Real estate market update

Fourth quarter 2024

a.s.r. real estate

Contents

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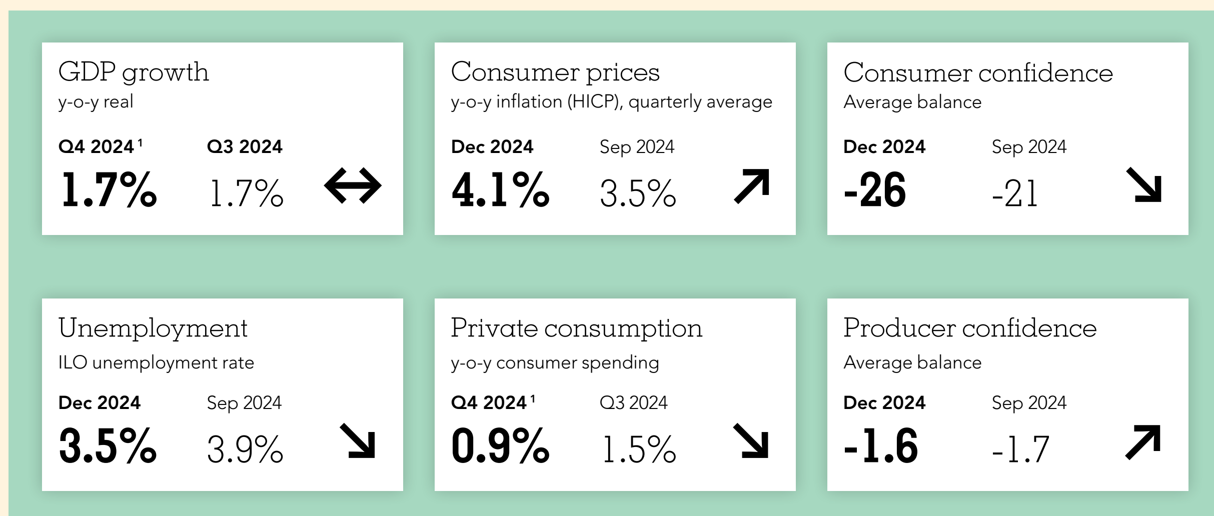
Economy

The Dutch economy has shown stable growth, with GDP expected to reach 1.7% in the last quarter of 2024, bringing annual growth to 0.9%. Wage increases remain high due to a tight labour market, leading to higher disposable household income. However, consumer sentiment has turned more negative in late 2024. The economy is vulnerable to global shocks and geopolitical tensions, which could impact growth and inflation. Inflation rose to 4.1% in December 2024, higher than in the eurozone, potentially reducing competitiveness. The ECB's rate cuts in Q4 2024 aim to stimulate growth, while the yield on Dutch 10-year government bonds rose.



Source: Statistics Netherlands (CBS), Eurostat, a.s.r. real estate, 2024 | The arrows refer to the experienced change over the comparison period.

The Dutch economy showed stable growth in the last three quarters. GDP growth in the last quarter of 2024 is expected to reach 1.7%. This brings the average economic growth for the entire year 2024 to 0.9%. The expected economic growth for 2025 is projected to be higher at 1.5%. This growth will primarily be driven by private consumption and government spending.

Wage increases in the Netherlands are higher than in the eurozone. Many collective labour agreements in 2024 include above-average wage increases due to the tight labour market and the resulting strong bargaining position of employees. Wage growth still exceeds inflation levels, resulting in high private consumption expenditures. However, wage growth is slowly declining as inflation is lower than in 2022, albeit well above the 2% target set by the European Central Bank (ECB).

As wage growth is higher than inflation, the real income of households increases. This leads to a rise in disposable household income. For 2024, a growth of 4.5% is expected, with a more moderate increase in the following years. Despite this positive growth for households, consumers became more negative in the fourth quarter of 2024. Both the economic climate and consumer willingness to buy showed a decline. Consumers are also more negative about the economic situation for the next 12 months. Although GDP growth is expected to be higher in 2025, driven by private consumption, consumer sentiment can contribute both positively and negatively to this. Additionally, part of the income growth seen by households is used to save more. Many households in the Netherlands set aside money to pay off their mortgage or for the purchase of a house.

