The Netherlands Retail MarketView H2 2014

Influx of foreign capital boosts retail investment

Take-up -22% y-o-y

Vacancy +3.8% y-o-y

Investment volume +85% y-on-y

Prime yield high street -15bp y-on-y

HEADLINES

- Occupier market not bottomed out yet
- Discounters and luxury retailers expanding
- Investment volume boosted by foreign capital
- Shopping centres most popular investment category

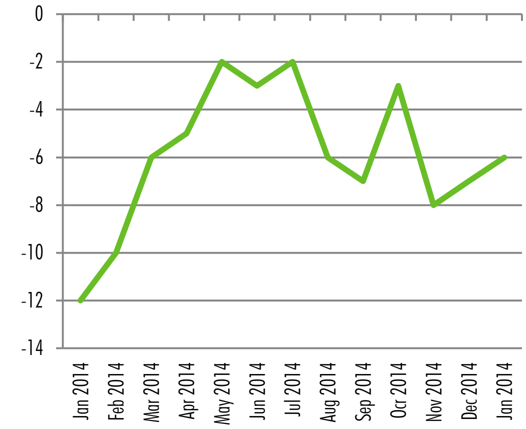
STALLED OCCUPIER DEMAND

While the Dutch economy is showing signs of recovery, this is not yet the case in the retail letting market, which, however, usually responds delayed to economic improvement. Over 412,000 sq m of retail space was taken up last year, a decline of almost 22% compared to 2013. This decline is stronger than in 2013 (-5% y-on-y). Around 20% of the total take-up volume was realised in the G4 cities. In terms of transactions Amsterdam had a narrow lead over The Hague (roughly 63 deals, against 59 deals in The Hague). In terms of square metres, however, Amsterdam obviously ranked first (>36,400 sq m), followed by Rotterdam (>21,300 sq m) and The Hague (>17,300 sq m). In Utrecht around 9,600 sq m was let, which is also a low figure compared to its take-up volumes in previous years.

FOCUS ON CITY CENTRES

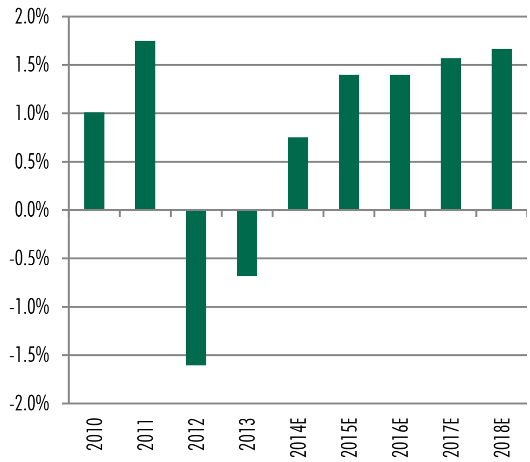
In Amsterdam almost 50% of the transactions concerned retail space in the city centre. Outside the centre, neighbourhood De Pijp (district South) was in favour. In The Hague the pressure on the city centre was even higher: roughly 56% of the deals was concluded here.

