2024

The Netherlands Real Estate Market Outlook

REPORT

CBRE RESEARCH
January 2024

Contents

Foreword

Welcome to the Real Estate Market Outlook 2024. In this report, we review the main developments in the real estate investment market in 2023, and reflect on what lies ahead. Whereas the past few months were characterized by hope and optimism, the expected turnaround did not materialize: it was a quiet real estate year. And although 2024 will not be marked by large investments nor transaction volumes, the market is increasingly recovering and stabilizing. So less uncertainty, and tentative improvement.

Snowball effect

Investors still had to get used to a new reality in 2023. Falling asking prices and rising financing costs caused depreciation of property values. Yields came under pressure, with no clear end in sight. These developments set in motion a snowball effect, which soon extended the unpredictability of real estate investments to the entire investment market.

Hope for recovery

None of these trends are new: the first signs were already visible in late 2022. Yet the intensity and duration of this dip came as a surprise to many. No wonder that investors focused on the near future last year, hoping for a quick recovery and regained enthusiasm. The opposite turned out to be true: interest rates continued to rise, inflation accelerated and transactions took a long time. Although total malaise was feared, the impact on the market as a whole remained relatively limited. Investors took their losses, but there was no sign of a spike in bankruptcies.

Room for investment

Now that the inflation peak is behind us, interest rates seem to be stabilizing at higher levels. This creates a clear consensus: we need to redetermine real estate values, given the changed market conditions. Only if we bring real estate valuation in line with the current market situation will it be possible to capitalize on opportunities.

Meanwhile, rental growth and returns are rising as a result of strong demand for high-quality real estate. Combined with the expected gradual decline in interest rates, this creates more room for investment. We will see the first signs of this during 2024 – but the pace is still unclear.

Calmer waters

The market is now more stable and predictable than it was a year and a half ago. The first investors are already getting in, and it is only a matter of time until the market starts moving again at full speed. This development will only really start to gain momentum once institutional investors dare to take the plunge again. This will require a somewhat longer period of stabilization.

Our Market Outlook is excited about the opportunities for real estate investors in this recovering, stabilizing market. We hope it helps you with your investment strategy for 2024.

Erik Langens
Executive Director Capital Markets

Robert-Jan Peters
Head of Debt & Structured Finance

01

Economics

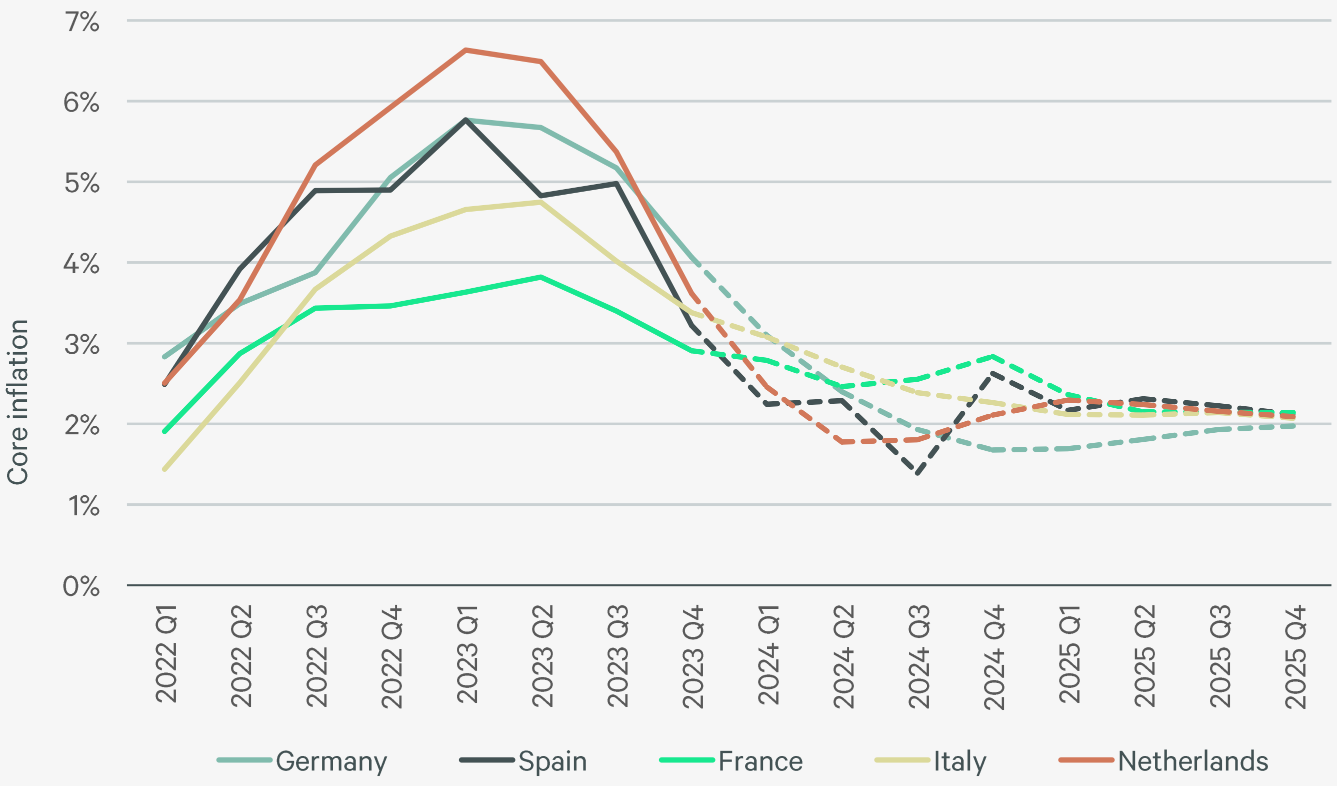
2024 can be characterised as a year in which households, companies and the government became fully accustomed to the normalised interest rates. Now that inflation seems to be in check, we can once again look to the future, with a downwards interest rate policy appearing to be a question of time. Yet the Netherlands is still facing the ramifications of sharp rises in interest rates, so it is to be expected that economic growth will be very modest. Rising costs, including the costs of financing, will be accompanied by cut backs, which will affect the course that the economy takes. Ultimately, this will become even more evident in the various occupier markets in the real estate sector.

Core inflation returns to the preferred level

At the end of last year, the interest rate policy had the desired effect: inflation fell relatively quickly to below the preferred 2% level, spurred in part by falling energy prices. The core inflation rate followed suit, albeit with some delay. At the end of last year, the harmonised core inflation rate in the Netherlands settled at 3.2%, even though it peaked at 8.1% in May 2023. Despite sharp increases in wages during 2023 (averaging at 7.3%), a wage-price spiral is not particularly evident.

Besides curbing inflation, the European interest rate policy is also cooling the economy, which is prompting a downturn in corporate and government investment as well as a decline in household spending. Partly because of this, the expectation is that the current core inflation trend will continue to head towards a more normal level from a historical perspective.

Figure 1: Core inflation trends (2022 Q1 – 2025 Q4)



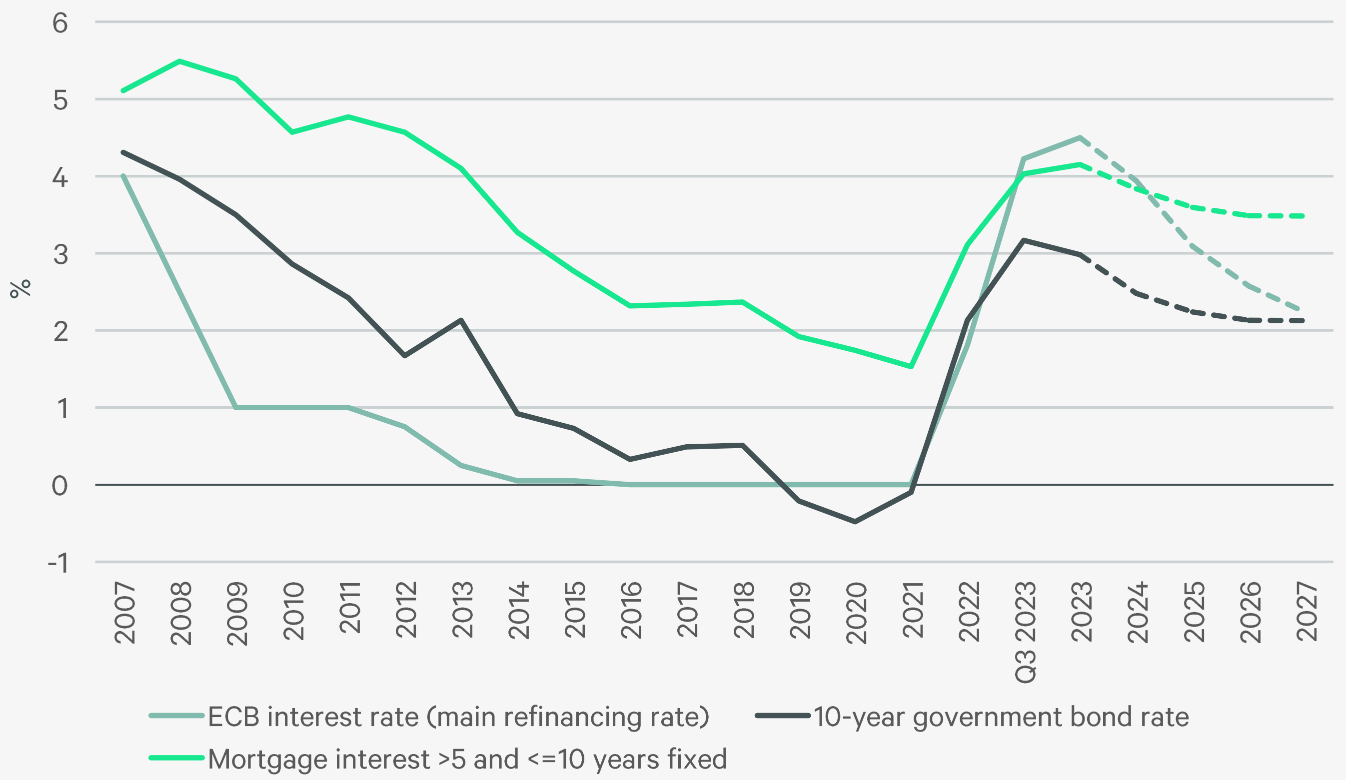
Source: CBRE Research

Monetary policy nudges inflation downwards this year

Positive reports on inflation will extend to the monetary discussions due to be held at the European Central Bank (ECB). Last year, these discussions constantly revolved around rising interest rates, but this year they will be about when – and how quickly – the interest rate will have to be brought down. This shift alone is already having an effect, with a significant downward trend in real estate finance rates and interest on government bonds already evident in October/November 2023.

CBRE expects the ECB to lower its policy interest rates towards the end of the second quarter, after which these interest rates will fall from 4.5% today to 4% by the end of 2024. This is a measured reduction in the rate, rooted in ongoing uncertainty and based, for instance, on concerns about a second wave of inflation propelled by excessive consumer spending and/or another rise in energy costs. At the same time, the geopolitical conflicts in Ukraine and the Middle East continue to keep the world in a state of uncertainty. This is compounded by the elections due to be held in the United States as well as in various European countries this year, prompting even more disquiet.

Figure 2: ECB interest rate projections, 10-year government bonds, 5- to 10-year mortgage interest rates



Source: CBRE Research, Oxford Economics, DNB bewerking CBRE

Risk/return on government bonds and real estate once again in the right proportion

In line with falling policy interest rates, and in keeping with the trend in recent months, the expectation is that interest rates and interest on government bonds will decline steadily towards the long-term average. This is good news for the real estate investment market in several respects. Not only will this ensure that the spread between government bond yields and initial returns on real estate will find equilibrium sooner and, as a result, the prevailing depreciation trend in 2024 could finally be broken. Another important consequence of falling interest rates is the increase in investment allocations in real estate by institutional investors. Recently, there has been a considerable outflow of investment volume amongst pension funds and insurers, partly due to the stiff competition for risk-free government bond yields. Falling interest rates and a wider spread of real estate returns may therefore boost the inflow of investment in real estate again over time.

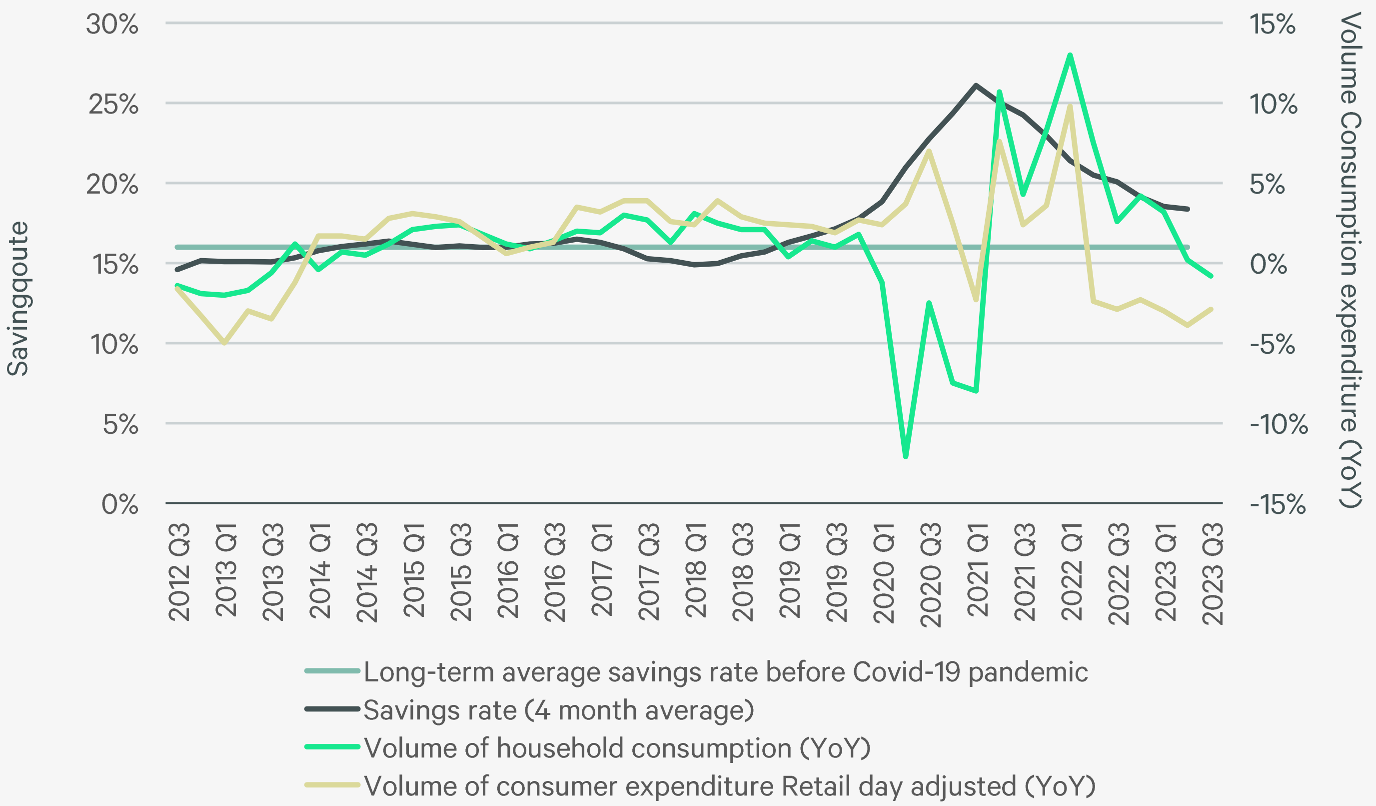
Consumer spending down, partly on the back of shrinking savings

Although falling interest rates should eventually loosen the purse strings for households, it seems as though they are still getting used to the new reality. The effect of interest rates is still unfolding, and this year – much more so than last year – this should be felt by many companies and households.

Higher inflation has only reduced consumer spending to a limited degree in the recent past. This can mainly be explained by households cashing in on a historically high savings ratio for money saved during the corona pandemic, when they spent significantly less money. The savings ratio has since fallen back to a historically recognisable level. Partly in view of this, CBRE has witnessed overall consumer spending fall compared to the beginning of 2023.

One obvious effect is that consumers are now having to adjust their spending patterns downwards, and this is likely to continue for the foreseeable future. That said, this will be offset by income growth in the medium term, giving households more financial scope and boosting a growth in spending once again.

Figure 3: Consumer spending and household savings ratios (2012 Q3 – 2023 Q3)



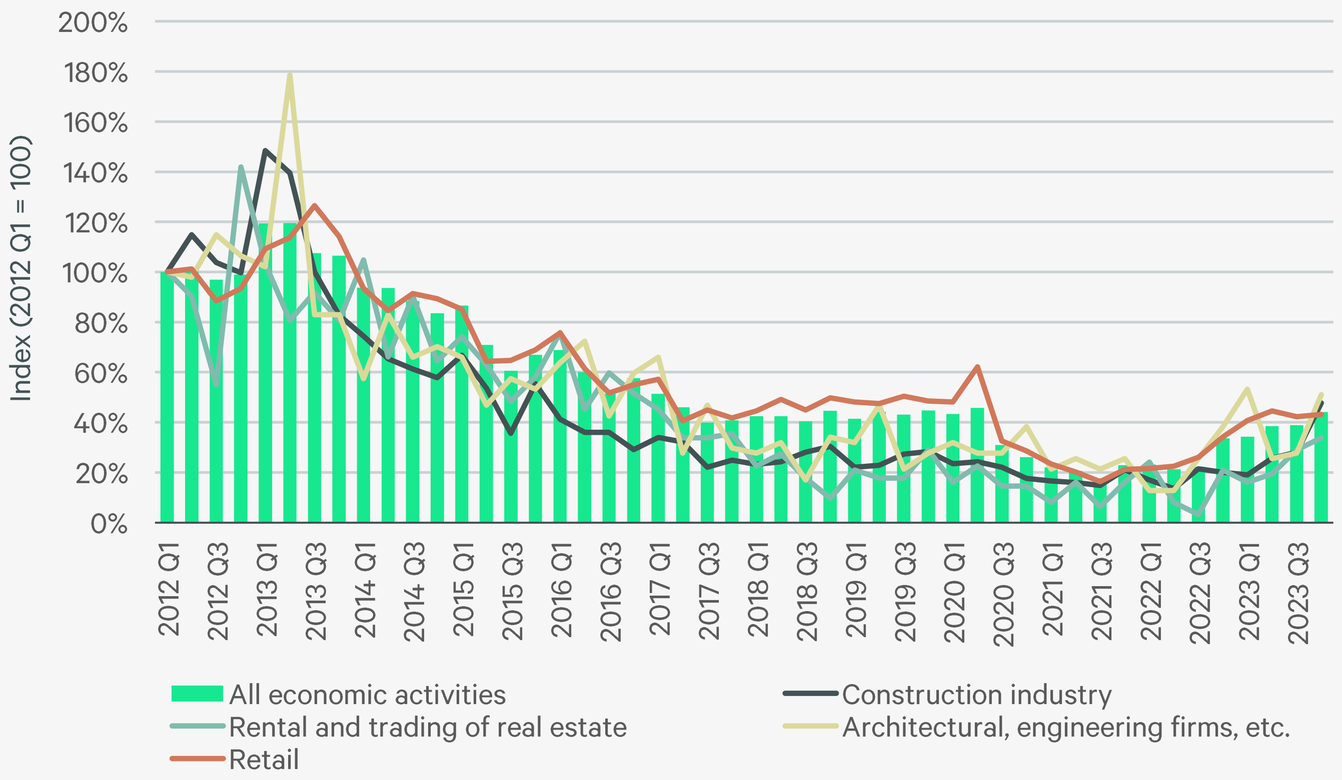
Source: CBS

More bankruptcies thanks to higher financing costs, taxation and less spending

A reduction in consumer spending (in terms of volume), exacerbated by corona debt repayment and higher financing costs, is expected to lead to more company bankruptcies. The reduction in the number of bankruptcies recently seems unsustainable given the current economic circumstances. As it stands now, CBRE is assuming that the number of bankruptcies across all economic sectors in the coming year may rise by between 25 and 35%. Incidentally, not all bankruptcies will have the same level of impact on the demand for space in the various real estate sectors.

