NETHERLANDS REAL ESTATE STRATEGIC OUTLOOK

First Quarter

IN A NUTSHELL

- The Dutch economy looks well placed, with the vaccine rollout providing renewed hope. However, short-term uncertainties remain and should not be underestimated.
- We expect Dutch real estate to outperform on a risk-adjusted basis as favourable long-term trends remain intact, particularly in the Randstad region.
- We see the Netherlands as a top pick for last hour logistics assets as well as a strong candidate for residential investments.

The Dutch economy seems relatively well placed to withstand ongoing Covid-19 restrictions in the coming months, with light at the end of the tunnel thanks to the vaccine rollout. However, short-term uncertainties remain and should not be underestimated. We expect Dutch real estate to outperform on a risk-adjusted basis within a pan-European context over the next five years. The private rented residential and office sectors did not decline much in value throughout the pandemic and logistics assets saw a substantial increase in investor interest. At the same time, favourable long-term trends remain intact, particularly in the Randstad region. In addition, Dutch government bond yields are forecast to stay low, boosting the relative attractiveness of real estate. We see the Netherlands as a top pick for last hour logistics assets as well as a strong candidate for residential investments.

Resilient economy and vaccines brighten horizon

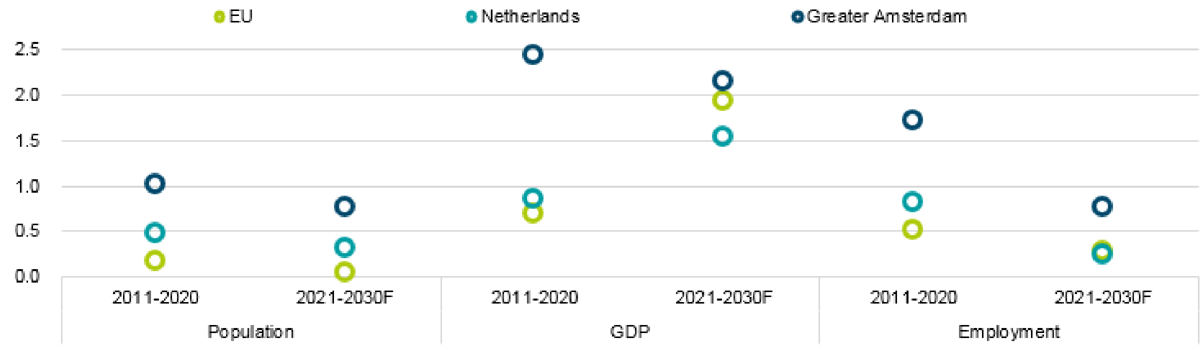
Despite severe restrictions due to the Covid-19 pandemic, Dutch government subsidies have been effective in protecting businesses and employees. While unemployment rose only slightly over the course of 2020, bankruptcies stood at a remarkable 20-year low. Data suggests the decline of the Dutch economy amounted to roughly 5.6% in the past year, more modest than the almost 7% average fall across the whole of the Eurozone.[1] Growth is forecast to resume in 2021, although with the pandemic not yet under control, short-term downside risks remain.

In the occupier markets, this ongoing uncertainty will likely lead many tenants to put their real estate strategies on hold for now. This should result in somewhat muted take-up for most sectors, at least in the first half of 2021. On the other hand, investment activity is expected to remain strong this year against the backdrop of investors' lack of alternative opportunities and the Netherlands' relative stability. In particular, we expect investors to favour core assets in the logistics

[1] DWS, January 2021

and residential sector, although office and retail transaction volumes also held up well in 2020 relative to other countries. Investor preferences are expected to cause a further polarisation between prime and secondary stock.

Macroeconomic Outlook (% P.A)



Sources: DWS, Oxford Economics, January 2021. F = Forecast. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Past performance is not indicative of future returns.

Positive 2021 outlook on most sectors

Our outlook for prime real estate in the Netherlands is for a positive period ahead compared to 2020. As in the past year, we believe that logistics should continue to be the top performing sector in the Netherlands, with a projected 10% rise in values this year, while we caution to look out for a rise in speculative developments. Online retailers and 3PLs are expected to lead the demand for space, as the shift to online spending is likely to accelerate further during the second lockdown period.

We expect residential prices to gain slightly again after a largely flat 2020. Even though overall apartment rents have dropped somewhat, much of this can be attributed to the high-end segment, where a decrease in the number of incoming expats contributed to lower demand. Nevertheless, the demand overhang for residential in the Randstad region persists. Real estate transfer tax on residential real estate increased from 6% to 8% at the start of this year. This will likely impact valuations during the early part of 2021, although it is not yet clear how the cost increase will be allocated between buyers and sellers, leading to some pricing uncertainty.

