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Country analysis - Benelux countries

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Benelux real estate markets on the rise

The Benelux countries are among the smaller states in Europe, but their commercial real estate markets currently offer excellent opportunities. The present market conditions make it possible to purchase real estate at attractive prices in the Netherlands in particular and also in Belgium. While a future slowing increase in rents and values is anticipated in the leading European real estate markets due to the current boom phase, the value of real estate in the Netherlands and Belgium has bottomed and will offer future growth potential in rents and values – starting with the economic centres. A bottom is also forming in the Dutch housing market now and residential properties are becoming more affordable.

This development is advantaged by the ongoing economic recovery in the Benelux countries. GDP in 2015 is forecast to be above the average in the eurozone. Furthermore, the Benelux country union is forecast to see above-average population growth. The expected increase in foreign tourists offers additional growth potential for the hotel sector. Last but not least, the upturn in global trade will provide opportunities for important logistics centres in the Benelux countries.

The present study provides answers to the following questions:

- What are some of the specific structural and regional characteristics of the real estate markets?
- In which areas are declines in value still to be expected? When is a change in trend likely? Where is there potential for growth?
- What risks may need to be considered?

First, we will explore the macro-economic framework and the regional economic characteristics before discussing the real estate markets in the Benelux countries and their sub-segments of offices, retail, logistics, hotels and housing in detail.

Macro-economic environment

The Netherlands on the path to recovery

In the first half of last year, the Netherlands succeeded in exiting the recession. However, GDP still contracted by a total of -0.8% in 2013. In the first quarter of 2014, the Dutch economy had to cope with another setback. GDP fell by 0.4% due to a weather-related collapse in natural gas sales. Since the second quarter, the economy has been on the path to recovery again (GDP growth: 0.5% in comparison to the previous quarter). Over full year 2014, GDP growth should be a very moderate 0.2%. For 2015, however, a noticeable economic recovery is anticipated (GDP growth of 1.2%). The forecast GDP growth will be above the eurozone average of 0.8% again for the first time in a long time.

Economic indicators (change from prev. year in %)

	Real GDP growth in %			Inflation rate in %			Unemployment rate[1] in %		
	2013	2014e	2015e	2013	2014e	2015e	2013e	2014e	2015e
Euroland	-0.5	0.7	0.8	1.4	0.5	0.9	12.0	11.6	11.3
Netherlands	-0.8	0.2	1.2	2.6	1.7	1.6	7.0	8.0	7.7
Belgium	0.2	1.1	1.4	1.2	1.3	1.5	8.6	8.7	8.4
Luxembourg	2.1	1.8	1.1	1.7	1.7	1.6	5.7	6.4	6.5

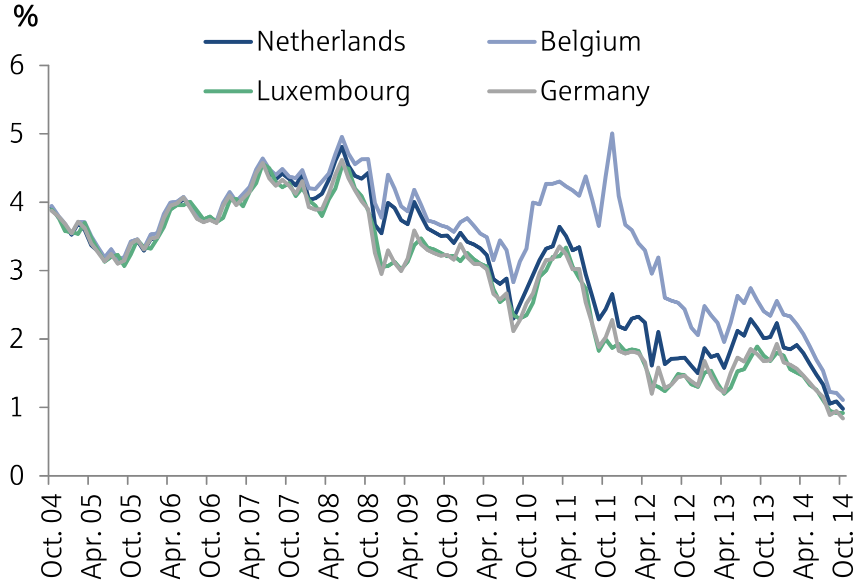
Source: NORD/LB Research, Nationale Statistikämter (National Statistics Office), Europäische Kommission (European Commission) (Autumn forecast 2014) [1]In % of labour force

The rise in exports is considered a reliable economic indicator for the Netherlands due to the high degree of economic openness, its good position in the global value chain and its high international competitiveness. In 2015 domestic demand should also pick up steam. If the ongoing economic recovery continues, it is also possible to expect a slight decline in the unemployment rate. The number of employees that has an influence on office space demand should again increase slightly in 2015 for the first time in three years (+0.6%). Inflation is gradually declining and should be below 2% over the full year in 2014.

The negative structural factors that remain are the still necessary budget cuts and the private household debt from long-term loans which were over 120% of nominal GDP at the end of 2013 (also see the Dutch housing market section). For this reason, medium-term consumer growth was lower than in past decades.

At 73.5% of GDP, 2013 government debt was lower than in Germany and the average in the eurozone. Only in the last year did the government succeed in reducing its budget deficit to below 3% and thus end the deficit proceedings opened by the EU. Two of the three major rating agencies have assessed the solvency of the Netherlands and given it the best rating of AAA or Aaa. The yield on Dutch government bonds typically lie slightly above the comparable German government bonds. The latter are considered to be the unchallenged benchmark for low-risk sovereign debt in the eurozone on account of its high solvency. The spread reflects at least a small risk premium for the less reliable fiscal policy in the Netherlands. In the future, additional consolidation measures are required in order to prevent another rise in sovereign debt relative to GDP.

Yield on
10 year government bonds
in the Benelux countries and
Germany



Source: Bloomberg, IMF, Deutsche Hypo's chart

Belgium on a moderate growth path

After the stagnation of the Belgian economy in 2012, GDP rose by 0.2% year on year in 2013. While private and public sector consumption increased, investment activity fell below the level of 2012. In the first two quarters of 2014, the Belgian economy expanded by 0.4% and 0.1% quarter on quarter. The forecasts of the European Commission see GDP rising 1.1% year on year in 2014 and 1.4% year on year in 2015, which would be significantly above the forecast for the eurozone (2014: 0.7% and 2015: 0.8%). Besides the rise in private consumption, an increase in investment activity is also anticipated. Due to the economic recovery in neighbouring countries, the strongly integrated economy should achieve a current account surplus again in the coming year after suffering a current account deficit of 0.3% of GDP in 2013.

Government debt rose by 0.4% to 101.5% of GDP in 2013 and was above the average of 95.5% in the eurozone. The budget deficit fell strongly by 1.5% to 2.6% of GDP. Public sector budgets managed to make a turn-around and met the EU requirement of reducing new debt to below 3% by 2013.

The yields on 10 year government bonds reached an historic low and fell from 5.01% in November 2011 to 1.11% in October 2014. Standard & Poor's raised Belgium's credit rating in the spring of 2014 from AA with a negative outlook to AA with a stable outlook. This also underscored that the uncertainties in the context of the euro sovereign debt crisis are gradually abating.

Strong growth in Luxembourg

The Luxembourg economy expanded rapidly in 2013. GDP rose by 2.1% year on year. While investment activity remained fairly slow, as it did in 2012, there was an increase above all in government expenditures, though also in private consumption. In the first quarter of 2014, GDP also rose by 0.8% in comparison to the period from the previous year. For full year 2014, the EU Commission anticipates an increase of 1.8% in GDP. For 2015, GDP growth is expected to be 1.1% and thus above the average in the eurozone.

In absolute terms, per capita GDP in Luxembourg continues to be the highest in the eurozone, since many commuters from Belgium, France and Germany are employed there. The unemployment rate is relatively low at around 5.7%. The main pillar of Luxembourg is the financial sector, which flourished in the pre-crisis years and is now back to where it was at that time.

The country's budget was balanced in 2013. A total budget surplus of 0.1% of GDP was generated. Government debt as a percentage of GDP rose moderately, by 1.4 percentage points to 23.1%, in comparison to 2012. The yield on 10 year government bonds largely corresponds to the performance of German government bonds. Luxembourg, alongside Germany, is now the only country in the eurozone that received a top rating from the three major rating agencies.

Regional economic characteristics

Economic integration of Benelux countries

Today's country union called Benelux has its roots in the 40s. In 1944, the three countries agreed to a customs union. Ultimately, a joint economic union entered into force with the implementation of the State Agreement of November 1st 1960. For a period of 50 years, a mutual free exchange of goods, labour, services and capital was agreed. In the 50s, the Benelux Union served as a model for the establishment of the European Economic Community. The European Union made the agreements on economic collaboration between the three countries obsolete, but their political collaboration continues to be of significance. In order to make this new focus clear, the "Benelux Economic Union" was renamed as "Benelux Union" in 2012. In addition to economic collaboration, sustainable development and the legal cooperation, the joint agreement also focused on the alignment of domestic policy.[1]

With a total population of 28.6 million (2014) in an area of roughly 74,700 km², the Benelux countries may make up only a small part of Europe.[2] In regard to their economic strength and their international trading, financial and administrative centres, however, they can easily lay claim to being a significant centre in Europe.

High population density

The Netherlands has a population of 16.8 million in an area of 41,526 km², making it the largest country in the Benelux Union in terms of both residents and space (Belgium: population of 11.2 million, Luxembourg: population of 537,000). It is also the most densely settled area in Europe. Belgium follows in second place, with a population density that is 40% higher than in its neighbour Germany.

Positive demographics

The general demographic circumstances in the Benelux countries are very favourable: From 2006 to 2013 the population in the Netherlands grew by an average of 0.4% p.a. (EU28: +0.3%). In Belgium and particularly in Luxembourg, the growth rates were even higher at 0.8% and 2.0% p.a. The Benelux countries benefit from positive natural population growth and net immigration.

According to Eurostat's population forecasts, the population growth in the Benelux Union will be above the average in the EU28 through 2040. In the Netherlands, the population will increase to 17.7 million (+5.2%) and Belgium will see an increase to 13.9 million (+24.7%). For Luxembourg, population growth of 73.7% – starting from a relatively low level – to 0.93 million is anticipated (EU28: +3.2%). Whether the population growth expected for Luxembourg will actually achieve the forecast amounts in the future largely depends on the extent to which it succeeds in achieving the high economic dynamism of the past, which will require additional immigration of labour from abroad.

[1] The highest body in today's Benelux Union is the Minister Committee, which consists of three foreign ministers. Other bodies include the Benelux Council, the Advisory Inter-parliamentary Benelux Council, the General Secretary in Brussels and the Benelux Court of Justice.
[2] Eurostat

Most important centres – Randstad Holland

One of the most important metropolitan areas in the Benelux countries is the Randstad Holland region. Almost 8 million residents or over 40% of the Dutch population live here. Randstad is not only the leading service providing centre in the country, but it is also a central motor of the Dutch economy. The conurbation in the west of the country includes the four largest cities of Amsterdam, Den Haag, Rotterdam and Utrecht as well as the city of Almere.

Amsterdam has roughly 810,000 residents (as of: 1 January 2014)[3] and is the largest city and also the capital of the Netherlands. The government is located in Den Haag, which is 60 km away (population of 508,000). The International Court of Justice and Europol are also based in Den Haag. Amsterdam is the leading economic and financial centre in the country. Rotterdam, with its 618,000 residents, is home to the largest seaport in Europe and is also an important logistics, commercial and production centre. The university city of Utrecht, with roughly 328,000 residents, benefits from its central location in the Netherlands and is not only as an industrial centre, but also, above all, a service centre.

In an academic study of the international influence of "global cities", Amsterdam together with the Randstad region came in 16th place internationally and even in fifth place in Europe (after London, Paris, Zurich and Frankfurt) [4]. Instead of standard criteria such as the size of the metropolitan area, criteria such as the share of foreign direct investments, the headquarters of international companies, connectivity (access to global markets via aviation) and diversity (percentage of foreigners as an indicator of the global labour force potential) were used for the first time.

In particular, the importance of the region as a European headquarters for multinational companies should be emphasized. Over 2,500 international companies have offices in and around Amsterdam. In 2013, 115 new multinational companies started their business activity in the region.

This development is primarily due to the Schiphol airport, which gives the region immediate access to global markets. The airport is one of the four most significant hubs for aviation in Europe. Thanks to the airport, the region has become more than just an internationally important trading partner. The airport is also a central factor for tourism.

[3] Centraal Bureau voor de Statistiek, Netherlands
[4] Civil Service College Singapore, Chapman University USA (2014): Size is not the Answer - The Changing Face of The Global City. Singapore.

Brussels

Another important centre in the Benelux countries consists of the 19 independent municipalities in the region around the Belgian capital of Brussels. Roughly one million people live here. Brussels' international importance is primarily thanks to the EU institutions (European Commission, Council of the European Union, European Parliament) as well as NATO. Furthermore, Belgium's government administration as well as the three central administrative regions in the country (Flanders, Wallonia and Brussels) play an important role. Roughly a third of the labour force in the service sector works for the government. And this does not take into account the EU labour force, since they are counted in the countries where they come from. Another third works in the segment of service providers who are close to finance and corporations. According to the aforementioned analysis on "global cities", Brussels came in 23rd place worldwide and in sixth place in Europe.

Luxembourg

Luxembourg, with a population of roughly 108,000 (as of January 2014)[5], is the only metropolis and simultaneously the capital of the eponymous Grand Duchy. Besides being the headquarters of the government, important European institutions such as the European Court of Justice, the European Court of Auditors, the European Investment Bank and Eurostat are based here. Luxembourg is also the meeting place for the Council of the European Union.

