

Netherlands Commercial Real Estate Market Update

2nd Quarter 2020



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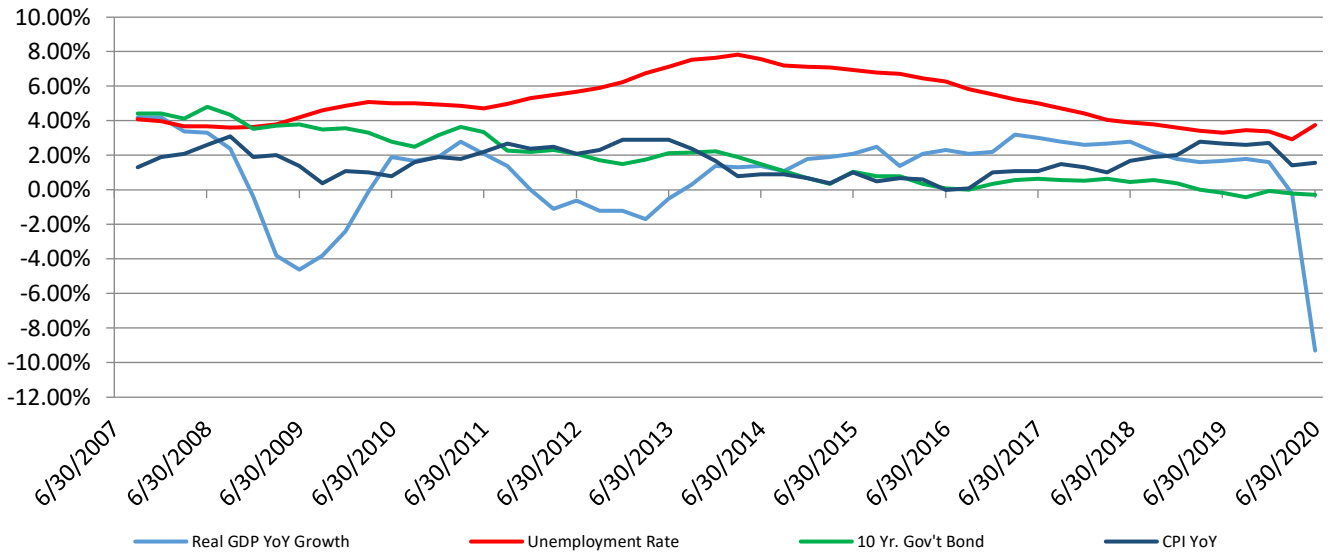
Since 1993, Quadrant’s senior management has worked together as a team providing the firm’s clients with access to both privately placed and publicly traded commercial real estate debt and equity investments through commingled funds and single client accounts. In addition to experience, senior management controls 100% of the firm, thereby providing true alignment of interests and accountability.

The firm’s executive leadership includes Kurt Wright, Chief Executive Officer; Walter Huggins, Executive Vice President; and Jessica Eggins, Executive Vice President.

Netherlands Market Summary

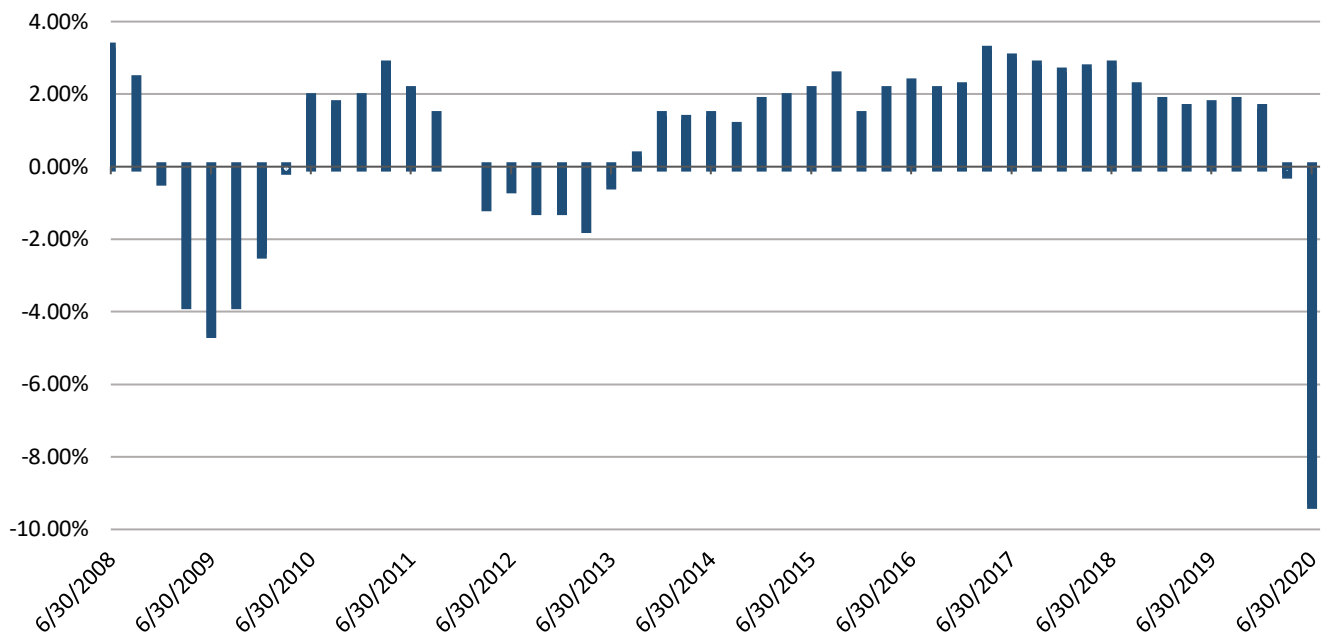
- **2020 GDP is forecasted to be -6.4%**
 - Real Gross Domestic Product (“GDP”) growth in the Netherlands year-on-year for the quarter ending June 30, 2020 is estimated to be -8.4%, down compared to the same quarter for 2019 at 1.7% (revised).

