



Markets in focus: Amsterdam & Rotterdam

Why the Netherlands is attracting interest as an investment location

In brief:

- Vacancy risks currently low for modern, energy-efficient office buildings in city-centre locations with good transport links.
- Urban development projects and the modernisation of older office buildings are making a number of urban areas more attractive. Properties acquired now in these locations will see an appreciation in their values in the future.
- Rotterdam and Amsterdam are currently among the most attractive markets in terms of yields. Rotterdam currently offers the highest net prime yield in the euro area, at 5.7%. Office investments have thus become significantly more attractive again.

Amsterdam and Rotterdam are the two biggest cities in the Netherlands, with greatly differing property markets. However, both cities play an important role in the country's economy, culture and infrastructure.

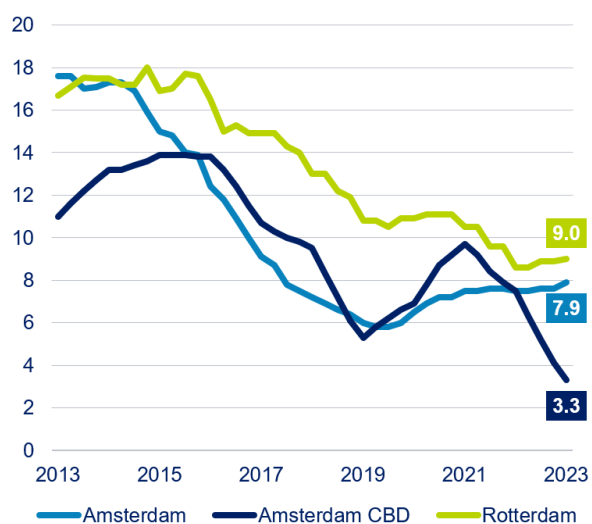
As the Dutch capital, *Amsterdam* has become established not only as a cultural centre, but also as a major economic hub within Europe. Its cosmopolitan atmosphere and coveted position as a port city are important factors in this: Amsterdam is considered one of the most attractive cities in Europe to live and work in (Mercer's 2023 Cost of Living city ranking: Amsterdam occupies place 11 in Europe). This makes the city a popular destination, not only for companies but also for professionals from all over the world. With sectors such as technology, finance, the creative industries and logistics, Amsterdam attracts both local and international companies and start-ups looking for high-quality office space.

The largest seaport in Europe and a major international logistics and commercial hub, *Rotterdam* benefits from its proximity to other European cities and the global market. While the port continues to play an important role, the city's economy has become greatly diversified in the past few decades. Sectors such as renewable energies, business services and healthcare have grown along with the traditionally important logistics and commercial sector. This diversity attracts office users who set store by very good infrastructure.

Rental markets report positive general figures despite challenging market environment

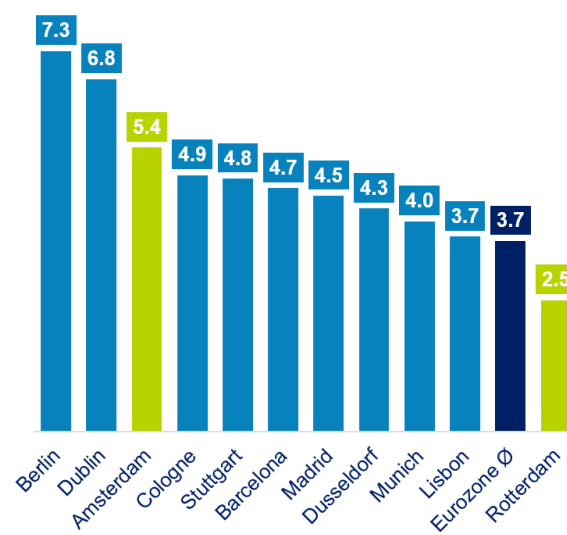
Despite the growth in demand, office rental markets face an increasing challenge. The increased focus on central locations, where space is limited, has resulted in a short supply of high-quality office space in recent years. As a consequence, the vacancy rate in Amsterdam’s central business district, Zuidas, has fallen considerably from 9.7% to 3.3% since 2021 (see figure 1). According to property consultants BRiQ Real Estate, the supply in the central business district (CBD) of Rotterdam is similarly tight due to the small size of the market and the small number of office completions. Competition for available properties that can meet users’ needs is intensifying further as a result. In Amsterdam this has led to an increase of almost 70% in office prime rents over the past 10 years, making the city one of the highest-performing European markets (see figure 2). Prime rents in Rotterdam have also risen during this period, albeit more slowly and not to the same level owing to the smaller size of the market. This makes Rotterdam an attractive location for companies looking for office space at a more reasonable price. Both markets therefore offer good conditions as far as rentability of space is concerned.