Chart 1: Consumer confidence



Source: Statistics Netherlands

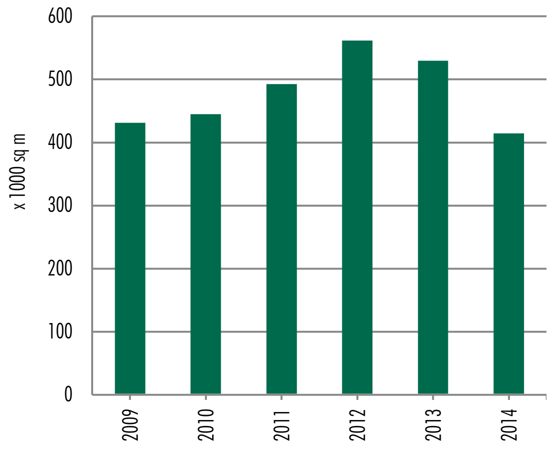
Chart 2: GDP growth



Source: Oxford Economics

Proportionally the emphasis was somewhat less heavy on the inner city in Utrecht and Rotterdam. On a national level, the same picture is visible: about 50% of all Dutch transactions occurred in city centres. Also, the smaller the city, the more tenants appear to prefer the inner city. In terms of transactions, Groningen and Leiden followed after the G4. In Leiden, most transactions occurred in high street Haarlemmerstraat, but the largest (non-food) leases (H&M, Via Mio/Moscow) took place in the new scheme at Catharinasteeg. In the inner city of Groningen, however, most tenants chose non-prime locations, particularly at niche shopping streets Zwanestraat and Oosterstraat.

Chart 3: Take-up in the Netherlands

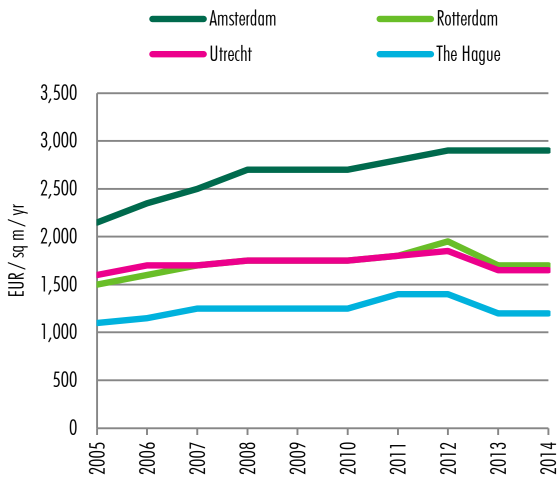


Source: CBRE, VTIS

DISCOUNT AND LUXURY GROWTH

While middle segment retailers and department stores are preoccupied by determining a new direction, the discount segment is flourishing. Retailers such as Zeeman and Action have opened several new stores, but also the German discounters Kik and Tedi, newcomers in 2013, were looking for new locations. At the same time there is a steady influx of foreign luxury retailers who are, however, focusing mainly on Amsterdam. Among these retailers were Forever Flawless, La Perla and Kult. Other newcomers were El Ganso, Subdued and &OtherStories. Partly due to this influx, the character of some Amsterdam high-streets is expected to change. The composition and image of Leidsestraat, for instance, is changing slowly thanks to (the unit image of) Abercrombie & Fitch, Michael Kors and Hugo Boss. The same may happen at Rokin and Damrak. As such, Leidsestraat may distinguish itself more from the main high street Kalverstraat. Eventually, this may result in an upward pressure on rents in Leidsestraat.

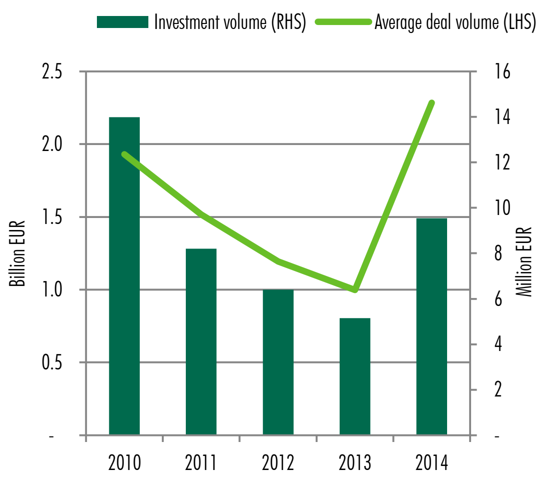
Chart 4: Prime rents G4 cities



Source: CBRE

As demand fell in 2014, vacancy (for all types of retail units) increased to roughly 3.47 million sq m (+3.8% y-on-y). Vacancy of retail space in the actual retail trade and readily marketable retail units moves around 2.31 million sq m (an ample 7.4% of total stock).

Chart 5: Investment volume & average transaction size



Source: CBRE

Vacancy is particularly increasing at retail warehousing locations and in the centres of medium-sized cities.