Key Economic Indicators

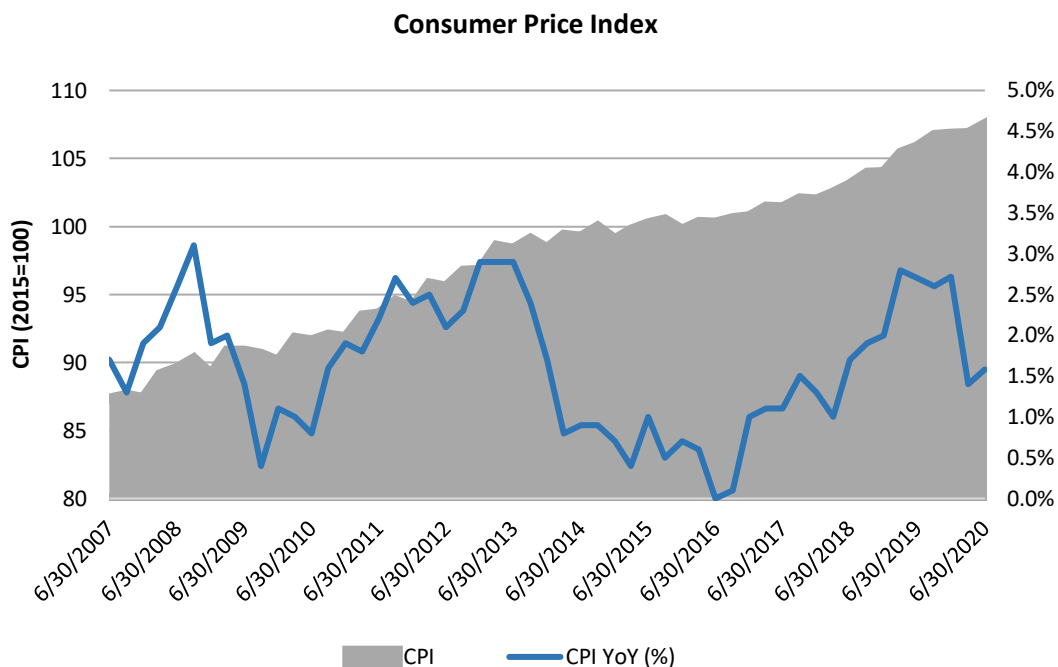


Source: Bloomberg

Real GDP YoY Growth



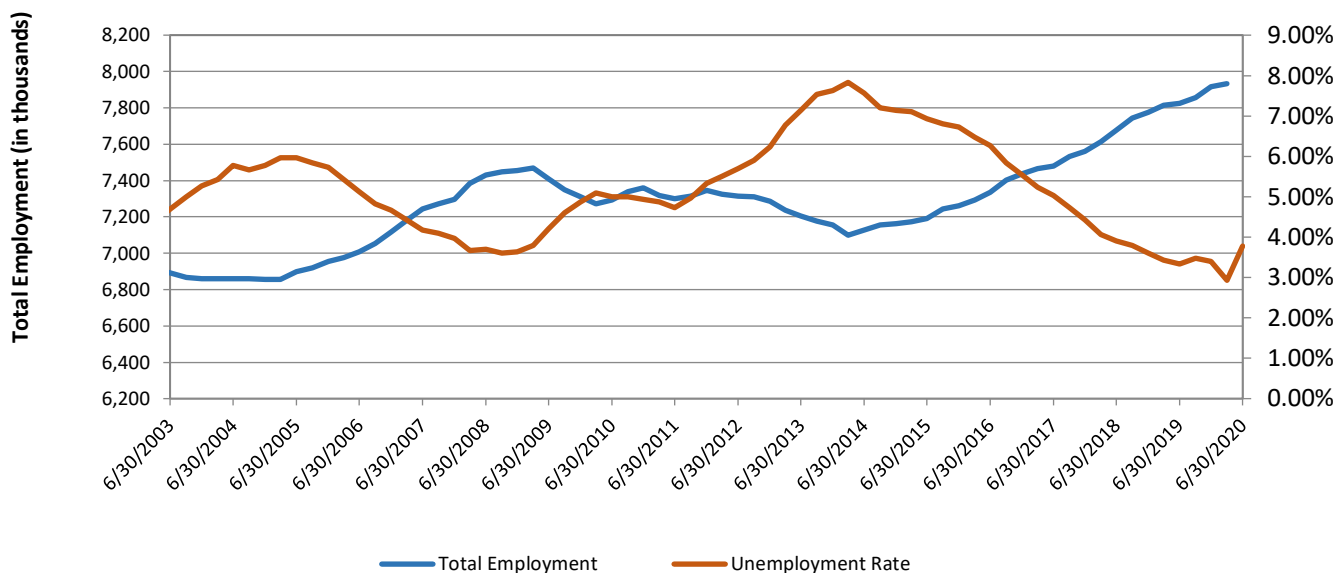
Source: Bloomberg



Source: Bloomberg

Employment

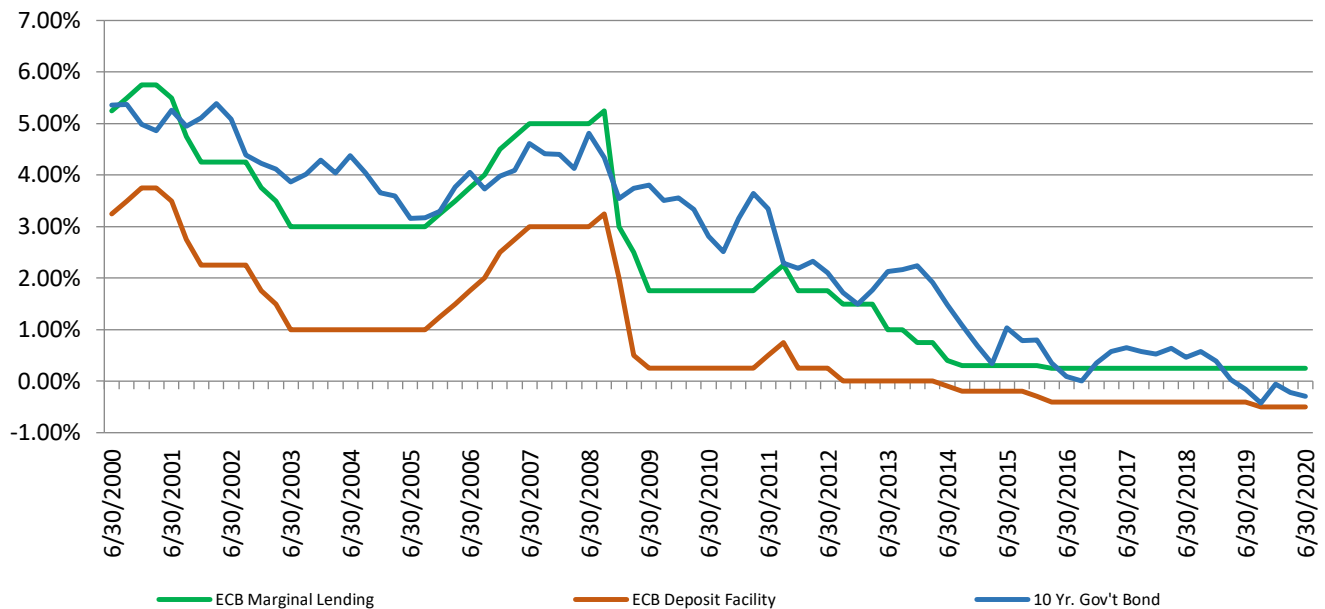
- According to the Dutch Statistics Office the number of employed people in Q1 2020 is 7.93 million people (annual positive change of 120,000 people).
- The unemployment rate increased to 3.77% for Q2 2020 as a result of the pandemic, however, unemployment remains near historic lows.



Source: Bloomberg

Interest Rates

- The European Central Bank (“ECB”) has an inflation target of approximately 2.00% over the medium term.
 - Euro Inflation decreased 40 basis points to 0.3% in Q2 2020.
 - Interest rates on bank reserves remain unchanged at -0.5%.
 - The ECB’s Quantitative Easing program has been expanded as a result of the COVID-19 pandemic. The Pandemic Emergency Purchase Program (“PEPP”) increased by €600 billion to a total of €1,350 billion (previously €750 billion). Purchases under PEPP started on 26 March 2020 and were expanded in June 2020 to continue until at least the end of 2021.



Source: Bloomberg

Historical Capital Trends

- The Netherlands has the most open economy in Europe. Imports and exports have increased 66% and 68%, respectively, over the past decade. Dutch real estate investment volume has increased 278% over the same period.⁵
- For the past five years, foreign investors have accounted for more than 50% of investment inflows.³
- A wide real estate yield gap has contributed to increased foreign real estate investment. Over the past 10 years, foreign real estate investment grew six times faster than national real estate investment. In 2018, foreign investors invested 9.5 times more than was invested 10 years prior.⁵
- Historically, most of the capital invested in Dutch real estate originated from other European countries. However, in recent years there has been more diversification with an increase in foreign capital from North America, Asia and the Middle East.⁵
- The Brexit vote has led to an increase in Foreign Direct Investment (“FDI”) activity in the Netherlands as organizations establish a presence in Europe to prepare for post-Brexit.
 - According to the Netherlands Foreign Investment Agency, nearly 100 companies have relocated or established an office in the Netherlands from U.K. in order to have a presence in the European Union. Additionally, 325 organizations have announced their intention to relocate.

