Due to unfavourable economic conditions, last year quite a few companies were compelled to proceed more efficiently and push down costs. These savings led to poorer demand for office space. As a result, vacancy rates continued to climb unabated. Demand for office space tumbled down for the seventh time in a row.

According to calculations performed by NVM Business, the supply and demand gap has never been this vast as in 2013. While the number of offices available for rent increased by approximately 6% last year, demand for office space dropped by almost 11%. Hence, availability levels were almost ten times as high as the demand. The supply and demand ratio deteriorated in many areas, although this was felt most strongly in the Randstad area and also east of the country. In Randstad, it was primarily the city of Rotterdam that witnessed stagnation of demand while supply levels mounted considerably.

Due to greater discrepancy between supply and demand, office rents were under even more pressure in 2013. In fact, they continued to drop fast. Not only did the existing offices have to settle for less, the average rents obtained for newly developed offices went down as well. Nevertheless, a few areas did manage to hold on to their price levels (e.g. South Axis in Amsterdam, The Hague's Central Station area).

Even though the overall picture of the office market was hardly encouraging, and the sense of apprehension about a possible recovery intensified, a few rays of hope presented themselves nonetheless. One of the factors that did propitiate the market was in fact the rising number of office square metres withdrawn from stock after demolition or redesignation. Also, last year investors were slightly more interested in offices compared to the year 2012, although one needs to comment that demand primarily followed from foreign investors' buyer interest. Dutch investors, however, kept aloof.

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# 1. OFFICE TAKE-UP

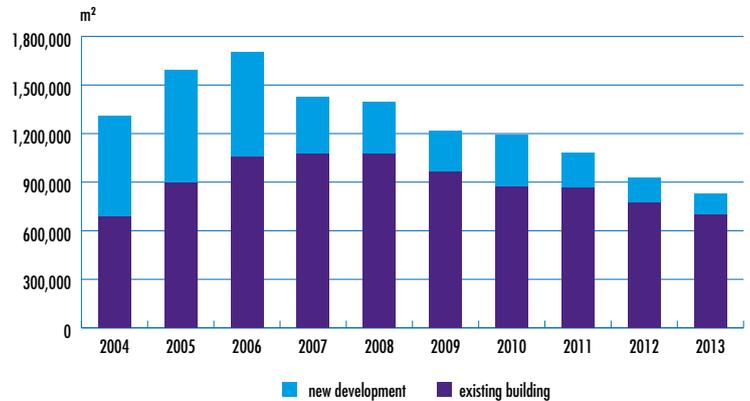
## Transaction volumes further down

Last year the office market once again had to settle for poorer demand volumes. It is because companies and organisations were less inclined to relocate, pushing transactions volumes even further down. In the open market, representing both investors and property developers, approximately 830,000 m<sup>2</sup> of office space were taken up (2012: 930,000 m<sup>2</sup>). Most offices involved existing stock, with lessees being interested in medium-sized spaces (1,000 m<sup>2</sup> to 5,000 m<sup>2</sup>) in the first place. Minor lease transactions (up to 1,000 m<sup>2</sup>) equalled approximately 25% of the total demand for offices, a serious drop compared to the year 2012. Nevertheless, the take-up percentages of large floor areas were rather high, thanks to lease transactions with e.g. Achmea, CB&I, Hogeschool Utrecht, Nauta Dutilh, Rabobank, Stibbe and TNO. The state of affairs in the office market was also marked by the fact that the government, a major user of office space, hardly showed up in 2013. Most offices were claimed by business service providers, the banking and insurance industry, IT and the manufacturing industry.

## An eye-catching role for the city of Eindhoven

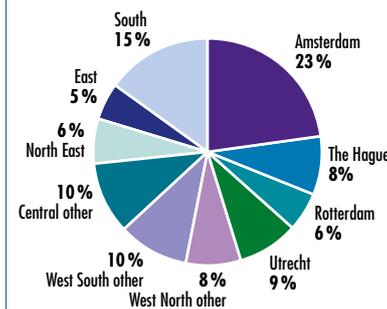
Last year, transaction volumes dropped particularly in Randstad. For instance, demand for offices diminished in Rotterdam and the Schiphol region. And yet, opposing tendencies were clearly visible in the city of Rotterdam because despite positive developments at the city centre, take-up levels were quite disappointing on the outskirts of the city. In Amsterdam, last year less office space was let or sold but still, taking the total transaction volumes (190,000 m<sup>2</sup>) into consideration, a positive mood was sensed nonetheless. In the Dutch capital, parties were mainly interested in South Axis's offices and also in buildings in the very heart of the city. One interesting detail is the fact that in South Axis more new complexes were let compared to previous years. Against all expectations, The Hague and Utrecht did succeed in keeping sales volumes steady as in both cities, the same amount of office space was taken up as in 2012. As for the rest of the country, a prominent role was claimed by the city of Eindhoven where, following transactions with inter alia Rabobank and chip machinery maker ASML, much more floor area was taken up. Other cities outside the Randstad area, however, saw take-up levels tumble down. According to NVM Business data, the cities of Arnhem, Den Bosch and Groningen had to put up with the largest decline in demand.

