

STATE OF AFFAIRS

NETHERLANDS OFFICE MARKET

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in 2011



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Looking back on the year 2010, one cannot but establish that unfortunately, the downward trend in the office market has persisted. This conclusion is perfectly illustrated by the fact that the vacancy level in our country continued to increase in the past year. According to NVM Business' calculations, the immediately available supply of office space offered for rent or sale increased by 9% touching 6.74 million m². Besides, it was not exclusively the rising supply that caused a negative sentiment in the previous year. The occupational market too was anything but promising. Several high-profile transactions did attract some attention, however a booming period certainly did not present itself. Particularly the fact that many companies and organisations adopted a reserved attitude in the first six months, certainly affected the market. As a result of this, the take-up of office space in the open market declined by approximately 4%. Hesitation was mainly sensed among office space users in the industrial sector, commercial sector, public administration and the IT sector.

Although the supply-demand gap increased once more in 2010 assuming unacceptable proportions to say the least, on the demand side the transaction volume declined less strongly compared to recent years. It is quite conceivable that the tide will turn in 2011 allowing the office market to pick up. The current modest recovery of the Dutch economy supports this presumption, however a convincing proof cannot be provided at the moment. Professional investors claiming to have more faith in the office market is yet another promising development. For instance, last year Dutch and foreign investors invested approximately € 1.67 billion in offices compared to € 1.35 billion in 2009. No matter how important a stronger demand for office space may be in the future, for now it will not take away the concerns about the high vacancy level. What's more, despite a general sense of urgency, so far structural measures have not been taken. Nevertheless, NVM Business is expecting the vacancy level to rise less strongly compared to the past two years, due to declining new construction production and a relatively large demand for office space within the existing stock.

1. TAKE-UP OF OFFICES

Satisfactory demand despite the negative sentiment

Although demand for offices diminished slightly in 2010, the take-up level was still considered satisfactory judging by the amount of space let. Not only did the take-up volume drop less than the market had anticipated, in a historical perspective too the demand level was actually quite reasonable. In total approximately 1.16 million m² of office space was leased in the so-called open market. Take-up managed to somewhat distance itself from the negative sentiment in the office market mainly thanks to the developments in the second half of the year, in which about 670,000 m² of office space welcomed a new owner according to NVM Business. This compensated at large for the sharp decline that had presented itself in the first six months. In this context we must not ignore the fact that take-up involved gross metres, without bearing in mind the spaces companies and institutions had left behind elsewhere.

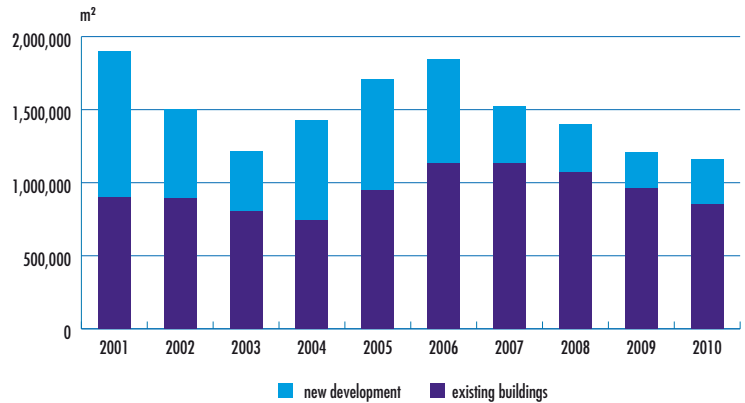
Public authorities are less active on the letting market

In addition to the fact that figures proved better than expected, another striking development was that compared to the year 2009, demand for new construction intensified, which unfortunately did interfere with the existing office space. The increased demand for new construction was determined by several impressive transactions with inter alia Deloitte, Van Oord, Danone, Nauta Dutilh, LeasePlan Nederland, Ricoh and Oranjewoud. Another eye-catching aspect of the demand for new construction was the fact that – unlike in the past – the public authorities hardly intervened. It was mainly the business community, the industry, the bank and insurance world and the IT sector that were responsible for the increased demand for new construction.

Distinctive role for Rotterdam

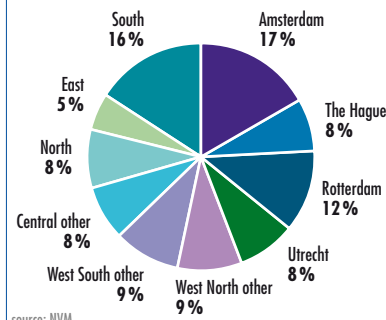
Comparing the different regions, last year conflicting tendencies clearly presented themselves. While in the South and West South regions the office take-up intensified, in Central and East Netherlands demand actually dropped. In North and West Netherlands the demand level remained almost intact. Out of the four large cities, Rotterdam attracted most attention in terms of take-up volume; no fewer than 136,000 m² were let, which is an undeniable improvement compared to 2009. Amsterdam too experienced a rising take-up volume. Nevertheless, it remained much below the city's average. Last year The Hague managed to let as much office space as it did in 2009, while in Utrecht demand was poorer compared to the preceding year.