The Dutch economy is vulnerable to global shocks due to its extensive international connections with other countries. Geopolitical tensions continue to overshadow economic forecasts. Geopolitical uncertainty can lead to reduced confidence, negatively affecting domestic spending. Additionally, a potential trade war, with higher import tariffs on international trade, poses an extra risk. Since the election of Donald Trump as President of the United States, this uncertainty has significantly increased. New trade restrictions could

1 Estimation based on full-year forecast

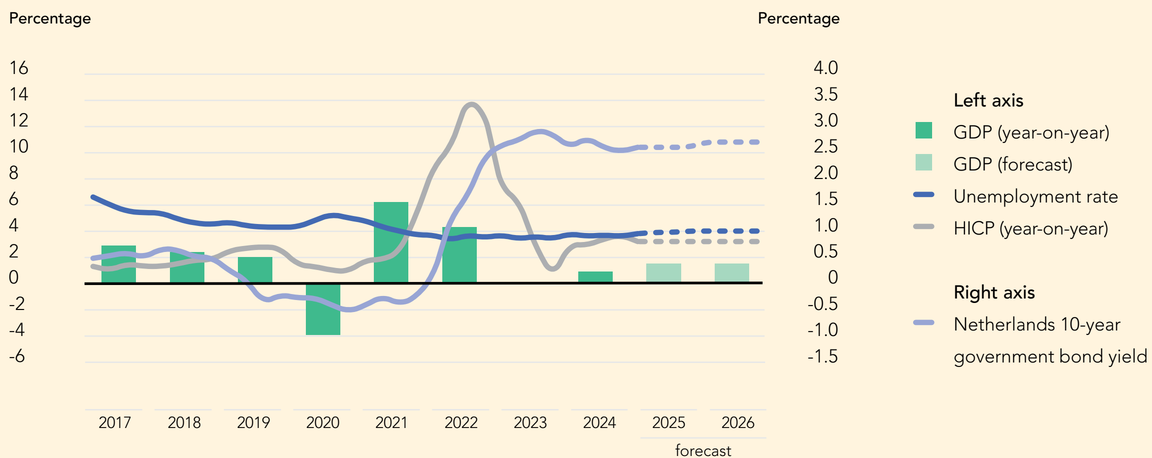
have substantial consequences for the Dutch economy, resulting in relatively high inflation and lower GDP growth.

Inflation rose to 4.1% in the fourth quarter of 2024. This increase in inflation is mainly caused by the price development of motor fuels, such as gasoline and diesel. This makes inflation in the Netherlands significantly higher than in the eurozone. A structural inflation difference with the eurozone can lead to a reduced competitive position for the Netherlands. Companies may be less competitive due to the large inflation difference, resulting in higher costs for companies compared to other companies in the euro area.

The Netherlands can only rely to a limited extent on the less restrictive policy of the ECB, which lowered the policy rate for the fourth time in December last year. The main refinancing rate fell by 25 basis points to 3.15% in December 2024. This rate cut reflects better inflation forecast in the eurozone, with the expectation that core inflation will decline towards the target of 2% in the medium term and should also provide a positive stimulus to economic growth.

The Dutch 10-year government bond yield ended December 2024 at 2.6%. Although the Dutch 10-year government bond yield declined in Q3 and Q4, it rose sharply in December. An increase in the yield on 10-year government bonds can signal various things, especially in the current geopolitical and economic context. It can indicate expectations of higher inflation, increased risks due to geopolitical tensions, adjustments in central bank monetary policy, and optimism about economic growth. Investors may demand higher returns as compensation for increased risks and inflation expectations.

Figure 1 Dutch economic indicators



Source: Statistics Netherlands, Eurostat, DNB, Consensus Forecast, ECB, a.s.r. real estate, 2024

Retail

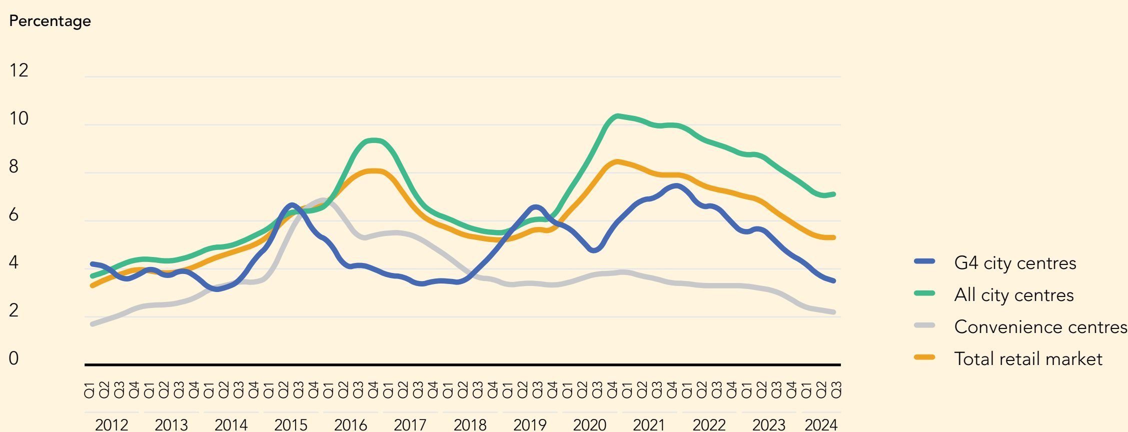
Growing investment dynamics, increasing consumer spending, expansionary retailers and positive market rental value growth are positive signals for the retail market. Still, geopolitics might break momentum and traditional retailers face some challenges. Expansionary retailers are keen to take their place in primary high streets in large city centres and in dominant convenience centres, whereas vacancy rates can remain higher in other retail segments.