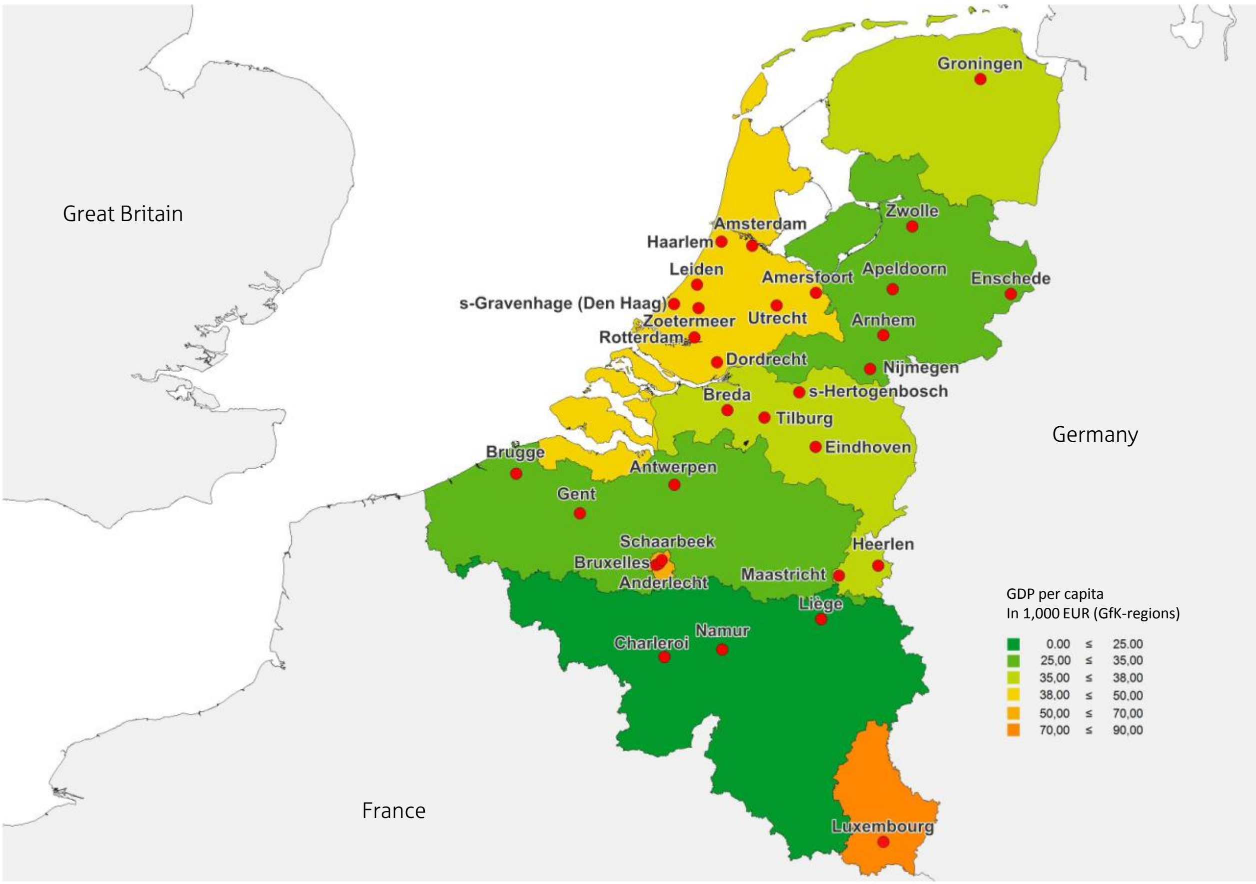
The city of Luxembourg is one of the most important financial centres in the world today. The focal point here is on the area of launching funds and administration. Financial and corporate services represent a central pillar of the Luxembourg economy. Industry is of only secondary importance. The emergence of Luxembourg as a financial centre was aided in particular by advantageous legal conditions and attractive tax rates. To this were added factors such as the presence of qualified, multilingual employees and the advantageous geographic position. Luxembourg has a very high international labour force, with commuters making up over 40% of it, since it is one of the smallest countries in the world in terms of territory and has economic growth. Commuters are of central importance for the economic centre and the labour market.

Economic strength of the leading regions

The Grand Duchy of Luxembourg, with per capita GDP of EUR 80,300, has by far the greatest economic strength in the Benelux regions. The significance of the region as an international financial centre is reflected here. In Europe, only London City produced an even higher per capita GDP (EUR 86,000). In the interpretation of this indicator, it is necessary to consider that regional GDP per resident is based on a figure determined by the location of the job (the GDP generated in the region), which is divided by the figure based on the place of residency (the population residing in the region). In particular at the aforementioned centres with a high percentage of commuters, high GDP per resident cannot necessarily be equated with a correspondingly high level of income for the people that have their residency in these regions.

[5] Portail statistique du Luxembourg

Economic strength of individual regions in 2011



Source: Eurostat; Deutsche Hypo's chart

The second highest economic strength in the Benelux countries on the regional level is achieved in the capital region of Brussels (per capita GDP: EUR 62,000). Brussels assumes fourth place behind Oslo among the European regions. The third highest per capita GDP in the Benelux countries is generated in the region of the West Netherlands (EUR 38,100), which also includes the conurbation of Randstad Holland. In this agglomeration, the region of Amsterdam has the highest economic strength among the major cities (per capita GDP: EUR 55,700).

Office markets

a) Office market - Netherlands

Supply and structures

The four most important Dutch office markets are at the economic locations of Amsterdam, Rotterdam, Den Haag and Utrecht. Almost half of the country's office real estate is located here.

- **Amsterdam:** Amsterdam has the largest office market in the Netherlands with a supply of office space totalling around 6.1 million m². The Central Business District (CBD), with mostly modern, spacious buildings, is not located in the city centre, as in most European cities, but along the "southern axis" (Zuidas Amsterdam) by the A10 motorway.
- The supply of office space in the **Den Haag region** is around 5.6 million m². The majority of the space is within the city area. Popular locations are concentrated around the train station and the Beatrix quarter. Rijswijk, along the A4 motorway, is a significant sub-market outside of the city area due to its easily accessible location.
- **Rotterdam** is home to 3.7 million m² of office space. In the city centre, the largest sub-market, primarily banks and financial service providers, have their headquarters.
- The supply of office space in the **Utrecht region** is around 3 million m². Traditional locations are the centre, particularly in the area around the train station and Kanaleneiland. The conveniently located and still young sub-market of Papendorp in the west offers modern space.

Demand is currently still weak

Due to the ongoing, only slow economic recovery, demand for office space fell in the first half of the year with sales of space amounting to 390,000 m² in comparison to the period from the previous year (-21.5%). The four leading real estate strongholds, Amsterdam, Rotterdam, Den Haag and Utrecht, saw the highest demand for office space and accounted for 51.3% of the total sales of space. Amsterdam, with 102,000 m² of sold space, was the leader.

The low sales of space are due to the growing number of rental agreement renewals. The relatively stable vacancy rate also suggests more a decrease in mobility on the leasing markets than a decline in the occupancy rate.

On the Dutch office leasing market, there is currently a change in trend from the periphery and back to the core cities and in particular the city centres and CBDs there. This development is currently observed most strongly in the CBD of Den Haag, where recently the highest net take-up in the post-crisis period has been seen. In addition to the change in location preferences on the leasing market, modern, high-quality office buildings are currently in heavy demand. In particular, there is high demand for prime properties in Amsterdam now, which is increasingly seen in the rise in project developments and upward pressure on office rents.

Conversion of old office buildings

This trend toward the modernisation of office space is also reinforced by the conversion of old office buildings to residential real estate, student housing or hotels – particularly in the four leading office locations. A current example of this is the conversion of the office building for the Dutch Statistics Office (60,000 m²) in Leidschendam (greater area of Den Haag) into residential units. Such redevelopments led to the fact that the country's supply of office space fell in recent quarters.

Vacancy rate stable in the recent past

Due to the focus of demand on the larger cities, the vacancy rate continues to increase at secondary locations that are less in demand. Despite the conversion of many obsolete office buildings, the country's vacancy rate has not continued to fall recently. This development has been reinforced by the trend toward smaller and more efficient use of office space by companies. As a result, the country-wide vacancy rate at the end of June 2014 remained unchanged at 15%. The supply of directly available space amounted to around 7.3 million m². This primarily involves low-quality properties and spaces in secondary locations that are more difficult to lease.

In an international context, the vacancy rate on the Dutch office market is often considered to be high. It is important to consider, however, that for other European countries there is often no data on the national level and thus substantially less transparency. An international comparison can often only take place on the level of individual cities and sub-markets. This shows that the vacancy rates in the CBDs of European metropolises are usually below 10% and mono-functional office districts located on the periphery have significantly higher vacancy rates of over 20%. The four leading Dutch office locations do not deviate much from this pattern.

A comparison of vacancy rates for European office locations

	Top district	Worst district
London	3.4	6.7
Stockholm	4.2	12.4
Brussels	8.0	23.7
Paris	6.3	13.5
Amsterdam (Zuidas Core)	**4.4**	**36.4**
Dusseldorf	7.4	25.3
Warsaw	10.9	12.8
Madrid	13.6	26.7
Dublin	10.7	32.5

Source: CBRE (as of June 2014)

Rents: Different developments

The picture in terms of rents and incentives (rental incentives such as rent-free periods, renter add-ons) varies depending on the performance of the respective leasing market. The leading locations, which satisfy current demand, are developing positively and continue to improve. Prime rents are currently at 340 - 370 EUR/m²/year in the leading office district of Amsterdam (Zuidas Amsterdam) (see map on page 12). At the centre of Amsterdam, this is roughly

270 - 295 EUR/m²/year. Historical landmark office buildings at the Amsterdam Canal District generate prime rents of up to 325 EUR/m²/year. In Zuidas Amsterdam, rents are gradually rising again. In our opinion, rents will also successively rise at other prime locations. There, however, the incentives will have to decrease first. At secondary locations, the rental incentives are relatively high at the present time and are consistently used to attract tenants.

Netherlands: Stronger growth in investment volume

In 2013 the Dutch office market reported strong growth in investment volumes. This also continued in the first half of 2014: EUR 1.17 billion, the largest investment volume since the start of the financial crisis, was generated in the first six months. In particular, there was a noticeable increase in the investment volume in the second quarter of 2014. Roughly 68% of the entire volume was accounted for by Amsterdam. Primarily, German funds and private equity from the US were responsible for the high investment volume. Foreign investors make up a total of 85% of the investment volume.

While the majority of the investment volume is attributable to core objects in the leading office districts of the four office strongholds, the falling availability of suitable properties and the decline in yields have also caused investors to take increasing interest in office districts located on the periphery in these places. Investors' focus continues to be on high-quality properties with long-term lease agreements.

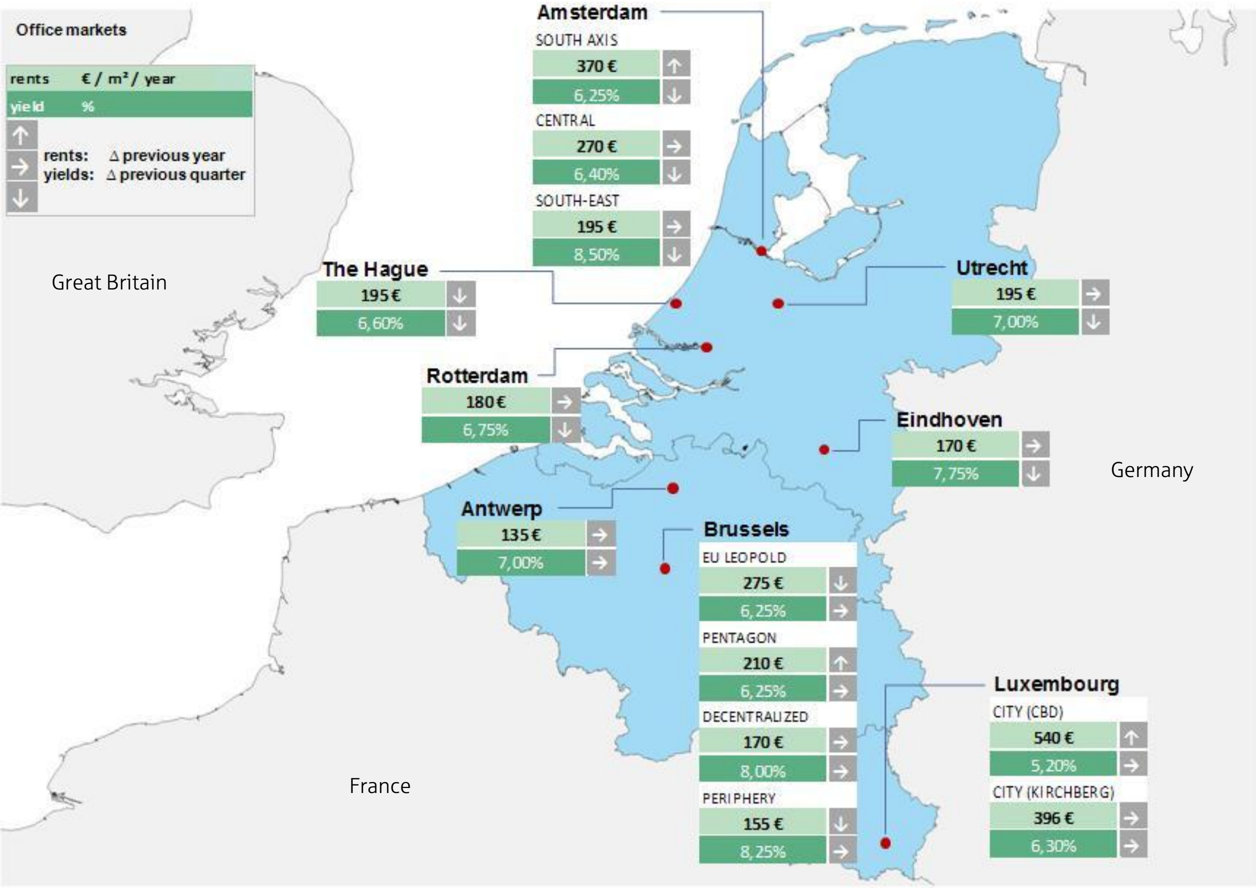
While prime yields for office space in Zuidas Amsterdam have been declining for multiple quarters, the prime yields in the secondary office districts of leading office locations and the CBDs of the provincial capitals have also been following this development. In Amsterdam, prime yields reached 6.25% in the CBD and up to 8.5% in the peripheral district of south-east (see map on page 12) at the middle of the year.

Short-term outlook	
Supply	→
Demand	↗
Vacancy rate	↗
Prime rent	↗
Investment volume	↗
Prime yields	→

The Dutch investment market has recovered noticeably since the beginning of 2013. The growing shortage of qualitatively premium properties in top locations should slow the strong momentum somewhat in the coming months. However, investors' risk appetite should gradually return with the solidifying economic recovery. Peripheral locations in the four leading office strongholds are currently seeing a rise in demand, and a shift in focus benefiting the provincial capitals will follow. Some of these markets such as Den Bosch and Eindhoven offer relatively liquid office markets with intact CBDs. The prime yields at the leading office locations should remain stable until the end of the year.

It is to be expected that the demand for space will slightly rise in the course of the economic recovery. In the near term, the supply of office space should increase, however, on account of the ongoing consolidation processes (particularly with banks and insurance companies). In the leading office districts of the four most important office locations of Amsterdam, The Hague, Rotterdam and Utrecht, the rents are gradually going to be increasing again. At secondary locations, existing incentives will have to decrease first.

