



Q2 2018: Netherlands Commercial Property Monitor

Market remains buoyant

The Q2 2018 Netherlands Commercial Property Monitor shows sustained confidence across the market, with both investment and occupier sentiment indices amongst the strongest on a global comparison. The economy is now estimated to have grown by a robust 3% last year, and although timely data suggest the first half of this year has been slightly softer, expansion in 2018 overall is still set to be healthy. Expectations are for continued capital value and rental gains over the next twelve months, with the prime office and industrial markets leading the way. However, as is increasingly becoming the case across much of Europe, secondary retail remains one area of weakness.

Occupier Market

- The Occupier Sentiment Index (a composite measure of occupier market indicators shown on chart 1 overleaf) came in at +39, following last quarter's record high reading of +41. As such, the latest results continue to point to robust momentum behind the occupier market at present.
- Occupier demand reportedly increased at the sharpest quarterly pace on record, with a net balance of +60% of respondents reporting a rise. Within this, growth remained exceptionally strong in the office and industrial areas of the market, but more modest across retail in comparison.
- Availability fell further, led by a decline in leasable space in the office and industrial sectors. Meanwhile vacant space in the retail sector held broadly steady, following a modest increase in Q1.
- The indicator on inducement packages remained in negative territory for a ninth successive report, as a net balance of -24% of respondents noted landlords had reduced incentives on offer to tenants. That said, these remained unchanged for retail premises.
- Respondents raised their expectations for rental growth over the next twelve months relative to Q1. Indeed, prime office rents are now seen rising sharply (close to 8%), while the outlook turned from flat to modestly positive for secondary office and industrial rents. That said, rental expectations across the secondary retail market remain comfortably negative.
- Rental growth expectations were also revised higher in Amsterdam, where the prime office sector is seen posting even stronger gains. Furthermore, respondents upgraded their outlook for secondary office rents, which are now seen posting solid growth. Secondary retail continues to exhibit negative sentiment however.

Investment Market

- The Investment Sentiment Index (an amalgamation of investment market indicators also shown on chart 1) posted a reading of +42, again remaining within a whisker of the record high seen in Q4 and Q1 (+45). This therefore suggests the investment market continues to display strong impetus currently.
- Survey participants reported another strong quarterly rise in investment enquiries, once again led by the office and industrial sectors alongside more modest growth for retail. Foreign enquiries were also up, in a similar vein to the overall figures.
- The supply of property on the market for sale edged lower, albeit only modestly, across each area of the market during Q2.
- Contributors scaled back expectations for capital value growth over the coming year, relative to last quarter. This was in part driven by a less bullish view on prime office values. Nevertheless, solid growth is still expected in this sub-sector, with prime industrial values seen delivering similar annual gains. Secondary retail remains the laggard, as respondents anticipate further downward pressure on prices (chart 5).
- The outlook for secondary retail is a little more resilient in Amsterdam, with respondents expecting values to be little changed. Prime office projections exceed the figures for the Netherlands as a whole although the outlook for secondary industrials is a little more modest.
- Nationally, the majority of respondents continue to view the market as either at or below fair value (chart 4), while also sensing conditions are still consistent with the middle stages of an upturn. In Amsterdam, 64% of contributors feel commercial real estate is now above fair value and 48% view the market as nearing the top of the current cycle.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indices