Retail turnover growth accelerated despite ongoing low consumer confidence. Consumer spending was one of the main drivers of Dutch economic growth in Q4 2024. Likewise, physical retail turnover volume growth remained positive and grew to +1.5% y-o-y growth. DIY stores (+7.1%) and hardware stores (+5.6%) volumes aligned with the surge of owner-occupier house prices. In contrast, supermarket volumes remained under pressure (-/- 5.8%). Consumers remain cost-conscious as high (core) inflation continues. In addition, the supermarket ban on tobacco impacted turnover. Online retail turnover growth grew to +8.6% (y-o-y, in euro's). In contrast to 2023, online turnover growth is (again) outpacing physical turnover growth in 2024. Although general consumer confidence remains low, consumer spending forecasts in 2025 are expected to change for the better, backed by collective wage increases and ongoing labour market shortage.

Opportunities arise for expansionary retailers. Retail bankruptcies were higher in Q3 than in Q2, but total annual bankruptcies in 2024 are not expected to surpass the historic average. The physical retail market impact is still evident though, with traditional and offline focused retailers (Esprit, Bristol) going bankrupt and pushing up vacancy rates. On the other hand, the restart of the Blokker franchise gives hope, since the restart could result in continuing business on profitable locations. Upcoming omnichannel retailers (e.g. My Jewellery and Mr. Marvis) or international franchises might profit from traditional retailers disappearing or downsizing. The majority, and a growing part, of European retailers (72%) is planning to expand their store portfolio.

Market rental value growth remained positive in polarised high streets. The financial vacancy rate of the total retail market remained flat (5.3%) in Q3 2024. City centre vacancy rates moved upward slightly, whilst G-4 city centres and convenience centres held on their positive momentum. Similarly, market rental value growth remained positive and flat at +1.8%. G-4 city centres (avg. +1.3%, y-o-y) continued to outperform other city centres (avg. -/- 1.0%). This highlights the continued polarisation on Dutch high streets. Vacant, well-fitted primary units in large city centres can expect to catch the interest of multiple retailers, whereas reletting in smaller cities and on secondary streets is harder. Convenience market rental growth remains solid (+3.4%) despite thinning margins.

Figure 2 Financial vacancy rates[1]

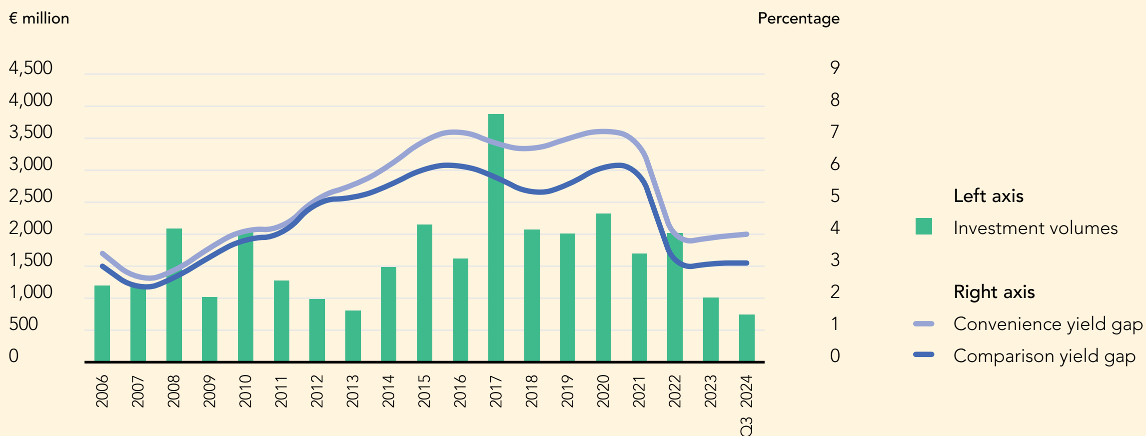


Source: MSCI, a.s.r. real estate, 2024

1 Four-quarterly moving average.

Investment dynamics continue to grow. Investment activity recovery continued, though investors remain cautious as negative revaluations are gradually slowing down. The Q1-Q3 investment volumes (€ 741 million) are 14% higher than 2023 (€ 649 million), but still trail the Q1-Q3 2006-2023 average (€ 1,059 million). The Dutch 10-year government bond yield moved up slightly to 2.6% at the end of the year from 2.4% in September. This did not hold back private investors actively buying retail, mostly convenience assets. Moreover, French and French-backed investors bought several retail assets. Corum investments bought out-of-town retail park Plein Westermaat in Hengelo, one of the biggest retail deals (€ 46 million) of 2024.