TAKE-UP OF OFFICE SPACE ACCORDING TO BUILDING TYPE



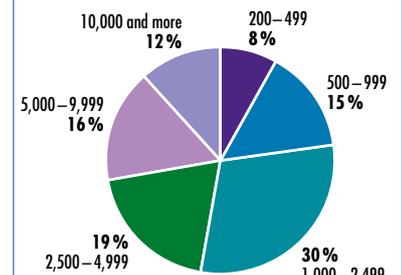
Source: NVM

TAKE-UP OF OFFICE SPACE BY REGION 2013



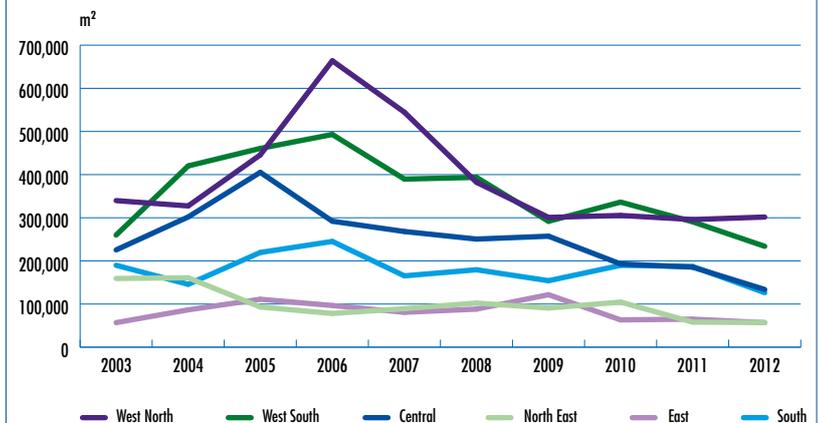
Source: NVM

TAKE-UP OF OFFICE SPACE BY SIZE CATEGORY 2013



Source: NVM

TAKE-UP OF OFFICE SPACE BY REGION



Source: NVM

# 2. SUPPLY OF OFFICES

## Higher vacancy rates in many Dutch cities

In addition to poorer demand for offices, last year's rising vacancy levels have thrown this market off balance even more. Office space available for immediate occupation increased by 6%, going up from 7.84 million m<sup>2</sup> to no less than 8.32 million m<sup>2</sup>. Hence, at year-end 2013 approximately 16.8% of Dutch office stock was available for rent or sale compared to 15.8% a year earlier. According to NVM Business, last year many cities had to face mounting availability levels. In Randstad, a serious rise occurred in cities like Amersfoort, Amstelveen, The Hague, Dordrecht, Haarlem and Rotterdam. In The Hague, higher supply to a great extent was the result of several large government buildings being added to the market. And in Rotterdam and Amersfoort, Nationale-Nederlanden and Achmea respectively were responsible for a serious increase as both insurance companies decided to use less floor area. Even in Amsterdam, the amount of space available for rent went up, although vacancy rates remained reasonably within limits. Interestingly enough, the amount of offices offered in the city of Utrecht remained almost the same. Outside Randstad, the cities of Apeldoorn, Arnhem, Den Bosch, Groningen and Zwolle clearly had to suffer a great deal as office supply volumes increased strongly in these cities.

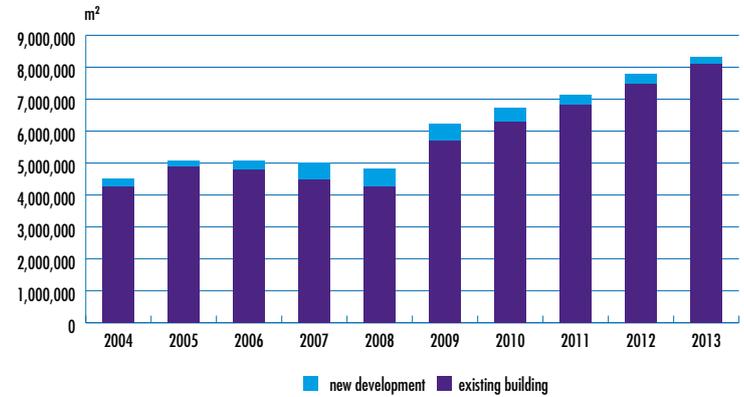
## Structural vacancy is becoming a serious problem