Office markets - Benelux countries: Prime rents and yields



Source: Cushman & Wakefield (as of June 2014); Deutsche Hypo's chart

b) Office market - Brussels

Supply and structures

Brussels has approx. 13 million m² of office space. Roughly two thirds of this is in the central locations of Léopold, Pentagon (city centre), Nord (North) and Louise. Besides regional and national administrative institutions, the inner-city office market is primarily defined by EU institutions and associated service providers (among others, lawyers and consultants, lobbyists, ambassadors and banks). Léopold, the largest central and most expensive sub-market, is the headquarters of the European Commission and the Council of the EU as well as the meeting place for the European Parliament. The location between the inner city and the motorway ring is considered a "decentral sub-market". The locations outside of the 19 communes (municipalities) are described as the periphery. The airport location of Zaventem and its surroundings are a focal point. Numerous modern business parks with media and technology companies are located here.

Public sector as central driver of office space demand

The capital Brussels accounted for roughly three quarters of all Belgian sales of space with a total of 243,700 m² in the first half of 2014. Over half of the space volume is due to demand from the public sector.[6] The demand for space by companies remained on the low level of the previous quarter. The private economy continues to act with restraint and is sensitive to costs in term of the demand for space. Although Brussels is the political capital of Europe, the city has not succeeded in attracting many private economy companies in recent years. Since brokers are currently reporting a growing number of enquiries, however, it is assumed that companies' demand for space will continue to rise through the end of the year.

Vacancy rate: Diverging development

The vacancy rate in Brussels fell to 10.5% in the second quarter of 2014 after being at 10.6% in the previous quarter. While declining vacancy rates of between 4 and 6% have been reported in most sub-markets of the CBD (e.g., the Pentagon and EU district) for a few quarters due to high demand from users and limited construction activity, the sub-markets on the periphery are coping with the opposite development (vacancy rate of 22.2%). Both the decentral urban locations and the periphery have had negative net take-up, since larger, older office spaces are being exchanged for newer, smaller spaces. The peripheral office spaces continue to see high demand from companies, even if some companies have reduced their need for space. Since customised new buildings are currently in high demand in Brussels, the vacancy rate might climb again overall because increasingly older properties are vacant. However, the high prices in the housing sector will also currently lead to at least a portion of the new vacancies being converted to apartments.

Low speculative construction activity

Construction activity in Brussels is significantly below its historic average at the present time, and the majority of the completions have already been pre-leased. Particularly in the CBD, the supply of new buildings immediately available for occupancy is very limited. The shortage of supply in terms of high-quality office properties will also continue in the future. Customised new buildings as well as pre-leased new buildings will continue to increase in the future.

In 2014 overall, a total of 180,604 m² should be completed. 54,184 m² involves speculative new buildings. For 2015, it is expected that only 35,691 m² will be completed, with 29,300 m² being speculative construction.[7]

Prime rents largely stable

Prime rents in the most expensive sub-market of Léopold declined slightly in the second quarter of 2014 as compared to this quarter in 2013, and are currently at 275 EUR/m²/year (see map on page 12). In total, prime and average rents have hardly changed despite the fluctuating market conditions since the 2008 crisis. Incentives have increased. At the present time, 100 to 150 EUR/m² of tenant add-ons [8] and/or rent-free periods of up to 2 months are being granted.

[6] The Flemish government has leased, e.g., 46,000 m² of office space on the Tour & Taxis property for its Vlaams Administratief Centrum (VAC) in Brussels as part of the 'Meander' project. This involves customised office space that will be leased for 18 years, starting in 2017. Furthermore, Actiris wants to use the Astro Tower (36,057 m²) after its renovation as a new headquarters, starting in 2016. Furthermore, the European Commission leased 17,000 m² of office space in the sub-market of Léopold as part of the Livingstone project.
[7] CBRE
[8] Interior construction of a building or leased space

In the CBD, rebates are granted with lease incentives of up to 15%. However, the incentives should decrease with the increasing stabilisation of the market and lead to higher rents. In the peripheral sub-markets, the weak demand and the existing vacancies continue to have a negative impact on the rent level. Incentives here are around 20% of the total rent. Since tenants continue to make an effort to save costs or to increase the efficiency of their space, only the newest business parks have succeeded in attracting additional companies over the last 18 months.

Another increase in the volume of investment

The investment volumes on the Brussels office market reached EUR 958 million in the first half of this year. The full year result for 2013 (roughly EUR 1.1 billion) was almost achieved by the middle of the year. The prime yields at the end of the second quarter of 2014 were at 6.25% in the CBD of Brussels and thus remained stable in comparison to the previous quarter (see map on page 12). The level of prime yields in Brussels is relatively high in comparison to other leading European office locations. In particular, the large yield spread to 10 year government bonds makes investments in office real estate attractive at the present time. Brussels offers one of the highest yield spreads in Europe with a risk premium for prime properties of more than 500 basis points above the Belgian risk-free investment rate.

Short-term outlook	
Supply	→
Demand	→
Vacancy rate	↘
Prime rent	→
Investment volume	↗
Prime yields	→

The gradually accelerating economic recovery is currently ensuring a stabilisation of the office market. The vacancy rate in the leading office districts should decrease due to the low number of completions and the ongoing conversion of older office buildings to apartments.[9] The majority of the completions that came on the market by the end of 2014 have already been pre-leased. Project developments should reach 230,000 m² in 2015 (incl. the new NATO headquarters with 130,000 m²). Rents should remain stable in the CBD over the coming months, but the incentives will gradually decrease. By contrast, at locations outside of the centre, incentives will increase due to weak demand and rising vacancies. The ongoing recovery of the economy should also stimulate an increase in the demand for space from the private sector in the coming year so that rents should rise again over the medium term.

Due to some larger transactions that should be completed in the coming months, the investment volume may increase again before the end of the year. Prime yields should remain stable despite the existing excess demand and the shortage of prime properties.

[9] Savills

c) Office market - Luxembourg

Supply and structures

The city of Luxembourg has more than 3 million m² of office space. Roughly 40% of it is accounted for by the inner city and the train station area. The Kirchberg plateau, which borders on the CBD to the north-east, is considered to be an important location for EU institutions and the financial sector. Another important sub-market with spacious office complexes is the commercial zone Cloche d'Ór in Gasperich to the south. Peripheral locations are, among others, Howald, which borders on Gasperich to the east, Strassen in the west and the airport location Findel.

Demand is stable at the level of the previous year

Demand for space on the office leasing market was on the level of the previous year's quarter with roughly 39,000 m² being sold in the second quarter of 2014. Kirchberg and the airport district saw the highest sales of space. The office sub-market at the airport enjoyed a rise in demand, particularly due to its good accessibility and as an inexpensive alternative to Kirchberg nearby. The size of the concluded deals has continued to decline recently, since it has become increasingly difficult for tenants to find large spaces at central locations.

Vacancy rate

The vacancy rates in prime locations such as the CBD and Kirchberg are currently on a low level (between 2 and 3%), while secondary markets have significantly higher vacancy rates (10 to 20%). Since some companies want to discontinue their decentrally located offices (re-locations by PWC and KPMG), this could have an influence on the rents and vacancy rates in the respective sub-markets. Since the speculative construction activity at central locations is very limited due to the restrictive legislation and high property prices, this should be limited primarily to the southern, peripheral locations in the future.

Prime rents stable

Prime rents in the CBD were roughly 540 EUR/m²/year in the middle of 2014 and thus rose in comparison to the previous year's quarter. In Kirchberg, by contrast, prime rents remained stable at 396 EUR/m²/year (see map on page 12).

Investment market

It was possible to increase the investment volume in the office sector by roughly one third to EUR 372 million in the first half of 2014 as compared to the period from the previous year. Prime yields were stable at 5.20% in the CBD and 6.30% in Kirchberg at the middle of the year.

Short-term outlook	
Supply	↘
Demand	→
Vacancy rate	↘
Prime rent	↗
Investment volume	↗
Prime yields	→

The Luxembourg office investment and leasing markets should continue to develop positively in the coming months. Demand for space continues to remain high on account of the advantageous economic framework conditions. Since speculative construction activity should remain low and the vacancy rates will continue to fall as a result, we anticipate further rising prime rents.

On the office investment market, an investment volume of EUR 700 million is anticipated for full year 2014. Well-leased properties at central locations continue to be the focus for investors. Insufficient speculative construction activity and the resulting shortage of supply may counter an ongoing sharp rise in the investment volume. Prime yields, in our opinion, should remain stable until the end of the year.

Retail markets

a) Retail market - Netherlands

Supply and structures

The Netherlands (population of 16.8 million) is one of the smaller, but more mature retail markets in Europe. The country has one of the highest retail densities in Europe. Amsterdam, Rotterdam, Den Haag and Utrecht are among the leading Dutch retail locations from the point of view of international retailers. The total supply of retail space in the Netherlands is estimated to be 27.95 million m², which is distributed across roughly 100,200 shop units. As in Germany, inner-city shopping locations are traditionally of great importance in the Netherlands. The importance of inner-city retail is based on the restrictive licensing policy for peripheral retail projects in the past with the goal of retaining the vitality of inner cities and preventing urban sprawl in the already densely populated country.

The country-wide supply of shopping centre space, with roughly 6 million m², makes it one of the highest in Europe. With 358.1 m² per thousand residents, the available space is ranked 7th in Europe.[10] As a result, the Netherlands is clearly above average in the EU and in comparison to the UK, France and Germany. This is due to the political desire to ensure the everyday local supply of the population with shopping centres. The Dutch shopping centre market is primarily characterised by small centres (particularly smaller neighbourhood centres and district centres). There are only a small number of larger centres with more than 50,000 m² in space. Furthermore, the supply is relatively old and has only grown a little in recent years.

Largest shopping centres in the Netherlands

Name	City	Floor space* (m²)	Opening
In de Boogaard	Rijswijk	102,000	1963
Citymall	Almere	89,500	2006
Zuidplein	Rotterdam	70,000	1972
Hoog Catharijne	Utrecht	70,000	1971
Stadshart	Zoetermeer	60,000	1985
WoenselXL	Eindhoven	55,450	1951
Leidsenhage	Leidschendam	55,000	1971
Amsterdamse Poort	Amsterdam	50,500	1986

Source: Cushman & Wakefield, *Gross rental space

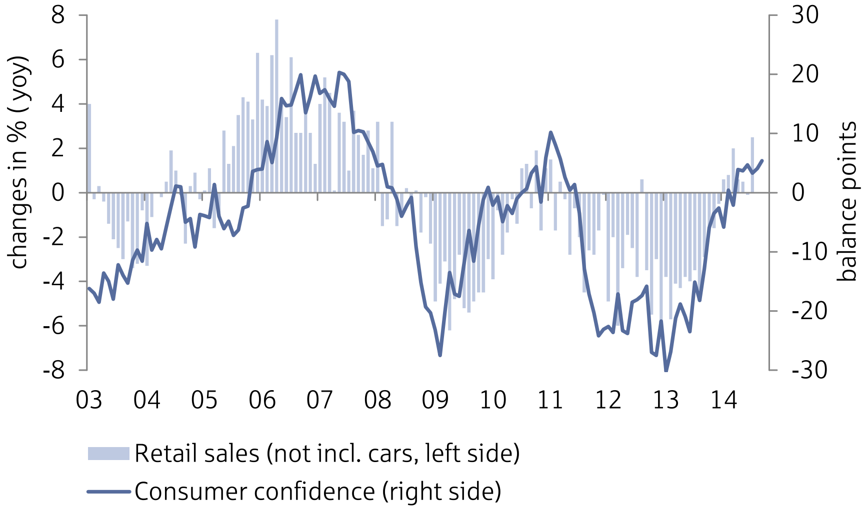
The sub-segment of specialist shop centres is relatively weak due to the restrictive licensing practice. The Netherlands, however, is increasingly becoming a market for factory outlet centres (FOCs). That the country has high-quality FOCs is partly reflected in the fact that the designer outlet centre (DOC) Roermond was selected the Best Centre in Europe in 2010.

[10] Cushman & Wakefield

Consumer confidence returning

The downward spiral that ensued in retail with the economic recession came to an end at the beginning of 2014. A stabilisation of retail sales as a result of the improving general economic conditions is currently underway again. Consumer confidence is also returning gradually. Due to high private household debt, medium-term consumption growth should be significantly lower than in past decades.

Real retail sales and consumer confidence in the Netherlands



Source: Eurostat, Bloomberg; Deutsche Hypo's chart

Slightly rising, but still slow overall demand

Demand on the Dutch retail leasing market reached 190,000 m² or 530 transactions in the first half of the year. As a result, it may have increased in comparison to the period from the previous year (H1 2013: 147,500 m²), but it is still below the amounts in the first half of the year prior to 2013. This suggests that the collapse in demand in 2013 has been overcome and that the sale of space in 2014 should remain stable overall or slightly increase. The rise in the sale of space is due in particular to some larger deals by international retailers. Their focus is on the prime locations of the largest cities. Amsterdam is considered the most desirable retail destination, ahead of Rotterdam, The Hague and Utrecht.

Supply of directly available space

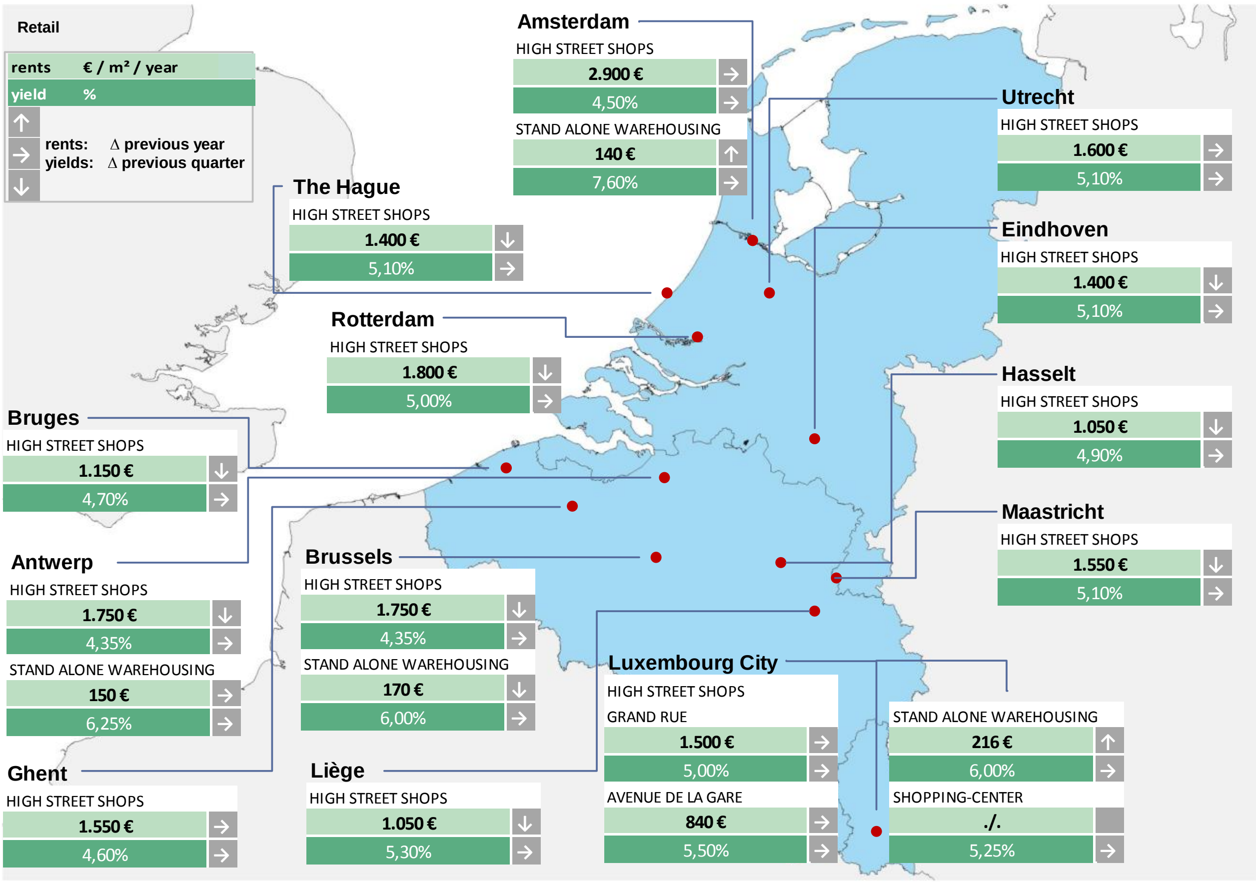
The supply of directly available retail space is currently rising at a still slow pace. It was at 3.47 million m² at the middle of the year. This corresponds to a rise of 3.8% within the last six months.[11] While the supply of available retail space in the prime locations of the largest cities remains tight, vacancies are significantly higher in secondary locations and smaller cities. Furthermore, some older specialist market centres had to cope with rising vacancies in the last quarter.