We also expect prime office values to recover moderately, having undergone a modest correction last year. Dutch office occupier markets have held firmer than elsewhere, with take-up volumes down by only 16% year-on-year, even though substantial subletting activity may have had a somewhat disguising effect. Vacancy rates in Amsterdam increased for the first time in six years, and a full development pipeline is underway.[2] Yet, possible construction delays by the municipality and a diversified tenant mix provide support. Rotterdam, on the other hand, while less strong on the demand side, benefits from negative net completions thanks to demolitions or changes of use.

The only sector where we expect continuing value declines this year is retail. Despite the already significant correction last year, we think prime shopping centre values still have some way to go, with a further decline of 15% this year.

Long-term outperformance

In the long term, we expect the Netherlands to outperform on a pan-European basis. The Randstad region maintains a strong demographic and economic outlook. Remote working also poses a lower threat to the office sector in the Netherlands, as the country already had the highest share of home working of any European country. Specifically, before the pandemic the share of employees working from home at least occasionally was 37% in the Netherlands, compared to just 13% in Germany.[3]

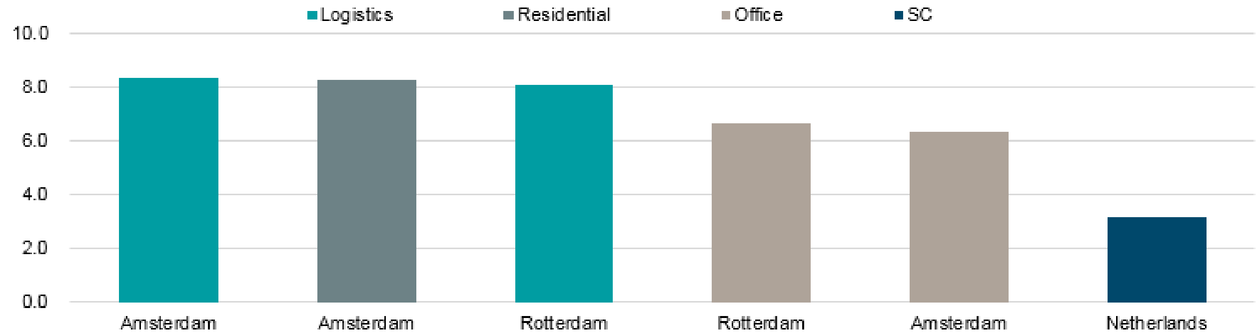
[2] JLL, January 2021
[3] Eurostat, 2020

With a relatively high yield spread over Dutch government bonds, the Netherlands is set to remain an attractive investment market. Currently, prime net office yields stand at 3.10%, representing a premium of more than 350 basis points over the local 10-year government bond.[4] With bond yields expected to stay low for the foreseeable future,[5] and a geographically diversified investor base looking for attractive returns, we think that yields have room to compress further.

Top pick in logistics and strong in residential

The Netherlands continues to be one of our European top picks for logistics. With the sector looking poised to benefit from an e-commerce push, we are most positive on urban logistics assets, while being more cautious on trade-linked, corridor and light industrial locations. In particular, we see the best opportunities in last hour logistics within the densely populated, multi-nodal Randstad region. Assets here should gain from an increasing presence of e-commerce, 3PL and parcel delivery occupiers.

Prime Total Return (% P.A., 2021-25F)



Source: DWS, January 2021. F = Forecast. There is no guarantee the forecasts shown will materialise. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect. Forecasts are not reliable indicators of future returns.

We also maintain our favourable outlook on Dutch residential assets. The sector continues to be supported by a combination of strong population growth in the Randstad area, a persistent mismatch between supply and demand, and ongoing market liberalisation. We tend to favour the more affordable end of the market, given a slight yield premium, stable income throughout the cycle and potentially greater resilience to regulatory changes. Further, the experience of lockdowns and the increase in remote working has begun to leave its mark on residential preferences, with more focus on larger apartments with a balcony or garden.

[4] PMA, Macrobond, January 2021
[5] DWS, Oxford Economics, December 2020

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- Adverse changes in law and regulation including environmental laws and regulations, zoning laws and other governmental rules and fiscal policies;
- Environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established;
- Changes in the relative popularity of property types and locations;
- Risks and operating problems arising out of the presence of certain construction materials; and
- Currency / exchange rate risks where the investments are denominated in a currency other than the investor's home currency.

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