Yet a combination of relatively moderate growth prospects and a rise in bankruptcies will help create more leeway in the various occupier markets in most categories of real estate. This is a separate matter to sectoral trends, which may affect the dynamics in the occupier market.

Figure 4: Index of the number of bankruptcies by sector



Source: CBS

If we home in on the sectors, the expectation is that the reduction in the number of building permits for residential property developments, in particular, is going to affect the entire construction chain. This is already evident at the beginning of the chain (i.e. architects, consultants and developers) and is set to trickle down to the rest of the chain. This is a remarkable development, particularly given the fact that the Netherlands is facing an unprecedented and increasing housing shortage. From the perspective of the investment market, this means that more bankruptcies amongst property developers will 'free up' development sites.

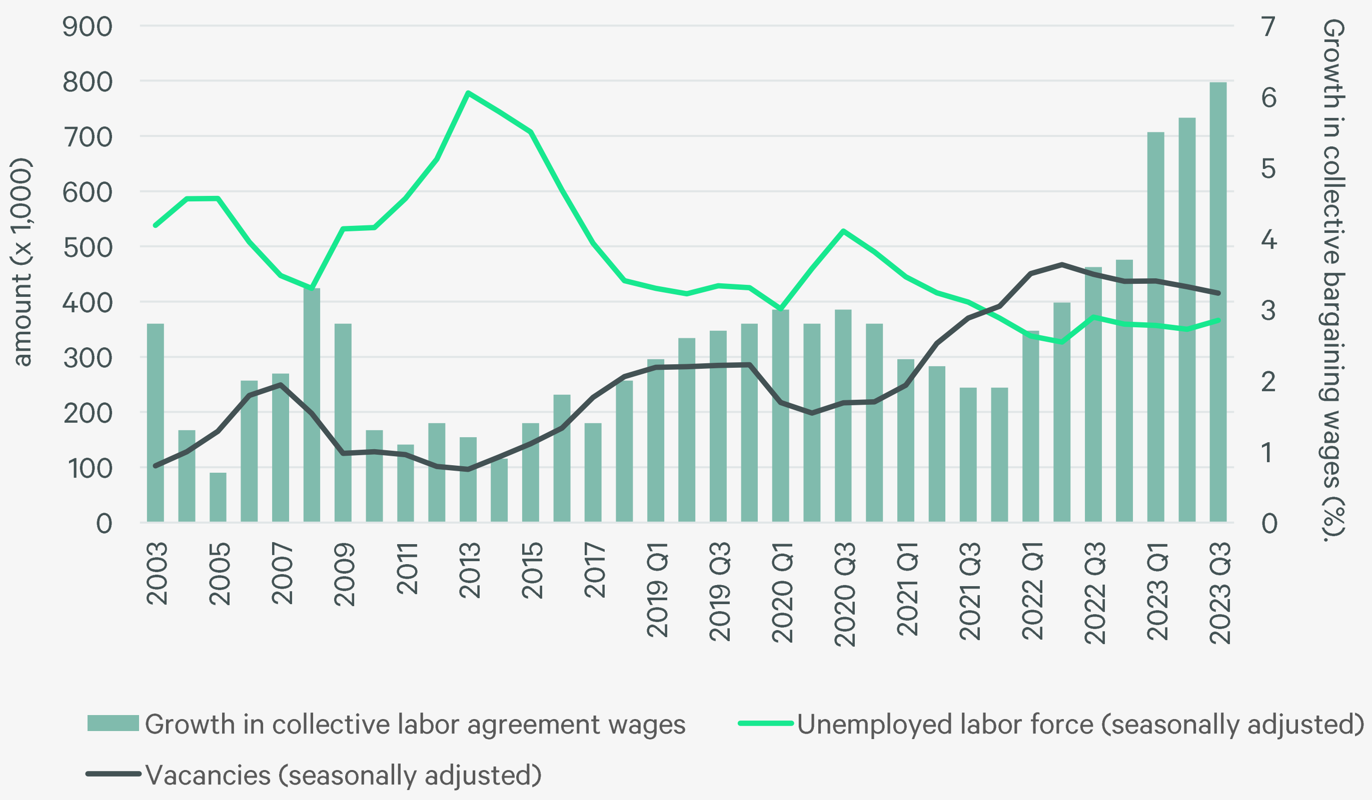
The rising number of liquidations will also be felt in the retail, offices and logistics markets: there will be more vacant properties in the various market segments. Added to this, taking advantage of possible 'alternative uses' for the retail and office space that has become vacant will not be as easy as it was in the past. The legislative proposal for the housing market has had a detrimental effect on change-in-use propositions like this, particularly in the urban areas. These kinds of transformations are less likely to get off the ground, despite the fact that it should be faster procedurally in the wake of the implementation of the Dutch Environment and Planning Act.

Shortages in the labour market continue, despite slight rise in unemployment

The most significant positive trend is undoubtedly the persistently high level of job security in the Netherlands, despite a growing number of bankruptcies. Even though unemployment levels are expected to rise from 3.5% to 4%, this is still extremely low from a historical perspective. This is partly because employment is still rising, so the number of job vacancies is continuing to outpace the number of unemployed. So the jobs market remains tight, which can lead to growth problems, especially at the sectoral level. Shortages in, for instance, healthcare or specialist business services are high. High labour shortages are hindering growth in many sectors.

This immediately presents one of the Netherlands' biggest challenges: a significant and prolonged labour shortage, which tends to have an adverse effect on further economic growth and will entail making difficult political choices. Many companies are struggling to find staff and – partly because of this – have had to adjust their growth targets. This not only applies to commercial organisations; it also includes healthcare operators that are keen to grow, and indeed have to, because of future healthcare needs. This puts the Netherlands increasingly at the mercy of productivity growth (innovation) and labour migration, in terms of ensuring economic growth as well as keeping up the standards of our social services.

Figure 5: Numbers of vacancies, unemployed and trends in CBA wage increases



Source: Statistics Netherlands, adapted by CBRE Research

Uncertainty about the business climate going forward after the election results

Migration in particular is being scrutinised on the back of the last election results. It was one of the key concerns during the election campaigns and it is that topic that swept the Party for Freedom to victory. But this party is not the only one bent on drastically curbing the migration flow, with a view to reducing the housing shortage (among other things). Other parties are also advocating a more manageable influx of labour and other types of migration.

While (severely) curtailing certain migration flows may alleviate housing problems, ultimately this is not the solution. In the process, it must be taken into account that the Netherlands is becoming increasingly dependent economically on foreign workers, including high-skilled employees, and therefore migrant workers. Extremely restrictive policies may actually worsen the business climate for leading firms, and with that the overall economic and welfare situation.

Zooming out from the current political situation, we must not forget that the Netherlands is first and foremost a country of political coalitions. A country of compromises and 'seeking consensus'. Partly because of this, ideas and proposals like 'Nexit' or a complete migration freeze can be construed as highly unrealistic when it comes to forming a coalition agreement. From an economic perspective, it is safe to say that political uncertainty never contributes positively to the overall investment climate. As is the case in so many markets, the real estate sector also stands to benefit from clarity and stability. A prolonged process of forming a coalition in 2024 will therefore have a negative impact, especially in the more policy-sensitive sectors like the residential investment market.

Should a centre-right government coalition emerge from a societal point of view, this could provide a relatively favourable baseline scenario for the real estate investment climate in the Netherlands. There seems to be sufficient support for a coalition of this kind to explore ways to improve the investment climate. In the process, those involved recognise that this will require a lot of capital: on the one hand, to improve the housing market situation and, on the other, to make the built environment in its entirety more sustainable. In this light, the legislative proposal for the 'Affordable Rent Act' may be reviewed.

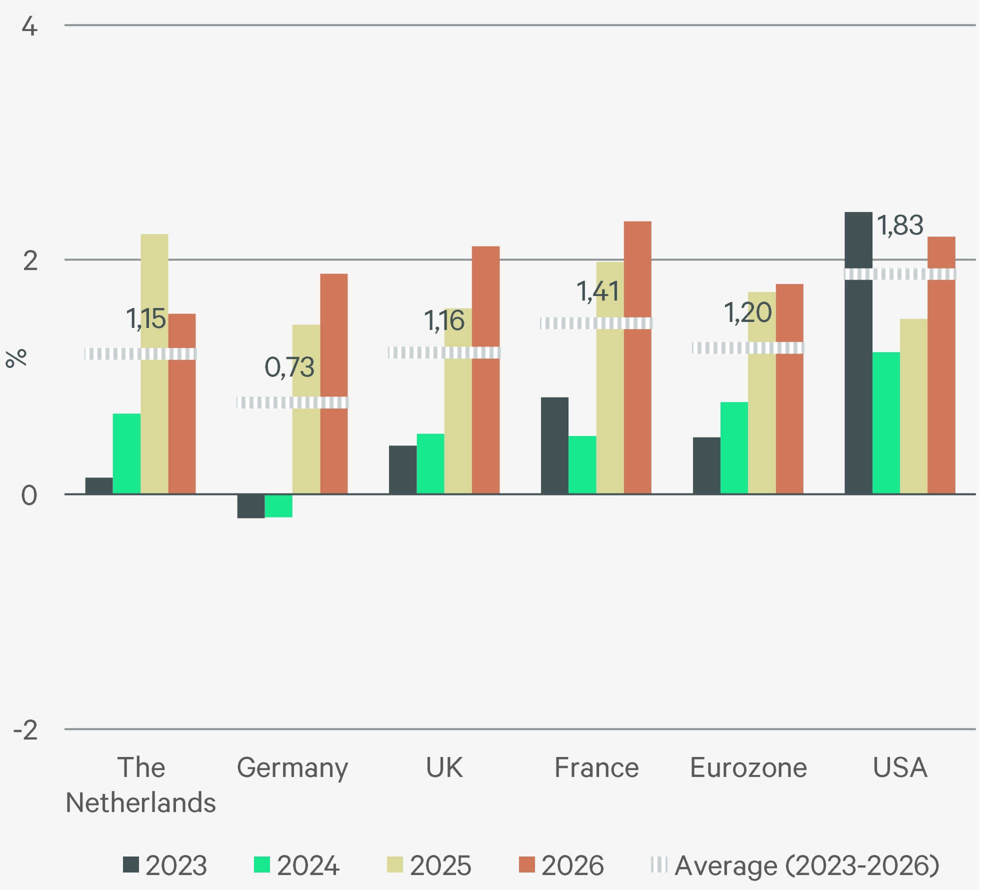
Dutch economic power under pressure

An expected decline in spending, increase in bankruptcies and continued labour shortages threaten the Dutch economy with modest growth in the long term if policies do not change. Whereas our economy benefited in recent decades from above average figures compared to many other countries, the picture is not as rosy right now. CBRE is assuming an average growth of 1.15% between 2023 and 2026. This is somewhat lower than our expectations for the Eurozone as a whole, which stands at 1.2%. What is remarkable is the significantly stronger growth forecast for the United States compared to major players in Europe. This makes it clear that the competitive position of many European countries is under pressure and that perhaps the reinforced protectionism in the United States, on the one hand, and the strong focus on making the European economy more sustainable, on the other hand, may (yet) have a negative impact in the short term. However, if competitiveness has to be improved compared to other continents, it must mainly be sought in gains in innovation and productivity, areas in which Europe still seems to be lagging behind, particularly when it comes to developing AI.

That said, with its many high-tech and life science companies, the Netherlands holds a trump card. However, it will be up to the various government agencies to facilitate the growth and support of these companies as much as possible. There has to be clarity as far as the housing policy is concerned so that everyone can get on with the huge new-build construction task that lies ahead of us. This is also not only essential for those currently looking for housing. It also concerns future migrant workers who are desperately needed if we are to keep our prosperity at acceptable levels.

This will safeguard more substantial economic growth potential, especially given the strong foundations on which the Netherlands has rested for many years. Consider education, infrastructure, the fiscal environment and historically strong economic and demographic growth. Finally, we must not lose sight of the sustainability issue. This does not seem to be as high on the priority list of the parties currently forming the coalition government. Yet, in the long run, commitment to this issue is not only beneficial for the economy and broader prosperity of our country; it is crucial given where the Netherlands is located. This calls for attention to this topic, even if it is only for future water management and the preservation of soil quality in the Netherlands.

Figure 6: Economic outlook in the Netherlands compared to other western countries



Source: CBRE Research

02

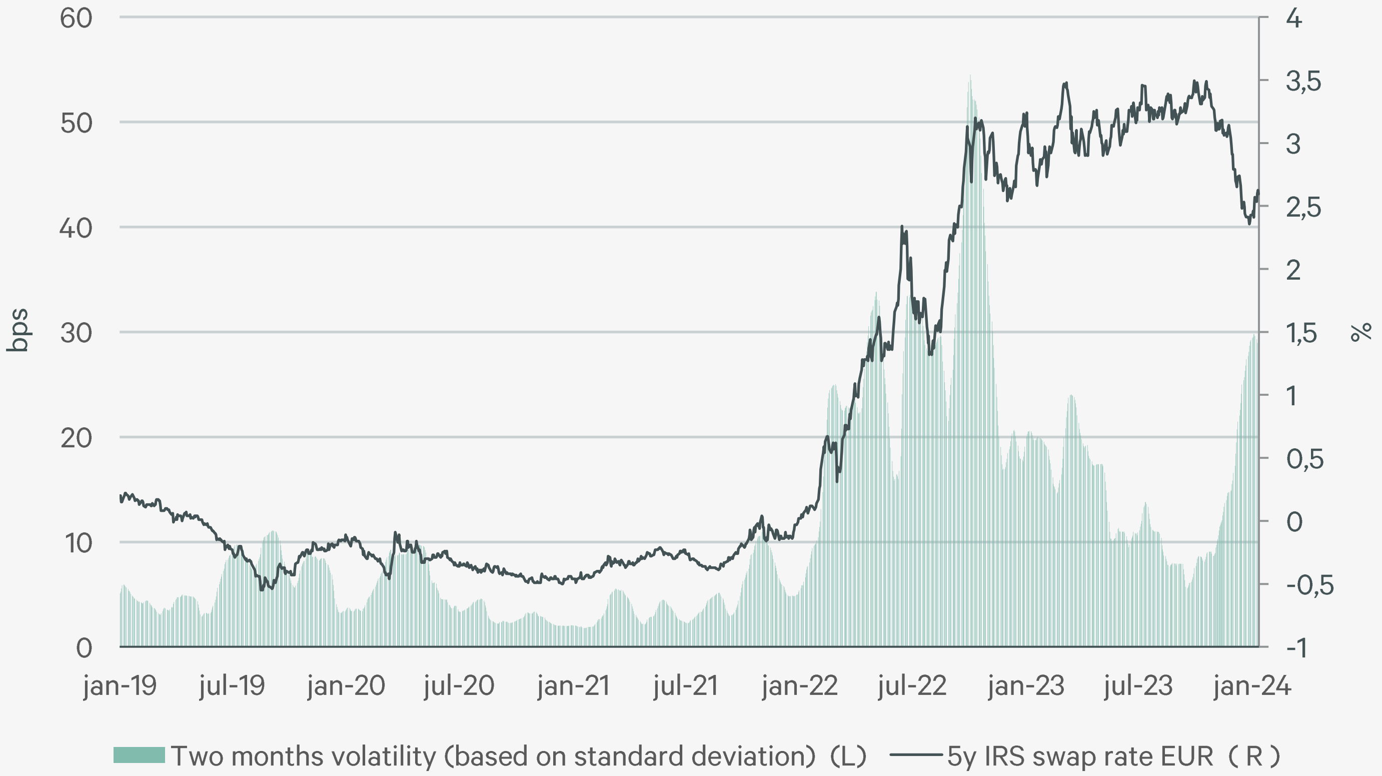
Finance market

With inflation ostensibly under control and the ECB gradually looking ahead to a possible fall in interest rates, the mood regarding interest rates in the market is changing. The five-year IRS swap interest rate averaged 3.11% in 2023, and interest rate volatility decreased month-on-month over the course of the year. Having said that, since we are now witnessing a clear fall in inflation rates, the capital market interest rate is dipping too. The five-year IRS swap interest rate fell by 100 basis points between mid-October and mid-December 2023. The interest rate is currently stabilising at a considerably lower level, namely between 2.4% and 2.5%.

This is a significant change compared to the beginning of autumn 2023, when the five-year IRS swap rate peaked at 3.5%. A sharp drop in the three-month Euribor rate is therefore expected in the foreseeable future.

It is still sitting at 3.9% as it stands now, and should fall to 2.4% by one year's time, based on the current level of the five-year IRS swap rate. This is a huge drop given the unpredictable geopolitical and economic developments across the world. Partly for this reason, current real estate financing rates are quite attractive, especially considering that the likelihood of even lower interest rates is slim.