TAKE-UP OF OFFICE SPACE ACCORDING TO BUILDING TYPE



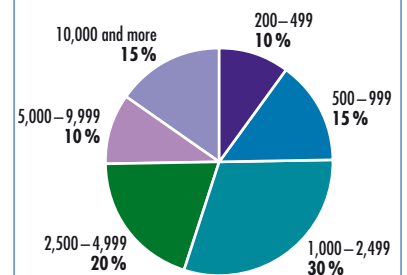
source: NVM

TAKE-UP OF OFFICE SPACE BY REGION 2010



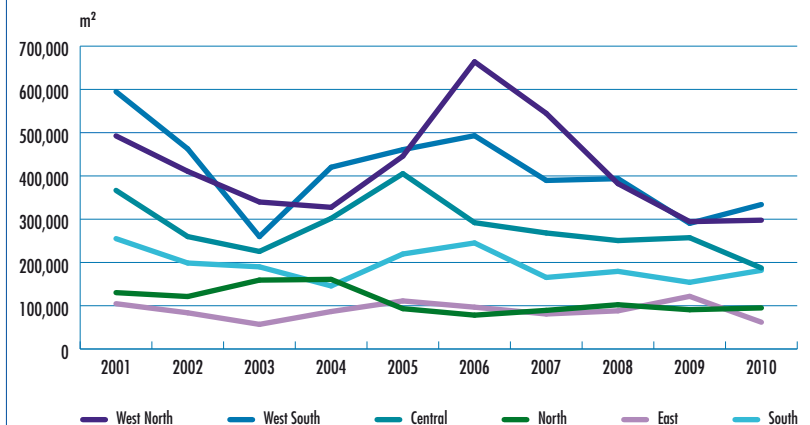
source: NVM

TAKE-UP OF OFFICE SPACE BY SIZE CATEGORY 2010



source: NVM

TAKE-UP OF OFFICE SPACE BY REGION



source: NVM

2. SUPPLY OF OFFICES

Strong increase of vacant offices

While demand for office space was relatively positive last year, things were quite different on the supply side. Because most office users who relocated last year exchanged their existing accommodation for smaller premises as a result of which little space was required for expansion purposes, again many excess office space metres were added to the market. Departing from the reliability of the data collected by NVM Business, the immediately available supply increased by approximately 520,000 m² reaching 6.74 million m². Due to this rise, which in fact was less substantial compared to 2009, about 14% of the total office stock in the Netherlands was offered for rent or sale towards the end of 2010. The number of vacant offices registered in one year has never been this high.

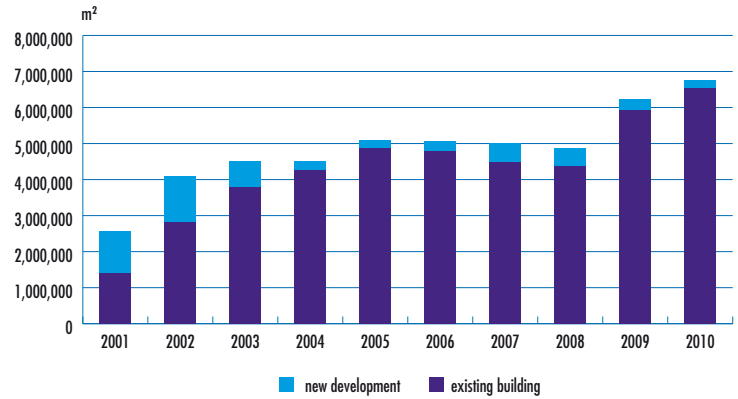
Randstad loses out

Typical of the rising availability was the fact that it manifested itself over a broad front. Although last year all the regions of our country faced a rise, it was Randstad (the highly developed urban agglomeration in the west of the Netherlands) in particular that suffered from an aggressively rising availability. This applied to the West South region in the first place, where availability was affected by the strong expansion of square metres in Rotterdam, The Hague and Zoetermeer. The Hague alone experienced a 15% rise in availability. In West North and Central Netherlands, also part of Randstad, the municipalities of Haarlemmermeer, Houten and Nieuwegein were also responsible for the major rise in availability. Especially Haarlemmermeer (Hoofddorp/Schiphol) experienced a strong rise of the available metres.