Capital Trends - COVID-19 Pandemic Update

- The pandemic has decreased the number of real estate transactions in the Netherlands. In the first half of 2020 investment volume totaled €6.9 bn, down 16% compared to the same period last year.⁹
- According to CBRE projections, total real estate investment volume will end 2020 between €14 and €16 billion – a decline of roughly 25% - 35% compared to 2019. Sector projections include:
 - Hotel: €300 to €500 million; 85% to 75% decline year-over-year
 - Retail: €1.2 billion; 40% decline year-over-year
 - Office: €4 to €4.5 billion; 25% to 30% year-over-year
 - Residential: €6 billion; 20% decline year-over-year
 - Logistics: €2 to €2.5 billion; 20% to 0% decline year-over-year
- Despite concerns surrounding the pandemic, the real estate market is more stable than during the Global Financial Crisis. Fewer speculative developments, higher availability of capital, more conservative loan-to-value ratios, and no signs of withdrawal by international investors help to provide market resiliency.⁹
- According to CBRE, investment volume has diversified across sectors over the past decade. In 2007 and 2008, office investments represented 68% and 40% of all transactions, respectively. Residential investments have increased from 9% of all transactions in 2007 and 2008 to 35% in 2019 and 46% in the first half of 2020.
- However, despite increased investment across sector types, the pandemic has caused transactions to be more concentrated in the major cities. Lenders have become more selective including a significant reduction in financing by Dutch banks and increased spreads depending on risk profile.⁹

Office Market

- Amsterdam is the largest city in the Netherlands and top business location for international companies. The city offers the largest regional economy and labor market with the presence of all major industries, including recent growth in the FinTech and medical/pharmaceutical sectors. Amsterdam is a tight office market with limited availability and high demand.⁸
- Rotterdam is the second largest city in the Netherlands and is best known for the Port of Rotterdam which is vital to the Dutch economy. Offering the largest port in Europe, Rotterdam is often associated with its shipping, trade and distribution industries. International companies such as Shell and Coca-Cola have large presences here.⁸
- The Hague is best known for its role in international politics and appeals primarily to governmental bodies and non-profit organizations.
- Utrecht has one of the highest educated work forces in the country. The city has a diverse range of industries and is home to several international companies (DHL, Mercedes-Benz, Capgemini, PepsiCo). The recent improvement in office quality has contributed to the increase in demand in recent years.⁸
- Eindhoven is part of the Brainport region and benefits from the highest level of investment in innovation in the Netherlands and is a major European tech center. The city attracts many technology and manufacturing companies.
- According to Cushman & Wakefield, relocating organizations accounted for 1.4 million square meters of office take up in 2019, an increase of 13% compared to 2018. However, the pandemic has decreased activity in the occupier market with a take up decline of 12% year-over-year for the first half of 2020 and a decline of ~10% in search demand by occupiers for office space.⁴
- Investment volume declined 19% year-over-year in the first half of 2020.⁴
- The national vacancy rate is 8.3%, the lowest level since 2002.⁴ Demand for office is higher in the major cities with vacancy rates in city centers of Amsterdam, The Hague and Utrecht around 2% given the shortage of high-quality office space.⁹
- Despite stable vacancy levels rental growth has stalled and incentives are expected to rise amidst falling demand and uncertainty surrounding the pandemic.⁹
- Cushman & Wakefield report a total of 553,000 meters (5.95M sq. ft.) of office take up in the first half of 2020, down 12% year-over-year.

	1Q20	2Q20
Vacancy Rate	8.4%	8.3%
Take-Up (sqm.)	250,000	490,000
Prime Rent (sqm./yr.)	€ 500	€ 500
Prime Rent (sq. ft./yr.)	€ 46	€ 46
Prime Yield (GIY, incl. buyers costs)	3.15%	3.15%

