

STATE OF AFFAIRS

THE NETHERLANDS OFFICE MARKET

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In 2014, the office market in the Netherlands was to a great extent dominated by disappointing letting results and worries about climbing vacancy rates. While last year's lease and sales numbers dropped by approximately 6% to about 805,000 m², the number of vacant premises available for immediate occupation and offices yet to be let went up by 3.7% to approximately 8.66 million m². As a result, the demand-supply ratio was under even more pressure. The picture was pretty much the same as in previous years. The main reason for having a stagnating office market was the fact that under the influence of e.g. cost savings, many companies and organisations decided to adopt a cautious attitude.

Although many municipalities in the Netherlands experienced rising availability of offices, supply was most substantial in Almere, Eindhoven, Hengelo, Groningen, Hilversum and Apeldoorn. Last year even Amsterdam and Utrecht suffered as supply levels skyrocketed in both cities. Interestingly, considerably more office space was available for rent in Amsterdam particularly in the South Axis business district. But despite all this, sorrow and misery were not

everywhere. For instance, supply levels dropped in The Hague, also because some of the vacant buildings in this city were withdrawn from stock. Places like Diemen and Nieuwegein also managed to push back vacancy levels. One lucky break for the office market was that despite poorer demand and rising availability, average rents ceased to drop. One of the reasons is that many office owners – unlike in previous years – succeeded in realising actual rents offering limited incentives or none at all. Steady rents however, was not the only positive development that presented itself last year. The unexpected major increase of investments in offices ensured yet another boost. Last year approximately € 3.14 billion were invested in offices, which comes down to twice the investment volume compared to 2013. Looks like investors could not care less about the tormented office market. Foreign investors were the most active ones, yet Dutch investors too have been doing some good business. Good prices were paid for buildings on attractive locations, in fact some of the prices experienced upward pressure. On the other hand, those trying to dispose of offices in less appealing places needed to settle for considerable discounts.

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1. OFFICE TAKE-UP

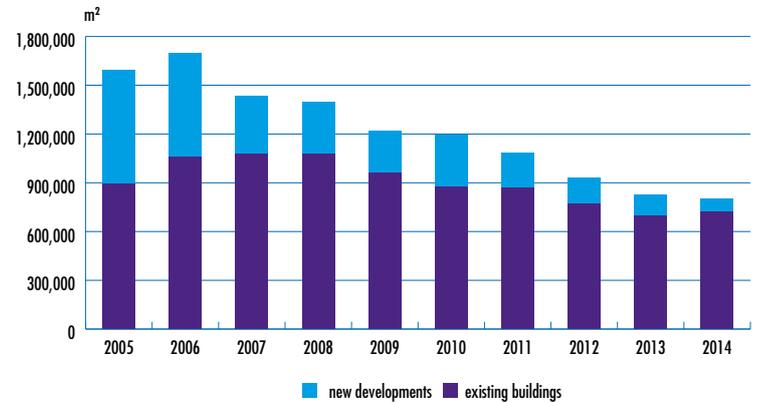
Poorer take-up of large offices

In 2014 office take-up dropped for the eighth year in a row. On the open market – excluding construction of owner-occupied offices – approximately 805,000 m² of office space exchanged owner (2013: less 6%). Gross metres are involved, without bearing in mind those spaces which companies and organisations have abandoned elsewhere. Just like in previous years, transaction volumes were most substantial as far as existing office buildings are involved. Remarkably, in this segment of the office market demand was fairly steady, letting and selling just as much property as in 2013. However considerably less new office space was taken up, forcing demand for offices yet to be built and those under construction to drop by approximately 35%. But this was not the only reason for last year's total office take-up levels to go down, as poorer demand for large surface areas also interfered with the total transaction volumes. Measured by the size of transactions realised, demand for space in the 1,000 - 2,500 m² category was considerable. In addition, many small transactions were completed as well, representing almost 25% of take-up levels.