Last year's rising structural vacancy levels also had great impact on the office market. Towards the end of 2013, 47% of the total office stock had been available for rent or sale for more than three years. Structural vacancy is becoming a serious problem particularly in the cities of Amsterdam, The Hague and Rotterdam. In Amsterdam, structural vacancy involves at least half of all floor area offered for rent or sale.

## More redesignation and less demolition

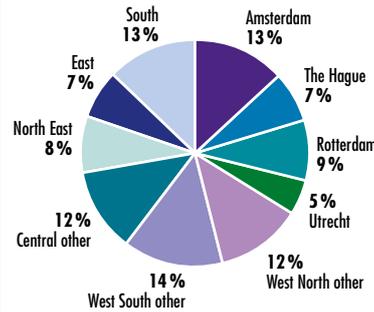
Fortunately, in 2013 more vacant offices (approx. 385,000 m<sup>2</sup> in total) were either demolished or converted and hence withdrawn from stock compared to the year 2012. Not only the cooperation between the authorities and the private sector which NVM Business advocates contributed to the large number of withdrawals, but also the fact that investors and financiers were prepared to considerably depreciate their vacant premises. Unlike in previous years, more offices were withdrawn in order to transform these into homes. Another striking fact is that last year less office space was demolished. NVM greatly supports redesignation of vacant offices.

SUPPLY OF OFFICE SPACE ACCORDING TO BUILDING TYPE



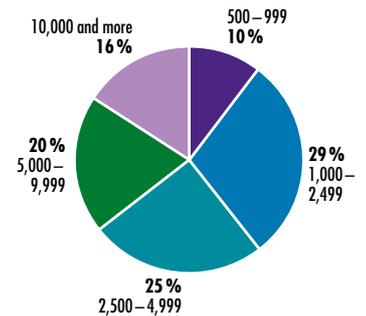
Source: NVM

SUPPLY OF OFFICE SPACE BY REGION 2013



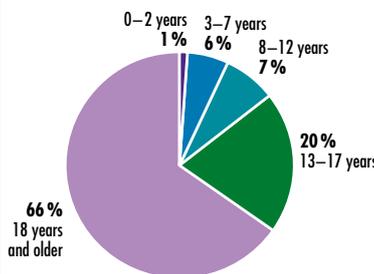
Source: NVM

SUPPLY OF OFFICE SPACE BY SIZE CATEGORY 2013



Source: NVM

SUPPLY OF OFFICE SPACE BY AGE 2013



Source: NVM

# 3. OFFICE RENTS

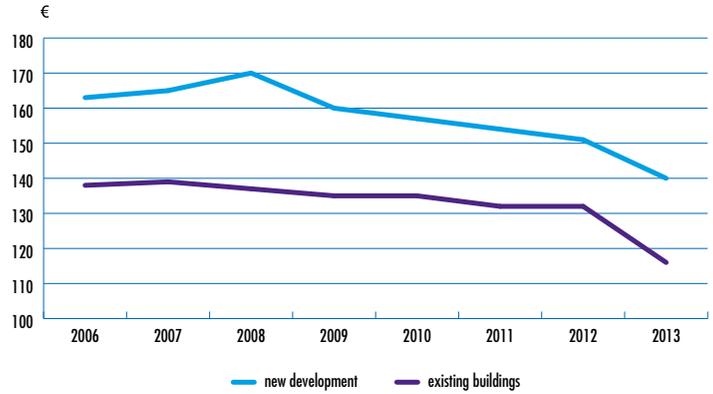
## Average rents seriously down

It should not come as a surprise that, as demand levels spiralled downwards and availability increased at the same time, office rents were under even more pressure in 2013, crashing down impressively for the first time in years. This fall in prices has affected both old and new offices, whereby existing property had to face the strongest decline. Last year, once again it remained to be seen whether the available data are indeed complete. It is because quite a few investors are reluctant to provide information on lease transactions they have entered into. In addition and like in previous years, investors have been offering incentives on a large scale, making it almost impossible to clearly monitor the price-making process.