Rents

By far the highest retail rents are generated in the main shopping streets of Amsterdam (2,900 EUR/m²/year; see map on page 18). While the rents in June 2014 remained stable in Amsterdam and Utrecht in comparison to the previous year, they have fallen slightly in the other larger cities.

[11] CBRE H1 2014

Retail - Benelux countries: Prime rents and yields



Source: Cushman & Wakefield (as of June 2014); Deutsche Hypo's chart

Rise in investment volume

The ongoing trend toward falling retail investments in the Netherlands since 2010 stopped in the first half of 2014. The transaction volume in the first six months of the year was EUR 780 million, while it was only EUR 805 million in full year 2013. This produced the best half-year result since 2010. A few larger transactions, particularly in the shopping centre segment, were responsible for the good result and made up roughly 70% of the total volume.[12]

Yields

(Gross) prime yields were at 4.50% in the main shopping streets of Amsterdam at the middle of the year. This corresponds to a decline of 20 basis points in comparison to the quarter from the previous year. Relative to the previous quarter, however, yields remained unchanged. In the coming year, prime yields at the leading retail locations should continue to remain stable. Only in Amsterdam is a further decline in prime yields to be expected.

[12] CBRE H1 2014

Short-term outlook	
Supply	→
Demand	→
Vacancy rate	→
Prime rent	→
Investment volume	↗
Prime yields	→

Since the economic recovery in the Netherlands is only progressing slowly at the present time, no greater increase in consumer expenditures is expected. As a result, demand for retail space should be slow and remain roughly on the level of the previous year or only rise slightly in full year 2014. Starting in 2015, the ongoing economic recovery should provide positive stimulus for the retail market.

The Dutch investment market for retail real estate has performed similar to the European investment market with a significant rise in investment volumes and growing investor interest for portfolios and shopping centres. The Dutch investment volumes are, however, still below the pre-crisis level. The majority of the transactions take place through national investors. Three of the five largest transactions in the first half of the year were made by international investors, however. Some (opportunistic) foreign actors that expect a recovery of the Dutch economy and an increase in values, are currently seeking problematic properties or properties that promise high yields.

Even if Amsterdam does not fall under the preferred investment locations like London or Paris, the international appeal of the city is gradually growing and should result in growing foreign investor demand.

b) Retail market - Belgium/Brussels

Supply and structures

Belgium, with its already mentioned population of 11.2 million, is a relatively small, but international retail real estate market with above average per capita purchasing power relative to other European countries.[13] Due to its central location in Europe and the many languages (Dutch, German and French), the Belgian market is often viewed as an ideal test market for the latest market launches in the European retail real estate market. A number of multinational retailers have their headquarters here.

The Belgian retail real estate market is characterised by a balanced supply mix of inner-city main shopping streets, specialist markets and shopping centres. As a result, demand for prime retail locations remained relatively stable, even in times of economic crisis. The shopping centre density in Belgium is below the European average. This is, similar to the situation in the Netherlands, due to a restrictive licensing practice, particularly for new development projects "on green fields", with the goal of preserving the attractiveness of inner cities. In the specialist market segment, Belgium has a large supply of hypermarkets and solitary specialist markets, while the specialist market centres have only emerged in the last decade.

[13] Consumer Research Association (GfK) 2014

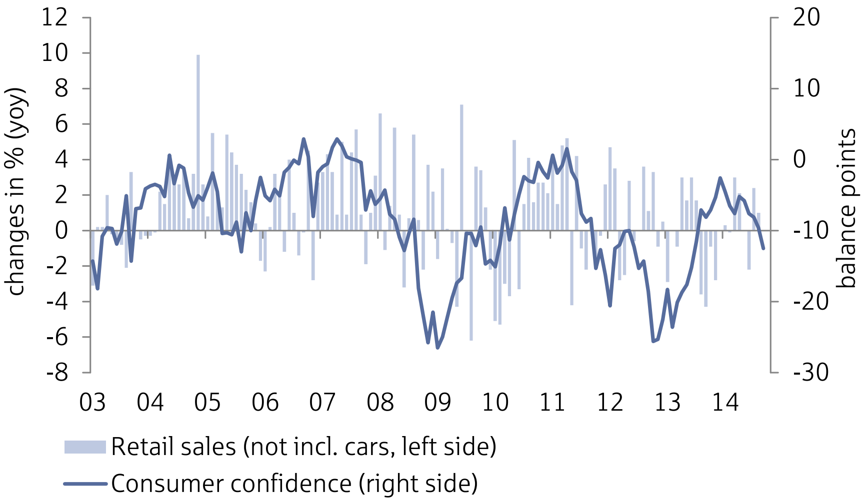
The total supply of shopping centre space in Belgium was at 1.25 million m² in 2012.[14] As compared to other European markets, the Belgium shopping supply is characterised by a limited number of larger properties due to the already mentioned restrictive licensing practice. Due to the high population density and the infrastructure focused on this, the retail shops are usually easy to reach. As a result, the trend toward e-commerce in Belgium is not as advanced as in other European countries.

Retail sales slightly positive despite falling consumer confidence

After consumer confidence stabilised toward the middle of the year, the indicator continued to fall in October. The expectations for the economy have dimmed some more, even if the fear of a rise in the unemployment rate did not come to pass. Households, however, view their financial situation somewhat more pessimistically than in the previous month.

By contrast, retail sales performed positively for the most part – after a relatively weak first quarter in 2014. Only in July were retail sales worse than in the month from the previous year – in part due to the flooding.

Real retail sales and consumer confidence in Belgium



Source: Eurostat, Bloomberg; Deutsche Hypo's chart

Increase in demand in the 2nd quarter of 2014

In the second quarter of 2014, there were twice as many sales (97,000 m²) on the Belgium retail leasing market as in the relatively weak previous quarter.[15] As a result, the second-best Q2 result in the last five years was achieved. The sale of space was primarily driven up by the first pre-leasing agreements for the shopping centre Docks Bruxsel, the construction of which began recently (planned opening: 2016). Furthermore, pre-leases in the retail park Dansaert in Groot-Bijgaarden in the area around Brussels had a positive impact on the volume of space.

[14] Cushman & Wakefield
[15] Jones Lang LaSalle

The specialist market segment made the largest contribution to the sale of space in the first half of the year, accounting for 56% of it (80,355 m², 98 transactions). The sale of space in the shopping centre segment amounted to 20% of the total sales (29,300 m²), while the main shopping streets made up 24% of the space volume (34,200 m², 169 transactions). Brussels and Antwerp, the two leading retail locations, accounted for 125 or one third of all the transactions made.

Completions are in line with the 5-year average

The completions in retail should exceed 160,000 m² over the full year 2014 and be roughly in line with the average over the last five years. In the pipeline are both specialist markets and shopping centres (redevelopments and expansions).

Currently, three larger shopping centres are under construction in the region of Brussels. Besides the already mentioned project Docks Bruxsel, which will be finished in 2016, there are two other projects in the region of Brussels: They are Uplace in Machelen (Brussels periphery) and the Neo/Europea as the redevelopment of the former Heysel Centre. The latter two should be finished by the end of this decade. Furthermore, other larger shopping centre completions are expected in the next two to four years.[16]

Stabilisation of prime rents

While the prime rents in retail fell slightly in comparison to the previous year, a stabilisation was observed in the second quarter of 2014. The highest rents (1,750 EUR/m²/year) are currently generated in the main shopping streets of Brussels (Rue Neuve and Avenue Louise) as well as in Antwerp (Meir and Schuttershofstraat) (see map on page 18). Rents in the shopping centre segment are currently the most expensive at the two largest properties (the Wijnegem shopping centre, 57,500 m²) near Antwerp and the Woluwe shopping centre (44,000 m²) in Brussels with roughly 1,600 EUR/m²/year. In the specialist market segment, the highest prime rents were around 170 EUR/m²/year in the Rue de Stalle in Drogenbos (Brussels region).

Investments and prime yields

The investment volume was around EUR 113 million in the second quarter of 2014, somewhat higher than in the previous quarter. This is due in particular to transactions in the area of the main shopping streets and in the special market segment. Shopping centre deals made up only a very small portion of the transaction volumes. Prime yields in the main shopping streets of Brussels and Antwerp remained stable at 4.35% (see map on page 18).

Short-term outlook	
Supply	↗
Demand	→
Prime rent	→
Investment volume	↗
Prime yields	→

Despite promising signs of a stabilisation and growing retail sales, additional slight declines in rental prices cannot be ruled out in the inner-city main shopping streets through the end of the year. The rents in the shopping centre and specialist market segment should remain stable until the end of the year, however. Since some other larger transactions are about to be completed, activity on the investment market should continue to increase.[17]

[16] Crystal Park in Liège (52,000 m²), expansion of the Centre l'Esplanade Shopping in Louvain-la-Neuve (26,000 m²), La Strada in La Louvière (38,500 m²) and Rive Gauche in Charleroi (35,000 m²).
[17] Cushman & Wakefield

c) Retail market - Luxembourg

Small, but dynamic market

The retail real estate market in the Grand Duchy of Luxembourg may be very small with its population of roughly 540,000, but it is a very desirable market thanks to the flourishing economy. Besides its central location in Europe and the high level of income, which attracts numerous commuters, Luxembourg is considered a cosmopolitan country. Although the trend toward increasing EU-wide harmonisation of taxes and prices will continue, some consumer goods will still be received less expensively in Luxembourg. The strong momentum on the market is reflected in the long-term positive performance of retail sales, high shopping centre density per resident and comparatively high prime rents in the main shopping streets.

Supply and structures

The total supply of shopping centre space in Luxembourg reached 223,000 m² in 2012. As a result, the country has one of the highest shopping centre densities in Europe when measured in terms of gross floor space per resident (4th place). The restrictive licensing practice for larger retail spaces (> 10,000 m²) from 1996 to 2005 has meant a lack of dynamism in the sector. The revocation of these rules led to numerous new projects and expansion plans for existing shopping centres, which have continued to the present day. So far, there are no FOCs in Luxembourg. The trend toward e-commerce, similar to in Belgium, has moved ahead more slowly than in other European countries due to the high level of physical proximity to shopping options and shops.

Dynamic development of retail sales

Luxembourg retail sales currently exhibit high growth rates. Since the beginning of 2012, monthly retail sales have increased by over 15% on average in comparison to the respective month in the previous year.[18] Alone in September 2014, Luxembourg accounted for by far the highest growth rates in the EU with a rise in retail sales of 12.3% as compared to September 2013 (EU average: +1.2 %).

Improvement in consumer confidence

Consumer confidence also improved again in October 2014. Households viewed not only the economy and the situation on the labour market, but also their financial situation as better than one month before.[19]

Strong demand on the leasing market

The demand on the retail leasing market in Q2 2014 totalled 6,593 m² and was 40% above the level in Q2 2013. In the first six months of 2014, roughly 9% more retail space was sold than during this period of 2013.

No larger completions are expected before 2016

The last large redevelopment, the expansion of the shopping centre Belle Etolie (15,000 m²), was completed in Q2 2013. The slower activity in the area of project developments should also continue until the end of 2014, since no other completions are foreseeable at the present time. New projects should come on the market in 2016/2017. This includes the shopping centre "Cactus Lallange", which should be completed by 2017 (12,000 m²). The opening of the Royal Hamilius (16,000 m²) is planned for 2017. Furthermore, the completion of a smaller retail park (7,500 m²) in the "Borders" project in Schengen is expected in 2016.

[18] Eurostat
[19] Luxembourg Central Bank

Availability of unoccupied spaces

The availability of unoccupied spaces was recently good due to the release of space on account of the FCPE Group's bankruptcy and the withdrawal of some international retailers that wanted to optimise their global operating costs despite positive sales figures. As a result, the waiting list in the especially desired main shopping streets became shorter.

Prime rents stable

The highest rents are currently generated in the two main shopping streets of Luxembourg City. The Grand Rue has prime rents of 1,500 EUR/m²/year and the Avenue de la Gare of 840 EUR/m²/year (see map on page 18) at the present time. The prime rents have been relatively stable over the last two years. Only in some sub-areas have they increased slightly. For example, prime rents in the Auchan Kirchberg shopping centre rose from 1,140 EUR/m²/year in Q2 of 2013 to 1,200 EUR/m²/year in Q2 of 2014 due to an improvement in the supply mix. In the future, this centre can also anticipate another increase in rent of roughly 10%.

Investments and yields

The investment volume on the Luxembourg retail real estate market reached a new all-time high of EUR 263 million in 2013. This is largely due to the sale of the Knauf Shopping Centre in Pommerloch and the Auchan Kirchberg gallery, which made up 80% of the investment volume. The first half of 2014 was somewhat weaker with an investment volume of roughly EUR 55 million. Among others, the symbolic Rosenstiel Centre in the Grand Rue and the Howald Retail Park changed hands. Prime yields remained stable in comparison to 2013 and are currently on a relatively low level (between 5.00 and 6.00%) (see map on page 18).