Figure 3 Retail segment yield gaps[1] and retail investment volume



Source: MSCI, CBRE, ECB, 2024

Outlook

Changing of the guards in the retail landscape will continue. Retail occupier forecasts seem somewhat binary. The overall expected economic outlook (lower interest rates, strong labour market and growing consumer spending power) and expansionary successful retailers will support occupancy rates and market rents in primary streets of large city centres and dominant convenience centres. On the other hand, traditional retailers, dealing with high costs and personnel challenges, are still struggling. This will continue to place pressure on market rents in smaller cities and secondary streets, where reletting can be more challenging. Thinning supermarket margins will increase pressure on smaller neighbourhood supermarkets, especially if these are located in areas with below average demographic growth or increased (online) competition.

Recovering investment market expected. After a few though years, some institutional real estate funds are slowly building up commitments. The retail sector could benefit, which would broaden the current investment base of smaller private investors. Moreover, ECB interest rates are expected to decrease in 2025, although inflation remains persistent and geopolitical risks increase. Both these developments could push the investment market recovery into the next phase. Relatively high interest rates and slower than expected decline of interest rates, challenging refinancing, sustainability investments and polarisation on the occupier market are reasons to stay modest with capital growth forecasts.

1 Yield gap calculated on reversionary yields and 10-yrs Dutch government bond rate.

Residential

As we head into Q4 2024, the Dutch residential market is on a positive trajectory, with continued growth in owner-occupied housing prices and signs of recovery in the rental investment sector. Tight market conditions and robust demand are driving this momentum. Recent ECB rate cuts are further supporting affordability conditions, bolstering investor confidence and paving the way for a sustained positive outlook for the market.

Owner-occupied market

Continuing house price growth. Owner-occupied housing prices in the Netherlands have continued their strong growth, with a y-o-y growth of 11.4% in Q4 2024. This recovery follows declines in 2022 and 2023 and reflects the highest growth since Q3 2022. Key drivers include stable low unemployment rate (3.7%), robust wage growth (6.9% in November), and ongoing housing shortages, which keep upward pressure on prices.

Mortgage rates, which have been declining since late 2023, further support house price growth. After a slight uptick in August, rates resumed their downward trajectory in September and October, with the ECB's fourth rate cut in December likely contributing to further declines.

Transaction activity has also been strong, with a 12.9% y-o-y increase and a quarter-on-quarter rise of 5.3% for Q4 2024.

Rising housing prices and rent restrictions in the mid-rental segment are reducing vacant possession ratios, incentivizing private investors to sell off individual units. This trend is already adding pressure to the rental sector, which is further constrained by lagging new construction activity.

This dynamic could exacerbate challenges in the rental market. High and rising housing prices are likely to push more households into the rental sector, especially those unable to afford homeownership. If these trends persist, they could intensify the pressure on the rental market, driving further upward pressure on free-market rental prices, heightened demand in mid-rental segment, persistently low vacancy rates, and declining turnover rates.

Residential investment market

Growth trends solidify in Q3 2024. The annual income return remained stable in the third quarter of 2024 at 3.2%. Notably, the second quarter of 2024 marked the first instance since Q2 2022 where both q-o-q and y-o-y capital growth were positive. This upward trend continued in Q3, with capital growth reaching 3.1% q-o-q and 5.1% y-o-y. As a result, capital growth has surpassed the long-term pre-dip average of 2.6% recorded between Q1 2015 and Q2 2022. Although 2023 was a year with negative capital growth, this stronger than average capital growth over 2024 demonstrates the market corrections towards pre-dip capital values.

Market stabilises as reversionary yields edge lower in Q3 2024. Following two quarters of declining but positive yield shifts, Q3 2024 marks the first quarter with a marginal decline in reversionary yields, down by 8 basis points to 4.88%. This supports the view that the market has reached a new equilibrium and is showing signs of recovery, which is particularly reflected in stronger capital growth. Nonetheless, the full impact of recent interest rate cuts and newly introduced rent regulations on market rental value growth, yields, and capital growth remains uncertain, leaving room for these factors to influence the evolving price dynamics.