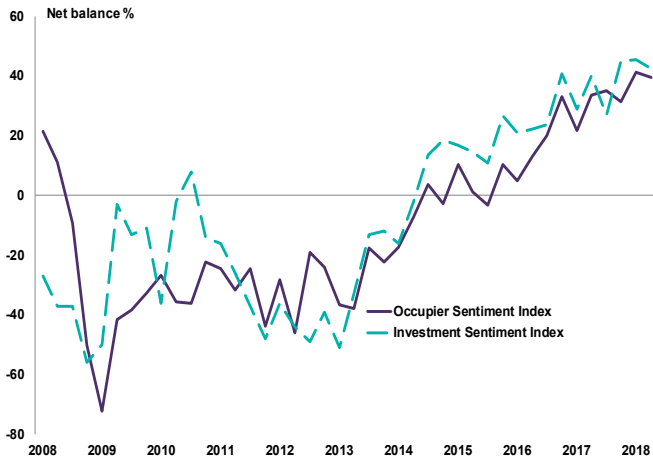


Chart 2: 3-month Rents, Capital Values

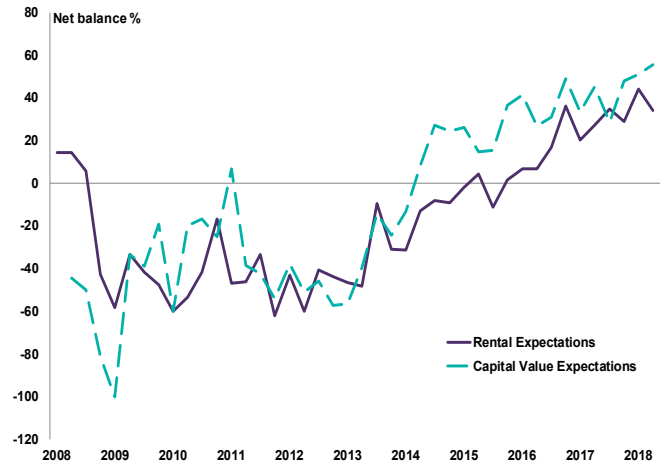


Chart 3: Credit Conditions

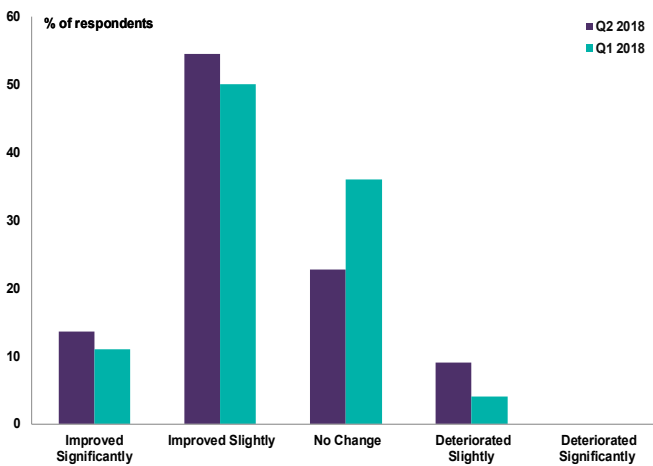


Chart 4: Valuations

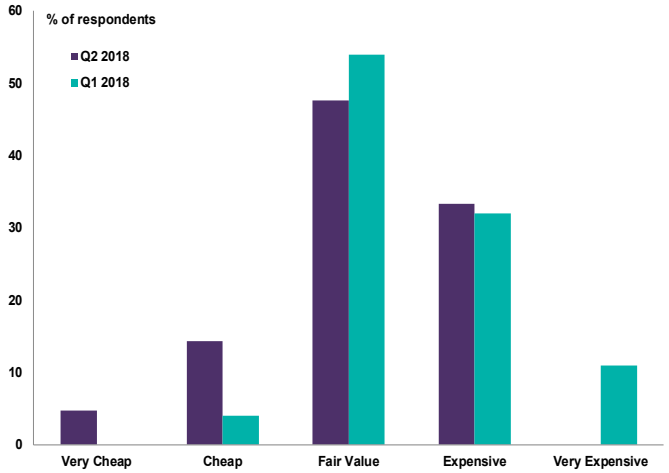


Chart 5: 12-month Capital Values Forecast

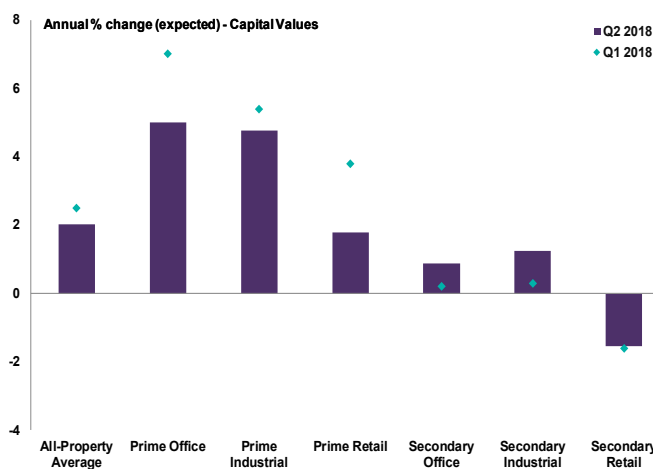
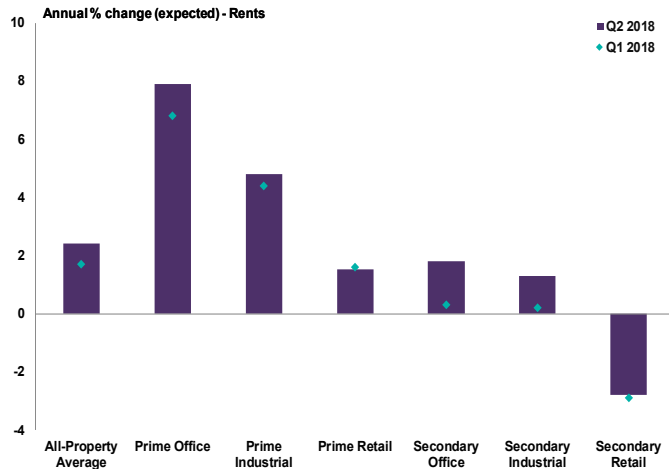


Chart 6: 12-month Rent Forecast



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 13 June 2018 with responses received until 8 July 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1965 company responses were received, with 371 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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