## Regional differences

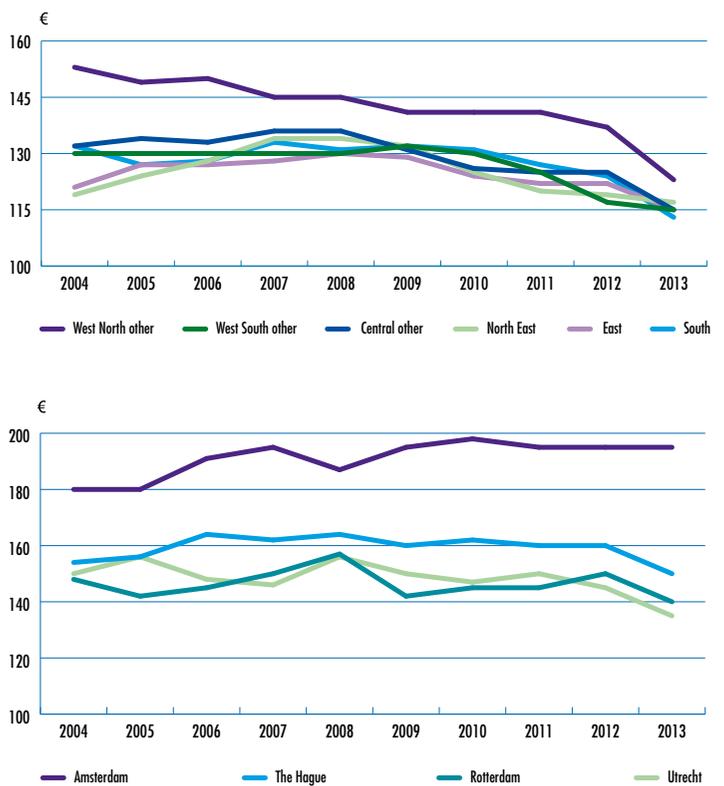
Even though last year all regions of the country were facing rent reductions, there were some undeniable differences as to the extent to which rents dropped. For instance, in central and south Netherlands average rents went down by approximately 8%, while office rents dropped by 2% on average in much of the province of South Holland (West South region other). As for the four largest cities of the Netherlands, last year Amsterdam was the only city that succeeded in keeping rents steady, which contrasted with the high office vacancy rates. In the Dutch capital, in fact it was even possible to obtain higher rents at the more expensive end of the market.