Figure 7: Development of the five-year swap interest rate and two-month volatility

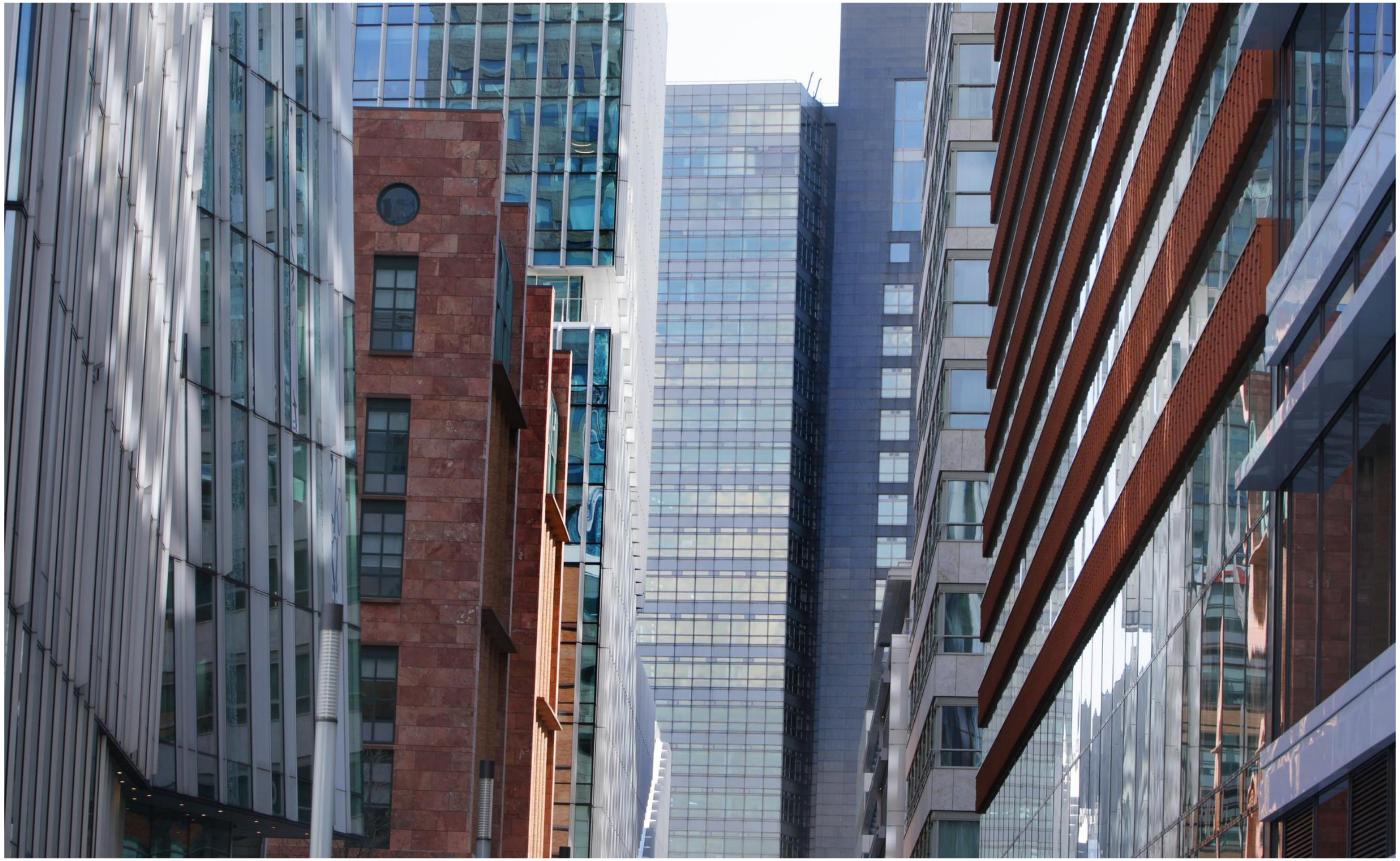


Source: Macrobond, CBRE Research

Fall in interest rates will expedite price equilibrium in the real estate market

Whereas CBRE had previously assumed a slight depreciation of real estate, this now seems to be largely offset by significantly lower interest rates. It should be noted, however, that there may still be smoothing in valuations, where the appraised value is still lagging behind the actual market price. Still, lower interest rates are welcome, and may help rebalance real estate market pricing sooner.

The fall in rates is partly driven by the drop in inflation, but mainly by expectations that the ECB's interest rate policy will also be adjusted downwards going forward. The market seems to be assuming a phased decline of 50 basis points, after which, in the years that follow, the ECB will return the interest rate to the level just above 2% by 2027. However, this expectation largely depends on movements in core inflation, the economic situation in Europe and the capacity for refinancing countries' debt.



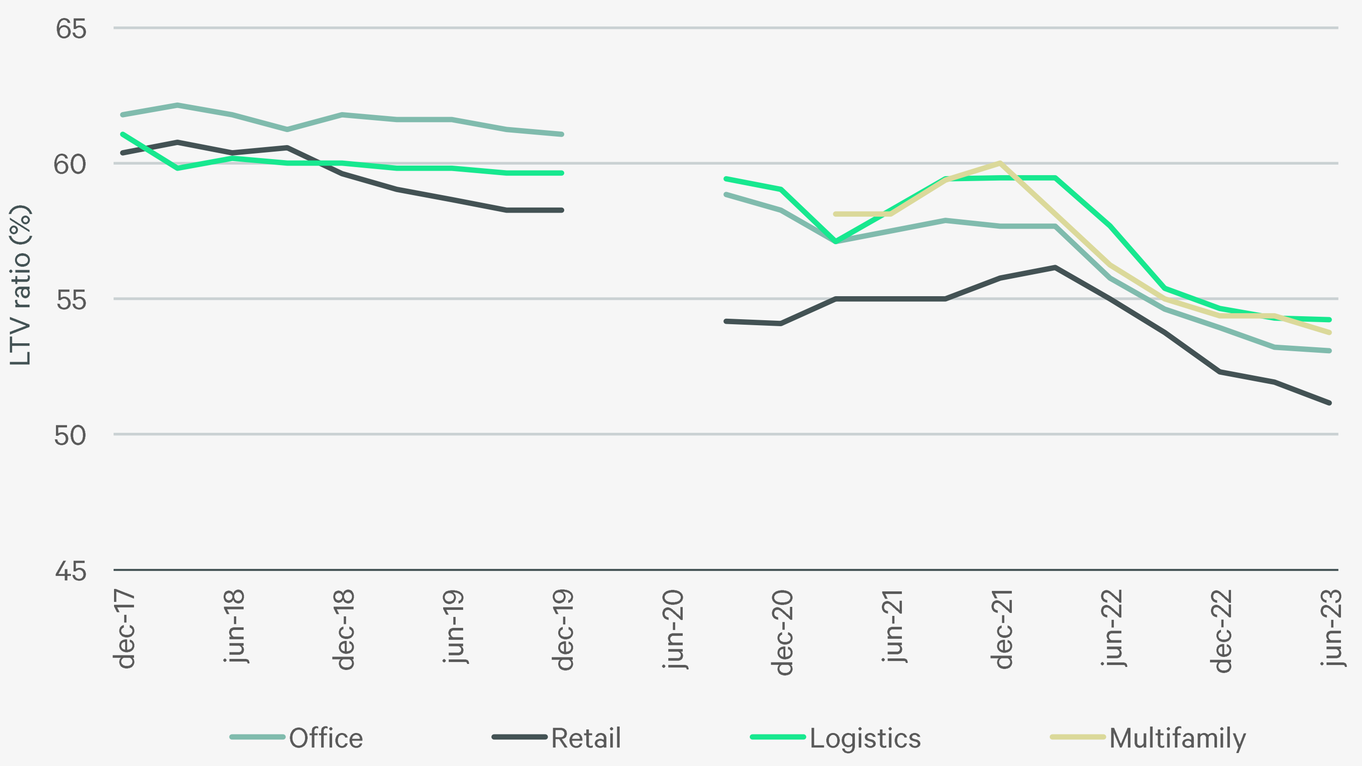
Rising refinancing challenges, despite falling interest rates

With interest rates falling and the likelihood of them stabilising over the rest of the year, there will be more clarity on the current pricing and exit yields in the real estate market. This ensures that investment decisions for acquisitions and dispositions, as well as investments in renovation will be made with more certainty. This is turn will have a positive impact on the dynamics of the real estate market.

Despite falling interest rates affecting real estate market dynamics positively, we will still have to deal with the aftermath of higher interest rates – combined with a fall in real estate values and tighter financing policies – in the coming years. Given that taking on five-year financing is par for the course, many investments made between 2019 and 2022 will be eligible for refinancing in the near future.

This means that investors will be confronted with a combination of changes. Not only will the interest rate be about 250 to 300 basis points higher than it was when the loan was originally taken out, the value of the real estate has also fallen sharply. Added to this, financiers have adjusted their financing policies down the years. First and foremost, the loan-to-value (LTV) ratio has fallen because the risks are lower. This ratio sat at around 60% in 2019; it has subsequently fallen to under 55%. What is more, financiers are being more tactical when it comes to taking on funding or continuing with existing financing. There is more focus on the clients with whom the financing relationship will be continued and/or expanded, and how the real estate financing portfolio can be recalibrated according to the sector, given the change in market risks. In practice, this mainly means a shift towards financing housing and logistics, and less propensity to finance offices and retail space.

Figure 8: Maximum LTV ratio for non-subordinated loans and prime real estate products (Dec 2017 – Jun 2023)



Source: CBRE Research

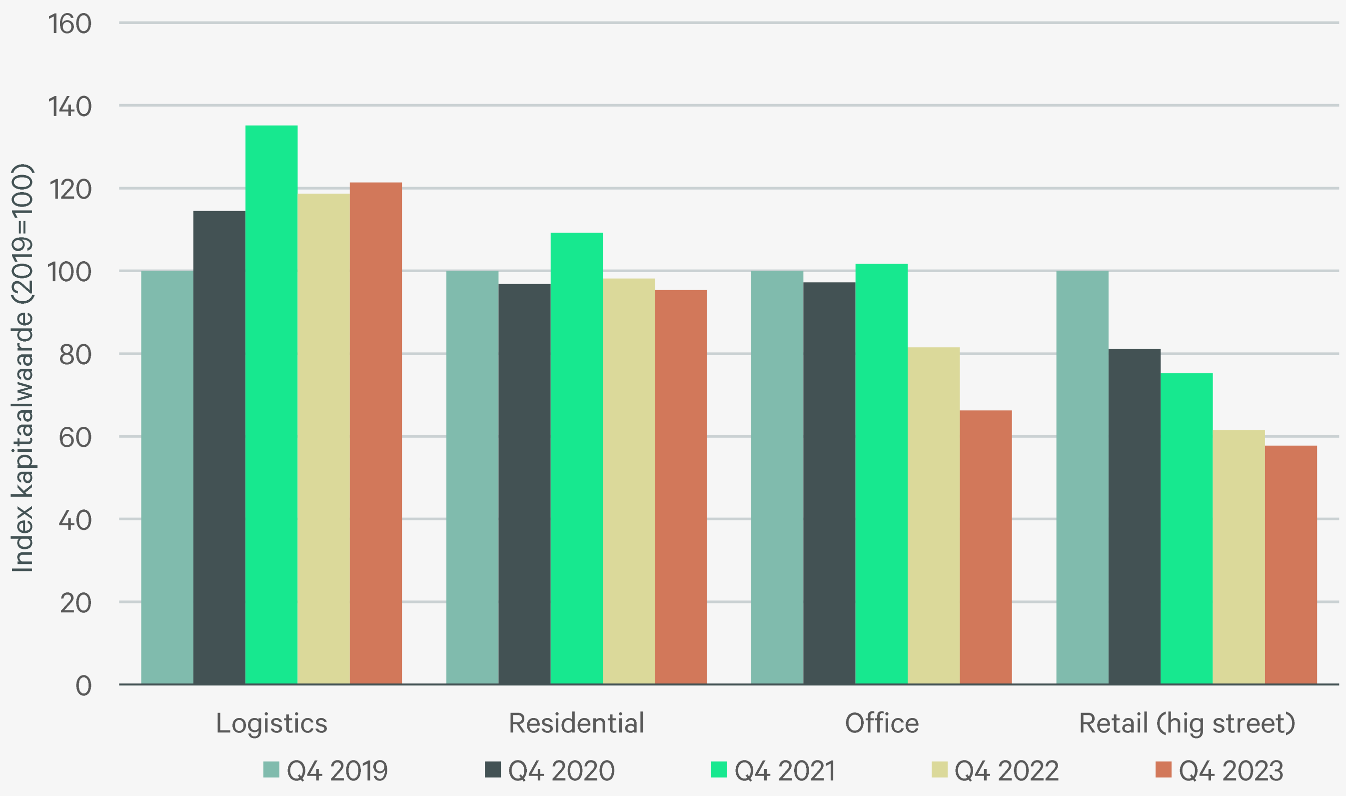
All things considered, the trends and developments mentioned above are creating a funding gap in the financing market. This means that some of the existing loans cannot be refinanced with the financier where they are being held given the current conditions and the new financing policies.

The refinancing challenge is mainly down to the combined impact of a fall in value and the LTV funding policy. Based on these developments, the primary refinancing challenges are being felt in the office space and retail markets. Not only did capital value decline the most between 2019 and now, the LTV policy also sustained the most severe downward adjustment in these sectors.

This challenge seems to be considerably smaller in the logistics market and – to a lesser extent – in the residential market. This is primarily due to the fact that capital values rose considerably in these sectors between 2019 and now. Added to this, the financiers' liquidity is focusing more on these sectors, the LTV is less stringent and future prospects are more favourable. Because of this, refinancing problems have had a relatively minor impact in these sectors.

The refinancing issues in the housing market are mainly affecting real estate development projects; this is hardly the case for existing residential complexes. For logistics, the refinancing issue is evidently limited to a few purchases made based on maximum financing at the time the market peaked (early 2022).

Figure 9: Changes in capital value of prime real estate in the Netherlands per sector (Dec 2019 – Dec 2023)



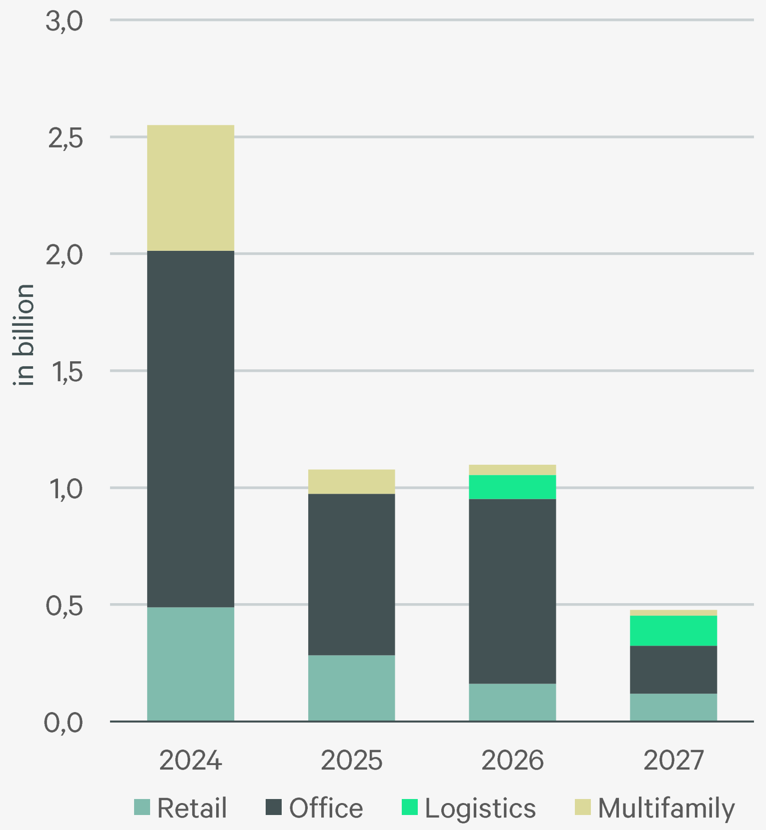
Source: CBRE Research

Refinancing gap of €5.2 billion: mainly in 2024 with the focus on offices

Higher interest rates, adjusted financing policies and a decline in real estate values suggest that there will be a refinancing gap of about €5.2 billion in the Netherlands, spread over the next four years. Of this refinancing gap, 61% relates to office real estate. The remainder is modelled for retail (20.2%) and residential (13.6%) real estate. Only 4.5% of the financing gap relates to logistics or industrial real estate.

The majority of refinancing challenges will be faced in the coming year. Given the current financing policies and the value of the real estate, there is a deficit of about €2.6 billion. This does not imply that this real estate will actually have to be sold. Indeed, with many of these properties, cash flow is still good, given the very low vacancy rates in all types of occupier markets. The upshot of this is that financiers are generally willing to look for other solutions.

Figure 10: Modelled real estate financing in the Netherlands by sector (2024 – 2027



Source: CBRE Research

Yet owners usually look to sell the building first, partly because the initial investment horizon is nearing its end, or because the risk ratings or requirements for returns no longer fit within the fund strategy. After an informal market review, it becomes clear to them to what extent and at what price there is sufficient liquidity to take over the building. Often this information persuades them to reconsider the option of resorting to refinancing.

The extent to which refinancing can be successfully concluded then depends on:

1. the degree to which the owner is in a position to contribute capital;
2. the level of the current LTV ratio;
3. the extent to which the financier is willing to be flexible when it comes to finding a solution;

To date, CBRE has witnessed the majority of owners opting for refinancing, except when the situation is so difficult that selling appears to be the only way out.

Even if the LTV ratio is too high, there are always refinancing options, provided they are in keeping with the interest coverage ratio

If the owner proceeds to refinancing, the path to the existing funder remains the most attractive by far. In the process, the owner will have to convince the financier that refinancing is necessary, and this will have to be done transparently – particularly given that it often goes against the financier's prevailing financing policy. At the same time, a solution will have to be found, based on a comprehensive review of the business plan, which must include potential exit strategies.

ESG plays a crucial role when it comes to persuading financiers. Besides laws and regulations, financiers are very well aware that a good and quantitatively measurable ESG strategy enhances rental income and awakens investor interest. This reduces refinancing risks when their investments mature. This may persuade a financier to proceed with refinancing that – to all intents and purposes – flies in the face of their financing policies.

A sound, revised business plan does not automatically imply that the financing will be extended. What is more: many financiers are extremely reticent when first approached about refinancing. If additional capital cannot be contributed to lower the LTV ratio, the solution often has to be found in refinancing, which may include token direct repayments, periodic cash sweep repayments and at a higher margin. This is to compensate for an LTV ratio that is too high in comparison with the financier's standard policies. The upshot is that the owner will have little or no cash flow from the real estate. The market will accept a higher LTV ratio subject to these conditions, as long as the ratio stays within the affordability range (capped at 1.2/1.3 of the interest coverage ratio) and there is scope for the mandatory repayment to reduce the LTV ratio, and with that, the risk going forward.

There are alternatives, but they are significantly more expensive. Take, for instance, a combination of a non-subordinated loan with the main lender and a subordinated loan, or a whole loan solution: higher LTV financing from a more opportunistic, and therefore more expensive, lender.

Both combinations may present a solution if the principal financier is not sufficiently flexible, but, fundamentally, both alternatives are a lot more expensive. Added to this, principal financiers do not always agree to taking on a subordinated loan because it complicates matters considerably. If an additional subordinated loan is involved, the principal financier cannot independently address any problems with the real estate client. Moreover, the principal financier may have to discuss matters with the second financier if the latter takes over the shares, which makes the situation a lot more complicated. Quite part from that, this kind of construction often leads to a significantly tighter interest coverage ratio, which can ultimately lead to rating problems with the principal financier.