Conversion is quite a challenge

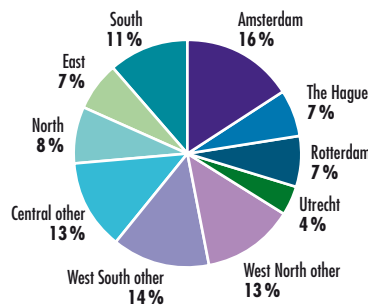
Judging by the total supply of immediately available office space in our country, so far about 35% has a structural character, which means that these offices have been on the market for at least three years. There is every reason to establish that the property sector is facing major problems, the complexity of which requires widely divergent solutions. We tend to lose sight of the fact that the possibilities of granting long-term vacant offices a different purpose are often underestimated. This is shown from the NVM Business figures. In the past ten years 1.1 million m² of office space was withdrawn from the Dutch stock, an average of 110.00 m² per annum of which almost 60% has been demolished, while no more than one-quarter of the withdrawn offices was converted into houses.

SUPPLY OF OFFICE SPACE ACCORDING TO BUILDING TYPE



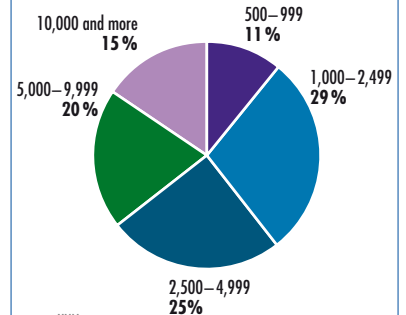
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SUPPLY OF OFFICE SPACE BY REGION 2010



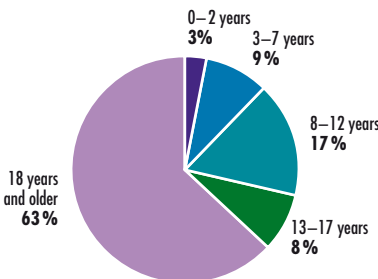
source: NVM

SUPPLY OF OFFICE SPACE BY SIZE CATEGORY 2010



source: NVM

SUPPLY OF OFFICE SPACE BY AGE 2010



source: NVM

3. OFFICE RENTS

Investors are less transparent

Unfortunately, the question as to how office rents developed in 2010 remains unanswered. It is because many investors and developers adopt a very reticent attitude when it comes to providing price details. Another reason is that rents realised cannot always be tested for reliability. The main reason is the widely applied incentives, such as rent-free periods and other contributions towards the occupation costs. Depending on the local market conditions, the quality of the location and the duration of the signed lease, incentives can vary from 20% to no less than 40% of the total rent. Lack of transparency, which NVM Business has referred to several times, means that the development of rents can only be approached at a global level.