Robust rental growth driven by tight market conditions. Market rental value growth accelerated to 7.4% y-o-y in Q2 2024 and remanied robust at 7.5% in Q3, significantly surpassing the long-term average of 3.7% observed between 2015 and 2023. This trend is primarily driven by current market tightness, fuelled by regulatory changes, sluggish construction activity, and robust demographic growth. Given these dynamics, rental value growth is expected to remain strong, continuing to outpace inflation.

Clarification on rent adjustment clauses: Supreme Court decision. The Dutch Supreme Court has ruled that a rent adjustment clause providing for an annual surcharge of up to 3% on top of the consumer price index is generally not considered unfair. This decision followed preliminary questions referred by the Amsterdam District Court. The Supreme Court emphasized that the clause must be divided into an indexation clause and a surcharge clause, with only the surcharge clause being under scrutiny.

Outlook

Robust price growth ahead for owner-occupied housing market. Price growth in the owner-occupied housing market is expected to remain robust. Forecasts for housing prices throughout 2024 have been revised upward, reflecting a stronger-than-anticipated growth trajectory. Overall, the market is now projected to see a total increase of approximately 7.2% by the end of 2025.

Renewed confidence in the Dutch residential market drives investment growth. Investor interest in the Dutch residential market has surged over the first three quarters of 2024, with a remarkable y-o-y growth of 119%. This recovery is particularly noteworthy, given that 2023 recorded the lowest investment volume since 2014. The growth in investment volume has been primarily driven by large portfolios of standing investments sold by institutional investors to foreign and private investors with a sell-off strategy. In contrast, the new-build segment experienced limited transaction activity in 2024, reflecting ongoing challenges in developing new housing. However, Q3 and Q4 saw a rise in new-build transactions, with Dutch institutional investors and housing associations emerging as the main buyers.

This increase highlights a more positive market sentiment and signs of recovery in the housing sector. With interest rates stabilizing, rising property values, and reduced uncertainty around regulations, the residential market is well-positioned. Continued pressure on the housing market ensures low vacancy risks and stable direct returns for investors.

Positive outlook for residential investment market amid ongoing housing shortages. Market fundamentals are expected to stay strong and resilient in the years ahead. Demographic growth, particularly in the G5 regions, will continue to drive demand. However, newly constructed dwellings are unlikely to keep pace, as government housing targets remain out of reach. As a result, shortages in the rental market are expected to persist, sustaining low vacancy rates. Additionally, the anticipated strong price growth in the owner-occupied housing market will likely exacerbate affordability challenges, further boosting demand for rental properties and driving rental growth. Consequently, the outlook for both rental and capital growth in the residential investment market remains positive.

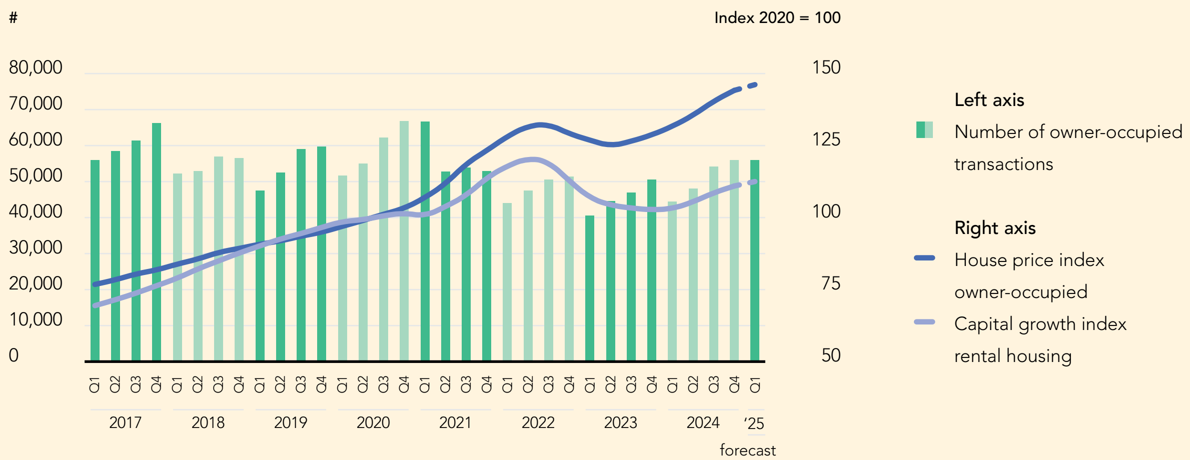
Table 1 Owner-occupied and residential investment market indicators

Owner-occupied	Q4 2024 q-o-q	Q4 2024 y-o-y
House price growth	2.1%	11.4%
Number of transactions	5.3%	12.9%