Source: Cushman and Wakefield; GIY = gross initial yield

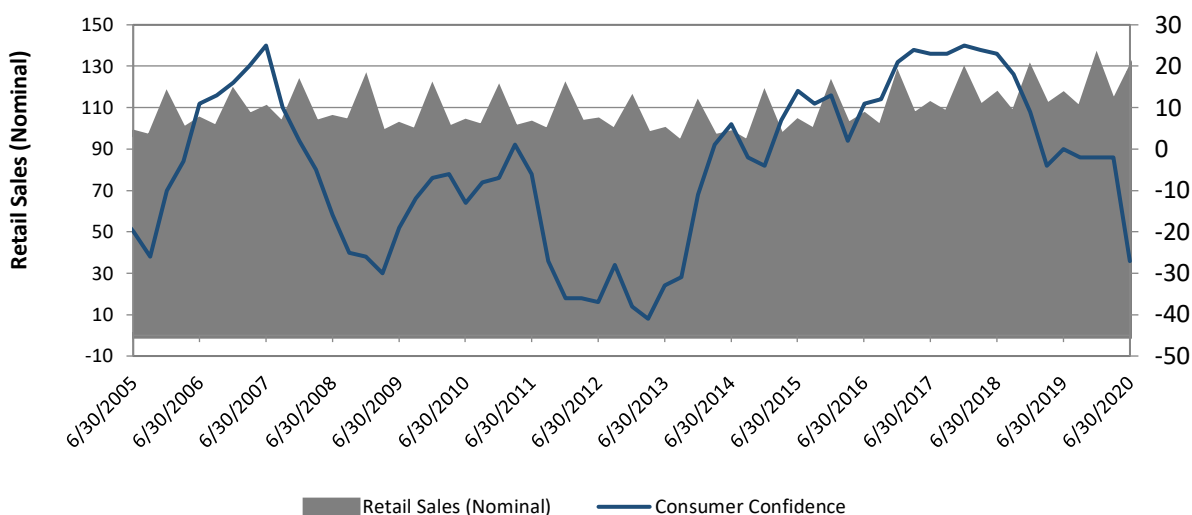
Retail Market

- According to Cushman & Wakefield, overall retail vacancy in the Netherlands was 7.5% in Q2 2020. However, vacancy is anticipated to increase as a result of the pandemic.
- A shift in consumer behavior due to the pandemic has allowed supermarkets, local shopping center and well positioned retail to perform well leading to further polarization amongst retail property types.⁹ The top 20 shopping cities exhibit lower vacancy rates compared to smaller and rural towns.⁴
- Online purchases account for 10.7% of all purchases in the Netherlands.⁵ According to ING’s transaction data, web transaction data in April was up 25% year-over-year.
- CBRE has noted a growth in investors focused on city center retail that has the potential to convert to mixed-use developments. CBRE anticipates declining retail valuations with less desirable locations being most negatively affected. Declining valuations are driven by falling rents and rising yields in less attractive locations – creating opportunities for potential repurposing of areas no longer best suited for retail.

	1Q20	2Q20
Vacancy Rate	7.7%	7.5%
Prime Rent	€ 2,750	€ 2,750
Consumer Spending Growth	0.7%	-12.8%
Turnover Growth	2.5%	0.5%

Source: Cushman and Wakefield

- Impacts of the pandemic lockdown force continued pressure on the retail sector as limiting measures and declining consumer sentiment contribute to market uncertainty.



Source: Bloomberg

Industrial

- According to *Invest in Holland*, Amsterdam is home to almost one third of all European data centers. AMX-IS (Amsterdam Internet Exchange) serves as the world's largest internet exchange.
 - The Netherlands has the second highest penetration of household broadband connections.
- Cushman & Wakefield report an increase of 51% year-over-year for investment in logistics and industrial property in the Netherlands. The logistics market has served as a haven for investors amidst the market uncertainty surrounding the pandemic and the continued rise in e-commerce.⁴
- Occupier demand for logistics property has been strong in recent years, however, take up through the first half of 2020 fell 60% year-over-year totaling 480,000 sqm (5.17M sq. ft.). The decline is due in part by the pandemic and by lack of availability of high-quality supply and the decline in new developments. 1.09 million sqm of industrial, non-logistics space was taken up in the first half of 2020, roughly flat year-over-year as the industrial sector has shown resiliency during pandemic.⁴
- Uncertainty surrounding COVID-19 is likely to limit rent growth as many occupiers take a wait and see approach. Prior to the pandemic the industrial demand has applied downward pressure on yields – this trend has not reversed during the pandemic.
- CBRE projects vacancy rates to remain low as many speculative new developments have stalled and new construction activity is most likely to be pre-let thus limiting the increase in vacancy levels. However, it is expected that incentives will rise in the near term.⁹
- Popular logistics locations include Schiphol, Amsterdam, Rotterdam, Eindhoven, Utrecht, Tilburg, Rosendaal and Venlo.

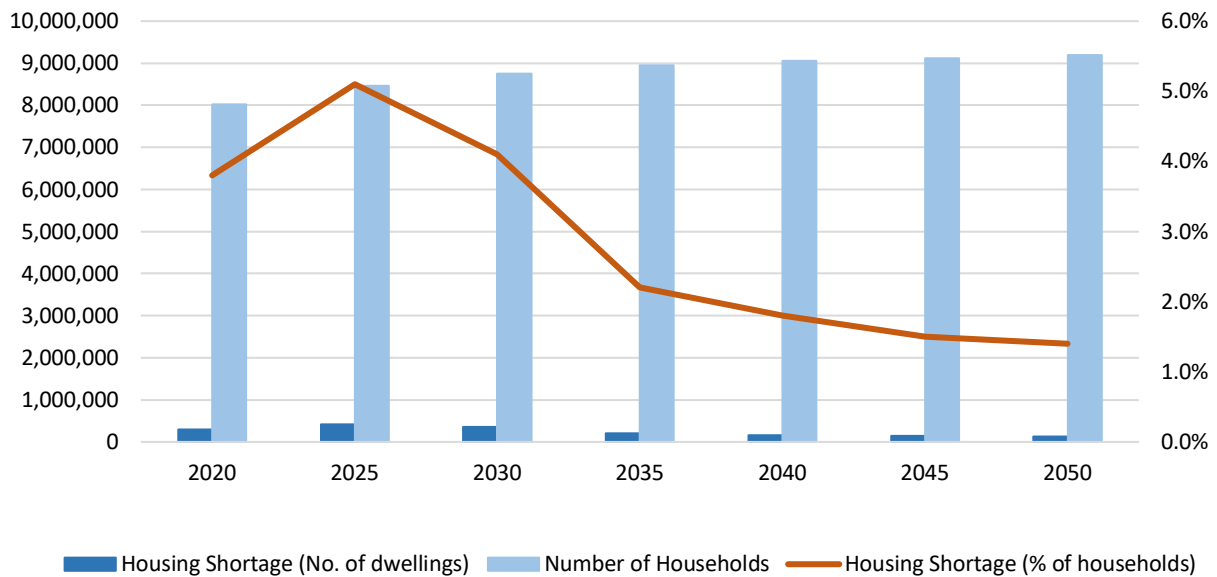
	1Q20	2Q20
Vacancy Rate	2.5%	2.6%
Prime Rent (sqm./yr.)	€ 90	€ 90
Prime Rent (sq. ft./yr.)	€ 8	€ 8
Prime Yield (GIY, incl. buyers costs)	4.0%	4.0%