Figure 1: Vacancy rate Amsterdam vs. Rotterdam (%)



Source: PMA, chart: Real I.S. AG

Figure 2: Office prime rents in the eurozone 2013 to 2023 (change % pa)



Source: PMA, chart: Real I.S. AG

Urban development as a key to reducing vacancy rates and creating modern business districts

A phase of strong construction activity resulted in high office vacancy rates in Amsterdam and Rotterdam up to the 2010s. The construction policy response was to shift the focus away from new office developments in favour of repurposing and renovating older, unused office buildings, and towards restructuring monofunctional city districts to create mixed residential and commercial quarters. This was a success: in the last ten years the vacancy rate has been halved (see figure 1).

Amsterdam and Rotterdam have made considerable investments in urban and infrastructure development in recent years. City districts such as Rotterdam Central District or Zuidas, the CBD in the south of Amsterdam, are now major business and commercial quarters, offering not only high-quality office space but also a wide range of services and local amenities. This development is continuing: as part of the large-scale project *ZuidasDok*, Zuidas railway station (Station Zuid) is being modernised and enlarged over the coming years and developed into one of the most important transport nodes in the Netherlands. In addition to apartments and hotels, office space of 1.2 million square metres for will be created for 750 companies and nearly 44,000 jobs.

The southeast of Amsterdam (Zuidoost), a former monofunctional back-office location, will see the creation of new urban centres, with the development of restaurants, green spaces and sports grounds in addition to a large quantity of office, retail and residential space. The historic port area of Houthaven is also being converted into a mixed-use industrial estate with a total of 300,000

square metres of commercial space focusing on creative industries (see figure 3, sub-markets highlighted in green). The development of the area into a modern urban island quarter is already almost complete – as we saw during our last market tour (see figure 4).

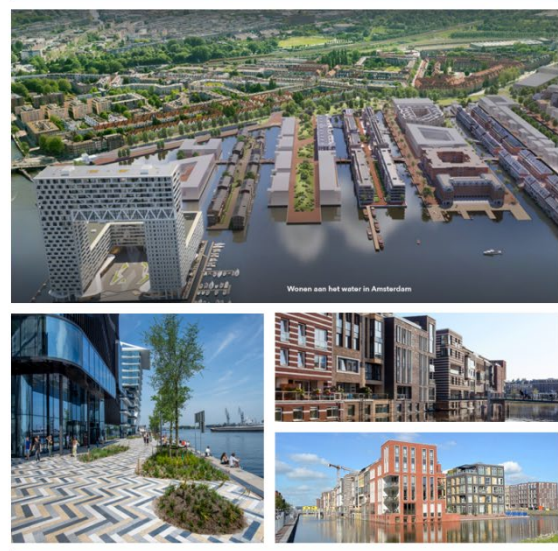
“Certain parts of Amsterdam are undergoing significant transformation programs, shifting from being purely designated for office or industrial purposes to becoming lively mixed-use districts. This provides attractive investment opportunities for the future.”
(Maikel Mast, Investment Management Netherlands)

Figure 3: Office submarkets Amsterdam



Source: © 2024 mapz.com – Map Data: OpenStreetMap (ODbL), illustration Real I.S. AG

Figure 4: Houthaven development area – waterfront locations transforming into modern neighbourhoods



Source: www.nieuwbouw-houthaven.nl, photos: Real I.S. AG

A number of attractive developments are currently underway in Rotterdam also. As is typical for this market, these are largely refurbishments, mainly in central locations. Many historic buildings are being converted to state-of-the-art office spaces, often in combination with other uses, to cater for the increasing need for high-quality, energy-efficient spaces. Two large-scale projects currently under development are Air Offices and Coolsingel 93, each offering more than 20,000 square metres of state-of-the-art, sustainable office space. In general, modern office stock is concentrated along the boulevards of the CBD and has high occupancy rates. However, owing to developers’ caution and the city’s restrictive construction policy, the office pipeline for the coming years is insignificant.

„In view of Rotterdam's shortage of high-quality office space and older stock, the planned new developments are going to bring more dynamic into the city's office market.”
(Maikel Mast, IM Netherlands)

Conclusion and outlook: Dutch investment markets offer opportunities in the core segment

Amsterdam and Rotterdam benefit from the solid general economic situation and attractive user markets. The increased demand for high-quality office space and the slow growth in new spaces have led to a significant decline in vacancy rates in the CBD locations of both cities. This means that, despite the challenging market environment, core properties continue to benefit from high occupancy rates and stable cash flows. Additionally, urban development projects and the modernisation of older office stock are enhancing the attractiveness of a number of urban areas. Properties acquired now in these locations will see an appreciation in their values in the future.

„The catalysts for advancement in both Amsterdam and Rotterdam office market are already noticeable, promising attractive investment opportunities matching the requirements for the future.” *(Maikel Mast, IM Netherlands)*

From the point of view of yield, Rotterdam and Amsterdam are currently among the most attractive markets. At 5.7%, Rotterdam's net prime yield is the highest of all the cities in the euro area. Amsterdam's is lower, at 4.8%. The difference in yields between office buildings and risk-free government bonds is currently 300 basis points for Rotterdam and 210 basis points for Amsterdam. Office investments have thus become significantly more attractive again. With the prospect of an improvement in economic conditions and a cut in interest rates, a window of opportunity is opening for investments in the Netherlands in 2024.

Kind regards

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