Rental	Q3 2024 q-o-q	Q3 2024 y-o-y		
	Total	**Single-family homes**	**Apartments**	**Total**
Total return	3.9%	10.1%	7.8%	8.5%
Capital growth	3.1%	6.5%	4.5%	5.1%
Income return	0.8%	3.4%	3.2%	3.2%
Market rental value growth	1.8%	8.3%	7.2%	7.5%

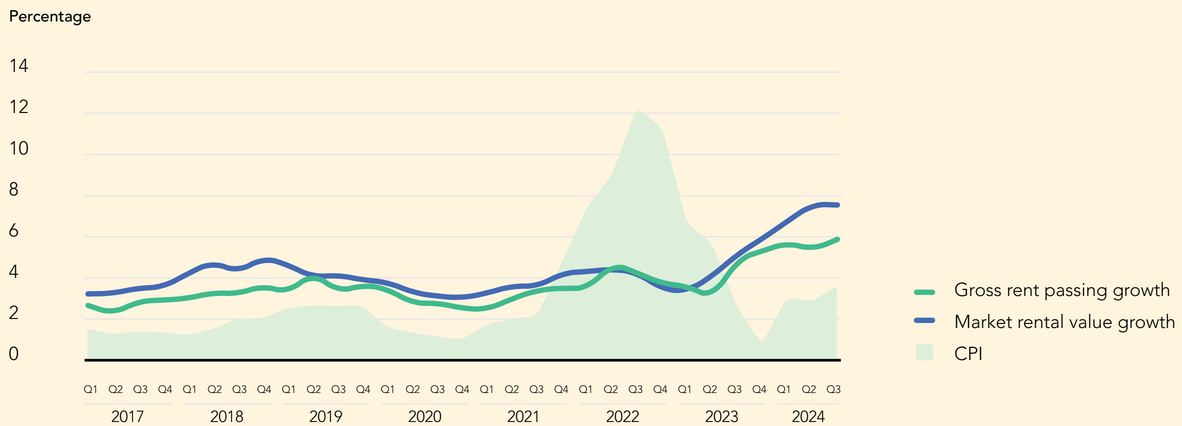
Source: Statistics Netherlands, MSCI, 2024

Figure 4 House price developments and number of transactions involving existing owner-occupied homes



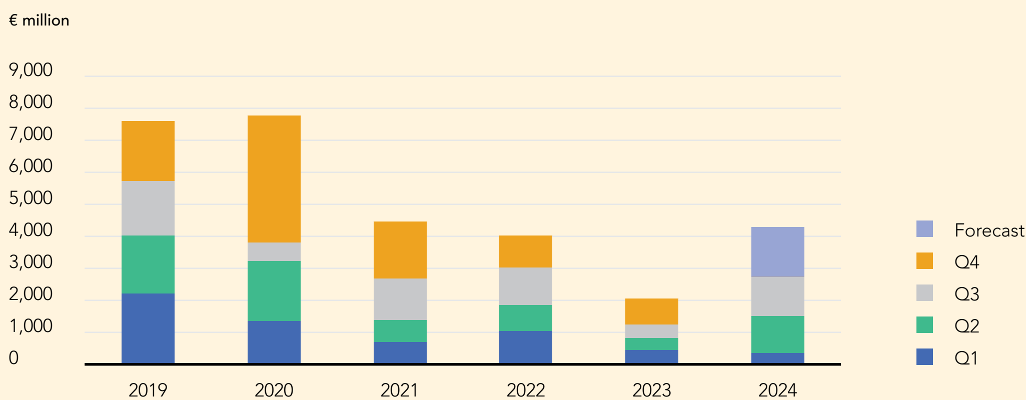
Source: MSCI, Statistics Netherlands, 2024

Figure 5 Rental growth and Dutch CPI (y-o-y % change)



Source: MSCI, Statistics Netherlands, 2024

Figure 6 Quarterly investment volumes



Source: CBRE, a.s.r. real estate, 2024

Offices

National office market vacancy slightly increases, while most of the G5 markets are showing historically low vacancy. As a result, G5 and especially G5-IC locations are reaching tipping points where supply is unable to keep up with demand, which could accelerate market rental value growth. As a whole, Q3 of 2024 shows a bit of a slowdown in momentum in terms of investor activity, but 2024 year-to-date still outperforms the same period in 2023.

Office take-up in the third quarter lower than last year, but year-to-date still slightly higher. Although in the third quarter of 2024, y-o-y take-up decreased significantly by -37.0%, it is important to note that Q3 2023 take-up was 34.1% above the average take-up for 2023. However, Q3 2024 still experienced a q-o-q decline of -22.6% as well. Despite this, the year-to-date take-up is slightly higher compared to the same period last year, with a growth of 3.0%.