Despite the sizable hypothetical funding gap, in practice there are plenty of opportunities to close this gap in refinancing. Moreover, refinancing seems likely to pay off in the short and medium term. There are several reasons for this:

1. A short-term renewal of between two to three years may in due course lead to slightly lower interest rates and hence better pricing and liquidity in the market;

2. Borrowers stand to benefit from indexation going forward, which may boost the value;

3. There is time to work out an asset management strategy for a few years hence, when the time to exit is more appropriate.;

4. The investment market – especially when it comes to larger transaction volumes – will be more liquid in the medium term than as it stands now.;

Limited capacity to fund new builds is pushing developers towards joint ventures

Apart from refinancing, financing projects, particularly housing developments, is still a challenge in the prevailing market. The sharply reduced value – which is even more pronounced in land values – is having a significant impact on potential profits from projects, and exposes financiers to additional risks. Because of this, a loan-to-gross-development value (LTGDV) that is acceptable to the financier lowers the loan-to-cost (LTC) ratio. Many developers believe forward purchasing is a solution to this, but in practice this produces a fractional change in the LTC. The main thrust here is that more of the borrower's own money has to be contributed in the initial stages of the project before it can start.

This situation, combined with increased reticence on the part of investors when it involves forward funding transactions, means that property developers are increasingly looking for a joint venture setup.

That is one way to raise the right amount of equity to be able to start projects. All things taken into consideration, this obviously delays the launching of new-build projects, particularly when several new construction projects are stated at the same time. After all, equity can only be used selectively on a few projects.

03

Investment market

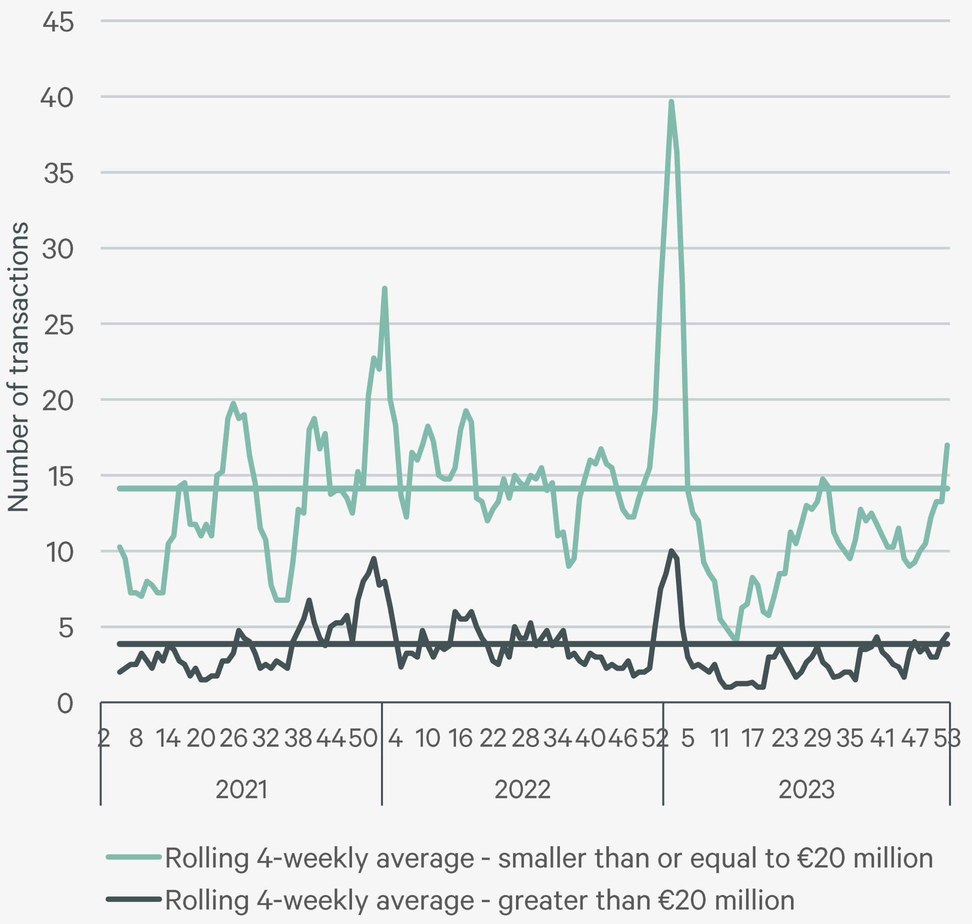
Short review of 2023

In the second half of 2022, the central banks' interest rate hikes suddenly changed the familiar playing field in which real estate investors had been operating in previous years. Persistent inflation forced the ECB to abruptly slow down demand for consumption and capital in the EU. This led to an unprecedentedly forceful interest rate policy from the second quarter of 2022 to well into 2023. Partly due to offsetting wage increases, the requisite interest rate hikes in 2023 turned out to be higher than expected, which in turn affected pricing, dynamics and confidence in the Dutch investment market.

Ultimately, weak dynamics and declining prices led to a significantly lower investment volume at €8 billion – representing a decline of 53% compared to last year. As was the case in previous years, most of the investment allocation went to logistics real estate (30%), followed by residential investments with a 24% share. Sitting at 16%, the share held by office real estate remained historically low, while the allocation to retail space remained relatively stable at 12% of the overall investment volume.

Whereas CBRE initially assumed that the market would be more dynamic from autumn 2023 onwards, this virtually failed to materialise, especially as far as larger transactions were concerned. Many organisations normally operating in this market are still cautious when it concerns their acquisitions or sales. However, the bidding processes undertaken reveal that liquidity has already increased significantly compared to the end of 2022 and the beginning of 2023.

Figure 11: Dynamics by market size (<=€20 million or >€20 million)

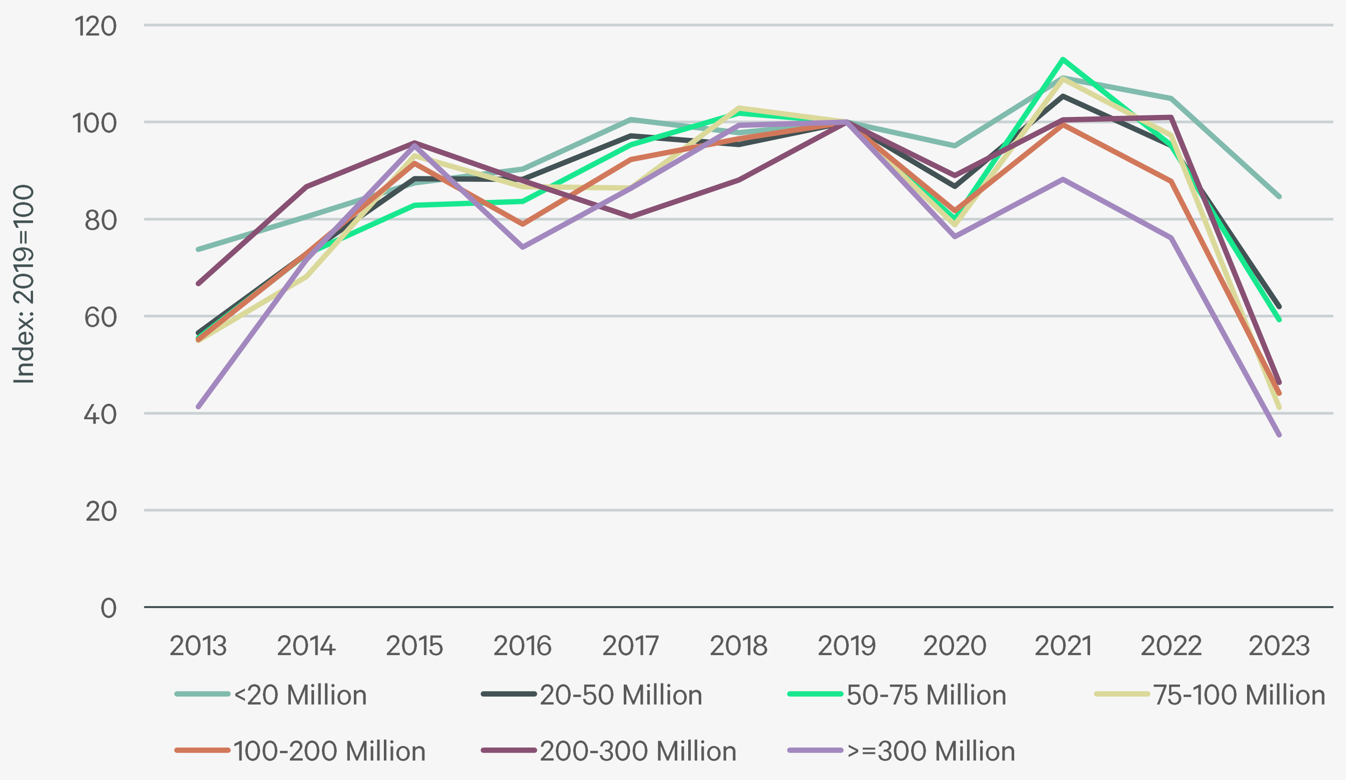


Source: CBRE Research

This applies mainly to the market for less than €50 million. For amounts exceeding that, it is traditionally the institutional organisations who are active, and at the beginning of this year they were still suffering from what is known as the denominator effect. This has since continued in 'redemption requests', which involve withdrawing some capital from real estate funds. As far as this is concerned, international outflow seems to be greatest for office space funds, as well as for residential funds in the Netherlands. This goes against the trend in Europe: on our continent in particular, there is still – on average – a great deal of interest in all kinds of residential investments, and this is spreading from the more traditional housing product to operational housing products, such as student housing, care homes or affordable housing, and/or making housing more sustainable by those who have impact funds.

Major transactions are not taking place due to reticence on the part of the sellers in particular. Only those who were forced to sell due to significant capital outflow or private equity organisations wanting to focus more on other markets were active in the market. This led to a considerable decline in the overall investment volume. Whether and to what extent this outflow from the real estate market will continue depends mainly on two factors: interest rate movements and the extent to which the risk ratio between the bond market and the initial returns on real estate normalises. Risk premiums for real estate investments fell considerably in 2023 compared to, say, 10-year government bond yields. So much so, that it was more lucrative for investors to allocate their investments to products like government bonds rather than less liquid and low-yielding real estate investments.

Figure 12: Dynamics in the European investment market by purchase price (2013-2023)

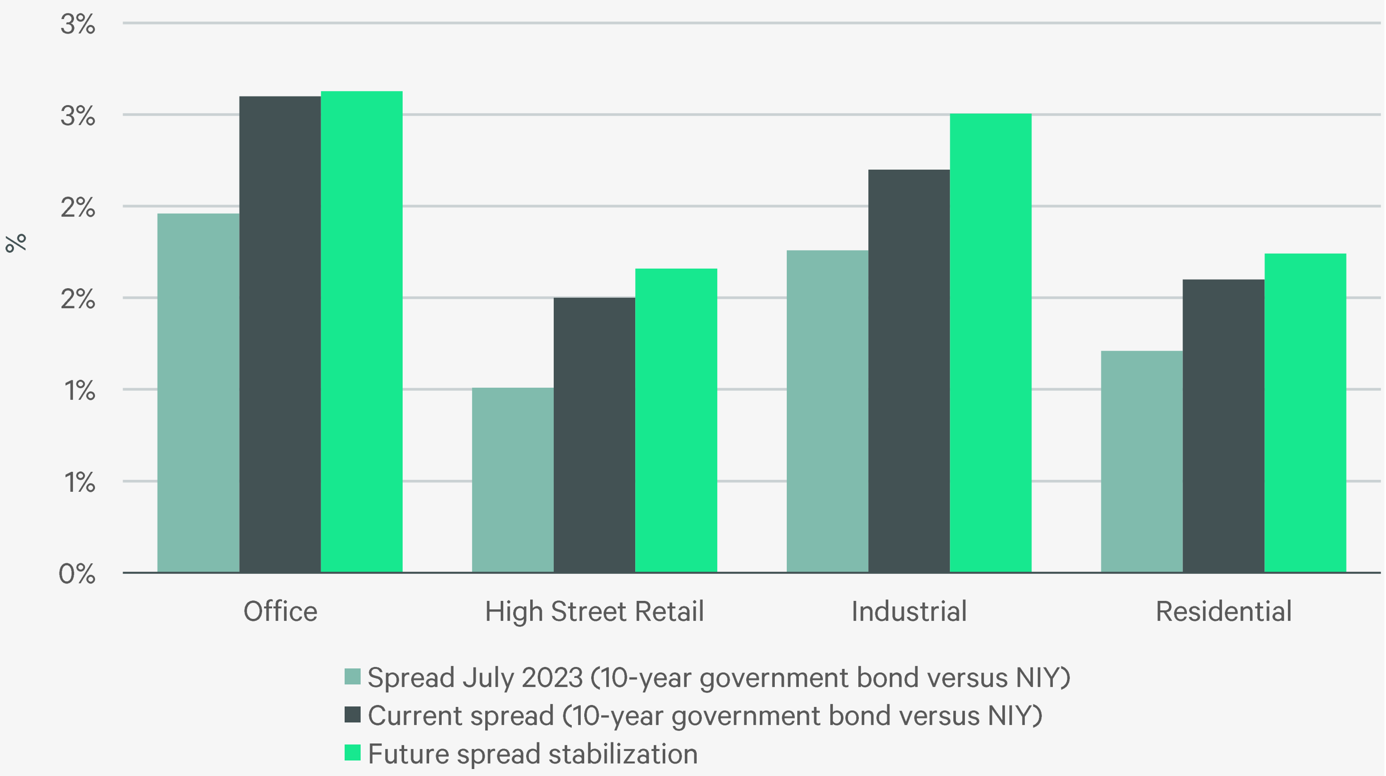


Source: CBRE Research

What we are witnessing is that the current spread between net initial returns and 10-year government bonds has now grown to a level that can be described as a healthy, long-term risk premium for various real estate typologies. This is partly due to the sharp fall of the capital market interest rate at the end of 2023. With this, it seems as though a period of write-downs is heaving into view sooner than expected. Taking lagging and smoothing into consideration, which is not unusual in the valuation world, it is fair to say that book values and actual pricing in the market will converge in the first quarters of 2024.

Whereas 2023 held investors in the grip of further interest rate hikes and the associated write-downs, 2024 could become a clear tipping point in this. In fact, the expectation is that capital value growth could resume in several real estate categories towards the end of the year. That said, the reason for this capital value growth does differ depending on the sector.

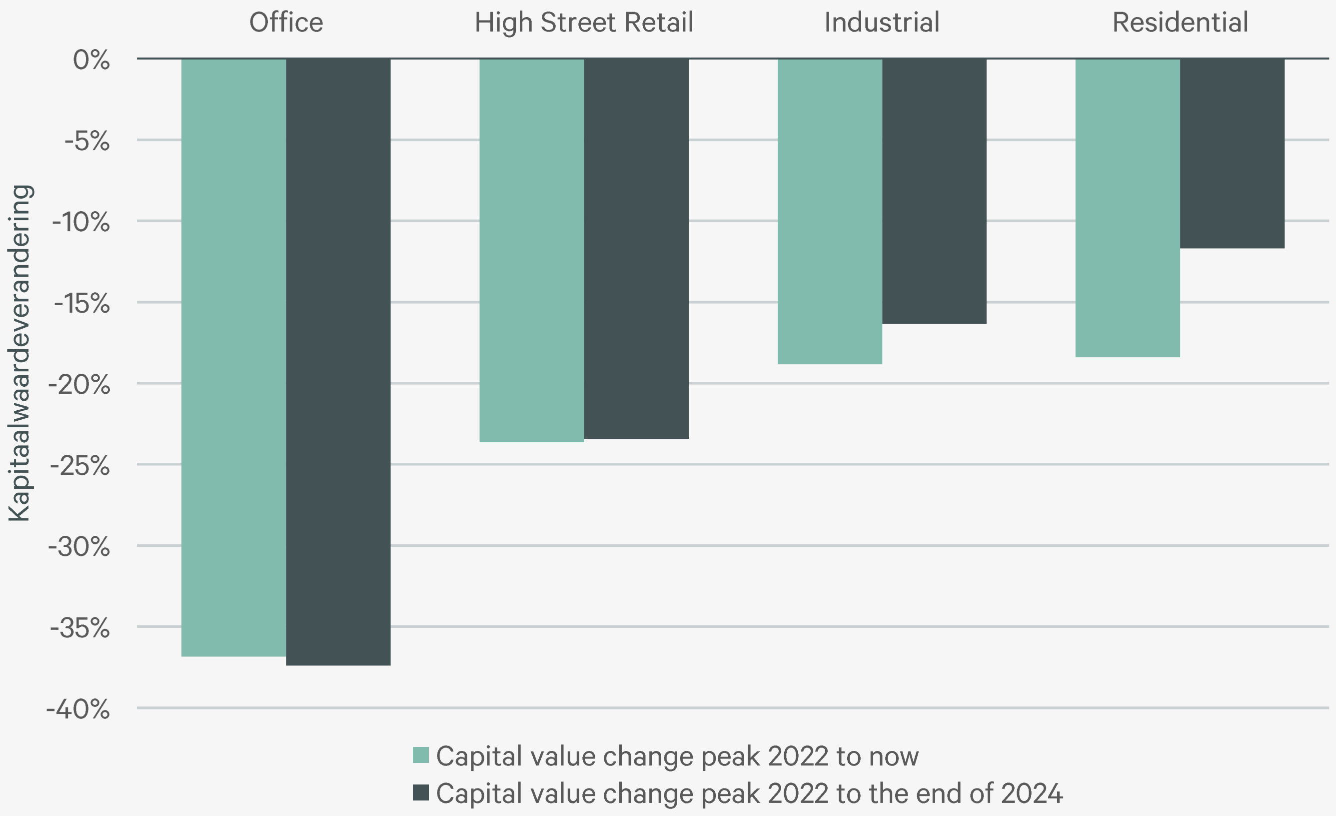
Figure 13: Current and anticipated spread of the highest net initial returns versus 10-years government bond yields



Source: CBRE Research

For instance, the reason for capital value growth for the prime buildings in the office market is linked to several factors: a slight drop in initial returns towards the end of the year; an improvement in the prospects for rises in rentals, partly driven by a tightening of the ESG-proof office market; and an actual increase in market rentals. The reasons may also be along these lines for logistic buildings. In the retail market, however, the increase is mainly driven by falling initial returns, while the rental prospects are stabilising after many years of decline. For residential properties, legislation has capped rental growth, so capital appreciation due to rental growth is limited. However, market rents are rising excessively partly due to the many housing units being sold off individually, which is prompting a further tightening of the rented housing market.