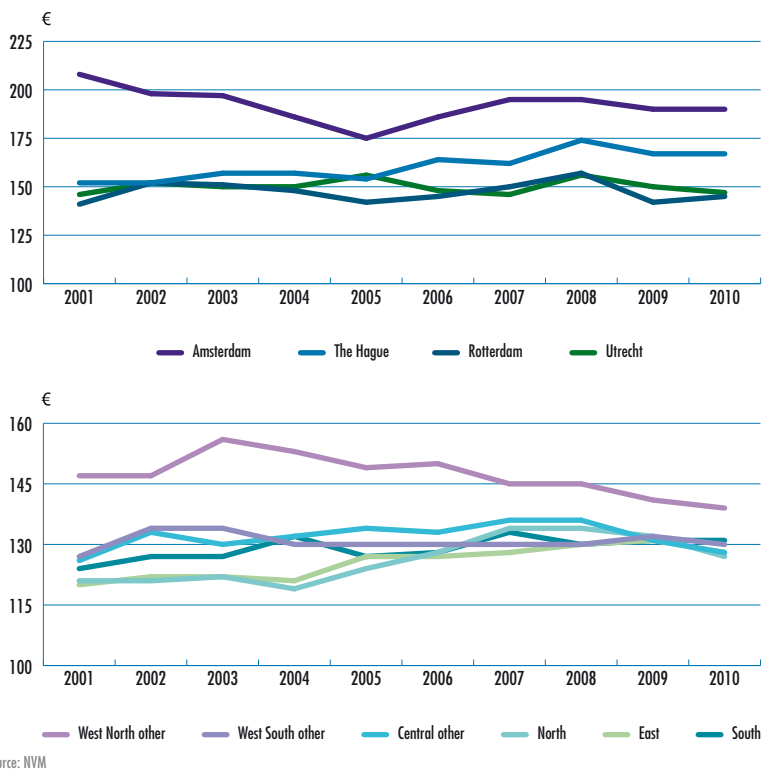
Slightly declining rents

If we leave out the shortcomings that have a statistical nature, we may establish that last year the average rent of existing office space in the entire Netherlands declined by approximately 3%. Nevertheless, the average rent for new construction remained almost unaltered. As regards the existing premises, decline was witnessed in almost every region with the only exception being South Netherlands where rents hardly budged in the past year. Out of the Netherlands' four large cities, strangely enough only Utrecht showed a modest decline; the state of mind in Amsterdam and The Hague was steady. In Rotterdam, the large demand for office space slightly pushed up the average rent. It should be plain that on interpreting these figures, prudence is called for.

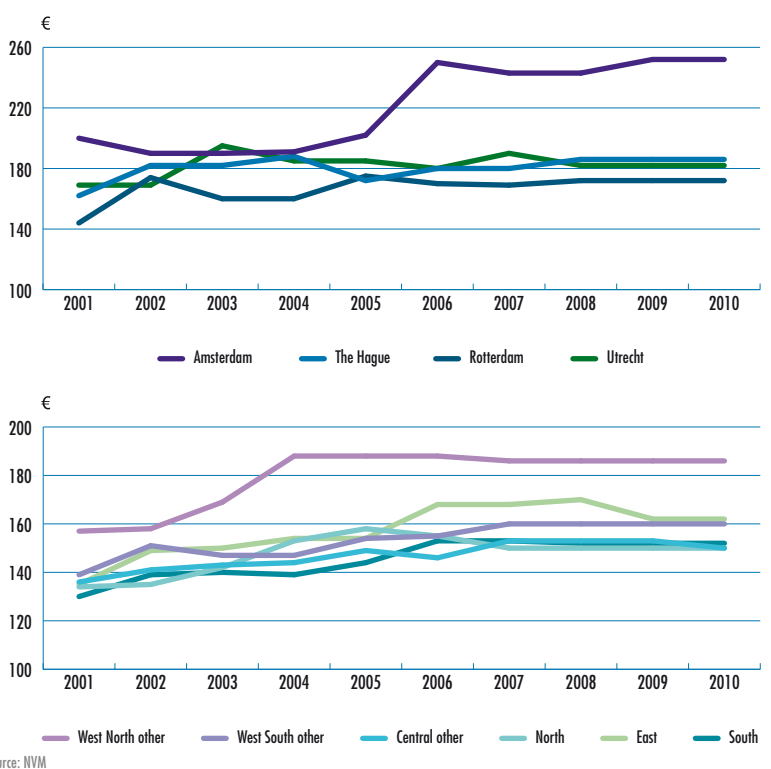
Incentives are necessary

The strong discrepancy in the Dutch office market between supply and demand implies that for now, little room exists for a substantial rise of the rent level. The possibility of rents breaking out is tempered by the surplus of existing office buildings in particular. This justifies the impression that in 2011 serious incentives will be required to hold on to lessees, although unfortunately an insight in figures cannot be provided.

AVERAGE RENTS OF EXISTING OFFICE SPACE



AVERAGE RENTS OF NEW OFFICE SPACE



4. THE OFFICE MARKET IN 2011

Demand's picking up

Based on the available data on the development of the economy and the employment level in our country, NVM Business is expecting this year's demand for office space to slightly exceed that of 2010. Although an improving demand in itself may seem justified, this prediction is not yet entirely supported by the prevailing market sentiment. The number of commercial property agents expecting more viewings has dropped compared to last year. According to the opinion poll conducted by NVM Business, most commercial property agents do expect more demand for small-scale offices (< 500 m²). Also, more property agents are expecting incentives to continue to rise.