Recovering demand in Rotterdam

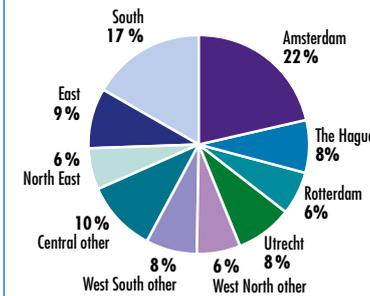
After studying the different regions, it turned out that mainly the western parts of the country were experiencing negative trends in demand. In addition, Central Netherlands reported disappointing office take-up levels. The other regions - categorised by NVM Business – managed to distance themselves from the stagnating office market. In fact, demand increased in East and South Netherlands which is evidenced by higher transaction volumes. Contradictory tendencies also presented themselves within the regions. In the West South region the city of The Hague was facing poorer demand, while take-up levels climbed in Rotterdam, a development that served the city centre in the first place. A similar situation presented itself in Central Netherlands. Disappointing demand in the city of Utrecht was counterbalanced by improved demand in Nieuwegein. In the West North region the city of Amsterdam stepped down, however Schiphol was experiencing increased demand. Not only geographically, but also when analysing each individual industry, last year's image was variable. As far as sectors such as ICT and trade are involved demand for offices improved, unlike the case with business service providers and the banking and insurance industry.

TAKE-UP OF OFFICE SPACE ACCORDING TO BUILDING TYPE



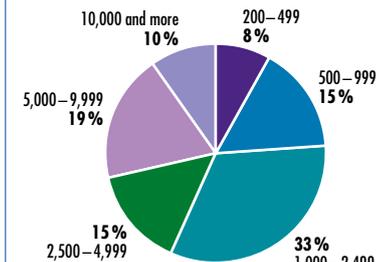
Source: NVM

TAKE-UP OF OFFICE SPACE BY REGION 2014



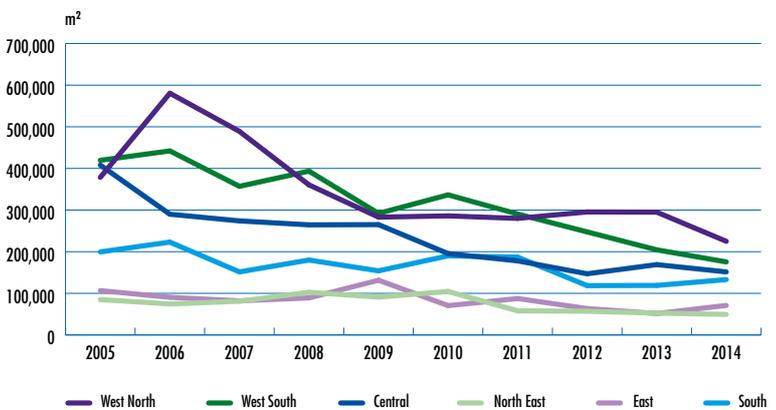
Source: NVM

TAKE-UP OF OFFICE SPACE BY SIZE CATEGORY 2014



Source: NVM

TAKE-UP OF OFFICE SPACE BY REGION



Source: NVM

2. OFFICE SUPPLY

Increase despite serious withdrawal

In addition to poorer demand, the office market was also let down by supply levels which began to climb again. On balance, these levels in the Netherlands went up by approximately 300,000 m² to 8.66 million m² (up 3.6%). Because of this rise, which indeed was less substantial compared to 2013, approximately 17.5% of office stock was available for rent or sale by year-end 2014 (16.7% year-end 2013). Last year's supply levels went up mainly because many existing buildings were abandoned due to savings in costs and restructuring. Increased availability involved the 1,000 - 5,000 m² category in the first place. And yet, supply levels in our country could have been even more substantial, if approximately 570,000 m² had not been withdrawn from stock in 2014 (demolition and conversion). Never before has the Netherlands taken so many offices off the property market in a single year. One interesting feature is that lots of offices were converted into homes for students and first-time buyers. This happened not only in the country's four large cities but also in Arnhem, Den Bosch, Haarlem and Nieuwegein.