The take-up concentration in the G5 cities was also less than in previous quartiles. For Q3 53.0% of all take-up was in the G5, whereas this was 75.6% in Q2. This slowdown in take-up in the G5 also accounts for the drop in take-up on national level, demonstrating the importance of G5 on market dynamics. Take-up has been limited especially in The Hague and Utrecht, which accounted for only 10.5% (7,665 m²) and 8.2% (5,976 m²) respectively, of all G5 take-up in Q3 2024. Nevertheless, the year-to-date take-up share of the G5 is still 69.2% and continues the upward trend

G5 markets are experiencing increasing pressure. The aforementioned drop in take-up in the G5 is likely attributed to a lack of supply. The G5 vacancy rate has dropped to 6.5% in Q3, coming from 7.1% in Q2. The G5-IC locations also dropped slightly, albeit less strongly, coming from 5.85% in Q2 to 5.77% in Q3. The vacancy rates are especially low for areas with a good level of amenities, good accessibility (especially by public transport), even more so in the high-quality offices. For Utrecht and The Hague, where the take-up is low, the vacancy rates are the lowest recorded since 2012. This is also largely due to lack of new developments. An example has been the provincial policy of Utrecht to transform excessive office stock for residential purposes. Taking this approach on the right locations, while concentrating appropriately sized new office developments on the transport hub locations can help continue this beneficial market trend.

Meanwhile, vacancy rates for the Dutch office market as a whole have risen once more to 12.3%. This is the highest level recorded since Q1 2018. The stark contrast with the low vacancy rates in the G5 and G5-IC locations once more highlights the growing effects of polarisation on the office market

Average rent unchanged in Q3 2024, prime rent increased in Amsterdam Zuidas. During the third quarter of 2024, the average rent remained at €155 per square meter, for a y-o-y growth of 3.3%. Prime rents also remained the same in 4 out of the G5, with only Amsterdam showing prime rent increases on the Zuidas, growing to €510 per square meter. This equates to a 2% y-o-y growth.

Polarisation continues to shape the Dutch office market. In Q3 2024, the market experienced no q-o-q yield shifts. The polarisation still remains, y-o-y the G5 experienced a slightly lower yield shift than the rest of the Netherlands. The difference is still apparent on the long term, where the G5 outperforms the rest of the Netherlands with 55 bps. Leading to the current situation of prime yields in the G5 being 1.65% lower than in other major provincial cities.

Slight pickup in investor activity in 2024 so far. The year-to-date investment volumes in the Dutch office market is slightly higher compared to 2023, with a growth of 13%. Similarly to take-up, this growth mostly stems from the first half of 2024 as Q3 2024 slightly underperformed compared to Q3 2023, decreasing with -0.8%. Still as investment volumes usually increase towards the end of the year, so too did Q3 of 2024 show a q-o-q growth of 29.9%.

Despite a slowdown in investor activity during the third quarter, several notable transactions still occurred. The standout deal of Q3—and the largest single-asset transaction in the Dutch real estate market year-to-date—was the sale of Cross Towers in Amsterdam for €150 million in July. Looking ahead to Q4, significant deals have continued, such as the sale of Five55 for €54 million, underscoring a modest but persistent appetite among investors. These transactions reflect the ongoing interest in high-quality assets, even amidst broader market challenges.

Cost of office employees rose sharply. The Occupier Cost Index for office employees in the Netherlands rose to €10,307 in 2024, coming from €9,532 per employee (Colliers, 2024). This rise is largely due to the higher rental prices of office space and employee costs for suppliers. The cost rise in the Netherlands (+8.1%) exceeds that of the European average (+4.4%). This could result in occupiers attempting to save costs by cutting down on office space. However, it could also increase demand for grade-A office space further to save on energy costs.

Outlook

Supply-demand ratio will continue to be main driver of polarization. Drivers such as sustainability and accessibility goals, as well as the war on talent will continue to increase demand in the G5 and especially G5-IC locations. Moreover, these drivers will also continue to widen the gap in performance on asset level, with more sustainable, high-quality office spaces with floor plans accommodating for hybrid working arrangements being highly sought after. Given the difficulty of creating viable new developments considering strict regulations and high building costs, developments in the office market are likely to remain limited. This will further amplify polarization as supply is reaching historical lows in certain markets within the G5 and demand continuously growing specifically in those regions. As a result opportunities for market rental value growth (MRVG) will arise throughout 2025 on the G5-IC locations. Whereas the remainder of the Netherlands will fall further behind as the less desirable markets struggle to find a new equilibrium.