Figure 14: Current and future changes in the capital value of prime products



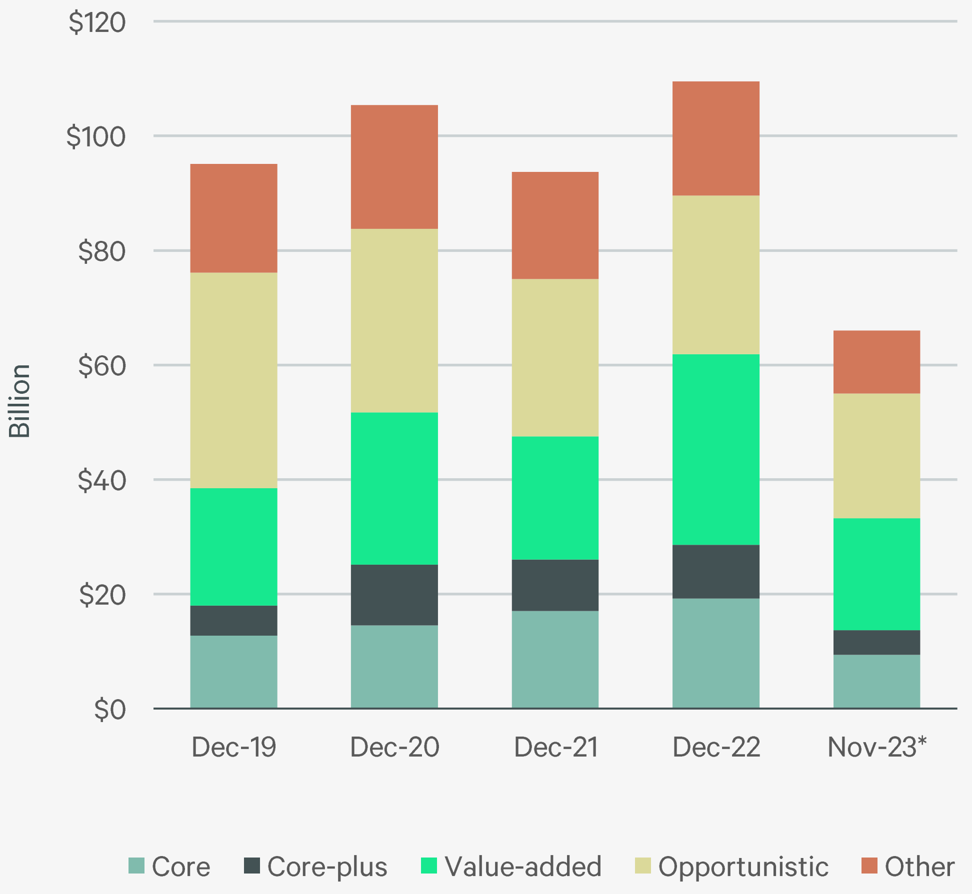
Source: CBRE Research

Outlook for 2024

As was the case last year, interest rate movements will be a deciding factor for the investment climate. Only this time the focus will be on the reverse: in 2024, all eyes will be on the lookout for a possible cut rather than on a rise in interest rates. Yet the sharp interest rate hikes of the past eighteen months will have a tangible aftermath – they are still leaving their mark on the sales dynamics in the investment market this year. On the one hand, this is a consequence of refinancing challenges, and, on the other, it is due to redemption requests. This is forcing funds to partially convert to cash to meet these redemption requests.

It is clear that the current situation in the market – after a thorough price review – would be an interesting time for investors to take the plunge. That said, the capital available for investment in real estate is significantly less compared to previous years: -39.7%, While available capital remained relatively level for opportunistic (-21%) or value-add strategies (-41%), it fell significantly for core or core-plus strategies: by -51% and -54% respectively.

Figure 15: Available capital for investing in the commercial real estate market in Europe



Source: Preqin *Estimate

Deterioration of the relative risk-return ratio prompts capital outflow

The principle cause of the reduction in available capital is the relative deterioration in the risk-return ratios for real estate relative to other investment products. For instance, at 4.01% the 10-year government bond yield in the United States is at an extremely competitive level compared to core real estate investments.

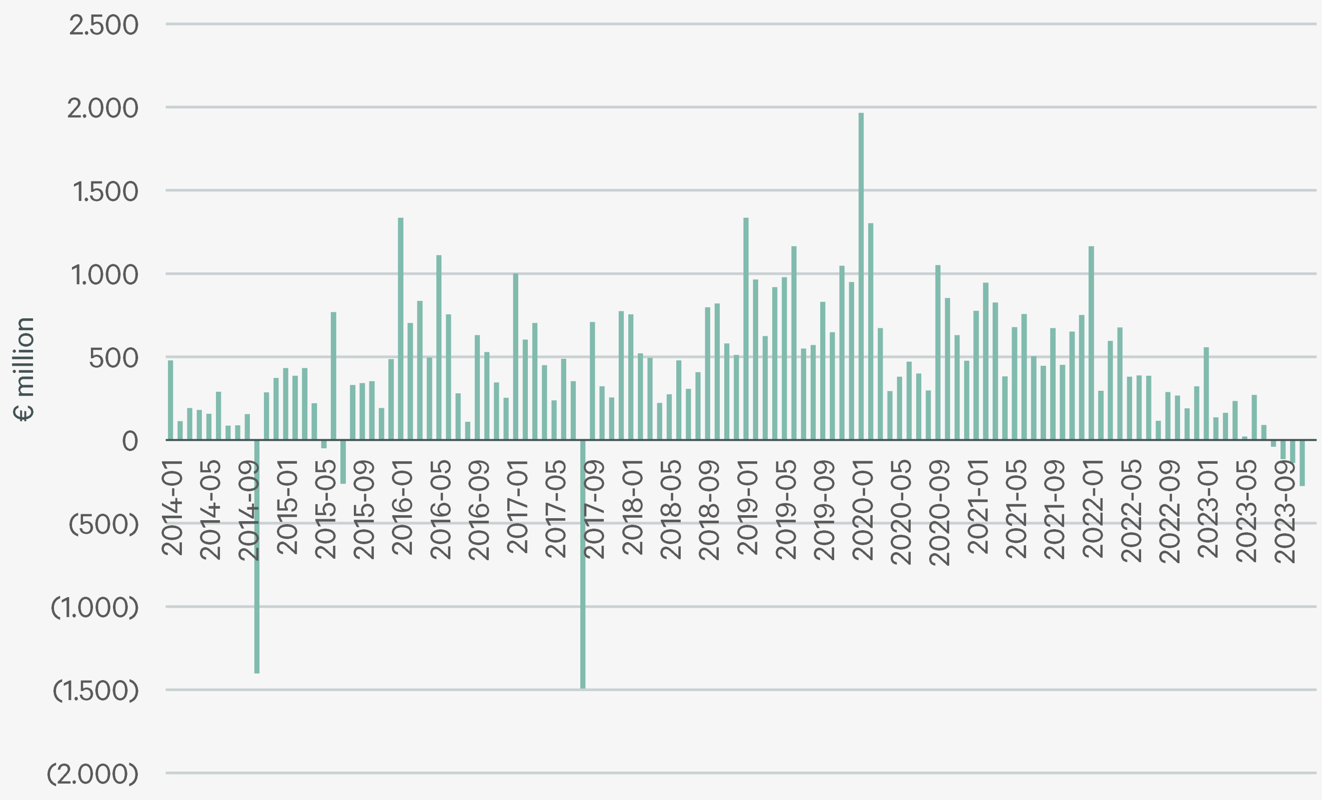
Mainly because of this, asset/liability management (ALM) models are prescribing fewer allocations of investments to real estate than they did in recent years, when interest rates were very low. This also explains why requests to exit open-ended funds are currently the order of the day. The last time a similar outflow balance lasted at least three consecutive months was in 2010. With caution, one could refer to this as a reversal in the trend.

The repercussions of this will not be major in the first instance. But if this capital outflow persists, it may eventually cause some of the fund to have to be liquidated. The 'redemption requests' on the desks of relatively many investment managers can be offset by:

- raising new capital
- financing part of the fund
- selling fund assets

Because the market for new capital and funding is challenging, some of the redemption requests this year will be paid for by selling real estate.

Figure 16: Capital flows in open-ended real estate mutual funds in Germany



Source: Bundesbank, CBRE

From an international perspective, the biggest capital outflow so far seems to be coming from office real estate funds. A combination of factors is playing a role in this. The overall allocation to real estate is falling and, of this allocation, investors are more and more inclined to shift their interest to logistics real estate and residential real estate of all types. So office real estate is being affected more by reallocation within the various real estate sectors. Despite this, the expectation is that – if the return/risk ratios in the office market become more attractive – this will automatically prompt higher allocations to the market for office space in the medium term.

In addition, the increase in fund allocations to operational real estate is striking. More and more capital is shifting to hotel properties, student accommodation and housing for the elderly, long-stay/short-stay hotels or holiday parks. In addition to this, CBRE is seeing a growing interest in impact funds amongst institutional organisations. These impact funds are funds that focus mainly on affordable and sustainable housing or housing (including care homes) that can be made more sustainable, in an effort to contribute to the Netherlands' broader housing targets through these investments.

This trend towards investing in impact funds is in stark contrast to the number of redemption requests currently in investment managers' in-trays in the Netherlands. A conservative estimate puts this at more than €2 billion. Unfortunately, this claim has to be viewed against the background of all the regulatory risks that have been strewn across the residential investment market in recent years. And this is quite apart from the impact that the twice-increased transfer tax had and continues to have on raising capital for the built environment in the Netherlands.

Changes in taxation have consequences for the housing market and sustainability ambitions

Recent changes in taxation are having a significant detrimental effect on the relative investment climate in the commercial real estate market in the Netherlands. Examples of this include the raising of transfer tax to 10.4%, abolishing the REIT regime, increasing the rates in Boxes 2 and 3 and the anticipated sharp rise in bank tax. Partly because of this, the shrinking pool of available capital in the European real estate market is more likely to be allocated to other countries, despite the fact that demographically and economically the Netherlands should be very appealing when it comes to attracting capital.

In this respect, the government seems blind to the fact that the Netherlands desperately needs foreign capital if it is to achieve its ambitions to address the housing shortage and make existing buildings more sustainable. Partly because of this, it is positive that the future government may review the transfer tax rate, which in European terms is unduly high. In addition, the government would also do well to reconsider other recent changes to the tax regime.

Refinancing issues will boost sales in 2024

Besides the outflow of core capital, higher interest rates are clearly still affecting the financing market. Many of the financing deals concluded between 2018 and 2020 are due to expire in the foreseeable future And that is when refinancing will be challenging. The sharp change in the loan-to-value (LTV) ratio combined with the stricter funding policies set by banks and other providers for the LTV ratio are forcing investors to inject more of their own equity when refinancing, or to look for (more expensive) external capital. If neither option is a good alternative, then selling the asset may reasonably be the only remaining option. This largely explains why refinancing challenges will force more buildings on to the market this year. And, with the sharp drop in value in the office market, this issue seems to be concentrated around this segment in particular.

Yet this is nothing new: there are always refinancing risks in the housing market. Take property developers: they always run the risk of ending up in default when they get involved in housing developments. This is particularly the case if they have to finance their projects at higher interest rates while there is no income coming in to offset them. This is certainly true if these projects are heavily financed with short-term loans and/or if government measures hit them hard. The consequence: developers decide not to proceed with projects that may end up underwater when refinancing costs are high. These projects are expected to be put on the market at a significantly reduced residual price, after which they may be able to get off the ground more easily. This is less likely to be the case in the retail market, with far fewer forced sales as a result. In recent years, financing has been much more conservative in this segment. Moreover, this financing has often been accompanied by a redemption obligation, which has mitigated LTV risks. The main risk appears to be in supermarket investments. However, recent high inflation in that market has cancelled out the increase in initial returns considerably.

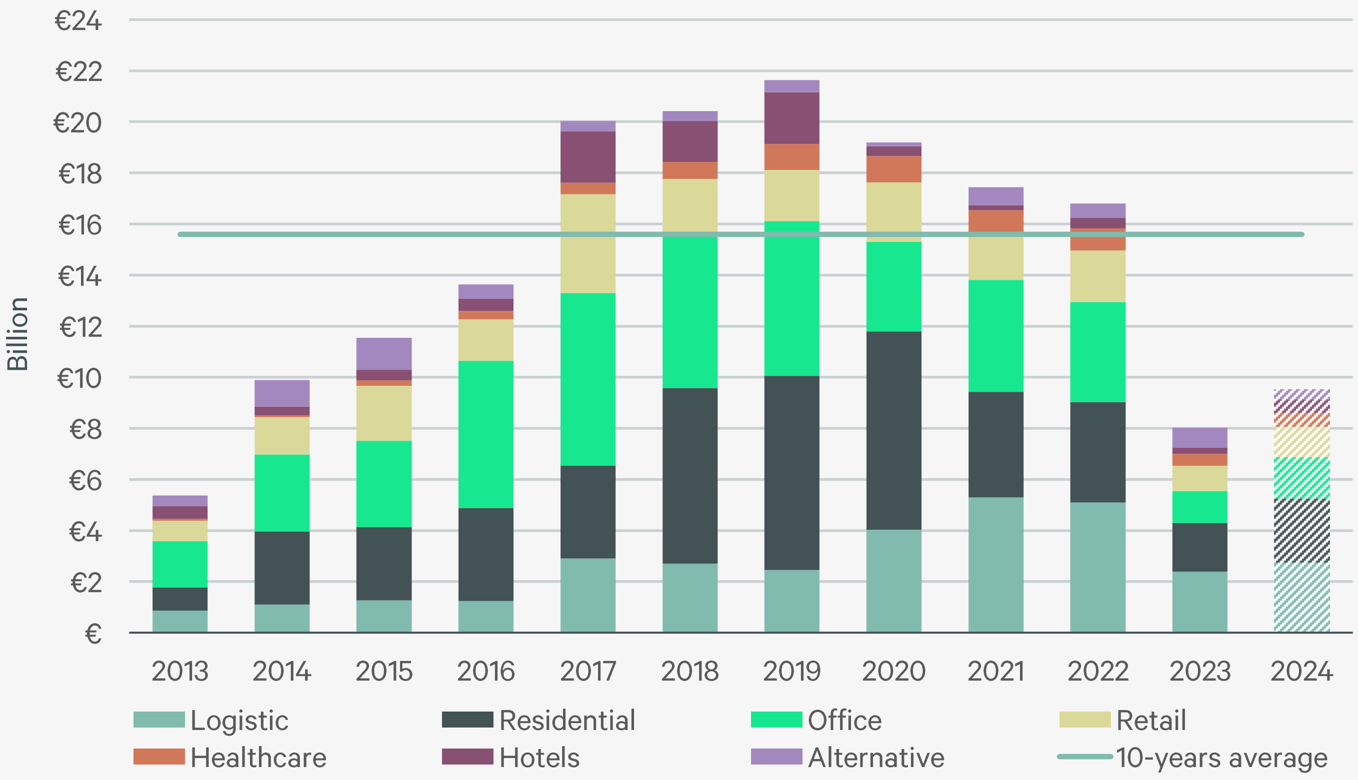
Investment volume is increasing due to forced (or partly forced) investment products on the market

The overall investment volume in 2024 is expected to rise compared to 2023 through a combination of:

- stabilised market prices;
- the anticipated slight reduction in the capital market interest rate; and with that;
- more accurate and better forecasting of the exit yield;
- a larger pool of investors that will be forced to sell;

Based on the current situation, CBRE is assuming an investment volume of €9.5 billion in 2024. That is 19% more than in 2023, but is significantly less than we were accustomed to in the period between 2017 and 2021. As long as the interest rate does not fall to the unprecedented low level of those days (0%), we are unlikely to see a return to those volumes.

Figure 17: Predicted investment volume for 2024



Source: CBRE Research

Logistics will be the biggest investment category for the fourth year running

Logistics will continue to be the largest asset class in 2024, although the interest rate hike also affected this market. Not only in terms of changes in the value of real estate – interest in the occupier market also declined in the wake of a reduction of consumer spending. Despite this, the allocation of capital to this segment is relatively high. Partly because of this expanded mandate, CBRE expects investors to scale up strategically, both geographically and in terms of the types of product. All things considered, CBRE expects an investment volume of €2.75 billion for this category. This is way less than in the peak years of 2021 and 2022, which can mainly be explained by hesitancy in the core segment and the significantly reduced new-build pipeline.

Residential investment market continues to face headwinds

Many asset classes can look forward to having the wind back in their sails this year; this includes the residential investment market, albeit with some delay. Reduced capital values are still hindering the sale of many new-build complexes to investors. Another factor is that many of them do not have enough liquidity to buy new housing complexes. This is evident from withdrawals from this asset class by some pension funds and insurers.

This means that property developers are relying heavily on housing associations, private owners and a handful of foreign entrants when selling new-build houses. The dynamics in the residential investment market will therefore largely be driven by the sale of existing complexes. This year, too, these complexes are likely to land in the hands of organisations that intend to sell off the complexes as individual units on the owner-occupied market, partly because of the substantial difference in value when selling off individual units as opposed to a strategy involving holding the properties and managing them. The biggest opportunities for new builds is the growing number of impact funds. This may ultimately encourage some investors to enter the new-build investment market. Ultimately, CBRE expects the volume in the residential investment market to reach €2.5 billion, which is more than in 2023, but at the same time very limited in light of construction targets.

Investment market for office space is gathering momentum thanks to refinancing challenges and redemption requests

Since CBRE started recording investment volumes in the office market, the last time the volume was at a similar low level as last year was in 2011. 2024 is also unlikely to be a prosperous year for this segment, even though this market is gathering momentum. Refinancing challenges and the growing number of redemption requests are putting pressure on investors to sell office real estate. Nevertheless, this market remains challenging. The impact of hybrid working is still affecting the office space market, which is putting a dampener on the enthusiasm to invest in this segment. Having said that, the renewed risk-return ratios should start contributing to reviving interest in the office market amongst a larger group of investors by the end of the year. All in all, the investment volume is set to rise to €1.6 billion, which from a historical perspective is still very low, but at 30% it is a significant increase compared to 2023.

Retail investment market gaining ground after years of a shrinking market share

The retail investment market also struggled last year under the weight of interest rate hikes, although it was considerably more dynamic compared to other sectors. Due to the higher proportion of own capital and the significant presence of long-term investors, there is more liquidity in this market than in that of offices or logistics real estate, for instance. Despite greater challenges in the occupier market, this year CBRE expects more dynamism, particularly in the high street retail market. Many institutional and private investors are increasingly focusing on the top six cities, and even on the top 15. An important underlying factor in this is stability: these retail markets have proved that they can produce sound returns on investment, even when facing financial headwinds. Added to this, demand for convenience remains strong, which is honing the definition of this retail product even more. Aligning the retail mix with the primary target group is also becoming an increasingly important issue in the acquisition of these types of shopping centres. All things considered, CBRE expects the investment volume to grow to €1.2bn, partly due to an increasing willingness to (re-)invest in the retail market.