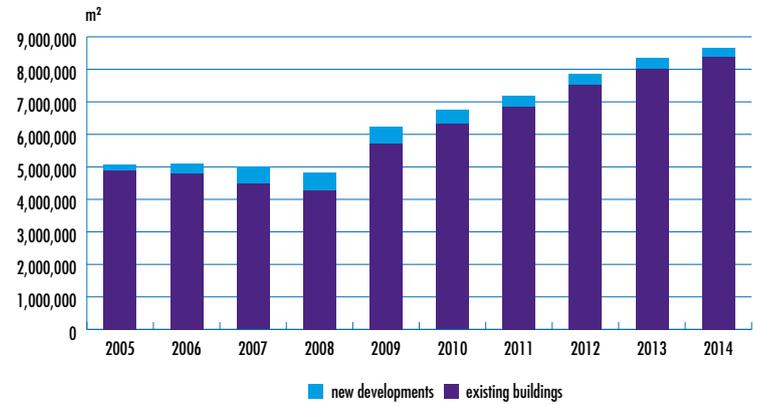
More vacant offices in South Axis

Quite a few cities have been facing increased supply levels. In Randstad these are the cities of Amsterdam, Utrecht, Almere, Hilversum, Amersfoort and Capelle a/d IJssel. In Amsterdam more office space was available for rent particularly in the South Axis, a remarkable development given the district's rising popularity. Outside Randstad, last year's supply levels climbed up in many other cities as well, particularly in Eindhoven, Hengelo, Groningen and Apeldoorn. In general (peripheral) office districts and industrial estates suffered the most from increased availability. But there have been some positive changes nevertheless. For instance, supply levels dropped in the city of The Hague, and Diemen and Nieuwegein also managed to push back their vacancy levels.

Threatening shortage of newly developed property

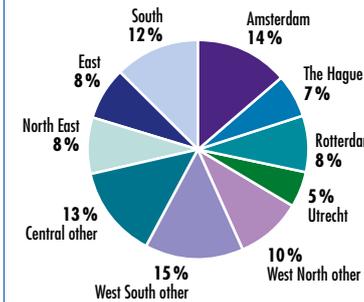
Due to ample supply of offices, last year the construction of relatively few offices destined for rent was initiated. As a result, the share of new office space continued to diminish slightly exceeding 3% by year-end 2014. According to NVM Business, one must continue to meet demand for high-quality accommodation nevertheless. Hence new development is almost inevitable, the more so as part of the preservation of office stock.

