

# Ample opportunities

2018

# AMPLE OPPORTUNITIES

Van Gool Elburg

**Two of the traditional drivers influencing the commercial property investment market are economic growth and the interest rate level. A preview of the year 2018 by Van Gool Elburg.**

The growth of the Dutch economy, which commenced around four years ago, has proven unexpectedly vigorous during the latter half of 2017 in particular. This growth was prompted by both a larger volume of investment in the economy and a pick-up in consumer spending. Furthermore, the lights have all turned green in both the Netherlands and the euro zone for further growth during 2018.

## Considerable confidence

In general, the interest rate tends to rise in a growing economy. The fact that the interest rate has remained low for the past few years can be directly attributed to the

monetary policy pursued by the ECB. Its aim in keeping the interest rate low was to encourage spending. Despite a recent statement by the ECB that it intends to create greater scope for a rise in the interest rate in 2018, it is nevertheless expected to remain low throughout the year ahead.

For the past few years, investors' interest in the Dutch office market has basically kept pace with economic growth. The fact that all-time records were broken in 2017, both in terms of investment volume and initial yields, is more or less in keeping with expectations, given the development of the aforementioned drivers.

The fact that both domestic and international investors' confidence in Dutch property would increase so considerably that gross initial yields of 4% and less at certain locations would no longer be considered excessive, however, is very surprising to say the least.

## Randstad market

Is the current investment market comparable to that in the record year of 2007, however? Well, while it is perhaps amusing to compare the past and present in terms of investment volumes, it is actually of little significance. It is far more interesting to compare how quickly the respective rates of initial yield sharpened. After all, this is a sound indicator of the investment pressure in a particular market segment during a certain period of time. While a gradual increase in initial yields was experienced during the period prior to the years of crisis, we have witnessed a yield shift at various locations equivalent to 100 basis points or more in 2017.

While there was regular interest in acquisitions beyond the Randstad conurbation among both private and institutional investors a decade ago, there are now clear signs of increasing segmentation between the major cities on the one hand and the provincial cities on the other. Whereas market pressure has increased significantly at certain locations, there is no pressure whatsoever in a large part of the Netherlands. A sharp decline in initial yields occurred in the Amsterdam region and the City of Utrecht in 2017. In fact, the pressure at these locations has become so severe that many investors have begun to set their sights on the markets in The Hague and Rotterdam, while Eindhoven is also attracting increasing interest.

## Green light

The lights have all turned green in terms of the economy, and 2018 looks certain to be an interesting year in the Dutch property sector. Existing investors have already expressed a substantial appetite for product, for offices and for logistics propositions during the year ahead. Furthermore, 'new' parties continue to enter the market, often with more or less comparable investment criteria and expectations. While we can therefore rest assured that things will be just fine on the demand side, the challenge we are about to face in the year ahead is that of selecting the most appropriate investment product. After all, a lack of the right product might lead to stabilisation or even a decline in investment volume. However, this very lack of product would also be expected to cause further tightening of initial yields, particularly at prime locations.

So far, the sharpest gross initial yields are being experienced at the locations which lessees in general consider the most favourable to set up business. Purchasing decisions will therefore undoubtedly be based on the expectation that further yield compression is going to occur, while a (further) decline in vacancy levels and a rise in rents would push the initial yield up. The impending shortage of available office space in the Amsterdam region already caused a comparatively large increase in rent levels in 2017. And this trend is expected to continue due to the lack of substantial new development projects.

Expanding the search area yields a more varied and extensive availability and therefore offers the opportunity to conclude purchases which would enable one to (nevertheless) achieve the desired. There is a risk, however, that the development of the rental market will not keep pace with that of the investment market at locations with greater availability. Given that the 'the lessee' determines the content of each investment, an active rental market with healthy take-up is an absolute must if initial yields are to remain at a favourable level in the long term. While there are certainly ample opportunities, vigilance is nevertheless required.