Short-term outlook	
Supply	→
Demand	→
Vacancy rate	→
Prime rent	→
Investment volume	↗
Prime yields	→

Demand for investments on the Luxembourg retail real estate market remains high despite the shortage of supply. Prime rents should remain stable until the end of the year. Excess demand will also continue on the leasing market. Due to the expected improvement in the economic performance of the eurozone, demand for rental space in full year 2014 should exceed the level of 25,000 m². Over the short term, no larger completions are expected. As already described, an increase in supply is not expected until 2016/2017.

Logistics markets

a) Logistics market - Netherlands

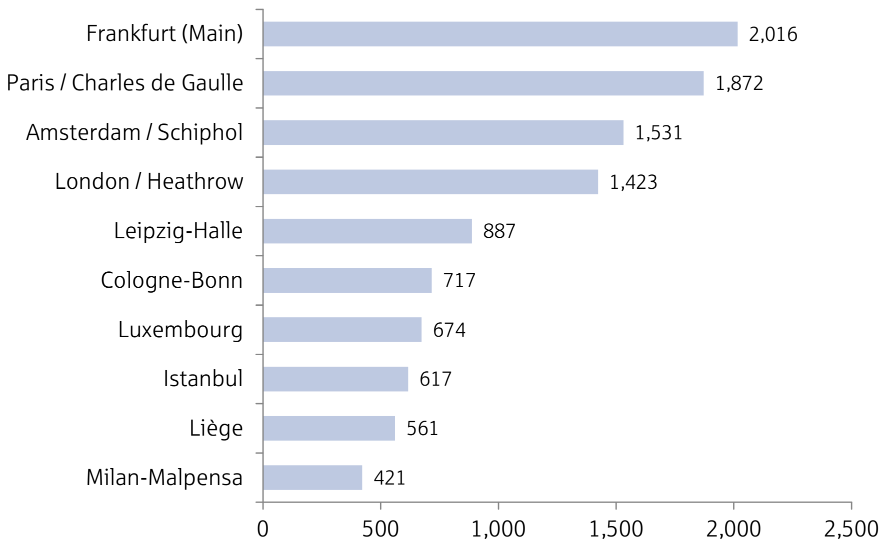
Significant logistics location

The Netherlands is one of the most important logistics markets in the world. The World Bank Logistics Performance Index (LPI)[20] ranks the Netherlands in 2nd place internationally, behind its most important trading partner Germany.

Logistics infrastructure

The Netherlands has two central hubs of international importance in the airport Amsterdam/Schiphol – as the third-largest freight airport in Europe – and the port of Rotterdam – as the largest seaport in Europe. The Amsterdam agglomeration also has good sea freight infrastructure. The port area in Rotterdam will be expanded by 1,000 ha through 2030 (Maasvlakte II) in order to keep pace with the rising number of containers and to meet the demands of the new generation of container ships. High concentrations of space besides the port locations are also found in transport corridors running to the large consumer markets in the European hinterland. The transport infrastructure is very well built out, but often overloaded. The importance of the railway may still be low, but rail traffic profits from the overloaded streets. The Betuwe route, an express route for freight trains between Rotterdam and the Ruhr area, was completed in 2007 and is gaining significance for railway transport.

Largest freight airports in Europe in terms of goods handled in 2013 (freight in 1,000 tonnes)



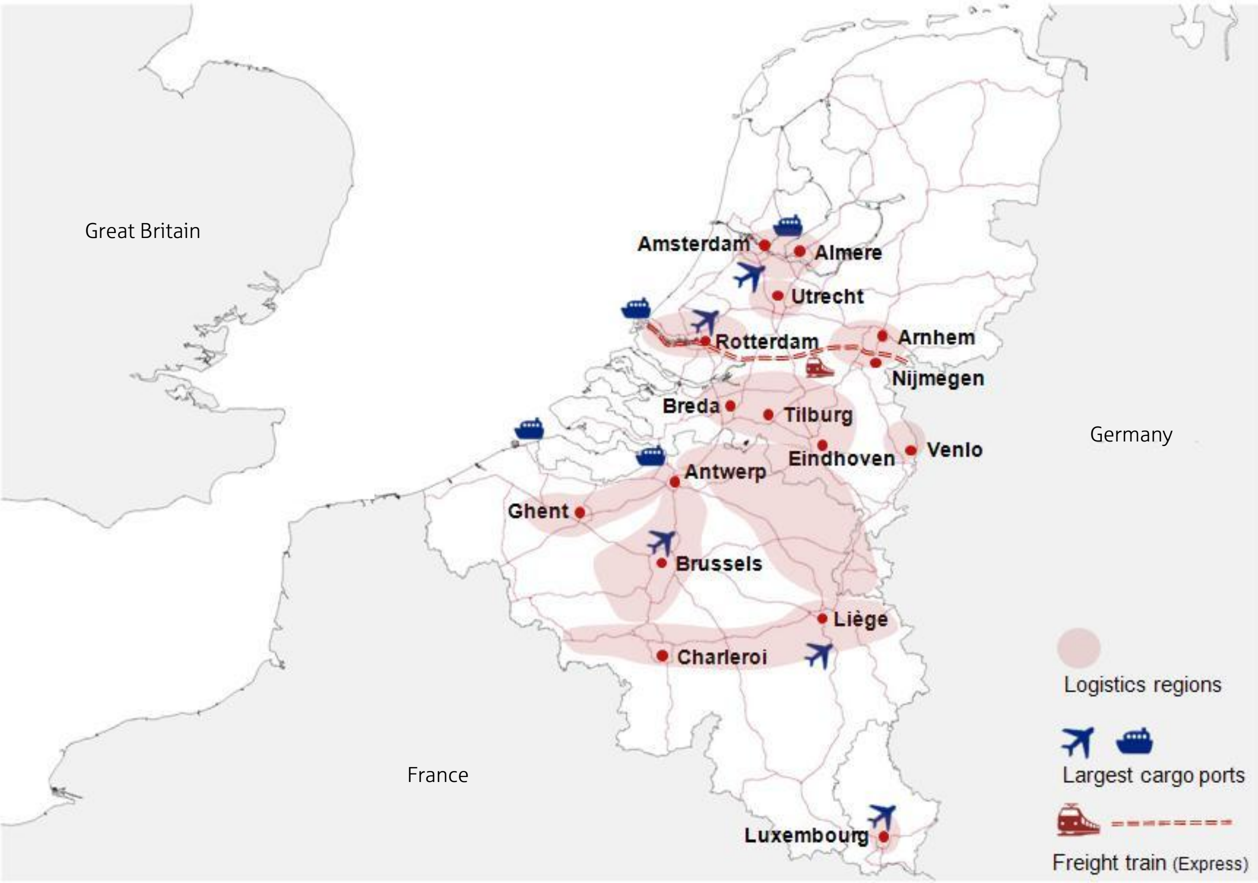
Source: ACI, Fraport; Deutsche Hypo's chart

Leading logistics locations

Utrecht, Nordbrabant, Venlo and Arnhem/Nijmegen/Wijchen, alongside Rotterdam and the greater Amsterdam area, are the most important logistics regions in the Netherlands.

[20] The LPI is based on a survey of professionals and evaluates individual countries in terms of customs, infrastructure, international shipping, logistics services, tracking and on-time delivery.

Logistics regions of Benelux countries



Source: Deutsche Hypo's chart

Netherlands as successful logistics hub

Rising global trade and the gradual recovery of the economy have helped the Netherlands to establish itself as one of the world's leading logistics nations. The advantageous general conditions on the logistics market are reflected in rising trade both in terms of transport sales and volume of cargo in the first half of 2014. The port of Rotterdam reported year-on-year growth of 0.6% in freight volume. The freight volume at the Schiphol International Airport also increased, by almost 9%. The transport sector has now reported three quarters of sales growth in a row. Considering the growing sales in the area of e-commerce, the freight volume may also continue to increase in the second half of the year. In 2015, growth of 1.9% is anticipated. While these developments should bring about rising demand for distribution centres in the medium to long term, the impact has remained limited so far on the leasing markets.[21]

Still slow demand at present

Demand for logistics space remained slow in the first half of 2014. The available supply of modern and high-quality space at the leading logistics locations continued to remain in short supply. As a result, customised project developments made up roughly 50% of the leased space.

[21] CBRE H1 2014

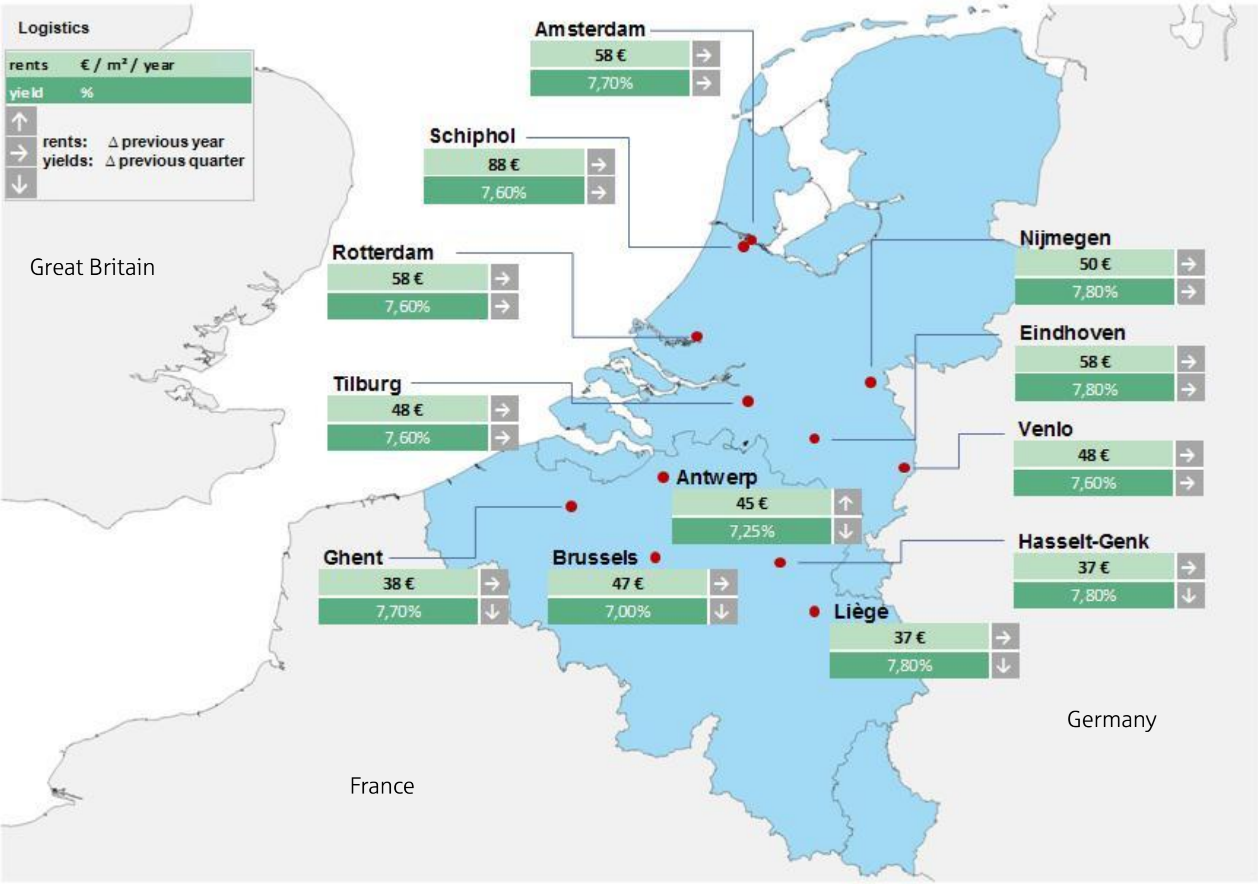
Supply of available space

The vacancy rate continues to remain high overall. However, primarily older properties of lower quality are empty. From a regional perspective, there are significant differences with regard to the vacancy rate. While Rotterdam has a vacancy rate of roughly just 5%, it is significantly higher in Amsterdam, The Hague and Utrecht (approx. 22%). At the logistics location Schiphol, however, the percentage of available space is low (vacancy rate: 5%).[22]

Stagnation of prime rents

Prime rents at the most important Dutch logistics locations remained stable year on year at the middle of 2014. The range of rent extends from 88 EUR/m²/year at the Schipol Airport to roughly 58 EUR/m²/year in Amsterdam, Rotterdam and Eindhoven, all the way down to 48 to 50 EUR/m²/year in Venlo, Tilburg and Nijmegen (see map). The anticipated economic recovery, a revival of foreign trade and the ongoing trend toward e-commerce should cause rents to rise in the prime markets of Amsterdam and Rotterdam as of 2015.

Logistics – Benelux countries: Prime rents and yields



Source: Cushman & Wakefield (as of June 2014); Deutsche Hypo's chart

Investment market on the rise

After four years of weakness, the investment market for logistics recovered with the launch of private equity firms such as Blackstone in 2013. In the first half of 2014, the rise in the investment volume continued. The best half-year result since 2008 was achieved with investments of almost EUR 700 million.

[22] CBRE H1 2014

Yields stable in the recent past

After prime yields fell slightly in the first quarter of 2014, they remained stable in Q2 despite strong demand throughout the country. The range of gross initial yields, according to broker information, ranged from 7.6% in Schiphol, Rotterdam and Venlo to 7.8% in Nijmegen in the second quarter (see map on page 27). Due to the low interest rates, we anticipate falling yields until the end of 2016.

Short-term outlook	
Supply	→
Demand	↗
Vacancy rate	→
Prime rent	↗
Investment volume	↗
Prime yields	↘

Although the general conditions for the development of the logistics market are advantageous and continue to improve, no recovery in demand for logistics space has been observed. In the course of the ongoing economic recovery, business sentiment should continue to improve and tenants are looking with less hesitation to expand, which results in rising demand for space. The trend toward e-commerce is also progressing and will lead to rising sales in the transport sector as well as growing national and international trade volumes. Double-digit annual growth rates are forecast for on-line retail over the next five years in Europe, so the influence on the logistics sector should continue to increase. In the future, modern, high-quality logistics space will continue to be in demand.

After four years of weakness, a rise in investment volume is being observed at the present time. Investor interest should also continue to increase in the future. The decreasing supply of large portfolio deals should be reflected in the future investment sales despite high demand. New project developments will therefore remain a central driver of investment activity, even if investors prefer already pre-leased properties.

b) Logistics market - Belgium

Significant logistics location

Similar to the Netherlands, Belgium is also one of the most important logistics regions in Europe. Due to its outstanding strategic location at the centre of the richest and most densely populated area of Europe, the country has outstanding access to the most important European markets and suppliers. With the second-largest European port in Antwerp, Belgium is considered an entry point for the continent. The country has additional central hubs due to the freight airports in Liège (9th place in Europe) and Brussels.