SUPPLY OF OFFICE SPACE ACCORDING TO BUILDING TYPE



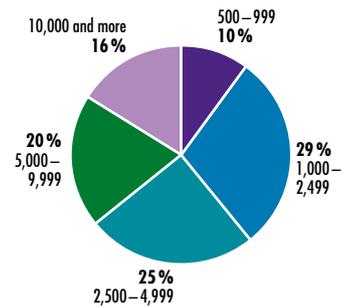
Source: NVM

SUPPLY OF OFFICE SPACE BY REGION 2014



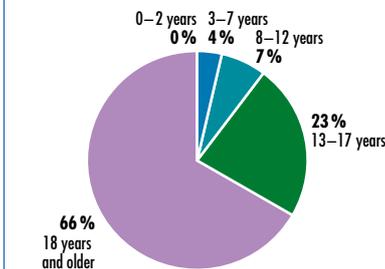
Source: NVM

SUPPLY OF OFFICE SPACE BY SIZE CATEGORY 2014



Source: NVM

SUPPLY OF OFFICE SPACE BY AGE 2014



Source: NVM

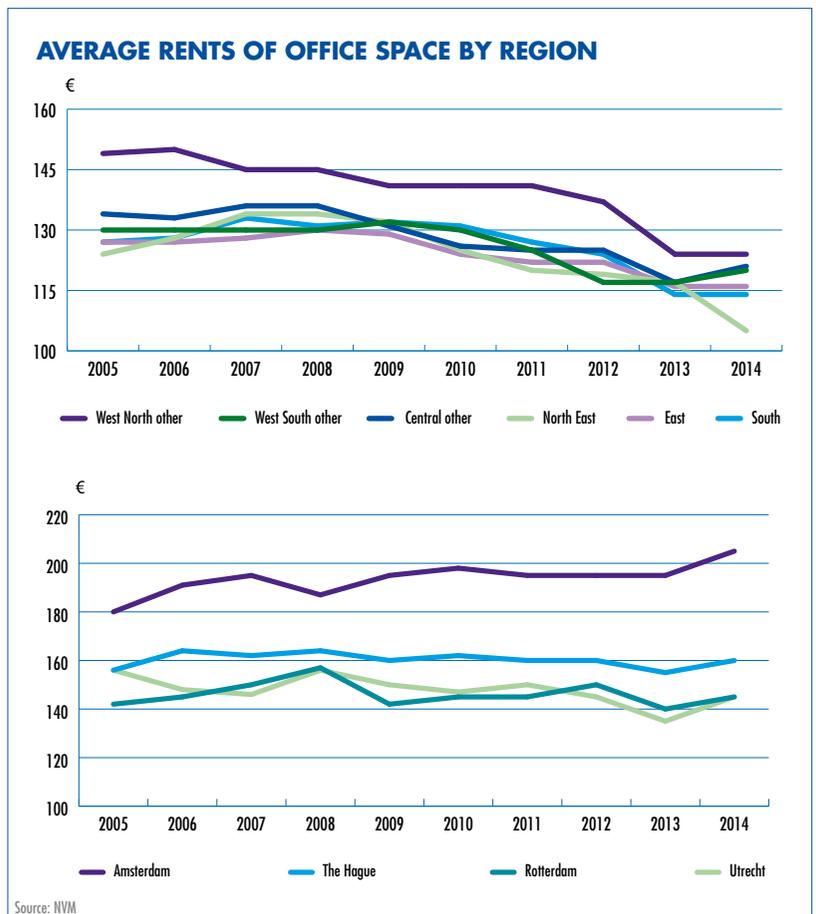
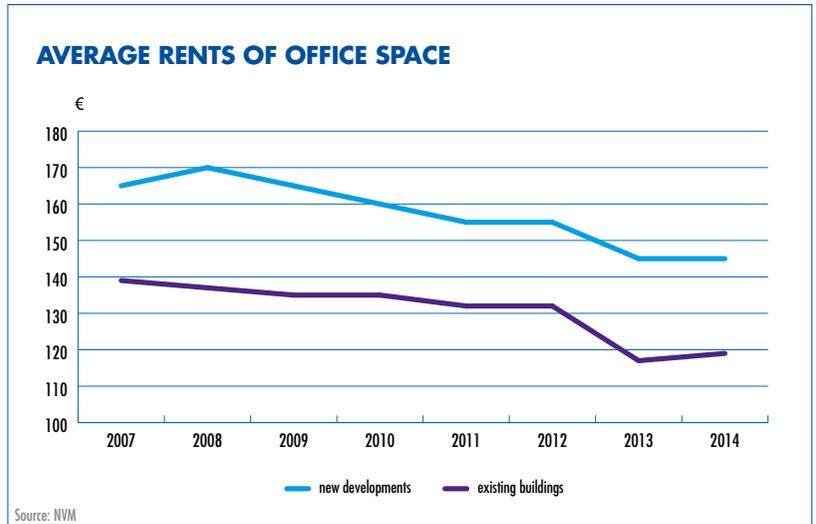
3. OFFICE RENTS

Steady average rents

The good news was that despite poorer demand and rising supply levels, last year the average rents ceased to drop. Rents stabilised at the level of 2013 as many investors succeeded in realising actual rents with limited incentives or none at all. Less transactions were also realised at the lower end of the market, which too prevented negative impact on rents. Assuming the reliability of the existing data, last year the average rent paid for existing office space amounted € 116 per m². It is worth reporting that accessing reliable figures (rents paid in 2014) has been something of a challenge, as many office space suppliers are reluctant to share this information.

Opposite tendencies

Even though the average price paid for office space in 2014 remained steady compared to last year, there have been some interesting differences across the country. For instance, average rents dropped significantly in the North East region which includes the three northern provinces. West South and Central Netherlands, however, experienced modest increase. What's more, rents also slightly went up in the four largest cities in the Netherlands. Apart from the aforementioned developments, the fact that last year price differences between good and less favourable offices continued to increase, is significant.



4. OFFICE INVESTMENTS

Investors optimistic about the office market

Poorer demand-supply ratios in the Dutch office market did not stop investors from stepping in and pushing up the amount of investments significantly. According to figures published by NVM Business, last year approximately € 3.14 billion were invested in offices, more than twice the investment volumes compared to 2013. Due to investors' great interest the share of office investments in the total property investments remained steady. About 55% of the total capital invested in commercial property in the year 2014 involved office buildings. In general, investors' buyer interest was inspired by the relatively low return on state loans. Consequently, many were prompted to consider property instead. However low interest was by no means the only reason. When it comes to increased investments, the enormous capital inflow had a decisive role.

Key role for American and German investors

Last year foreign investors were actively involved, especially in the office market. A key role was claimed by American property funds, which together represented more than 35% of office investments. German investors were also very active in this market. Foreign investors started to pay attention to the Netherlands mainly because of its favourable property prices. But Dutch investors too have done good business.