Source: Cushman and Wakefield; GIY = gross initial yield

Residential Market

- Housing demand in the Netherlands remains strong as the country is currently experiencing a housing shortage.
 - The government has taken various measures to address this issue, allocating €1 billion in subsidies for the construction of affordable homes in areas with a severe housing shortage. Additionally, over the next decade €1 billion has been allocated for tax reductions on the landlord levy.⁶
 - According to ABF Research, housing shortage is projected to reach a peak in 2024 with a need of greater than 400,000.
- The largest quantitative housing shortages are found in cities with large student populations and municipalities with large numbers of migrant workers such as Utrecht, Amsterdam, Groningen, Nijmegen, Zeewolde, and Steenbergen.⁶
- High development costs and increase in one-person households have contributed to the shortage.⁷

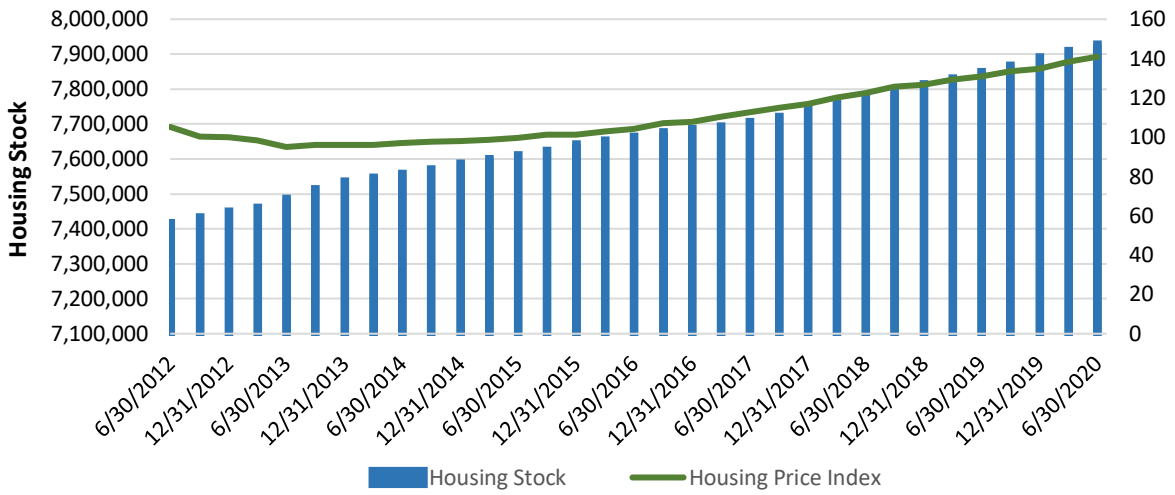
Housing Shortage



Source: PRIMOS (ABF); Housing shortage numbers are based on the following years: 2019, 2024, 2029, 2034, 2039, 2044, 2049

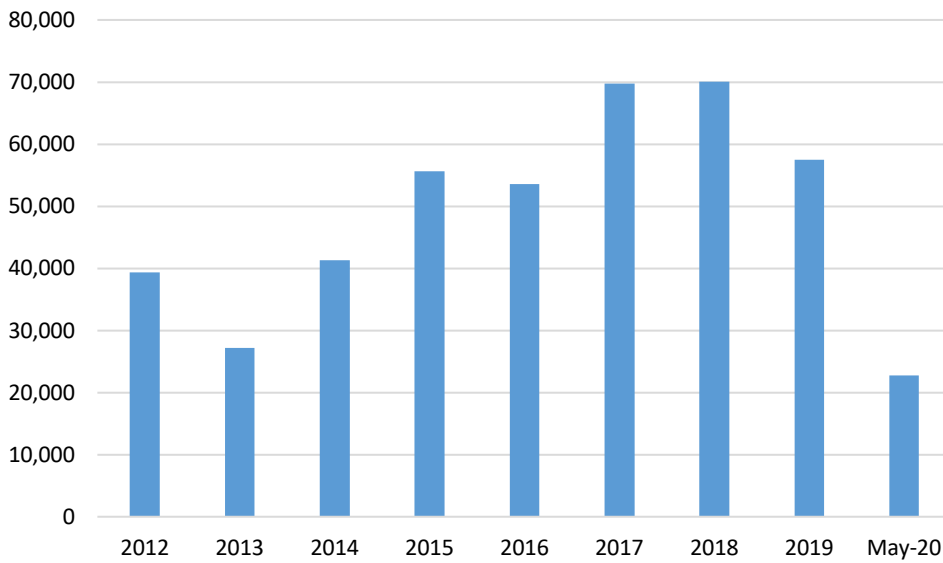
- With declining consumer confidence and rising unemployment because of the pandemic, CBRE predicts a fall in consumers' willingness to buy and limited buying opportunities which should bode well for the rental sector.⁹
- Savills has seen limited decline in appetite from investors, with yields remaining low around 4% or slightly below. Despite strong demand, however, investors remain cautious during this uncertain market which will lead to smaller investment volumes for 2020 compared to the prior year.⁷
- Housing has become less affordable in recent years as home prices have increased faster than incomes over the past several decades.⁶