STRONG INVESTMENT GROWTH

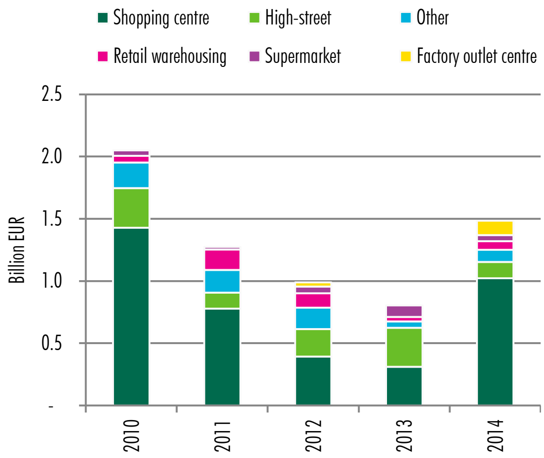
Ahead of the occupier market, the retail investment market reported a surge in investment volume of 85% in 2014, compared to 2013. This upswing in investment turnover came after four consecutive years of declining investments in retail property.

The investment volume was pushed by a number of portfolio deals and deals with large lot sizes. The average deal volume reached € 14.6 million, compared to an annual average of € 7.9 million during the period 2010-2013. The large portfolio deals have had a long lead time, most of those concluded during the first half of 2014 were initiated in 2013. Shopping centres were the main asset class in 2014, just as the high-street units dominated the market in 2013.

Corio - Mount Kellett and CBRI GI - Blackstone signed the largest deals of 2014. Corio (now Klépierre) sold 11 shopping centres to Mount Kellett Capital Management. This transaction concerned a nationwide portfolio, as well as a shopping centre in Coignières, west of Paris. The price was €176 m. CBRE Global Investors sold a nationwide portfolio of 14 shopping centres to Blackstone. Both acquirers were private equity funds.

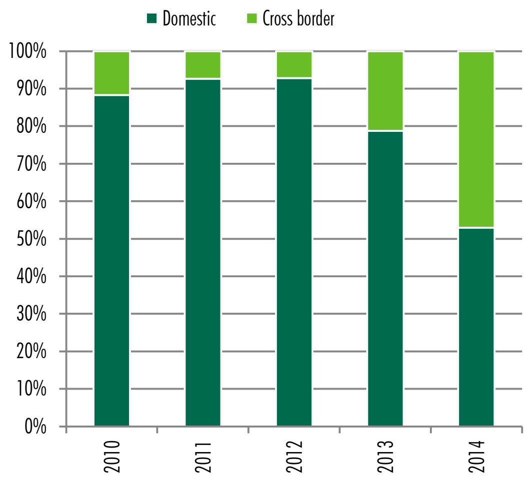
Furthermore, a number of individual large shopping centres was transacted in 2014. Wereldhave purchased two shopping centres: Vier Meren in Hoofddorp and the remainder of de Koperwiek in Capelle aan den IJssel, which Wereldhave did not yet own. Two other landmark transactions shaped the market in 2014: Kroonenberg Groep purchased the Kalvertoren shopping centre from Deutsche Bank Asset Management and Fashion Outlet Centre Batavia Stad was transacted.

Chart 6: Investments divided by asset type in € billions



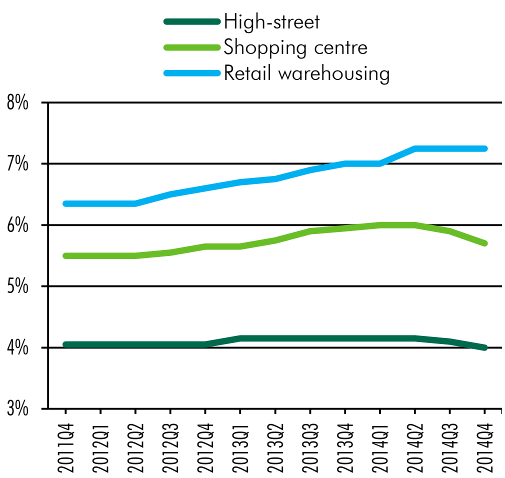
Source: CBRE

Chart 7: Investments by origin



Source: CBRE

Chart 8: Prime net yields



Source: CBRE

The market of 2014 was characterised by the re-entry of foreign capital. The acquisitions of the two aforementioned private equity investors boosted cross border investment to 47% of the total volume, well above the previous years' levels.