Leading logistics regions

The leading Belgian logistics centres are concentrated along the four most important commercial axes: Brussels – Antwerp (A12-E19), Antwerp – Gent (E17), Antwerp – Limburg – Liège (along E313, E19, E34 and E314 toward the Netherlands) and Mons – Charleroi – Liège (E42, also referred to as the "Walloon Axis") (see map on page 26). The area between Antwerp, Brussels and Gent is also called the "Golden Triangle" of Belgium. In Antwerp, the port area along the Scheldt has one of the highest concentrations of logistics space; in Brussels it is the airport area and the locations along the canal.

Due to the high population density and the restrictive planning policy, the availability of space in Brussels and Antwerp is very limited and properties are expensive. The shortage of space in Brussels is reflected in the high property prices between 140 and 220 EUR/m². There is hardly any available space along the A12/E19 axis running between these two cities. The price level here is also relatively high at 100 to 150 EUR/m². As a result, Limburg, the province on the border to the Netherlands, which is more thinly settled and conveniently located, has gained in importance. This location has become increasingly appealing due to its proximity to the European hinterland and as a location for European distribution centres. The properties here are significantly cheaper at 40 to 85 EUR/m². Along the Walloon Axis, there is also still sufficient space, and property prices are relatively low (e.g., 25 to 45 EUR/m² in Charleroi). An important project is also the multimodal platform "Liège Trilogiport" in Liège.

High rise in demand at logistics centres

The sales generated with logistics and semi-industrial space on the leasing markets reached roughly 688,000 m² at the middle of 2014. Somewhat more than half of the volume was attributable to logistics space (388,000 m²), which corresponds to growth of more than 115% relative to the period in the previous year. The demand for space in the area of semi-industrial reached roughly 279,800 m², increasing by 10% since the first half of 2013. Roughly half of the deals involved acquisitions for companies' own use. In the leading logistics zones of Belgium (E19/A12, E313 Liège and Belgium), the sale of space in the first six months reached 302,000 m², the entire volume in the year before.

Speculative construction activity low

Since the supply of available logistics and semi-industrial space, particularly in densely populated urban areas, is fundamentally in short supply, there is still great potential for project developments. In the past few years, investors and project developers have acquired a quite large quantity of potential space amounting to more than 2.2 million m². Due to the economic uncertainties, falling rents and a difficult financial situation, project developers are currently showing even more hesitancy with respect to speculative projects. Construction activity has primarily been defined by customised developments.

Falling vacancy rates

Due to the already mentioned insufficient speculative construction activity, a shortage of available space remains. Vacancy rates have fallen since from 8.5% at the beginning of 2010 to 4.7% today (261,000 m²). The desired A12/E19 corridor saw a decline from 9.6% to 4.6% during this period. In Liège, excess supply fell from 12.7% to 5.6%. Along the E313, 5.3% of all space remained empty at the middle of the year. In Brussels and its surroundings, the vacancy rate – due to the release of space occupied by Caterpillar in the Canal Logistics Park – has now risen to 5.3%.[23]

[23] CBRE H1 2014

Prime rents

Prime yields for logistics and semi-industrial space remained overwhelmingly stable in comparison to the previous year. Due to the shortage of high-quality and modern spaces, prime rents should rise through the end of the year, however. Particularly the area of customised developments can be expected to see rising rents. Consequently, the difference between primary and secondary properties should continue to increase. Prime yields were at their highest in Brussels at the middle of the year, totalling roughly 48 EUR/m²/year. In the A12/E19 corridor between Antwerp and Brussels, the prime rents are at roughly 44 EUR/m²/year. In Liège, the rents are relatively low at 37 EUR/m²/year (see map on page 27).

Stable investment market with slightly falling prime yields

In the second quarter of 2014, EUR 90 million was invested in Belgian logistics and semi-industrial space. This represents only a slight increase from the previous quarter. Overall, the activities on the investment market are still developing slowly due to the limited supply of high-quality and well-leased properties. Due to the stability of the market, prime yields have declined by 5 basis points from the previous quarter. The range of gross initial yields, according to broker information, ranged from 7.0% in Brussels to 7.8% in Liège and Hasselt-Genk at the middle of the year (see map on page 27).

Short-term outlook	
Supply	→
Demand	↗
Vacancy rate	↘
Prime rent	↗
Investment volume	→
Prime yields	↘

The ongoing stabilisation of the Belgian economy and the high consumer expenditures mean that tenants are increasingly searching for larger logistics space. The high demand for space with a simultaneous shortage of supply in the area of new and modern spaces should lead to rising rent – particularly along the desirable Brussels-Antwerp axis – over the coming months. Customised developments are currently a safe strategy for the still hesitant project developers. Such properties are usually well leased and designed for the current needs of users.

c) Logistics market - Luxembourg

Luxembourg as an international air freight hub

For the sake of completeness, the logistics location Luxembourg should be mentioned. The country is an international air freight hub. It lands in 7th place in terms of European-wide freight volume. Cargolux, Europe's largest freight-only line and an important international air freight carrier has its headquarters in the Grand Duchy. Luxembourg is also a significant hub in the European long-distance transport network due to its position between the most important logistics markets in the Netherlands, Belgium and Germany.

Small size of the country

The small size of the country and the very high property and lease prices as a result reduce the attractiveness of Luxembourg as a pure inventory transfer point. Therefore, the focus is on the expansion of the value added measures along the logistics chain. The small size of the Grand Duchy is also partially the reason that there is no current broker data on the logistics location Luxembourg.

Hotel markets

a) Hotel market - Netherlands

Rising number of foreign guests

Despite the economic weakness, tourism in the Netherlands has developed positively over the last few years. Roughly 32 million visitors travelled to the Netherlands in 2013. With a share of over 60%, the Netherlands is above all a domestic travel destination. The growth in tourists, however, is primarily due to foreign guests, the number of which rose by 4% to 12.8 million in comparison to the previous year (growth in domestic tourism: 1.4%). As a result, 2013 was a record year for foreign tourism after multiple successive years of growth. Most foreign guests came from Germany and Belgium. Their number has continued to grow since 2008. The highest growth rates, however, were reported with visitors from the BRIC countries.[24] Above all, this is due to the economic growth, the growing middle class and the increasing number of (affordable) flights. Furthermore, some major events took place in the Netherlands in 2013 (among others, the reopening of the Rijksmuseum, the festivities related to the 400th birthday of Rembrandt and some larger trade fairs and congresses). In total, roughly 31.6 million foreign guests were registered as staying overnight. This represents a rise of 7% as compared to 2012.

The rising trend in foreign tourists should also continue in 2014. For the entire year, a rise to 13 million guests is expected. The growth is due to tourists from Europe and the BRIC countries, whereby the increase from Europe should be somewhat weaker than in 2013.[25]

Hotel chains on the rise

The Dutch hotel market is characterised by growing professionalism. Increasingly more hotel chains are penetrating the market. Currently, there are roughly 36 national and international hotel chains doing business with 23 and 49 brands. Accor, for example, wants to open 13 IBIS hotels in the next three years. Postillion, which currently operates six hotels in the Netherlands, wants to expand with twelve hotels by 2019.

Supply structure in the Netherlands and Amsterdam 2013

Category Netherlands	Hotels	Rooms	Beds
0-3 stars	2,937	57,612	126,037
4 stars	546	50,615	106,354
5 stars	29	5,200	10,648
Total	**3,512**	**113,427**	**243,039**
Amsterdam*			
0-3 stars	399	12,325	28,743
4 stars	63	9,810	19,469
5 stars	14	3,237	6,645
Total	**476**	**25,372**	**54,857**

Source: Statistics Netherlands, City of Amsterdam, CBRE *at the middle of 2013

[24] Brazil, Russia, India and China
[25] CBRE H1 2014

Supply structure

Of the over 3,500 hotels throughout the country, 476 were in Amsterdam, of which the majority (399 hotels) are classified in the lower and middle segment (0 to 3 stars) at the middle of last year. In addition to this, there were 63 and 14 hotels in the premium category (4 to 5 stars).

Trend to convert old office space into hotels

On the Dutch hotel market, we are currently observing a trend toward converting properties that are characterised by overaging and structural vacancy. Particularly in Amsterdam, but also in Rotterdam, The Hague and Utrecht, no longer marketable areas, particularly in the office sector, are being converted for hotel purposes. Even if the influence on the office space vacancy rate is limited overall, it has been possible to notice at least a growing openness on the part of the involved actors to address problematic real estate.

Future growth potential must be checked carefully

The growing hotel supply is not being viewed uncritically due to the possible risk of oversupply. In Amsterdam, Rotterdam, The Hague and Utrecht, the additional supply is fundamentally welcomed due to the ongoing rise in the number of guests that are expected in future years. The Amsterdam hotel market will be the most likely to succeed in absorbing the additional supply of hotel beds. In cities such as Rotterdam, The Hague and Utrecht, the potential should be analysed somewhat more carefully. Rotterdam is increasingly trying to market itself as a tourist destination and acquire additional events and congresses, which should be reflected in larger numbers of visitors.

The growing segment of micro-providers should also be considered. More and more private people are offering their rooms for a short vacation via distribution channels such as AirBNB. The competitive pressure for smaller hotel owners – particularly in the 0-3 star segment – is growing as a result.

Amsterdam as the most significant tourist destination

With roughly 3 million domestic and foreign guests and roughly 5.5 million overnight stays, Amsterdam is by far the most significant tourist destination in the Netherlands. As the financial and cultural capital of the country, it is one of the most desirable travel destinations in Europe. The main attractions are the historical canals, the Rijksmuseum, the Van Gogh Museum and the Anne Frank House. The majority of the tourists come from abroad (approx. 80%). Roughly 72% of the overnight stays are attributable to the leisure sector and 28% to business tourism.

Development of the hotel supply

The metropolitan region of Amsterdam issued new guidelines for the hotel sector as of 2016. New project developments will be coordinated by the metropolitan region for the first time as of then. Roughly 9,400 additional rooms are planned for the greater Amsterdam area by 2020. The majority of the new hotels are planned for outside of the city centre of Amsterdam (i.e. particularly in the east, north, IJburg and Duivendrecht) as well as further inland. As a result, the possibilities for project developments in the hotel sector in the centre of Amsterdam are limited and good properties could be in short supply. The metropolitan region has also made an improvement in the quality of the hotels a goal. Higher-quality offers for younger guests should also be created.

Between 2007 and 2013, roughly 40 properties, including primarily offices, were converted to hotels. 13 hotels were opened in 2013. Since only two of these hotels involved new buildings and two others were expansions of hotels (Linden Hotel, Hotel Dwars), the majority of the newly opened hotels were conversions. Ten projects are currently in the centre of Amsterdam, but the largest hotel was opened in the west of Amsterdam – the former office building of the media group Reed Elsevier is now home to a Golden Tulip Hotel with 248 rooms.

To our knowledge, six hotels should be opened in 2014. Toward the middle of the year, for example, the Waldorf Astoria in the historical Amsterdam Canal District was finished. Together with other openings such as Holiday Inn Express (south-east) and Volkskrant Hotel (east), the supply of hotels increased rooms by 1,057. With one exception (Brooklyn Hotel), these all involve converted properties. For 2015, two hotel openings are planned: One Crowne Plaza Hotel in the east of Amsterdam (320 rooms) and the conversion of the office space over Food Plaza into a 5-star W hotel (180 rooms) at the centre.

Hotel performance

The average room price in Amsterdam was EUR 119 in 2013. The canal metropolis has an occupancy rate of over 75%, which is above average in comparison to other European metropolises.

Hotel performance indicators for Amsterdam

Year	Occupancy rate	Δ (percentage points)	Av. room price (EUR)	Δ (%)	Revenue per available room (EUR)
2010	73.1%		115.92		85.52
2011	74.0%	0.93	120.39	3.9%	90.30
2012	73.9%	-0.17	118.36	-1.7%	88.48
2013	75.4%	1.58	119.01	0.6%	91.23

Source: STR Global, CBRE

Investment market: Strong focus on Amsterdam

The investment volume on the Dutch hotel market reached EUR 490 million in 2013, after being just EUR 150 million in the year before. The high growth is due in particular to the limited supply of prime properties in other segments (office, retail, logistics). The comparatively high volatility of the investment volume in recent years is due to the relatively low market size (niche market).

13 properties changed owners. Similar to previous years, Amsterdam was the centre of activities. The most deals were signed there. Six hotel deals with an investment volume in the amount of EUR 399 million were attributable to the capital.

The majority of the investors came from the Netherlands, only three investors came from abroad. Similar to the European hotel investment market, the Dutch market is characterised, on the buyer side, by private equity firms and institutional investors that aim for stable income over the long term.

Short-term outlook	
Supply of hotel rooms	↗
Tourism demand	↗
Rev. per available room (RevPAR)	↗
Investment volume	↗

For some years, the number of hotel transactions and the transaction volumes in the Netherlands and particularly in Amsterdam have continued to rise.

Amsterdam is considered one of the most important and stable hotel markets and thus enjoys high investor demand. The hotel performance in past years developed positively and this should also continue in coming years. According to forecasts by PWC,[26] 2014 revenue per available room in Amsterdam – despite the additional supply of bed capacity that came on the market – should still rise by 0.6% in comparison to 2013 and then again by 1.1% in 2015. Central drivers of growth on the demand side are the increasing volume of passengers arriving by plane, the recovering economy, newly opened museums and larger congresses.

Against this backdrop, another increase in the investment volume on the Dutch hotel market and particularly on the Amsterdam market is expected for the full year 2014. The decision by the city administration to limit new project developments within the historic centre and the planned quality offensive should also have a positive impact on investor demand.

b) Hotel market - Brussels

Important trade fair and congress location

The hotel market in Brussels primarily benefits from the existence of numerous EU institutions, international companies and embassies as well as the strong business tourism as a result. The capital is considered one of the four most important destinations in European business tourism, after London, Paris and Frankfurt. In a global ranking of congress locations by the Union of International Associations (UIA), Brussels even landed in 2nd place after Singapore. The good connections to the high speed railway network, the motorways and the international aviation are a good basis for the international trade fair and congress location. In past years, the importance of leisure tourism has also increased, however.

Growth in overnight stay figures

In 2013, 6.3 million overnight stays were registered in Brussels. This represents a rise of almost 5% as compared to 2012. Just under 3 million overnight stays were attributable to the leisure sector (+9.1% as compared to 2012). 2.4 million overnight stays were booked in connection with trade fairs and congresses (+1.8%) and another 890,000 overnight stays (-1.0%) were pure business trips. The tourists came primarily from neighbouring countries such as the Netherlands, France and the UK.

Supply structure

Brussels and the greater Brussels area have over 215 hotels with a total of 19,516 rooms. Most of the hotels are in the city centre, the Leopold district, along the Avenue Louise, in the vicinity of the Gare du Nord and the Place Rogier. Recently, hotels have also been increasingly built in the area around the south stop on the high speed railway network. Outside of Brussels, the airport location Zaventem has the largest supply of rooms (2,507 rooms).