Housing Supply and Demand



Source: CBS

Building permits issued for new homes



Source: CBS

Average Rent Increase by Housing Type

Type	2015	2016	2017	2018	2019	2020
Unregulated Sector	1.80%	2.20%	2.30%	3.10%	3.30%	N/A
Regulated Social Sector	2.60%	1.60%	1.10%	1.70%	2.00%	2.70%
Total	2.40%	1.90%	1.60%	2.30%	2.50%	2.90%

Source: CBS; 2020 Data as of August; *Please see definitions in addendum.

Average Rent Increase by Region

Region	2015	2016	2017	2018	2019
The Netherlands	2.40%	1.90%	1.60%	2.30%	2.50%
Amsterdam	3.10%	2.90%	2.50%	3.30%	3.40%
The Hague	2.10%	2.10%	1.70%	2.80%	2.50%
Rotterdam	2.80%	2.20%	1.80%	2.70%	3.20%
Utrecht	2.40%	1.50%	1.30%	2.80%	2.40%

Source: CBS

- Strong rental growth and housing shortages are providing increased opportunities for investors.⁶
- The Minister of the Interior announced new policies in May 2020 instituting annual rent increase caps in the private sector. Previously, the private sector was excluded from rent caps, however, the maximum limit for rental increases will be inflation + 2.5% which will take effect from the upcoming rent increase. This limit will be reassessed after three years.⁷

Exhibit A – Equity Transactions Completed

- The table below details property investment transactions that have occurred in the last 12 months.

Office

Date	Buyer	Seller	Property Description	Property Size	Location	Amount
Aug-19	BlackRock Real Assets	N/A	Office Property	5,700 sqm across five floors	Amsterdam	N/A
Nov-19	Investcorp	Cromwell Property Group and York Capital Management	The Mark (Office Complex)	23,000 sqm	Rotterdam	€52 M
Sep-19	LaSalle and Universal-Investment (on behalf of BVK)	Real IS	Ploum & Blaak 28 and 34 (office)	17,000 sqm	Rotterdam	N/A
Nov-19	Patrizia	N/A	9 freehold office buildings	8,500 sqm	The Hague	N/A
Nov-19	Tristan Capital Partners	Commerz Real	9 property portfolio	126,000 sqm	Amsterdam, Utrecht	€370 M
Dec-19	Amundi Real Estate	N/A	One Twenty - Allianz Tower	19,000 sqm	Rotterdam	N/A
Jan-20	Tristan Capital Partners	N/A	The Core (previously The Weena Building)	16,940 sqm	Rotterdam	N/A
Feb-20	Monarch Alternative Capital & CK Capital Partners	ARC Real Estate Partners	Lotus C+E	17,710 sqm	Rotterdam	€50 M

Retail

Date	Buyer	Seller	Property Description	Property Size	Location	Amount
Jun-19	AEW Europe City Retail Fund	N/A	54 Lijnbaan	1,975 Sqm of retail space over three floors	Rotterdam	N/A

Industrial

Date	Buyer	Seller	Property Description	Property Size	Location	Amount
Sep-19	Europa Capital	Private Seller	Logistics Warehouse near Eindhoven Airport	12,145 swm	N/A	N/A
Oct-19	Invesco	Somersat Capital Partners	VEN03 distribution center (due to complete in April 2020)	85,000 sqm	Venlo	N/A
Oct-19	Nuveen	N/A	Phase III of logistics development	43,416 sqm	Venlo	€40 M
Oct-19	Europa Capital & ARC Real Estate Partners	Looije Properties	Six properties	29,000 sqm	Dordrecht, Berkel en Rodenrijs, Heijningen, Zwijndrecht, Venlo	N/A
Nov-19	Tristan Capital Partners	Equity Estate	Logistics buildings	N/A	Oss	€25 M
Nov-19	Aviva	Delin Property	Two logistics properties	61,463 sqm	Tilburg-Waalwijk, Waddinxveen	N/A
Dec-19	Tritax EuroBox	N/A	Newly developed logistics property	46,185 sqm	Breda	€50.3 M
Dec-19	Europa Capital	Altera Vastgoed	Five logistic properties	78,100 sqm	N/A	N/A
Feb-20	LaSalle	USAA Realco Europe & Somerset Capital Partners	Bleiswijk Urban Logistics Center	60,000 sqm	Rotterdam	N/A
Apr-20	Aviva Investors	Euro-Rijn Group	Bosporusstraat 51	40,000 sqm	Distripark Maasvlakte	N/A