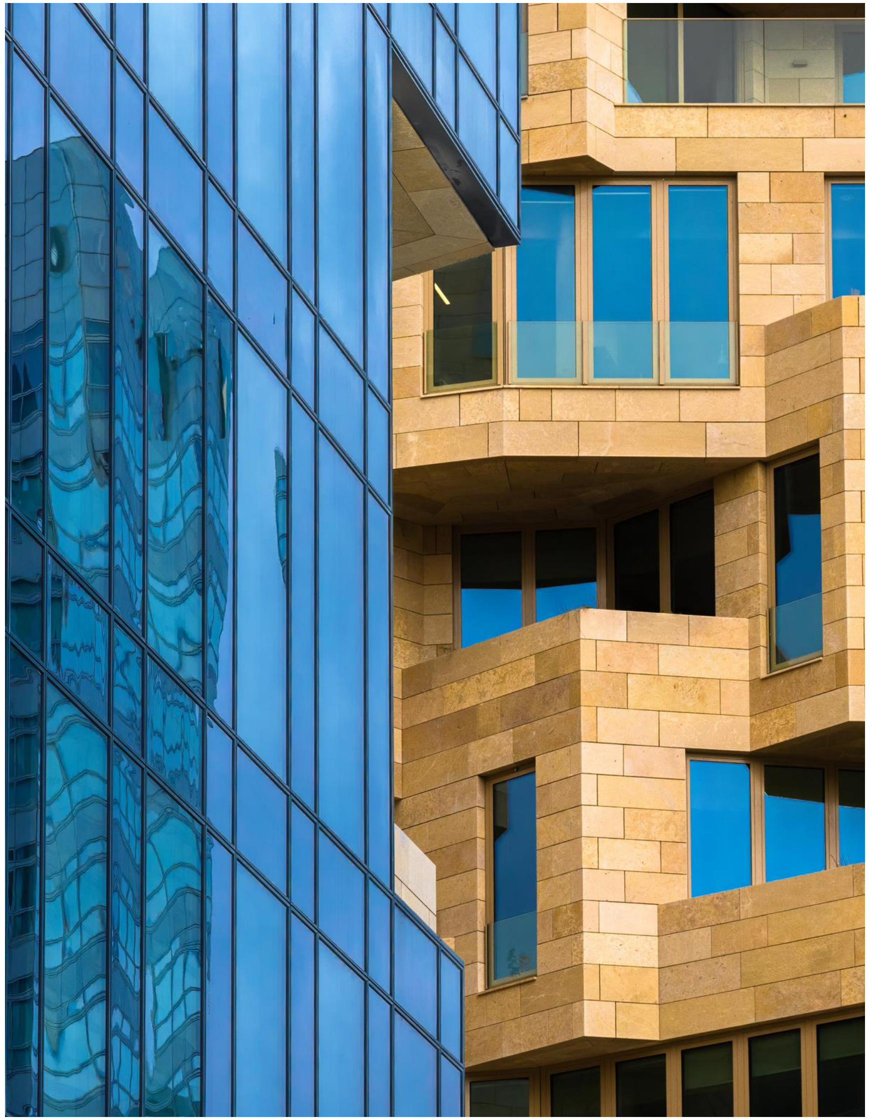
Healthcare investment market: investors and healthcare operators' ambitions are aligning

It seems as though investors, property developers and healthcare institutions in the healthcare investment market are joining forces to achieve their high expansion and sustainability ambitions. Furthermore, the growing number of impact funds is enabling institutions to work together towards agreeing on rental levels that will not impede the exploitation of healthcare facilities. This is creating opportunities for high standards of care, expansion of high-quality and efficient healthcare real estate and making it more sustainable. Despite the rapprochement between the various players in the healthcare market, the investment volume remains relatively limited at €550 million. The feasibility of projects continues to be a major, and especially time-consuming, challenge. As a consequence, the volumes required to meet the serious national targets will not be achieved any time soon.

Exploitation of hotel real estate will awaken interest and benefit pricing

The corona pandemic is still affecting the hotel investment market. Many institutional investors and private equity organisations are still searching for the right risk perception for hotel real estate. Meanwhile, hotels are operating full steam ahead, as never before. The significantly higher RevPAR and the more moderate increase in operating costs are rendering hotel operators' position in terms of EBITDA extremely strong. Given this development, it is apparent that the risk of investing in hotels is being overrated. However, investors are expected to recognise this risk more in the coming year, and offer and ask prices could converge slightly again. Partly because of this, CBRE anticipates a considerable growth of the investment volume, up to as much as €500 million.

Overall, it is fair to say that the market will pick up momentum in 2024, particularly in the second half of the year. This forecast depends in part on the lowering of interest rates, which will drive dynamics in the real estate investment market and create more opportunities for capital value growth and higher allocation of money in real estate.



04

Logistics

The logistics market has experienced significant growth in recent years. However, in 2023, this sector was severely affected by movements in global capital markets, leading to less investment and leasing activity. Despite economic challenges, it remained the biggest sector in terms of investment volume. That said, there was a sharp drop in investment volume to €2.4 billion. We are expecting a slight increase to €2.75 billion for 2024, but this depends on the ECB's and the Fed's interest rate policies.

Trends and developments

- In the wake of a reduction in consumer spending, we are seeing a calming of the occupier market in the logistics sector, resulting in slightly increasing vacancy rates and more hidden vacancies. Logistics service providers are less inclined to expand and are opting for shorter lease periods. Despite the fact that the overall vacancy level remains low, the rise in rental levels for prime rents is gradually levelling off.

- Opportunities are arising for developers with a hold strategy to add value to older, vacant premises by making them more sustainable and using space more efficiently. Think of high-bay distribution centres, i.e. distribution centres consisting of several floors. This will make these buildings more attractive for investors and users once the market picks up again.

- There is still interest in real estate in the core and core+ categories, but consensus regarding a price level still has to be reached. Many investors are still reluctant to get involved thanks to this depreciation. For this reason, value-add and opportunistic investments are likely to dominate the market in 2024. Investors are already gradually preparing for purchases in the core and core+ categories to ensure that they are a step ahead of the competition and avoid buying in an overheated market. Actually proceeding to purchase real estate will only become more attractive again if ECB and Fed interest rates fall.

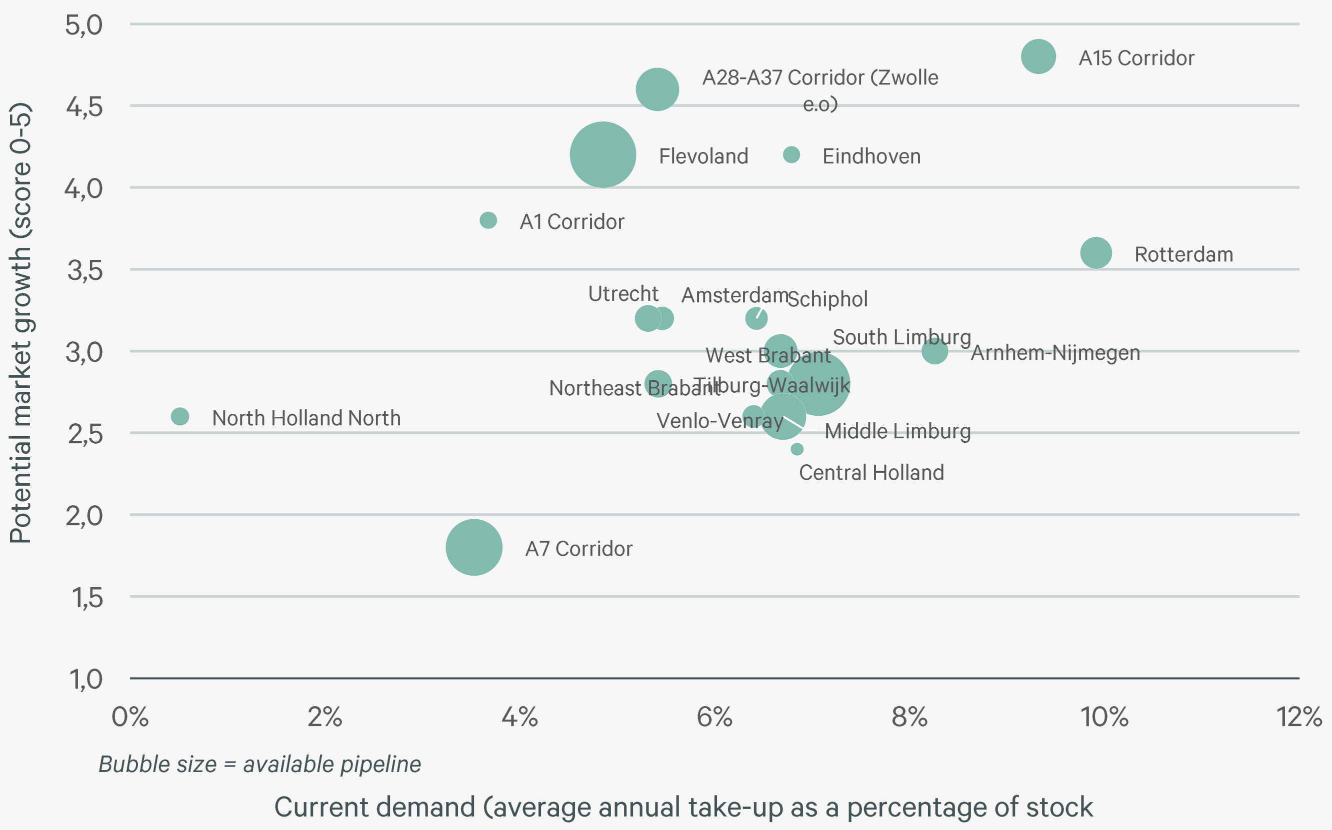
- It was evident last year that some investors were expanding their investment strategy to include other sub-assets, such as light industrial and last-mile logistics, due to a lack of investment products. Now we also see some investors widening their strategy based on geographical location. Still, not all investors are prepared to take the leap due to concerns about the potential risks.

Logistics analysis

Investors are becoming more inclined to move away from traditional logistics hotspots, but not all investors dare to take this step for fear that the market in those locations will not pick up as much. Our analysis shows that the potential growth on the market in some less-traditional hotspots, such as Flevoland and Zwolle, is greater than in the traditional popular regions. In South Limburg, we are witnessing a similar growth of hotspots such as Tilburg and Venlo. Logistics real estate in such non-classical hotspot locations is therefore likely to be an interesting investment opportunity.

Potential market growth is determined based on the expected local increase in gross added value to GDP up to 2050 in various relevant sectors, aggregated to become a score on a scale of 0 to 5. Five is the highest attainable score.

Figure 18: Potential regional market growth and analysis of the demand for logistics regions



Source: CBRE Research; Oxford Economics, adapted by CBRE Research

> The logistics sector faces various challenges, such as network congestion, nitrogen-related issues, high fuel and labor costs, and fluctuations in container prices. Despite all of this, investors remain interested and are preparing to invest on a large scale again in the near future. They are hopeful due to the creativity and problem-solving abilities of users who are utilizing innovative applications to tackle these challenges.

Jim Orsel

05

Residential

Rising financing costs and uncertainty around rent regulation made last year a difficult one for residential investments. With a volume of €1.9 billion, this category lagged far behind the volumes achieved in previous years. For instance, only €1.1 billion was invested in new construction – a reduction of 59% compared to 2022. The investment volume in existing buildings was higher compared to last year, totalling €818 million. Side note to these figures, it is worth noting that no less than 57% of these existing buildings were bought by organisations whose strategy involved buying with a view to selling off the individual units separately. These houses will therefore disappear from the rental market over time. On the other hand, the likelihood of falling financing rates in the second half of this year offers the prospect of more activity amongst investors. We therefore expect an investment volume of €2.5 billion, up slightly from 2023.

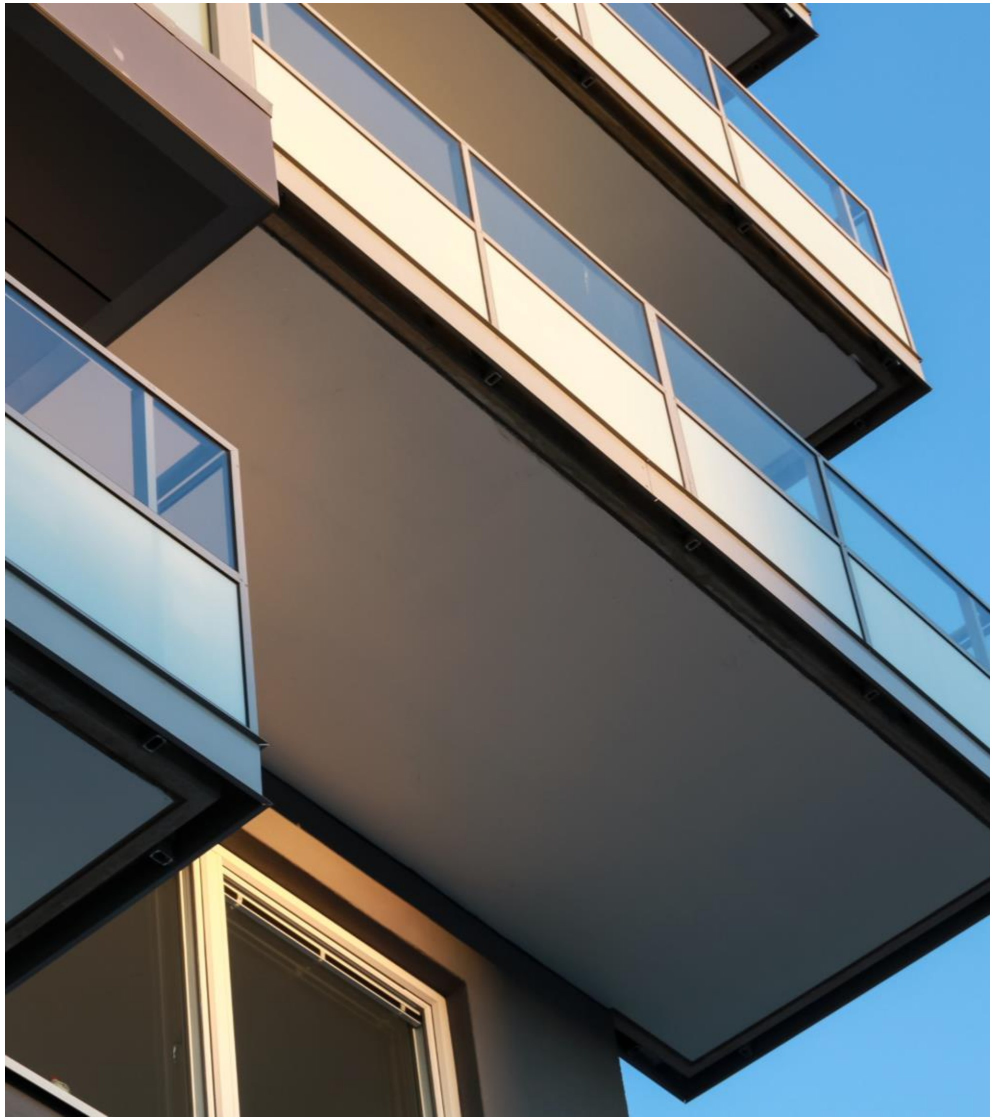
Trends and developments

- Rising wages and a slight declining interest rates will increase private individuals' borrowing capacity in 2024. While vacant possession values will increase, capital values continue to fall, mainly due to high financing costs. Over time, this will lead to bids of investors with a strategy that involves selling off individual units separately will get the upper hand during transactions. The business case for exploiting real estate is expected to improve vis-à-vis this strategy if capital values stabilise during 2024.

- With the persistent housing shortage and stability of rental income flows, there is still interest in residential investment, especially in the affordable rental segments. However, this interest will still be somewhat suppressed in the first half of this year due to the difference in the price expectations of buyers versus sellers. If capital market and government bond yields fall during the year, this will boost investors' allocation in residential real estate. At the same time, consumer demand for 'living as a service' is growing, prompting an expansion of investment strategies to include operational residential real estate. Think of, student housing, co-living, short stays and care homes.

- Some property developers are at risk of defaulting over time. This is particularly the case for projects with relatively short-term financing, combined with declining cash flow from acquired real estate. This may result in developers deciding not to proceed with projects that may end up with higher financing costs than capital values in the event of increased refinancing costs. If capital values fall sufficiently, other organisations may well revive these developments.

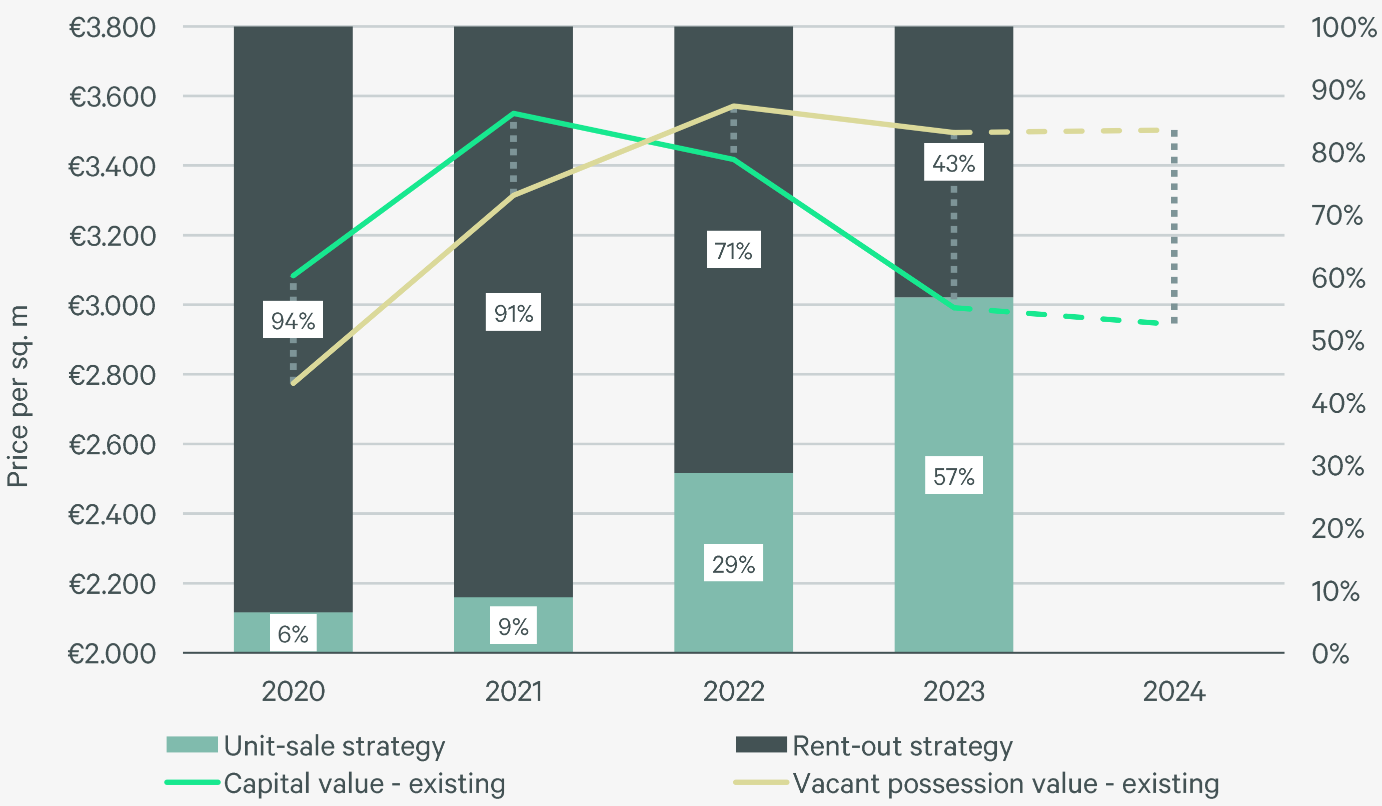
- Municipalities still tend to be inflexible when it comes to housing requirements and the price of land. To get construction going again, a more flexible attitude would help considerably. This could include less stringent programming criteria for issues like social rent and the proportion of rental housing versus owner-occupied housing. Updating residual land prices faster, like the City of Amsterdam is doing for instance, could also win over more projects.