[26] PWC (2014): Room to grow – European cities hotel forecast for 2014 and 2015.

The 4 and 5 star segment is dominated by the global hotel chains. 40% of all hotels and roughly 67% of the entire supply of rooms are attributable to this category. The Brussels hotel market is becoming increasingly international. Almost all the leading international hotel chains are present on the market. This includes, for example, Accor (15 hotels), Intercontinental (5 hotels), NH Hotels (6 hotels), the Thon Group (7 hotels) and Mariott (4 hotels). Most of the luxury hotels are in the city centre, in the Louise district and in Léopold.

Supply structure in Brussels (as of July 2014)

Category	Number of hotels	Number of rooms	Rooms/Hotels
5 stars	23	4,621	201
4 stars	63	8,414	134
3 stars	70	4,674	67
2 stars	38	1,245	33
1 star	12	254	21
Not rated/Other	9	308	34
Total	**215**	**19,516**	**91**

Source: CBRE

Hotel performance

In 2013 the occupancy rate was 71.1%, on the level of 2012 and thus also significantly above the level in the years preceding this. Due to the dominance of business travellers, hotel occupancy exhibits strong seasonal fluctuations with high points between September and November and between April and June. During the week, the occupancy rate is especially high from Monday to Thursday. The highest occupancy rate is seen in the city centre and in the European Quarter with an average room price between EUR 115 and 130. The revenue per available room reached EUR 77.20 in the previous year, after being EUR 77.00 in the year before (+0.26%).

New openings and pipeline

Due to the rise in overnight stay figures over the last decade, multiple new hotels were opened in 2013 (Tangla Hotel, Thon Hotel, Royale 120 and Midi). Furthermore, some new building and refurbishment projects are currently in the pipeline and should come on the market in the next few years (Hotel Astoria (2016), Nexity (2015), Gésu (2017) and Néo).

Short-term outlook

Supply of hotel rooms	↗
Tourism demand	↗
Rev. per available room (RevPAR)	↗

The overnight stay figures in this year should only rise slightly due to the expected slow economic improvement in Belgium and Europe in 2014. As of 2015, however, it is possible to anticipate higher growth rates again. As a result, both the occupancy rate and the average room price should increase again and lead to rising revenue per available room. According to forecasts by PWC,[27] the revenue per available room in Brussels should increase by 0.2% year on year in 2014 and by 1.2% in 2015. We assume therefore that the projects currently in the pipeline will be well taken up by the market.

[27] PWC (2014): Room to grow – European cities hotel forecast for 2014 and 2015.

c) Hotel market - Luxembourg

High dependency on business trips from abroad

Luxembourg's tourism is highly dependent on demand from abroad. Of the 950,000 guests registered in 2012, 94% of them were foreign guests. From 2008 to 2010, Luxembourg had to cope with a decline in guests and overnight stays due to the economic and financial crisis. Since then, demand has gradually recovered. After guests increased by 10% in 2011, there was another increase of 3% year on year in 2012. Belgium, France and Germany were the most important source countries for foreign tourism in 2012 (58% share).

Demand on the hotel market is mainly based on business travellers. Leisure tourism plays only a limited role. Since the airport does not offer transatlantic flights, the volume of guests from emerging markets such as China is very limited.

High seasonal fluctuations

The occupancy rate of hotels fluctuates highly from week to week due to the dominance of business travellers. While the occupancy rate is high on workdays, it declines substantially on weekends.

Gradual recovery of the hotel market

The hotel market is only recovering slowly from the collapse in 2009. However, the recovery accelerated somewhat in 2011 and 2012. The average occupancy rate per year in 2012 was at 65% and the average revenue per available room was roughly EUR 100.

Short-term outlook	
Tourism demand	↗
Rev. per available room (RevPAR)	↗

The Luxembourg hotel market almost stagnated in 2013 due to the relatively weak economic performance in source countries. We assume that business trips will gradually increase again in 2014/2015 due to the ongoing economic recovery in Europe and lead to a higher occupancy rate in the hotel market.

Housing markets

a) Housing market - Netherlands

Growing demand for housing

The Dutch housing market is characterised by a positive performance in terms of demand, which results from the previously mentioned dynamic population growth and a growing number of households. The latest population forecasts from the Dutch Statistics Office see an increase of 11.8% or 900,000 in the number of households through 2040. The growth will be the highest in one-person households. In 2040, this will make up a 44% share of all households. The increasing ageing of the population is responsible, above all, for the strong growth in this segment. Almost half of the one-person households will be accounted for by people above the age of 65. The growth in the household figures will be especially high in the 30 largest Dutch cities – above all in the greater Randstad area – in the future.

Construction licenses on historically low level

Roughly 26,000 construction licenses were issued on the Dutch housing market in 2013.[28] This represents a decline of 30% from 2012. The number of construction licenses is currently roughly 70% below the pre-crisis level of 2008 and will be at its lowest level since 1953.

Real estate crisis and its causes

Dutch housing prices have fallen by a total of roughly 20% since reaching their high in 2008. The Dutch housing market exhibits a series of characteristics that have frequently brought about the emergence and popping of a real estate bubble in other countries in the recent past. The purchase of residential real estate was greatly encouraged by tax rebates. Interest rates on mortgages were fully tax deductible. As a result, the mortgage debt of private households rose continuously and reached the highest level in the EU at 108.4% of GDP in 2012.[29] The generous awarding of credit by banks also contributed to this. The loaned amounts were not infrequently over 100% of the real estate's value. Last but not least, a majority of the currently outstanding mortgage loans involves the kinds of credit where solely the deductible interest payments are made and the repayment of the principal is postponed until the end of the fixed interest period. Due to the weak economic performance, which has resulted in a rise in unemployment and sinking real income, the financial pressure on borrowers has increased.

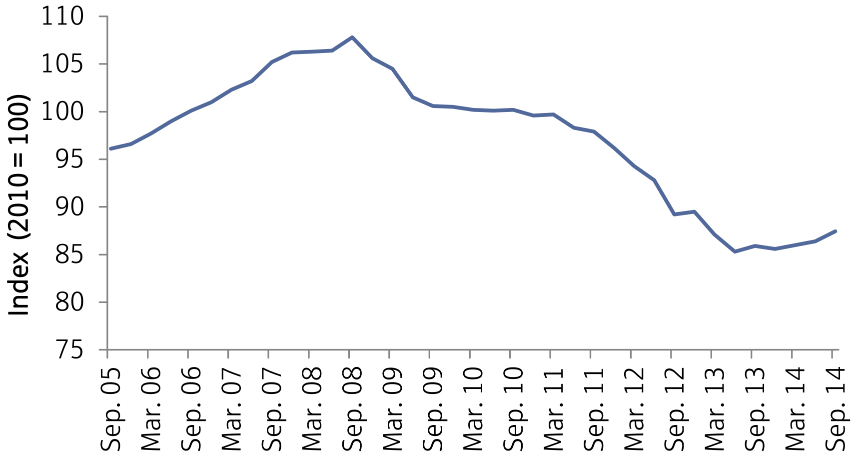
Since then, numerous measures have been taken to combat the residential real estate crisis. According to the new tax rules, the interest payments on loans can still be deducted with owner-occupied residential real estate. But 50% of the loan amount must be repaid annually. Furthermore, a successive reduction of the tax deductibility is planned over the next 30 years, meaning, the deductible loan interest is reduced by 1/30th each year. This also applies to existing loans.

[28] Statistics Netherlands
[29] European Mortgage Federation 2013

Bottoming of the housing market

In H2 2013/H1 2014, housing prices bottomed, however. In the third quarter of 2014, the prices for the supply of real estate were on average 1.8% above the quarter in the previous year.[30] In a 12 month comparison, the prices increased in September for the sixth time in a row. The Dutch economy has exited the recession; unemployment is falling, and real available income is rising again. At the same time, the growing demand with a simultaneous shortage of supply is also becoming increasingly apparent in the development of prices.

Change in prices on the Dutch housing market

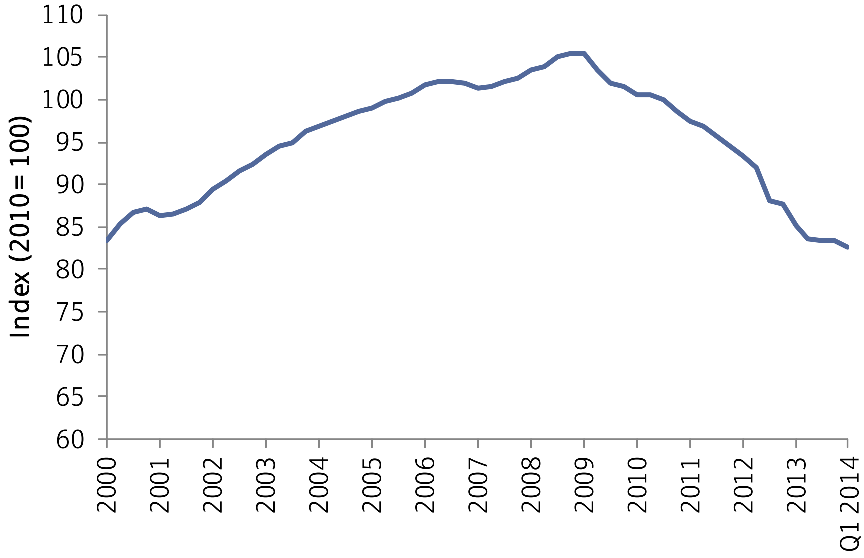


Source: Eurostat, Bloomberg; Deutsche Hypo's chart

Highest price increases in North Holland

With the exception of Zealand, Friesland and Groningen, the prices for real estate increased year on year in the third quarter of 2014 in almost all twelve Dutch provinces. The rise in prices was the highest in the province of North Holland (with Amsterdam) at +3.8% in comparison to the previous year. The Zeeland province, by contrast, had to cope with a sharp decline in prices (-1.3%).

Affordability index (change in housing prices relative to income)



Source: OECD, Deutsche Hypo's chart

[30] Statistics Netherlands

Housing is affordable again

A glance at the ratio between housing prices and available income makes it possible to say that houses are affordable again. A low index value shows a high level of affordability, since housing prices are low in relation to income. As a result of the sharp drops in value since the beginning of the crisis, residential real estate has become increasingly affordable for the population. The ratio has declined significantly since its high in Q4 of 2008 and is now at the level from the beginning of 2000.

Increase in transactions

The rising number of transactions on the market for owner-occupied residential property can be assessed as an indicator for the incipient recovery of the housing market. In September 2014, just under 13,000 houses were sold. This corresponds to an increase of 39% as compared to this month in 2013. Many home owners who could not sell their house during the recession and rented it instead are now selling their properties due to the rising prices.

Increasing liberalisation of the housing market

The Dutch rental housing market is one of the most regulated markets in Europe. To date, only 10% of Dutch rental houses are held by the private sector, and even large portions of the middle class enjoy exceptionally advantageous rents in the regulated sector. Government measures now ensure that the rental prices for higher income groups can be more in line with the market. The taxation of the social housing associations means that the government also works on ensuring that these associations sell a portion of their supply in the hope that foreign investors find a toehold in the market defined by a shortage of housing.

Growing investor interest

Growing investor interest in the recovering housing market has led to a 41% year-on-year rise in investment volume to EUR 1.3 billion in 2013. [31] In the first quarter of 2014, the investment volume reached EUR 247 million. This corresponds to an increase of 73% in comparison to the relatively weak first quarter of 2013.[32] The investment market for housing is primarily dominated by private investors. Institutional investors made up just 27% of the total volume in 2013. Since 2014, however, their share has increased. This primarily involves pension funds and insurance companies that are searching for stable returns and inflation protection.

Since the prices for residential real estate are currently at a low level due to the decline in value and have passed their nadir, while government initiatives to deregulate the market have opened up better investment opportunities, there has been increasing interest from foreign investors. Both rising rents and higher cash flows can be anticipated on both the popular regulated and unregulated rental housing markets. On the regulated market, the introduction of the income-correlated rise in rents will have a positive impact on rent growth. On the unregulated rental market, investors should profit, among others, from the fact that increasingly more home owners are offering their properties for sale again. The growing shortage of supply in rental housing will lead to rental growth. The improving recovery on the markets for owner-occupied residential housing applies increasing pressure on the rental markets.

[31] Savills
[32] CBRE

Investments in the unregulated residential market often take place through project developments. Investor interest is also focused on alternative partial segments of the residential market as well as student housing. The latter is often produced by converting old office buildings.

Short-term outlook	
Supply of housing and construction activity	→
Household demand	↗
Prices	↗
Rents	↗
Investment volume	↗

The Dutch housing market represents an asset class with excellent opportunities despite existing regulations due to the good fundamental data (growing demand, limited supply, low price level). The ongoing shortage of supply on the rental housing market and the fact that this market segment is still quite small in comparison to other European countries offer investors inexpensive entry opportunities. In comparison to the more sophisticated European markets, the gross initial yields in this segment are currently relatively high (5.15%). Not only stable cash flow yields, but also positive changes in value on the commercial housing market can be anticipated in the coming years.

Due to the growing regulation of the social housing associations, they will also increasingly concentrate on their core business in the future and sell a portion of their supply. Brokers such as Savills therefore expect a growing number of transactions between these companies and (international) investors. By the end of the year, the investment volume should pass EUR 2 billion.

Due to the current market conditions, institutional investors will focus in particular on core properties in the Randstad agglomeration and project developments (particularly small residential units in core cities). By contrast, private investors should focus on more inexpensive properties at risky locations thanks to their greater willingness to take risk.

b) Housing market - Belgium/Brussels

Impressive price rally

In the last decade, there has been an impressive rise in prices on the Belgian housing market. Different from the Netherlands, the lending practices of Belgian banks remain fairly restrictive. Between 1996 and 2013, the LTV never exceeded 82% of the value. As a result, private household debt also remained moderate at all times. Home mortgages as a percentage of GDP were roughly on the level of the eurozone in 2012 at 48.8% (46.9%).[33] Furthermore, as explained at the beginning, the demographic development supports the housing market in Belgium somewhat more than in the Netherlands over the long term.

