The Netherlands | Q2 2023

Office Market Quarterly Report

Occupier dynamics are declining, but the high quality office market remains a landlord-friendly market with signs of rental growth

Take-up slowed down in 2023 H1 and recorded its lowest level in the past ten years. Y-o-y take-up decreased with 40% to 329,000 sq m in H1. The slow down in occupier dynamics is the after wave of decreasing economic security in 2022 H2. At the moment, most occupiers choose to renew contracts as good quality supply at vivid locations with excellent connectivity is scarce, limiting the possibilities that are worth the expense of moving and CAPEX.

The shift in demand for quality has already taken place in major cities but is now expanding beyond the G5. The share of demand for prime office space rose to 45% in H1 2023, up from 27% in 2022.This is mainly due to a greater focus on sustainability, energy efficiency and quality of workplace. However, the supply and demand of prime office space is polarizing, limiting the options for occupiers looking for new office space.

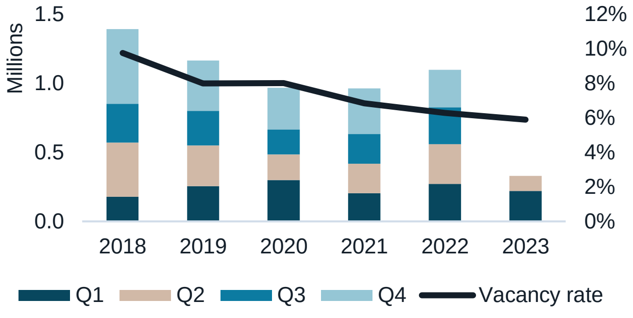
Even though take-up slowed down, supply is still decreasing, indicating that occupiers are taking a wait-and-see attitude by remaining seated. Supply overall decreased slightly to a vacancy rate of 5.9%, with a total of approx. 325,000 sq m available in Q2 2023. Approx. 30% is allocated to mono-functional suburban office locations and a mere 3% of the supply can be found in metropolitan station areas.

The limited availability of high-quality supply in station areas is driving up rental growth, increasing q-o-q with 5% to €525 per sq m per annum.

Market Fundamentals

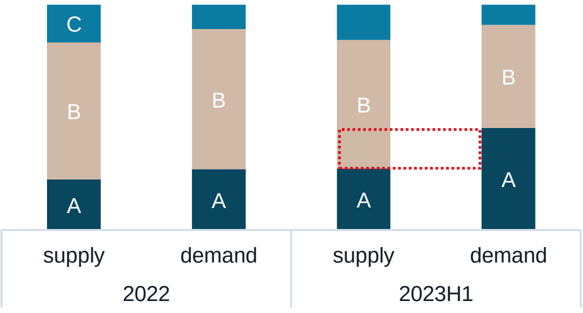
Take-up 2023 H1	329,000 sq m
Vacancy Rate	5.9%
Investment volume 2023 H1	€ 652 million
Prime NIY (June 2023)	4.25%

Figure 1: Take-up and supply



*Take-up= excl, transactions <500 sq m and rent renewals
Supply= immediate available; excl. <500 sq m.

Figure 2: Demand for quality excl. G5 cities

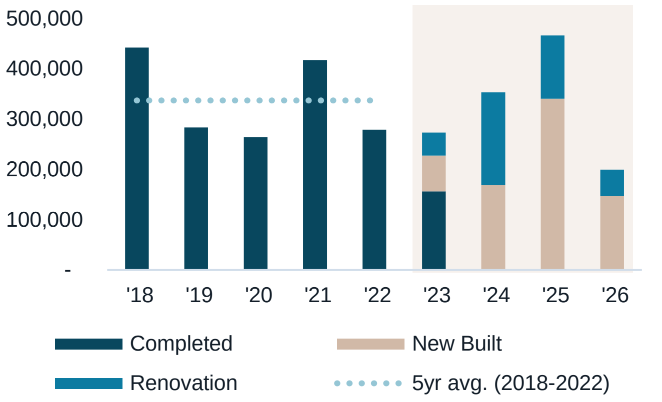


Slow down, but not breaking down

Construction is still behind, but new stock at prime locations is being delivered in The Netherlands.

Approx. 88,000 sq m of new built and refurbished office space has been delivered in 2023 Q2. Among the completions are Edge Stadium (27,000 sq m), Crossover (10,000 sq m) at Amsterdam Zuidas and Johnson & Johnson (13,500 sq m) at Leiden Bio Science Park. Pipeline for 2023 comprises another 116,000 sq m of new built and refurbished office space. Delays can still be expected, with only 46% of the pipeline to be delivered in 2024-2025 being currently under construction.

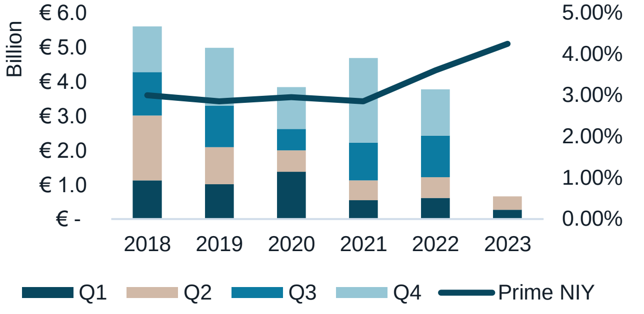
Figure 3: Pipeline and completions (2018-2026)



-46.1 %

Investment volume development:
In H1, the investment volume in the office sector declined by -46% y-o-y to around €652 million. The Resident at Parnussusplein 5 in The Hague, purchased by Rijksvastgoed-bedrijf from Deka Immobilien, was the greatest single asset transaction, accounting for a rough one-third of the total investment volume in 2023. Total Dutch investment volume fell -58% year on year to €3.5 billion in 2022. For the time being, the office market is still seeking its new equilibrium, with very limited liquidity.

Figure 4: Investment volume* (2018-2023Q2)



*Excl. transactions ≤ €2,500,000

+25 bps

Prime yield development:
Since March 2023, the prime net initial yield has climbed by 25 bps, reaching 4.25% in June 2023. The European Central Bank (ECB) has raised interest rates to 3.75%, and further rate hikes cannot be ruled out. Because the spread between risk-free rates and (prime) yields is narrowing, rising interest rates may result in rising office yields.

Due to the lack of capital inflow and higher perceived risk profile of office property, investors tend to shift their sweet spot in investment volumes downwards.

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