Residential

Date	Buyer	Seller	Property Description	Property Size	Location	Amount
Oct-19	ERES	CAPREIT	18-property portfolio	943 residential suites	Amsterdam, The Hague, Utrecht, Cuijk, Enschede, Gouda, Heerenveen, Huizen, IJsselstein, Koog aan de Zaan, Meppel, Oldenzaal, Scherpenzeel, Warnsveld	€170.5 M
Oct-19	ERES	Institutional owner	16-property portfolio	315 residential suites	8 municipalities	€64.8 M
Oct-19	ERES	Institutional owner	9-property portfolio	294 residential suites	N/A	€67.3 M
Mar-19	Heimstaden	Round Hill	Residential portfolio	536 assets: 9,544 residential units, 77 commercial units, 2,112 parking spaces, 567 other units (storage etc.)	N/A	€1.39 bn
Oct-19	Heitman	Bonita	Leyhoeve Tilburg Luxury senior living residences	285 units	Tilburg	N/A
Nov-19	Catella Residential Investment Management	Reggeborgh	Three apartment blocks	9,942 sqm	Helmond	€22 M
Mar-20	Catella Investment Management Benelux (CIMB)	Bouwhuis Group	Three housing schemes	141 apartments 19 apartments N/A	Nieuwegein Dordrecht Rijswijk	€24 M €6 M €20 M
Apr-20	Culew Netherlands (on behalf of Vivat)	Borghese Real Estate	Co-living development	153 urban loft apartments to be completed in March 2021	Arnhem	€20 M
Apr-20	Heimstaden	Patrizia	Residential portfolio	2,023 residential and 60 other (mainly commercial) units	Located in 29 cities	€375 M

Addendum - Definitions

- Consumer Price Index – Netherlands CPI Index; base year 2015=100; not seasonally adjusted (NSA); Source: Bloomberg NECPIND Index.
- Unemployment Rate – Netherlands Quarterly Unemployment Rate (%). Both the quarter and yearly values are reported on an annualized basis to avoid seasonal issues, using either a 4-quarter or 12-month moving sum of national source indices. Source: Bloomberg EHUPNL Index.
- GDP – Netherlands GDP at Real 2010 Prices in Euros YoY (%); NSA; Source: Bloomberg NEGDPY Index.
- ECB Marginal Lending – The interest rate banks pay when they borrow from the ECB overnight. Source: Bloomberg EECBMARG Index.
- ECB Deposit Facility – The interest banks receive for depositing money with the central bank overnight. Source: Bloomberg EECBDEPO Index.
- Retail Sales – Netherlands Retail Sales Turnover Index; base year 2015=100; NSA; Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold. Source: Bloomberg NERS20 Index.
- Consumer Confidence – Netherlands Consumer Confidence Seasonally Adjusted Index; target audience: households; sample size: 1,000 households; Date of survey: first 10 working days of the month; Source: NECCINSA Index
- Housing Price Index – Netherlands House Price Index; base year 2015=100; NSA; tracks the changes in residential property prices; Source: Bloomberg NEHSNG Index.
- Employment – Netherlands Total Employed Persons Working at least 12 hours a week seasonally adjusted (SA); measures the number of employed people as tracked by a household labor force survey; Source: Bloomberg NEUE12ES Index.
- Unregulated Sector (residential rents) – Rent contracts are liberalized if the rent was above the regulation threshold when the contract took effect. Unregulated rental dwellings belong to the private sector and the owners have more freedom in determining the rent and rent increase. Maximum rents and points system for rental housing do not apply.
- Regulated Social Sector (residential rents) – Rentals by authorized institutions (housing associations, subsidized and non-subsidized rental housing organizations and housing corporations) and government. Rental increases are controlled by the government.

Sources

1. *Bloomberg*, www.bloomberg.com;
2. *CBS Statistics Netherlands*, www.cbs.nl;
3. *Bouwinvest* – “Dutch Real Estate Market Outlook 2020-2022”;
4. *Cushman and Wakefield* – *Office, Retail, Industrial Market Beat Snapshots*;
5. *Savills Research* – *Netherlands 3Q19 “New capital continues to boost the Dutch Real Estate Sector”*;
6. *Savills Research* – *Netherlands Autumn 2019 “The residential paradox”*;
7. *Savills Research* – *Netherlands Summer 2020 “Spotlight Residential”*;
8. *Netherlands Research Savills*, en.savills.nl;
9. *CBRE* – *Mid-Year Market Outlook July 2020*;
10. *Invest in Holland*, investinholland.com;
11. *PRIMOS*, primos.abfresearch.nl;
12. *Colliers*, colliers.com/en-NL
13. *IPE Real Assets*, realassets.ipe.com;

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