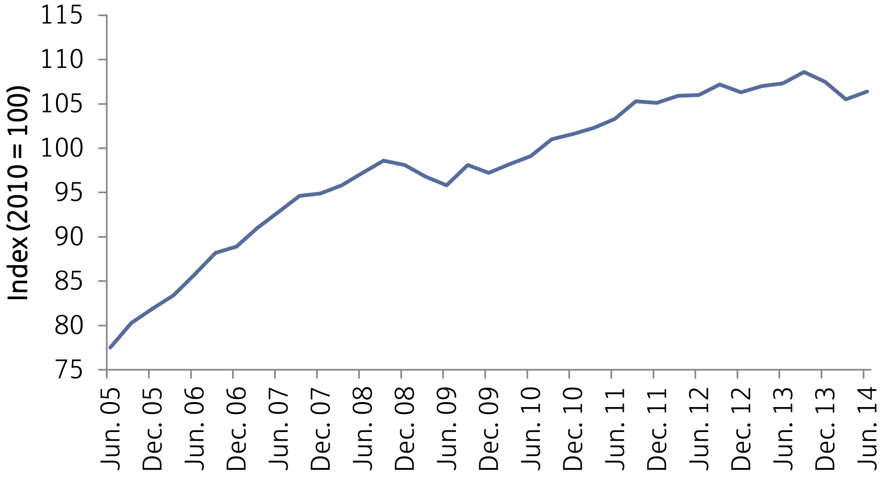
Stability of Belgian housing market

The balanced relationship between supply and demand also speaks for the stability of the Belgian housing market. While the number of households across the country rose by 40,000 p.a. between 2005 and 2009, construction activity was at roughly 47,000 new residential units per year. Between 2010 and 2013, construction activity roughly corresponded to the level of demand, so there was no excess supply on the national level. In the capital region of Brussels, which profits from disproportionately high population growth, the shortage of supply will continue to increase by contrast.

[33] European Mortgage Federation 2013

The financial crisis only led to only a small decline in national housing prices as a result, before the rise in prices continued in 2010. Due to the weakening of the economy, the rise in prices has slowed since 2012. In the second quarter of 2014, prices for residential real estate rose by 0.8% as compared to the previous quarter. In comparison to the quarter in the previous quarter, this corresponds to a decline of -0.8%.

Changes in prices on the Belgian housing market

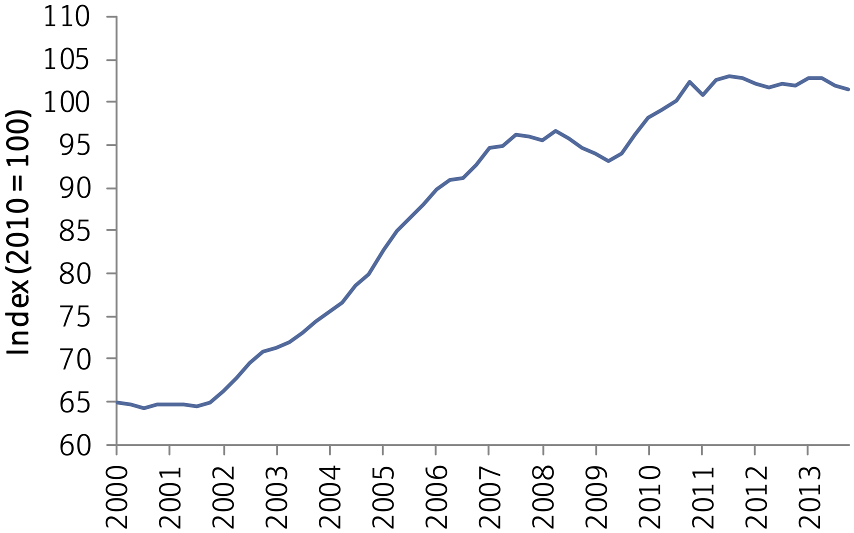


Source: Eurostat, Bloomberg; Deutsche Hypo's chart

Affordability is reaching its limits

Due to the rapid rise in prices, the affordability index is currently roughly 50% above its long-term average.[34] Belgian residential real estate counts among the most unaffordable in Europe. The sideways movement in the recent past makes it possible to conclude that affordability is currently reaching its limits and countering a further large increase in prices.

Affordability index (change in housing prices relative to income)



Source: OECD, Deutsche Hypo's chart

[34] OECD, Calculations of the IMF

Short-term outlook	
Supply of housing and construction activity	→
Household demand	↗
Prices	↗

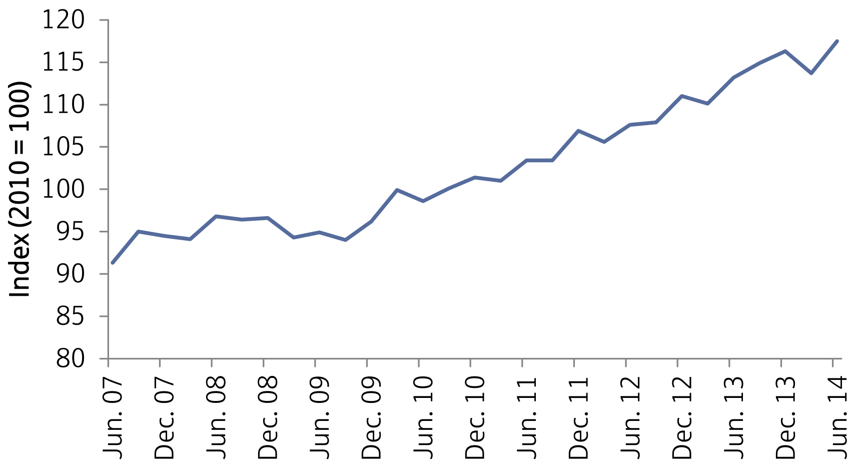
The ongoing economic recovery in Belgium in 2014/2015 should have a positive impact on the housing market. Due to the stabilisation of the labour market and the low inflation rate, another rise in available income is to be anticipated. On account of the limited affordability, the rise in prices should be somewhat more moderate than in previous years.

c) Housing market - Luxembourg

Upward trend continues on the housing market

Prices for Luxembourg residential real estate have been rising rapidly. Transaction prices for existing and new apartments were almost unaffected by the financial and economic crisis and only fell slightly in 2009 (-1.1%). Since then, the dynamic price development continues. In 2013, prices for residential real estate rose by 5.1% as compared to the previous quarter. In the first two quarters of 2014, the rise in prices continued (Q1 2014: +3.3% and Q2 2014: +3.8% as compared to the respective previous quarter).

Changes in prices on the Luxembourg housing market



Source: Eurostat, Bloomberg; Deutsche Hypo's chart

Imbalance in supply and demand

The ongoing rise in prices is due to a divergence between demand and supply on the housing market, which is of a structural and cyclical nature. The structural factors include, on the one hand, the shortage of available construction land for the housing market, which has existed for years and is partially due to the small size of the country. On the other hand, the Luxembourg housing market faces high demand. This is due to the local population, which is among the most affluent in the eurozone thank to its high per capita income and the high percentage of commuters who would prefer to live closer to their job. The population is also one of the most dynamic in the EU. The high population forecast also comes with a growing number of households. Last but not least, the equity ratio of 69% may be at the EU average, but it is significantly above the amounts of other countries such as Germany and France. Construction activity, which is of cyclical characteristic, has been quite stable during the years after the crisis. However, a sharp decline was observed in 2012 and 2013.

No risk of a bubble

According to an analysis by the IMF, real estate prices are not yet overvalued at the present time.[35] This conclusion is also partially supported by the moderate household debt to date. Home mortgages as a percentage of GDP were at 48.9% and roughly in line with the average in the eurozone in 2012 (46.9%).[36]

Short-term outlook	
Supply of housing and construction activity	→
Household demand	↗
Prices	↗

The advantageous economic conditions, a further increase in employment and the ongoing demographic-related excess demand on the housing market mean that the rise in prices should continue. In order to counter the shortage of supply, there is a need for political action. This includes, among others, a reduction of the administrative hurdles in the construction sector and a coordinated or quicker handling of individual municipalities with respect to changes in space usage plans.

[35] IMF: Luxembourg Country Report No. 14/119, May 2014
[36] European Mortgage Federation 2013

Conclusion

In terms of the questions asked at the beginning, we have drawn the following conclusions from our evaluation of the Benelux real estate markets:

What special structural and regional characteristics do the Benelux real estate markets have?

- The Benelux countries are among the most significant regions in Europe due to their economic strength and their international trading, financial and administrative centres.
- The demographic conditions are extremely advantageous. Besides positive natural population growth, the three countries also benefit from net immigration. The population forecasts through 2040 are also significantly above the amounts for the EU as a whole.
- The regions of Randstad Holland, Brussels and Luxembourg count among what are by far the most important economic centres in the country union. The region of Randstad is not only a leading service centre in the Netherlands, but also the central motor of the domestic economy. Numerous multinational companies have their headquarters here. Brussels can thank its international significance, among others, to the presence of numerous EU institutions and NATO. The city of Luxembourg is one of the most important financial centres in the world. Here, too, important European institutions have their headquarters. The Grand Duchy is the country with the highest per capita GDP in the EU. This is partially due to the strong cross-border labour market.

In which areas is it still possible to expect drops in value? When is a change in trend likely? Where is there potential for growth?

What risks may need to be considered?

While Luxembourg enjoys dynamic economic growth, the Netherlands and Belgium have also exited the recession or stagnation and are currently on the path to recovery. In 2015, GDP for all three countries is forecast to be above the eurozone average. The individual real estate markets with their sub-segments of office, retail, logistics and housing profit from this in different ways:

Office markets:

- On the Dutch office leasing market, the demand for space has remained subdued on account of the slow economic recovery. Old empty office buildings are also being converted to other types of use at the present time. In Zuidas Amsterdam, prime rents are also rising again. At other prime locations as well, the rents are gradually rising due to the ongoing economic recovery. At secondary locations, existing incentives will have to decrease first.

- The Brussels office leasing market benefited in particular from high demand for space from the public sector in the first half of 2014, while the private sector continued to act hesitantly and cost sensitively. The vacancy rate in the leading office districts should decrease due to the low number of completions and the ongoing conversion of older office buildings to apartments. Rents in the CBD will remain stable over the coming months, but the incentives will gradually decrease. At locations outside of the CBD, by contrast, incentives are currently on the rise due to the weak demand and rising vacancies. The ongoing recovery of the economy should also stimulate an increase in the demand for space from the private sector in the coming year so that rents should rise again over the medium term.

- The Luxembourg office market is characterised by stable demand for space, low vacancy rates and stable prime rents. Due to the advantageous economic development, the demand for space should remain high in the future. Since speculative construction activity should remain low and the vacancy rates will continue to fall, we also anticipate rising prime rents in these sub-markets in the future.
- Due to the attractive yield spreads with respect to ten year government bonds, we anticipate a further rise in demand for office real estate in the future. The high prime yields relative to other leading European office locations and a recovering market environment also speak for this.

Retail markets

- On the Dutch retail market, a reversal for the better could also be achieved in this year both with regard to rental activities and investment volume. The downward spiral in retail sales that comes with a recession stopped at the beginning of the year and demand for space rose again slightly, even if only moderately. With regard to rents, a stabilisation has also been observed, starting with Amsterdam and Utrecht. In 2015, additional positive stimulus is expected for the retail market as a result of the ongoing economic recovery. In particular, the international attraction of Amsterdam will increase and should draw an increasing amount of foreign demand.
- Belgium may be relatively small, but - due to its above-average purchasing power per capita and its central location in Europe – it is an ideal test market for new market launches in European retail. The market currently shows promising signs of stabilisation. Retail sales recently increased slightly; rents are gradually stabilising and some larger transactions are about to be concluded on the investment market.
- The retail market of Luxembourg involves a very small, but very desirable market thanks to the flourishing economy. The high market dynamism is reflected in the long-term positive development of retail sales, high shopping centre density per resident and stable prime rents at the high end. The shortage of supply on the investment market and rental markets will continue for the time being. An expansion in supply is first anticipated in 2016/2017.

Logistics markets:

- The Netherlands is one of the most important logistics markets in the world. The Amsterdam/Schiphol airport is the third-largest freight airport in Europe and the port of Rotterdam is the largest seaport in Europe, giving the country two central hubs of global significance. Although the general framework conditions for the development of the logistics market are advantageous and should continue to improve (with the beginning economic recovery, revival of foreign trade and ongoing shift toward e-commerce), no increase in the demand for space has been observed to date. This should change as the economic recovery progresses, however. As of 2015, we anticipate rising rents in the top markets such as Amsterdam and Rotterdam.

- Belgium is also one of the most important logistics regions in Europe and is home to the second-largest European seaport in Antwerp as well as the freight airports in Liège and Brussels, giving it three central hubs. There is currently high demand for space in the country's leading logistics zones. The expected future increase in the demand for space with a simultaneous shortage of supply should lead to rising rents in the coming months - particularly along the desired Brussels-Antwerp axis.

Hotel markets:

- Despite the economic weakness, tourism to the Netherlands, particularly to Amsterdam, has developed positively in recent years. Hotel performance in the Dutch capital should also continue to perform well in coming years. The central drivers of growth are both the recovering economy and the increasing number of passengers in aviation, newly opened museums and larger scale congresses.
- Brussels is one of the leading European destinations for business tourism due to the existence of numerous EU institutions, international companies and embassies. The ongoing economic recovery in Europe should again lead to higher growth rates for overnight stays starting in 2015. As a result, the occupancy rate and the average room price should increase again and lead to rising revenue per available room. The projects currently in the pipeline should be taken up well by the market.
- The Luxembourg hotel market is highly dependent on foreign business travellers. Since the airport does not offer any transatlantic flights, the number of guests from growth markets such as China is severely limited. The hotel market almost stagnated in 2013 due to the weak economic performance in the source countries. In 2014/2015 an increase in business travel will have a positive impact on the hotel market.

Housing markets:

- The Dutch residential real estate market represents an asset class with excellent opportunities despite existing regulations due to the good fundamental data (among others, rising demand, limited supply). The prices for residential real estate bottomed in the last few months. Even affordability (ratio of home prices to income) has improved noticeably. The ongoing shortage of supply on the rental housing market and the fact that this market segment is still quite small in comparison to other European countries offer investors inexpensive entry opportunities. In comparison to the more mature European markets, the gross initial yields in this segment are currently relatively high. Not only stable cash flow yields, but also positive changes in value on the commercial housing market can be anticipated in the coming years.
- Despite the impressive rise in prices over the last decade, the Belgian housing market has been relatively stable. Private household debt has remained moderate at all times. Furthermore, the relationship between supply and demand has been quite balanced in recent years.

Belgian residential real estate counts among the least affordable in Europe, however. Due to the ongoing economic recovery, a further rise in available income is anticipated. The rise in prices should be somewhat more moderate than in previous years.

- Similar to Belgium, prices on the Luxembourg housing market are characterised by a rapid boom. This is due to the dynamic population growth, high per capita income and a shortage of supply in terms of construction land. Private household debt is still moderate, and real estate prices are not overvalued.

As the preceding analysis has shown, the recovering real estate markets in the Benelux countries offer attractive market conditions in comparison to large, leading European markets, which in part promise only slight rises in rents and value due to the current boom. The recovery in individual sub-markets is progressing, starting in particular with prime real estate at the most important locations, and will also subsequently reach the regional cities and secondary locations.

Contact

Short profile of Deutsche Hypothekenbank

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