**AVERAGE RENTS OF OFFICE SPACE**



Source: NVM

**AVERAGE RENTS OF EXISTING OFFICE SPACE BY REGION**



Source: NVM

# 4. OFFICE INVESTMENTS

## Randstad, the all-time favourite area

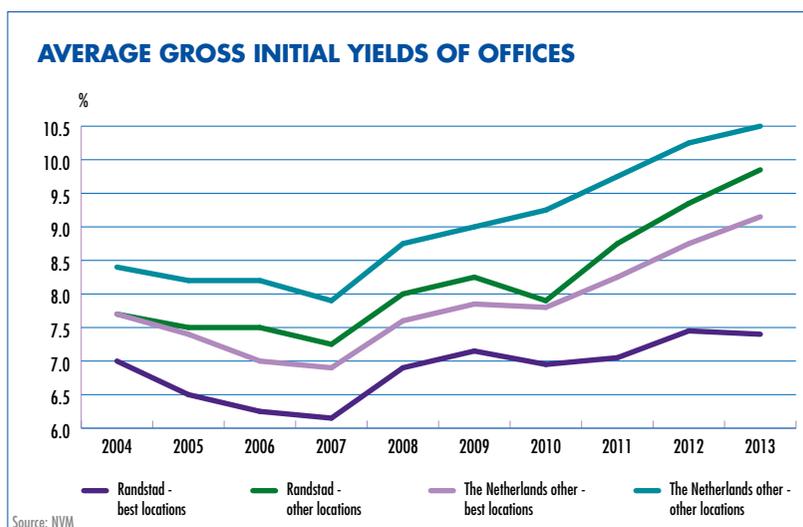
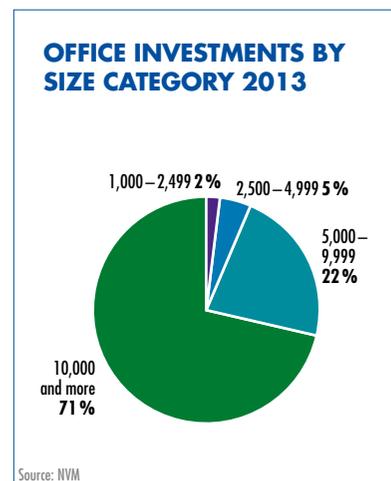
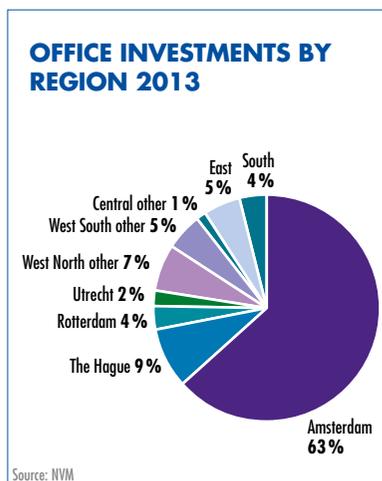
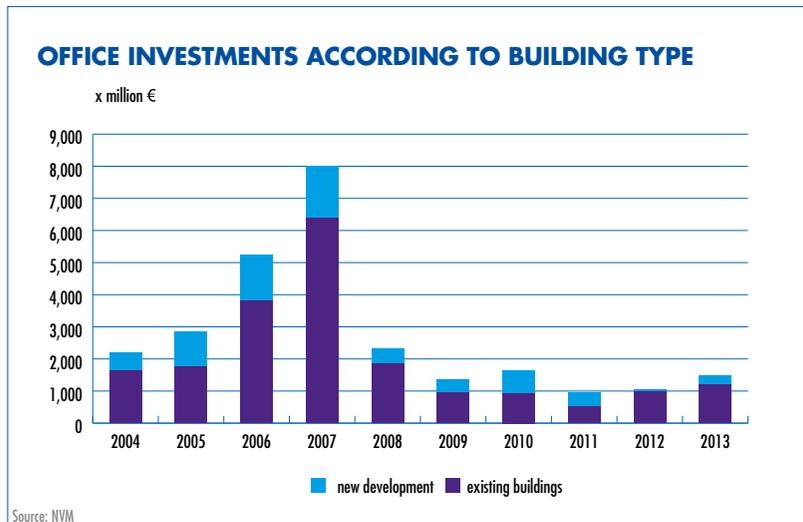
Strangely enough, investors were not put off by the gloomy conditions dominating the Dutch office market. In fact, they were even more interested in offices, which is evidenced by the rising transaction volumes. Trusting the data available on sales and acquisitions are complete, last year investors spent approximately € 1.48 billion on office buildings (2012: € 1.04 billion). One remarkable detail is the fact that in 2013, mainly German and American investors were involved and also that – judging by transaction volumes – they were particularly interested in Amsterdam, The Hague, Rotterdam and Haarlemmermeer (Schiphol region). In addition to an unmistakable preference for the Randstad area, NVM also found that last year parties were more interested in new offices. This rise to a great extent follows from two sizeable new development projects in South Axis (Amsterdam), worth almost € 150 million in total. Also, last year investors were interested in large offices, the floor areas of which cover at least 5,000 m<sup>2</sup>.

## Foreign investors take the lead

Foreign parties invested a total of approximately € 1.24 billion in office buildings. These investors were also very much involved in selling buildings, having to accept serious losses every now and then. Although last year foreign investors represented most acquisitions, Dutch investors showed up as well. These are private investors in the first place, given the fact that institutional investors were to a limited degree encouraged to buy property in their homeland.

## Yields go up

Investors' greater interest in offices did not stop the gross initial yields from rising even further, not only in Randstad but in other parts of our country as well. Growth equalled 35 basis points on average, that is 0.35 percentage point. Only the best office locations in Randstad managed to escape this less positive development, where initial yields remained almost the same or in fact they even went down in some cases (e.g. in Amsterdam).



## DEFINITIONS

### Office

A spatial and independent unit used for office activities or support activities in the first place. Office spaces that are part of industrial buildings, universities or hospitals are not considered to be offices.

### Take-up

Lease and sales transactions taking place in the open market. Users who provide for their own accommodation requirements (the so-called owner-occupier development) are not included in the take-up volume. The same applies to sale-and-leaseback agreements as well as contract extensions. NVM registers transactions starting at 200 m<sup>2</sup>.

### Supply

Office space immediately available for rent or sale. Supply does not include offices under construction and which are yet to be built. Supply includes vacant and developing offices as well as spaces that are still being used but which are soon to be released. Supply is measured in buildings providing at least 500 m<sup>2</sup>.

### Rent

The basic rent obtained for each square metre of lettable floor area, exclusive of VAT, service charges and lessees' specific furnishing expenses.

### Gross initial yield

The gross annual rent upon acquisition as a percentage of the total investment.

## NVM-REGION-DIVISION