Residential analysis

In previous years, the exploitation strategy prevailed in bidding processes for existing housing portfolios, partly due to low interest rates. With vacant possession values picking up again after a short-lived decline, individual sell-offs offer attractive margins in the foreseeable future. For instance, we have witnessed that most of the transactions in 2022 and 2023 were done based on an individual sell-offs strategy. It should be noted here that this strategy suits investors with a long-term investment horizon. For investors with shorter investment terms, falling tenant turnover rates, additional regulations and volatile house prices in the Netherlands may hinder a quick exit.

Figure 19: Developments in capital value versus vacant possession value and investment acquisitions with individual sell-offs and exploitation strategies (2020 – 2024)



Source: CBRE Research

Last year was challenging for the residential investment market: the combination of rising market interest rates, high construction costs, and ongoing uncertainty about rent regulation significantly impacted transaction volumes. In 2024, market improvement is on the horizon. Capital that is currently on the sidelines will increasingly find its way back into residential real estate as a result.

Thomas Westerhof

06

Offices

With a volume of almost €1.3 billion, the momentum in the office real estate investment market in 2023 was disappointing. This volume constitutes a reduction of 68% compared to €3.9 billion in 2022. A combination of factors caused this reduction. Uncertainty persists about the impact of hybrid working, while at the same time financing interest rates rose more than expected, which also caused office property values to fall more sharply. Office capital values declined by an average of 40% compared to the peak at the beginning of 2022. Yet there are also opportunities in the office market, especially for real estate that meets the highest sustainability requirements and is easily accessible by public transport. 2024 is expected to be another difficult investment year for office real estate, with an expected volume of €1.6 billion.

Trends and developments

- Falling property values are having a major impact on investors and could result in forced sales. Returns from office funds are under pressure, which in turn has triggered a serious reduction in capital inflows. This has led to redemption: investors are keen to liquidate or reduce their position in the fund. Funds may find themselves in trouble if they fail to find new capital. The forced sale of office real estate may be a consequence of this.

- The sharp fall of real estate value is also a major factor affecting refinancing. This is because the loan-to-value ratio deteriorates and financiers have a more stringent policy for the LTV ratio. If the value of the real estate drops, it may no longer be worth enough to fully cover the loan. This may create financing problems and forced sales are sometimes the only way out. We estimate that of the more than 100 properties bought between 2017 and 2020, 10 to 15 of these properties may face these kinds of issues. This means that office real estate worth between €500 to €750 million will come onto the market in 2024.

- Changing occupier demand for sustainable office real estate at public transport hubs has led to a narrowing of the definition of ‘core real estate’ amongst investors. This is mainly because of the increasing risks of vacancy for office buildings that do not meet these conditions. For owners of office premises who previously considered their real estate as a core investment, this means an additional depreciation in value, on top of the impact of rising interest rates.

- Tenants who prefer easily accessible offices, equipped with key amenities and having the highest sustainability standards are contributing to a further division in the office market. This is not least due to the enactment of the CSRD. The scarcity of this type of office premises is pushing rents up by at least 20% compared to stock without these features. At the same time, not all tenants are prepared to pay a premium for sustainable office real estate. Of the tenants in our housing panel, a good 53% said they would be willing to pay more for a net-zero office building, while 11% said they would not. The remaining 36% have yet to make up their minds.

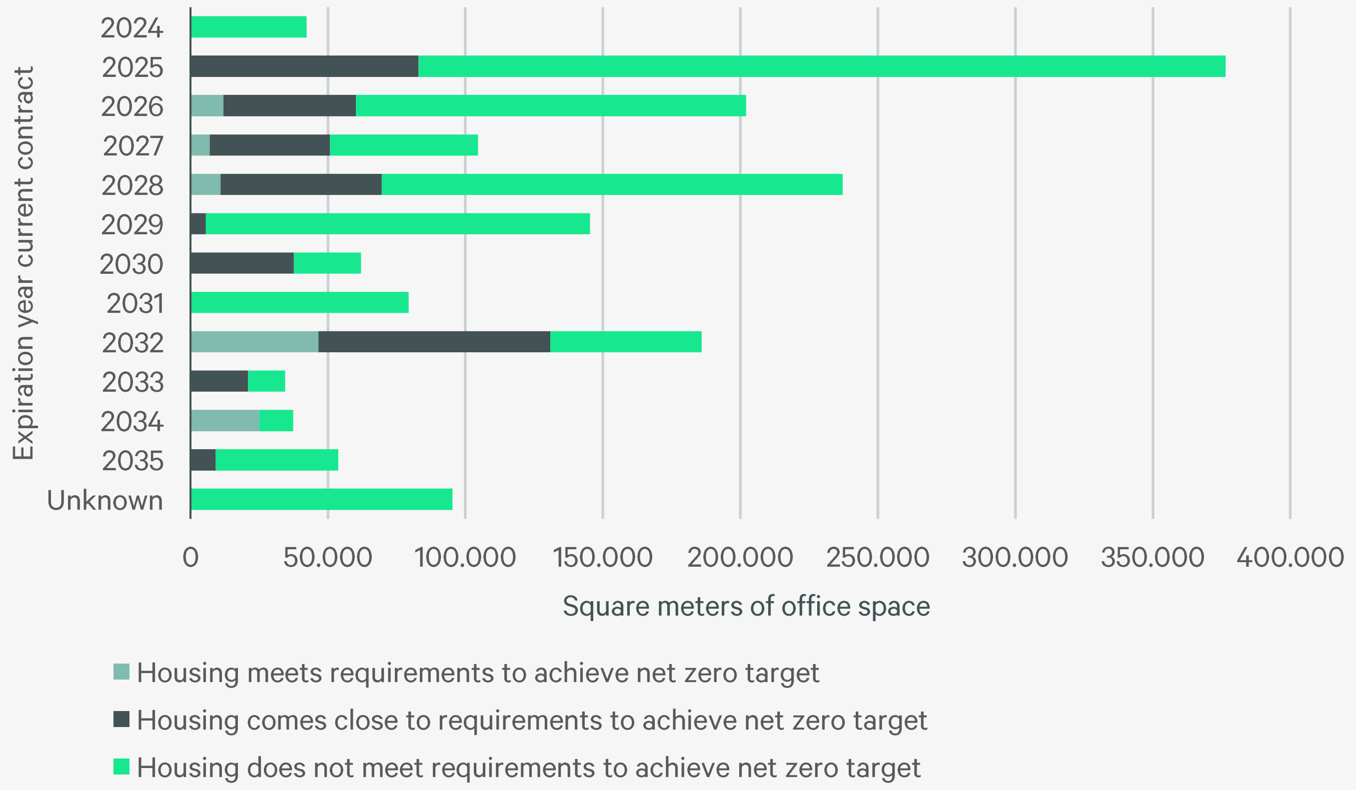
Office analysis

Driven by ESG ambitions and corporate CSRD commitments, we expect demand for the most sustainable office real estate to grow significantly faster than supply. In the five biggest Dutch cities and Zwolle, for instance, there are currently fewer than 30 energy-neutral office buildings, accounting for a total surface area of almost 300,000 m². In these six cities, around 700,000 m². of net-zero office premises are expected to be added to the market until 2030, including around 400,000 m² in Amsterdam. This will be achieved through new builds and renovation.

An analysis of 130 major corporates and public institutions with their offices in the G5 cities and the Zwolle region reveals that more than 68% of the current office space do not meet net zero requirements - as formulated by these companies themselves in their net zero targets. If many of these sustainability ambitions are to be achieved by 2030, demand from major organisations for sustainable offices at public transport hubs will increase dramatically. Based on our estimate, this group currently occupies 1.1 million m². of office space based on contracts that are due to expire through 2030.

This will in any case increase the shortage of sustainable office real estate considerably until 2030, while at the same time it will force up the rents in this segment significantly. The market for this type of real estate is set to tighten substantially due to the limited development pipeline, especially in cities like Rotterdam, The Hague, Utrecht, Eindhoven and Zwolle. Shortages are looming in Amsterdam, too. This is clearly a call to action for owners of office real estate. As a result, it is much more likely that office users will be forced to commit to buildings that do not meet their sustainability requirements.

Figure 20: Suitability of premises of organisations with offices in the five biggest Dutch cities and Zwolle by expiry year



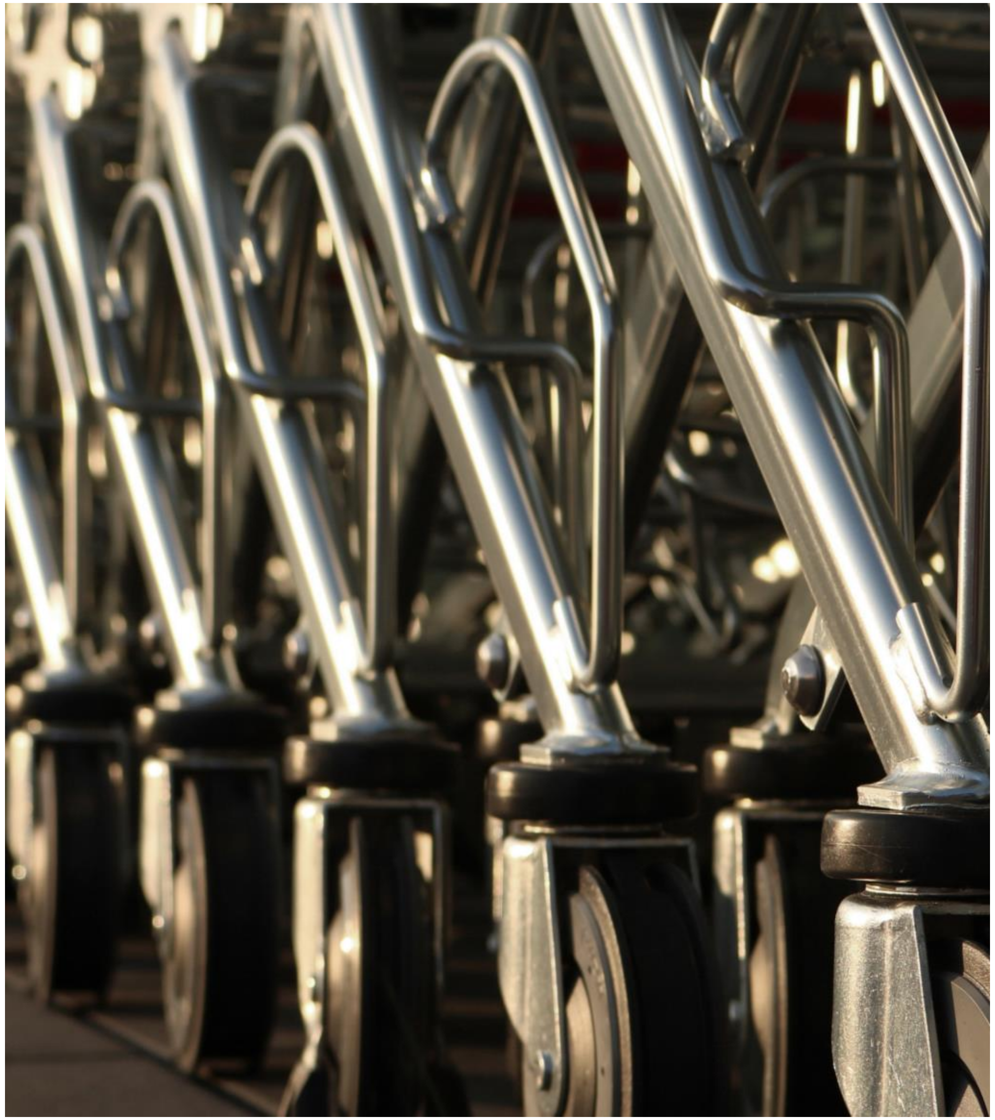
Source: CBRE Research


The value of office real estate has significantly declined over the past two years. This makes 2024 an ultimate entry point. Liquidity will find its way back up in the coming months, and the office investment market can expect recovery.
Erik Langens

07

Retail

As is the case in other sectors, rising interest rates had a tremendous impact on the retail real estate market in 2023. At €990 million, the volume was 51% lower than in the previous year. Despite this, interest in retail real estate is growing. This is partly because the prices have bottomed out, but also because of uncertainty in other sectors. As a result, financing premiums for retail have only risen slightly. We expect investment transactions to pick up again in 2024, especially in the second half, and particularly in high street locations and retail real estate in the supermarket segment. An investment volume of €1.2 billion is achievable, although this depends on the ECB interest rate policy and market players' expectations.



Trends and developments

- Retail chains are continuing to centralise their locations. This means fewer small stores, but instead a few flagship or brand shops. Major sports brands, personal care, experiential and luxury brands, in particular, are still doing well, and are taking premium brands in their wake. However, we do expect retailers to become more cautious about expansion..

- The prime 20 shopping cities are becoming more attractive. Investors will mainly be focusing on the inner cities of numbers 6 to 15. Attractive returns are achievable in these stable markets. While there are vacant properties, generally speaking they tend to be relet quickly. Nationwide, the vacancy rate has risen slightly, but at 6.2% it is still relatively low. Retailers are struggling with rising rents, staff expenses and staff shortages, with the hospitality sector being hit the hardest.

- For retailers who have sufficient resources, this is a good time to buy real estate. The price seems to have bottomed out, which is making investment a good option. It is also a chance to take position in shopping streets. Moreover, it gives retailers the opportunity to create stability in their operations by reducing their exposure to rent fluctuations. Because of this, we are expecting a minor revival of the owner-occupier.

- Within the various types of retail real estate, in particular the yield on convenience real estate has increased. However, the demand for prime supermarkets and neighbourhood shopping centres offering a large proportion of daily supply is still high amongst investors who can afford to buy real estate without financing. However, the product does have to be sound in every respect. This will widen the gaps in value between core, core+ and value-add categories.

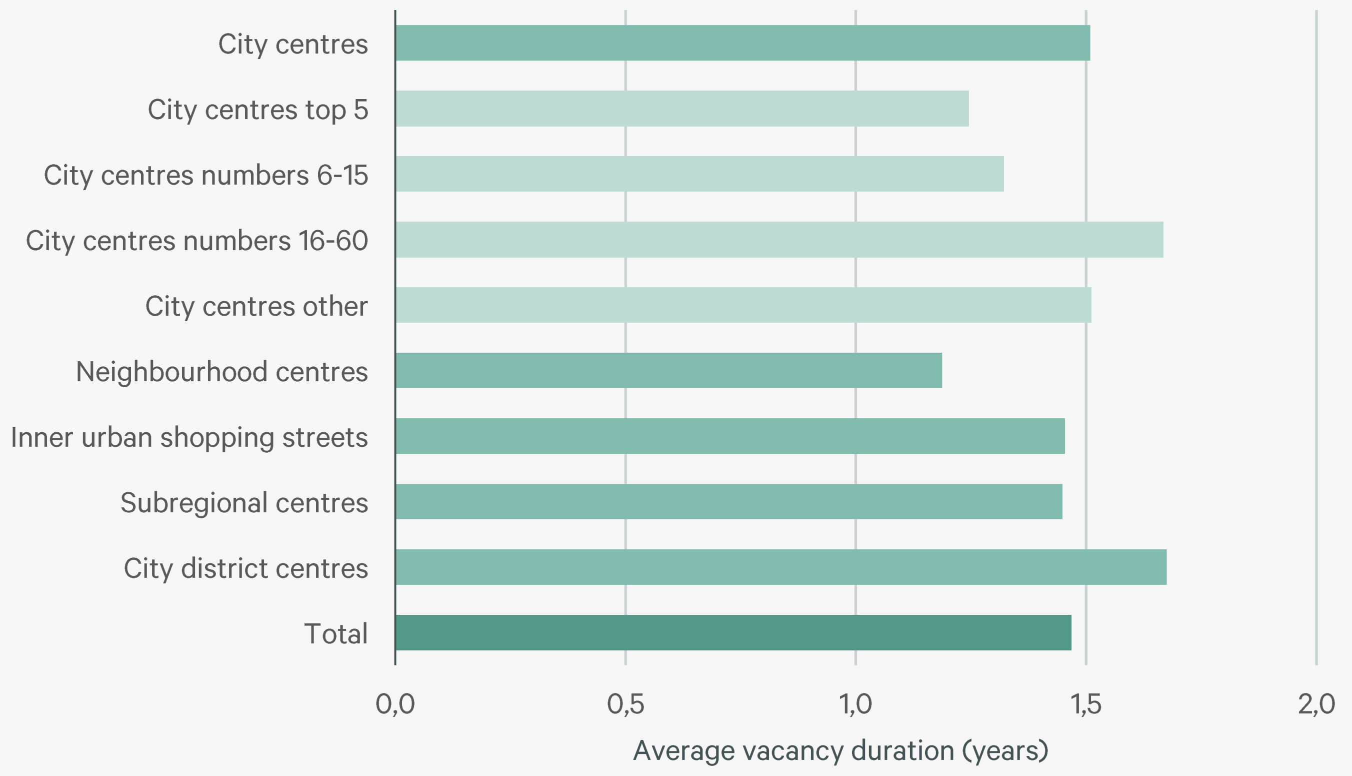
Analysis of retail outlets

On average, vacant retail units in neighbourhood shopping centres and the prime 15 inner cities are leased faster than in other retails areas. This is evident from bankruptcies figures of 30 well-known chains in the past five years[1]. On average, the duration of the vacancy was almost 1.5 year. This includes retail outlets that relaunched operations. There is a big difference between the prime shopping cities and the less popular inner cities. For numbers 6 to 15, the average duration of vacancy is only slightly longer than the top five; vacancy in smaller city centres is more persistent. Forty-five per cent of all retail outlets did not relaunch operations, nor were they taken over, and this has led to vacancies lasting longer on average, namely 2.8 years[2]. In this respect, too, the duration of vacancies in the 15 prime inner cities is significantly lower than the other inner cities.

