The Netherlands | Q2 2023

Retail Market Quarterly Report

Investment climate remains challenging due to economic and financial conditions, but the occupier market continues to show resilience

The retail occupier market continued to perform well over the past quarter. Total take-up volume came to approximately 164,300 sq m, which is slightly above the 3-year average of 154,000 sq m. This pushes the H1 total take-up to 288,700 sq m. Retailers in expansion mode include Mr. Marvis, KiK, Rituals, Doppelgänger, Intertoys and JYSK. Total retail vacancy continued to decline, by 1.4% over the past quarter and 12.7% year-on-year. As a result, the vacancy rate has dropped to 7.5%. Again, this has partly been the result of the withdrawal of obsolete space from the retail stock, as total retail stock declined slightly.

Retail sales continued to increase, up 8.1% year-on-year in June, according to CBS. However, corrected for inflation retail sales for both food and non-food decreased by 1.7% and 0.3% respectively. This decline in real spending is significantly less compared to previous quarter, when it dropped by 7%. Strong inflation has been the main driver of this. However, after having been on the upside for the last two years, inflation is past its peak and expected to gradually return to 2.5% by mid-2024. Consumer confidence remains negative, but is recovering from the historic lows of September and October last year.

The fact that retail rents have already taken a hit during the COVID-19 pandemic makes retailers more resilient to high inflation and economic uncertainty. However, retailers are still dealing with challenges such as COVID-related debt and high operational costs, which puts pressure on the occupier market.

Market Fundamentals

Take-up 2023 H1	288,670 sq m
Vacancy Rate	7.5%
Investment volume 2023 H1	ca. € 197 million
Prime NIY (June 2023)	3.8%

Figure 1: Take-up volume and vacancy

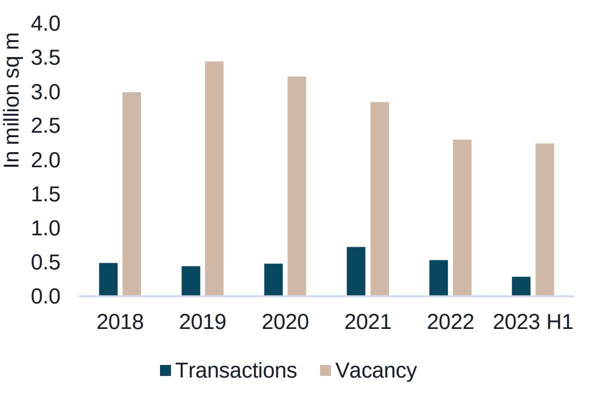
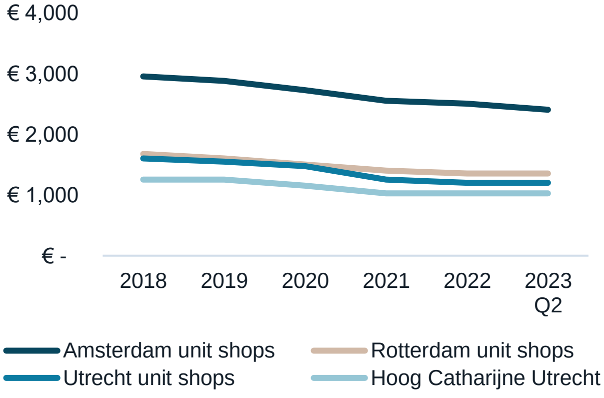


Figure 2: Evolution of prime retail rents



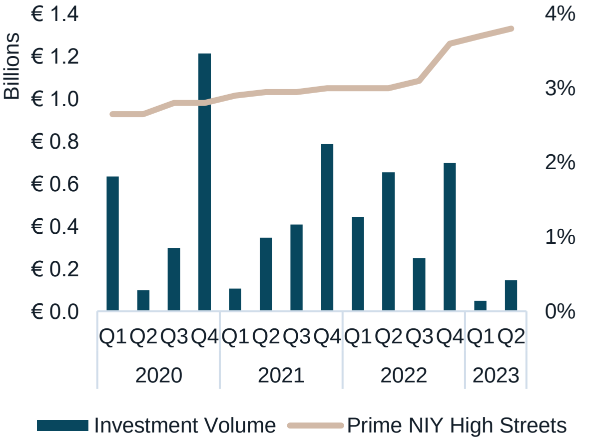
Investors cautiously re-enter the market

Retail investment volume came to approximately €147 million in the second quarter of the year, pushing the H1 total to just under €200 million. This is a decrease of 82% compared to H1 2022, which is especially due to a historically low first quarter of this year. Economic uncertainty and increased interest rates have put investor confidence under pressure, and the market still remains in price discovery mode. However, over the past quarter capital has slowly started to find its way back to the market, evidenced by a 196% increase in retail investment volume compared to Q1.

Notable transactions include the acquisition of Alexandrium II by Retail Estates. The prime retail park deal was signed in Q2 and will be transferred later this year. CBRE IM sold the scheme for €73 million, making it the highest volume deal so far in 2023. Recent transactions such as Makado-center in Alblasserdam and the Plus supermarket in Heerlen show that retail real estate with a with a (dominant) convenience element remain attractive to investors. Furthermore, A1 locations are still in high demand to (private) investors, as evidenced by Q2 transactions of dominant high streets locations in Amsterdam, Eindhoven and Enschede.

Prime high street yields in Amsterdam have moved out once again, currently standing at 3.8% NIY. This is predominately driven by risen interest rates. Prime retail yields for other prime locations and asset classes are less affected by interest rate hikes, as there has historically been a greater gap between those prime yields and the interest rates. They have either remained stable or, in the case of convenience retail some retail park locations, even demonstrated some contraction based on new market evidence.

Figure 3: Investment volume* and prime yield



*Excl. transactions ≤ €2,500,000

However, one more interest rate hike is to be expected in the coming months. Moreover, interest rate cuts are unlikely until at least the second half of 2024. As a result, further prime yield decompression cannot be ruled out.

Uncertainty persists, but market predictability is expected to gradually return during the second half of the year.

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