Established international investors were active on the Dutch market as well. Most eye-catching was Unibail-Rodamco's purchase of parts of SC Leidsenhage, in Leidschendam, ahead of the scheduled redevelopment. The acquisitions of the Dutch REITS Vastned and Wereldhave showed that domestic funds remain active on the core-side of the market if opportunities arise.

Family offices and smaller local investors (limited partnerships) remained present as well. These investors were mostly active in the high-street market and the market of small to medium-sized retail assets. They were predominantly interested in investment volumes up to € 30 million and mostly acquired recently completed or (re-) development assets. Examples are Miro Center in Enschede, which was purchased by HB Capital, the investment vehicle of the Blokker family. The purchase of three high-street units at Heiligestraat and Leidsestraat in Amsterdam by Kroonenberg is another example.

With rapidly rising investor interest throughout 2014, net initial yields of prime high street retail assets had sharpened to 4.00% by year end 2014. Shopping centre and retail warehouse yields declined to 5.70% and 7.75%, respectively.

Table 1: Largest Investment transactions 2014

Location	Building/project	Type	Purchaser	Price in € m	Size (sq m)
Nationwide	CBRE Global Investors portfolio	Shopping centres	Multi/Blackstone	N/A	107,500 sq m
Nation wide	Corio portfolio	Shopping centres	Mount Kellett/Sectie 5	176.0	120,800 sq m
Hoofddorp	Vier Meren + V&D	Shopping centre	Wereldhave	138.9	30,100 sq m
Amsterdam	Kalvertoren	Shopping centre	Kroonenberg Groep	117.6	11,500 sq m
Lelystad	Batavia Stad	Fashion outlet centre	Meyer Bergman	115.0	26,300 sq m
Capelle aan den IJssel	De Koperwiek	Shopping centre	Wereldhave	60.1	16,000 sq m
Nation wide	Pinnacle portfolio	Retail warehouses	Europa Capital Partners	49.2	5 units
Leidschendam	V&D Leidsenhage	Shopping centre	Unibail-Rodamco	40.6	11,450 sq m
Nationwide	High-street portfolio	High-Street	Vastned	39.0	7 units
Haarlem	Brinkman passage	Shopping centre	FGH Bank	29.0	10,312 sq m

Source: CBRE

OUTLOOK

Several economic indicators are providing a positive stimulus for the battered retail market, such as a declining unemployment, increasing consumer confidence, an increase of purchasing power and a low inflation. The recovering housing market is expected to have a positive impact on the sales of DIY and home furnishing branches. Even so, consumer spending is expected to increase only modestly, since many consumers are still reducing their personal debts. The peak of retail bankruptcies seems over, nonetheless.

Retail chains will keep looking for large-scale units to house their flagship stores. Scaling-up of units will remain important. Wherever possible, redevelopment projects will try to meet this need. Exemplary are Amsterdam (Rokin, Damrak) and The Hague (De Markies), but also shopping centre De Barones in Breda where several existing units are currently being merged.

The revived investor interest in retail property is anticipating on an expected growth in take-up of retail space. Core investors seem to aim at securing their positions in the prime segment of the market, while venting off the retail properties that are not expected to meet future retailer demand. This segmentation is expected to remain well defined in the year ahead, with institutional core investors paying considerable lower yields for prime assets than opportunistic investors that are looking for high-yielding assets.

The entry of international private equity investors in 2014 has paved the way for more foreign investors in the year ahead. Significant in this context is the quality of the assets coming to the market. Only well-performing assets can count on tangible investor interest. New portfolios or large-scale assets coming to the market in 2015 might trigger a new inflow of foreign investors.

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