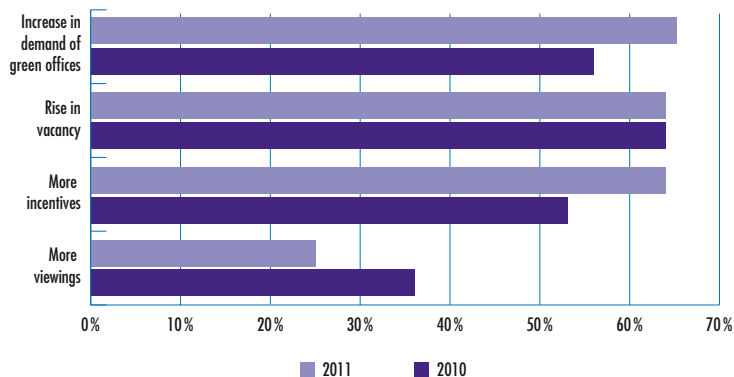
New construction is inevitable

A major point of interest – also in 2011 – obviously remains the question as to how the strongly increased vacancy level can be pushed back. One might tend to think that the problem can partly be solved by restraining new construction. Actually, this is not the case. Indeed, too many offices were built in the past, but this does not alter the fact that it remains necessary to continue to meet the changing demand for accommodation in the future as well. Which means new construction is almost inevitable, especially as part of sustainability upgrades of the office stock. Nor should we assume that only the office locations in city centres and in the proximity of railway stations offer a future perspective, as is suggested in places. One should bear in mind that the business community will require most office space and that the authorities will only have a modest role. Given the fact that a large part of the business community is strongly focused on car use, project developers and investors will continue to meet companies' demand for peripheral locations, such as office parks located along motorways.

More withdrawals are required

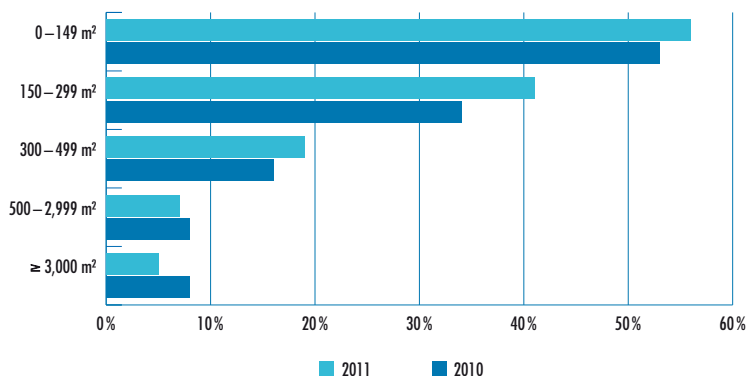
No matter how strong the need for new construction may be, according to NVM Business one cannot escape the necessity to either demolish or converse offices that have been vacant for a long time. In 2010 about 135,000 m² of office space were withdrawn from stock. Although this clearly implied an increase compared to the preceding year, the volume was too small to speak of a positive signal.

EVALUATION OF MARKET SENTIMENT



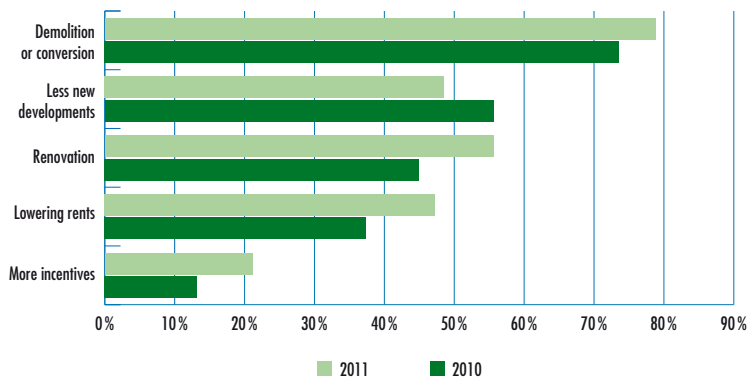
source: NVM

EXPECTED INCREASE IN DEMAND BY SIZE CATEGORY



source: NVM

SOLUTIONS TO VACANCY



source: NVM

DEFINITIONS

Office

A spatial and independent unit used for the greater part for administrative or backup activities. Office spaces that are part of factories, industrial buildings, universities or hospitals, are not considered offices.

Take-up

Letting and selling transactions taking place in the open market. Users who provide for their own accommodation requirements (the so-called owner-occupier developments) are not included in the take-up volume. The same applies to sale-and-leaseback transactions and lease extensions. NVM registers transactions starting at 200 m².

Supply Office

space immediately available for rent or sale. Offices that are in the planning stage and therefore still need to be built are not included in the supply. Supply includes vacant offices and offices under construction as well as spaces that are still being used but which are soon to be released. Supply is measured in buildings providing at least 500 m².

Rent

The concluded basic rent per square metre of lettable floor area, exclusive of VAT, service charges and lessees' specific fitting-out costs.

JUSTIFICATION OF THE RESEARCH

The figures shown in State of Affairs – the Netherlands Office Market are based on an online opinion poll conducted among NVM's estate agents (43 % responded) in January; 216 commercial estate agents who are actively involved in the office sector completed the online questionnaire. Data concerning supply, demand and rents were provided by NVM Data & Research in Nieuwegein.

NVM'S REGIONS

- West North 
- West South 
- Central 
- North 
- East 
- South 