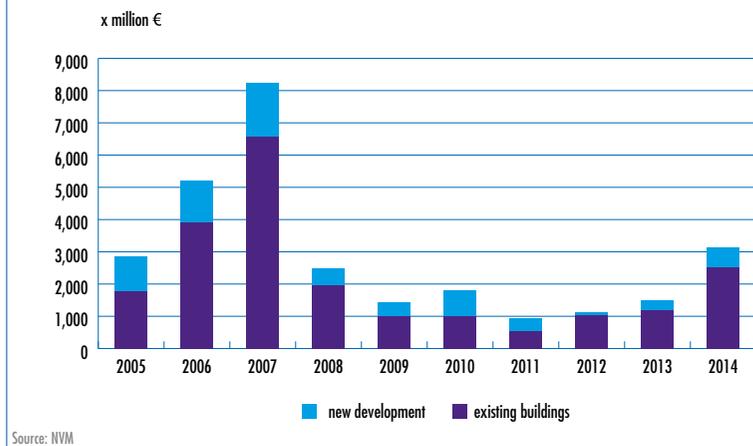
Amsterdam and Rotterdam favourite cities

Just like in previous years, investors preferred buildings located in Randstad with most investments being made in Amsterdam and Rotterdam. Indeed sales transactions also took place outside Randstad, however the volumes involved were relatively small. The majority of the buildings that exchanged owners in Amsterdam and Rotterdam involved existing property.

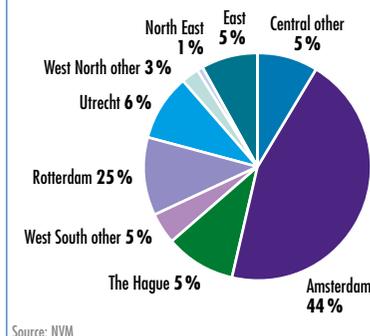
First-class offices: more expensive

Investors' rising interest in Randstad's offices has pushed down the gross initial yield of first-class offices by an average of 40 basic points (0.4 percentage point). Consequently, prices have gone up automatically. Although good prices were paid for rental buildings located in attractive areas, in 2014 less appealing offices needed to settle for significant discounts, some of which exceeded no less than 50%.

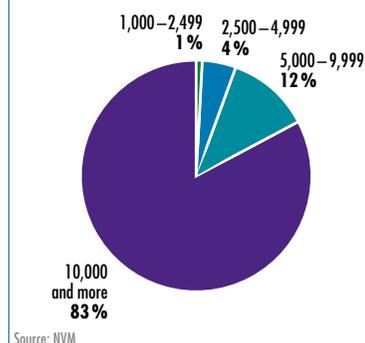
OFFICE INVESTMENTS ACCORDING TO BUILDING TYPE



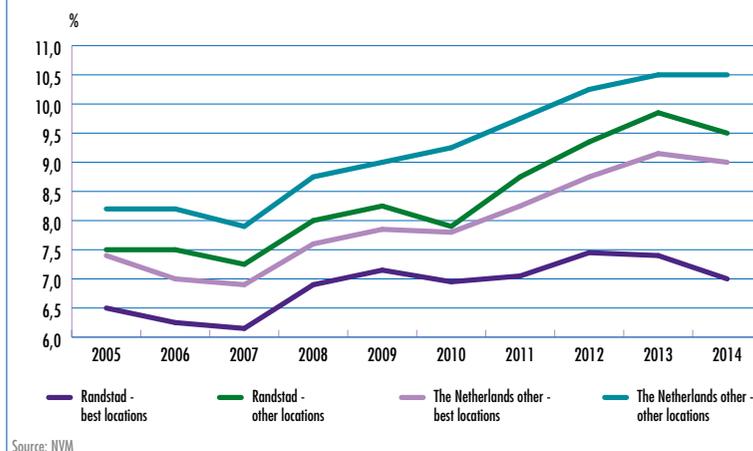
OFFICE INVESTMENTS BY REGION 2014



OFFICE INVESTMENTS BY SIZE CATEGORY 2014



AVERAGE GROSS INITIAL YIELDS OF OFFICES



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 concluded 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 200m².

Rent

The basic rent paid per square metre of lettable floor area, exclusive of VAT, service charges and lessees' specific fitting-out costs.

Supply

Office space immediately available for rent or sale. Supply does not include offices under construction and those 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 500m².

Gross initial yield

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

NVM-REGION-DIVISION