[1]Such as the Boekenvoordeel, D-Reizen, Intertoys and Miss Etam bankruptcies, which took place from 2018 to 2022. More recent bankruptcies, such as BCC and Big Bazar, are not included because these bankruptcies took place too recently to be able to measure the implications. We have noticed, however, that there is a great deal of interest in much of the retail space that has fallen vacant.

[2]The average vacancy rate of 2.8 years is long, but this is partly due to the fact that virtually nothing was let during the corona crisis, which is skewing the picture. That said, because this applies to all shopping areas, it is possible to make a reliable comparison.

Figure 21: Average duration of vacancies according to type of shopping area



Source: Locatus, CBRE Research

The retail market remains dynamic and continues to attract more investors. The omnichannel model is gaining popularity, with successful formulas replacing outdated concepts. The number of new entrants remains limited while online penetration slightly decreases. Retailers will face new challenges in 2024 due to higher costs and cautious consumer behavior.

Lodewijk Buijs

08

Healthcare

The investment volume in healthcare real estate fell significantly in 2023. While demand for expansion and sustainability was high, the transaction volume in the healthcare sector failed to get past €460 million. Factors contributing to this are uncertainty in the market and higher initial returns that put pressure on new-build projects and price expectations. The supply of existing healthcare real estate is still limited, but this is set to change given the significant investment challenge. We are expecting the investment volume to rise to €550 million in 2024.

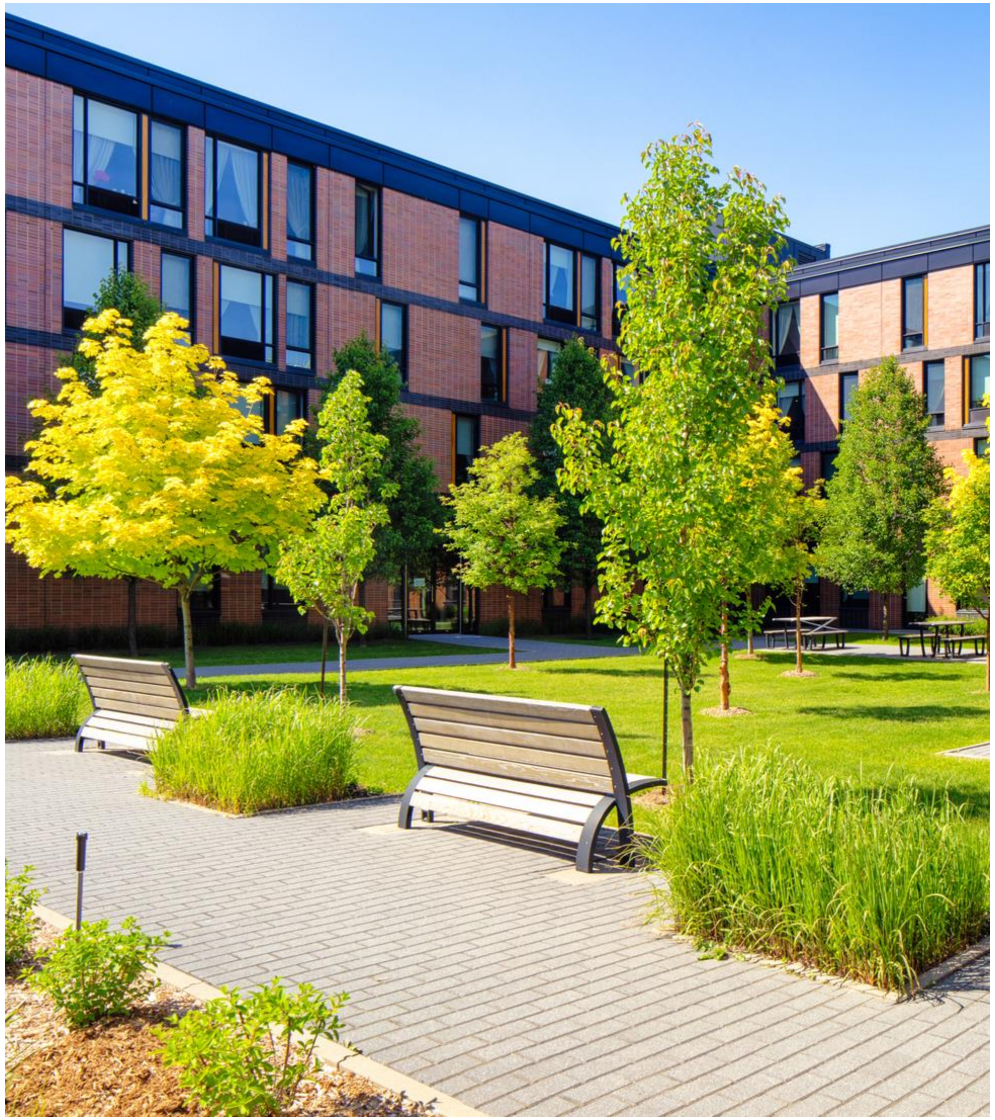
Trends and developments

- The sustainability of the current healthcare provisions and availability of enough care homes going forward are high on the political agenda, as was evident during the last parliamentary elections. The return of publicly funded care homes is not realistic, but there is widespread support for expanding clustered housing for elderly care. Municipalities are increasingly taking the reins in residential care and promoting the construction of care homes in new-build construction or conversion projects.

- With living at home increasingly becoming the basis of residential care, the difference in initial returns between assisted living and traditional housing is narrowing. The availability of healthcare, services and facilities adds value for the consumer – particularly the elderly – and with that to the real estate itself. For investors, assisted living in the form of individual rental or master lease has become more attractive. This combined with potential alternative uses makes the risk profile lower than before.

- Investors and healthcare organisations are increasingly forming strategic partnerships. Investors are inclined to attach importance to having a healthy operation and tenant as a prerequisite for a sound investment. At the same time, it is in the interests of healthcare organisations to have a good real estate partner, given the increasing investment pressure in healthcare real estate and healthcare organisations' shrinking investment capacity. Healthcare organisations are assessing their real estate and their role as owners and/or users more critically. Divestment of real estate, either partially or entirely, releases capital for other investments. This can lead to more transactions in existing healthcare real estate, for instance in sale-and-leaseback contracts.

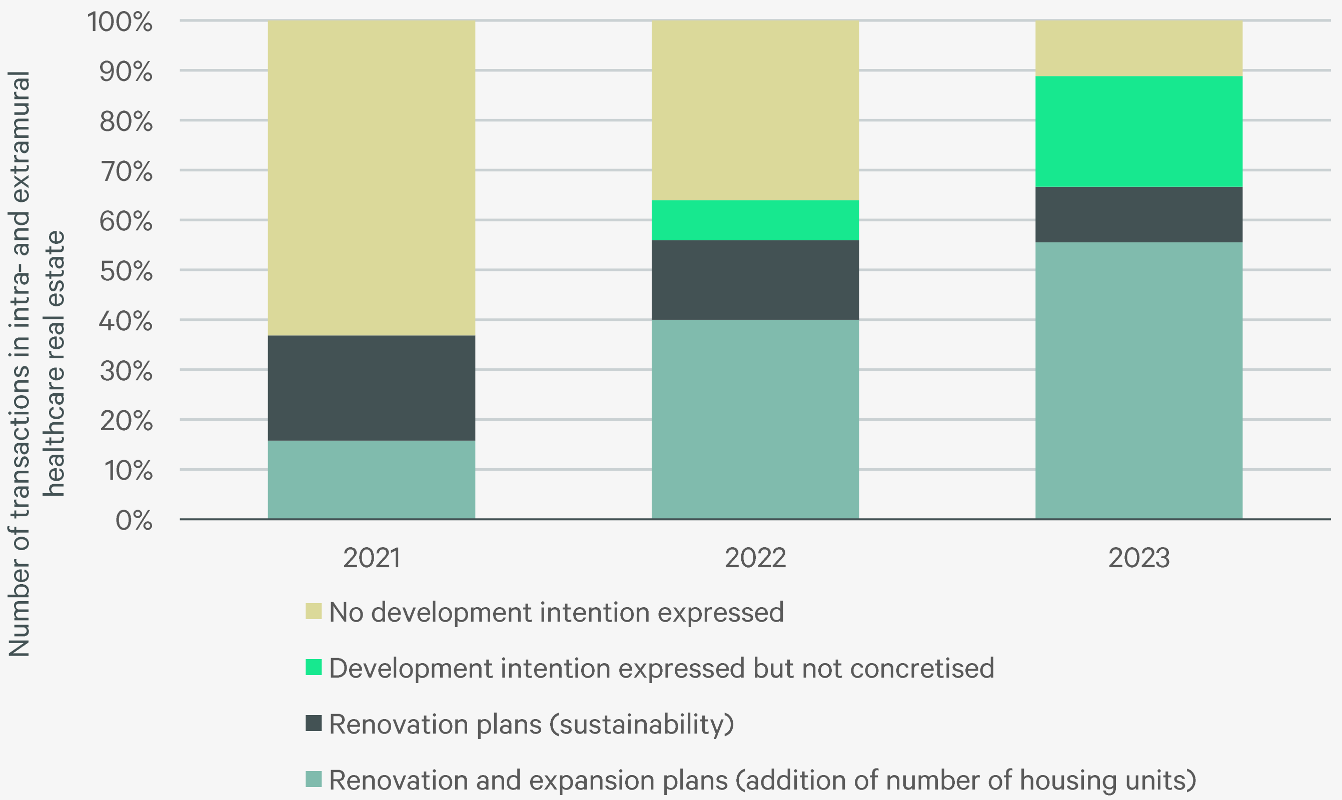
- A trend we are witnessing across the real estate market as a whole is that pension funds and insurance companies are taking a step back and are submitting more redemption requests. In the healthcare sector, we are seeing the opposite: investors are in fact expanding their capital. They are doing this partly based on impact funds, which can acquire affordable healthcare real estate against different risk or return profiles. New impact funds are being created, and healthcare is increasingly becoming a crucial part of the profile. This will bring more liquidity to the market, which in turn will promote growth and sustainability in the sector.



Analysis of healthcare

The healthcare sector is facing a major challenge in terms of quality as well as quantity. Compared to other sectors, moves to make healthcare real estate more sustainable are lagging behind, and there is a serious shortage of care homes. Fortunately, we have noticed that buyers are becoming more active in meeting these challenges, and that they have specific renovation and expansion plans when buying real estate. This trend, combined with the increasing share of sale-and-lease-back structures, shows that a mind shift is underway involving a move towards healthcare and real estate organisations joining forces to address the quantitative and qualitative challenges they face. With the prospect of an increase in liquidity in the healthcare real estate market, the sector is gearing up for a positive development.

Figure 22: Buyers' intention to develop when purchasing existing healthcare real estate



Source: CBRE Research

N.B. Already renovated buildings and new construction have not been taken into account

In 2023, there was a decrease in investment in healthcare real estate due to higher costs, lower returns, and longer processes. However, from 2024 onwards, we expect an increase in supply and transactions. Investors are increasingly focusing on healthcare or impact funds to capitalize on the aging population and the political support for investments in care homes.

Laura Seckel

09

Hotels

At around €250 million, the volume in the investment market for hotel real estate was disappointing in 2023. This represents a reduction of around 40% compared to 2022. The main reasons? The rise in financing rates and the decline in the value of hotel properties, at around 10% to 15% since 2019. But many investors also feel that the risks involved in investing in hotels have grown. This perception came about during the corona crisis, when tourism fell to unprecedented levels. This negative sentiment is likely to diminish in the wake of falling interest rates, which will encourage investors to buy again. Pegging the volume at €500 million, we expect the hotel investment market to recover in 2024.

Trends and developments

- Buyers and sellers of hotel real estate that are subject to permanent leases seem to disagree about the value of the assets. Buyers are giving lower valuations to properties, due to the deteriorating market sentiment and the increase in the perceived level of risk. In contrast, sellers are sticking to their higher valuations in anticipation of a speedy market recovery and based on the strong returns from hotel operations in 2023. This is producing an impasse in the hotel investment market at the moment.

- Several investors bought when the market peaked in 2017, 2018 and 2019, but they are now wanting to move back towards an exit. Given the decrease in value of hotel real estate, this entails selling at a loss. Now that there is an upturn in hotel exploitation, some investors are opting to hold on to profitable assets instead of selling them.

- Last year, the Netherlands reached record numbers of tourist bed night occupancies. The prospects are also positive for the coming years at around 10% more overnight tourist stays until 2025. This drove up room rates and the returns per available rooms (RevPAR), which saw a strong recovery of hotel turnover in 2023. This trend is expected to continue in the coming years.

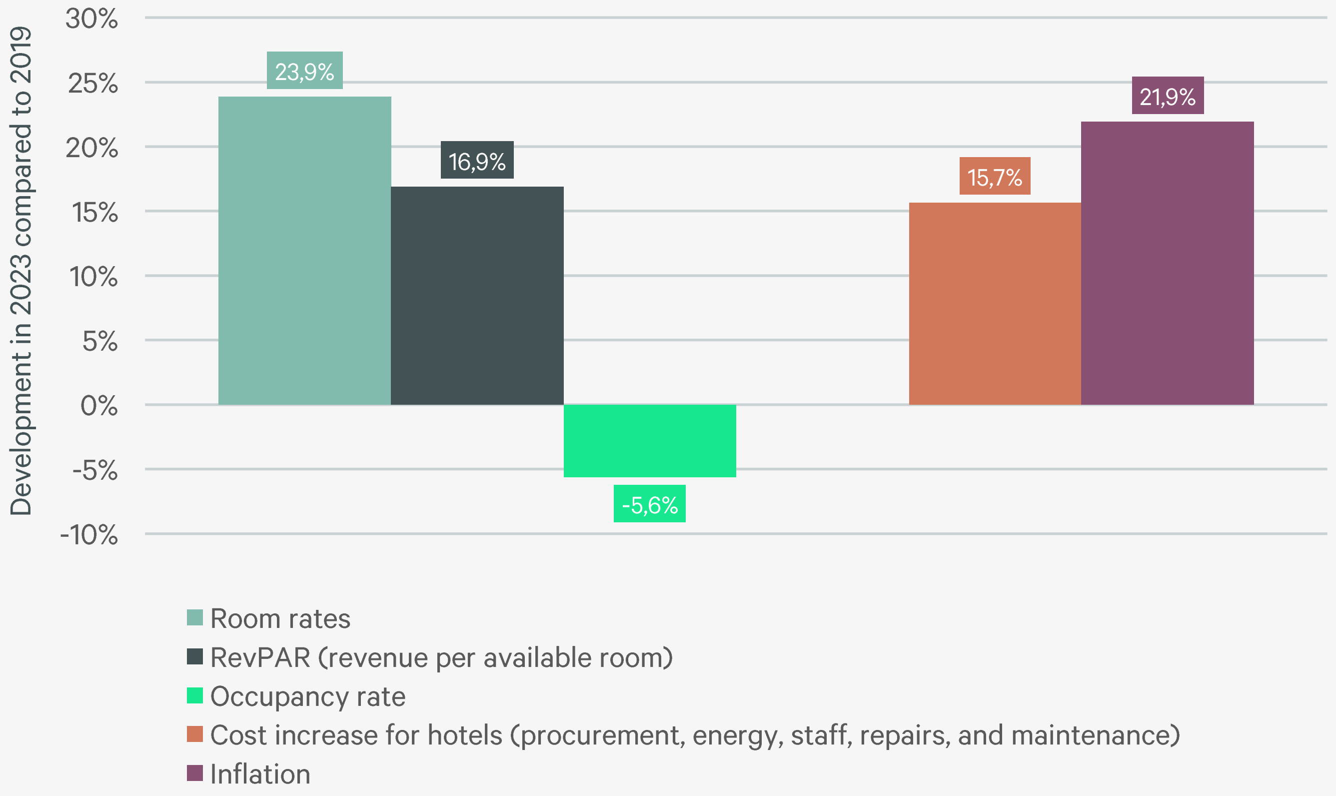
- The costs for hoteliers have risen, mainly on account of increases in wages, energy prices and more expensive procurement. Thanks to the strong recovery of tourism, hotels have so far managed to compensate for this by raising the room rates. However, there has been slowing down in the rise of labour costs, so keeping spending under control is still a challenge.

- A growing number of municipalities, like Amsterdam, Utrecht, The Hague, Maastricht and Haarlem, are attempting to curb the development of new hotels through regulations. This is ultimately expected to have a positive impact on the operating results of existing hotels, due to the increasing demand for overnight stays.

Analysis of hotels

In terms of operations, the hotel sector in the Netherlands is healthy, with higher room rates offsetting the rise in costs. But there is a catch: the cost of living for consumers has risen sharply, so there is a limit to how high room rates can be raised. At the same time, wage costs will continue to rise substantially in 2024, despite the fact that inflation is expected to normalise. Good cost management is therefore essential if operational profit margins are to be kept stable. As far as the bottom line is concerned, the outlook for many hotels is positive, especially if costs stabilise in the coming years. This may shake up hotel investors in 2024, which will have a positive impact on the investment dynamics in the sector.

Figure 23: Trends in hotel exploitation in 2019 versus 2023



Source: CBRE Research & STR

> The negative sentiment in the hotel market is fading away. It is expected that the increasing confidence will lead to cautious market recovery in 2024 and a number of significant transactions, both for single assets and entire portfolios.
>
> Jan Steinebach

Contact

Erik Langens
Executive Director
erik.langens@cbre.com

Robert-Jan Peters
Executive Director
robert-jan.peters@cbre.com

Frank Verwoerd
Senior Director
frank.verwoerd@cbre.com

Jos Tromp
Head of Business Development
jos.tromp@cbre.com

Casper van Grieken
Executive Director
casper.vangrieken@cbre.com

Jim Orsel
Senior Director
jim.orsel@cbre.com

Martijn Pustjens
Associate Director
martijn.pustjens@cbre.com

Sharon Morri
Junior Analyst
sharon.morri@cbre.com

Thomas Westerhof
Executive Director
thomas.westerhof@cbre.com

Eefje Voogd
Head of Residential Brokerage
eefje.voogd@cbre.com

Frederieke Meijer
Junior Consultant
frederieke.meijer@cbre.com

Sebastiaan van Nimwegen
Senior Director
sebastiaan.vannimwegen@cbre.com

Sam Elders
Senior Consultant
sam.elders@cbre.com

Lodewijk Buijs
Executive Director
lodewijk.buijs@cbre.com

Laura Seckel
Director
laura.seckel@cbre.com

Jan Steinebach
Executive Director
jan.steinebach@cbre.com