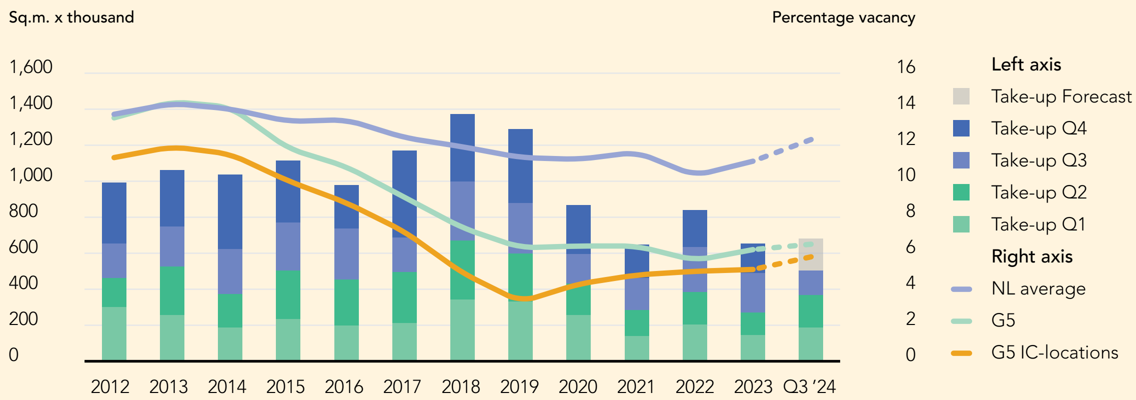
Multiple ECB rate cuts in 2024, along with the potential for more in the future, could further stimulate investor activity. The first half of 2024 already demonstrated a gradual y-o-y increase in investor activity. As occupiers adjust to hybrid working environments, the market could see a resurgence of activity. However, the yield gap with government bond yields will likely have to grow a bit further, and since the new price balance has yet to be fully established, a full recovery to historical levels remains unlikely in the short term and will vary greatly between different sections of the market.

Table 2 Market indicators

Market indicator			Q3 2024	q-o-q growth	1-year growth	3-year growth
Rent	Average rent / sq.m.	NL	€ 155	0.00%	3.33%	10.71%
	Average prime rent / sq.m.	G5 IC	€ 325	0.62%	2.20%	12.65%
	Prime rent / sq.m.	NL (Zuidas)	€ 510	2.00%	2.00%	7.37%
Stock	Stock (sq.m.)	NL	52,130,261	-0.14%	0.04%	-0.02%
Take-up	Take-up (sq.m.)	NL	137,755	-22.63%	-36.98%	-22.64%
Vacancy	Vacancy (sq.m.)	NL	6,436,315	4.73%	12.58%	8.91%
	Vacancy rate (%)	NL	12.35%	0.57%	1.38%	1.01%
		G5 IC	5.77%	-0.05%	0.53%	0.85%
Yield	Gross prime yield (%)	Prime CBD (Zuidas)	5.10%	0 bps	+30 bps	+210 bps
		Other CBDs (G5)	6.30%	0 bps	+40 bps	+210 bps
		Major regional cities	7.65%	0 bps	+35 bps	+255 bps

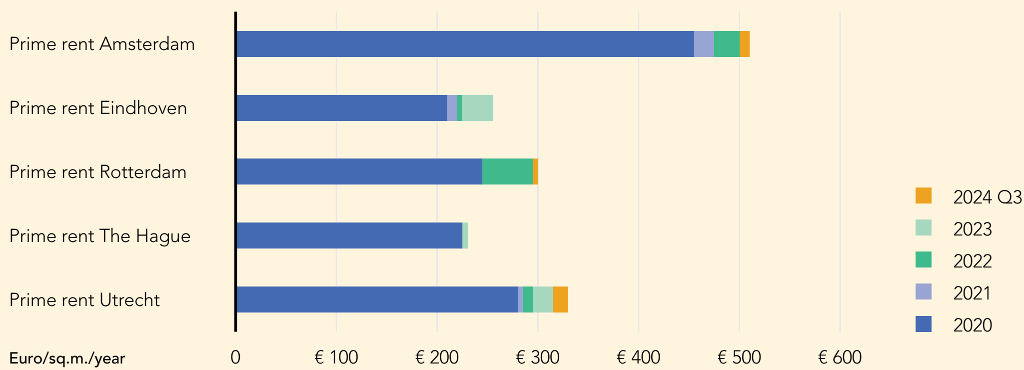
Source: CBRE, 2024

Figure 7 Take-up of Dutch office space (x 1,000 sq.m.) and annual vacancy rate



Source: CBRE, 2024

Figure 8 Prime rent development of G5 markets



Source: CBRE, 2024

Science parks

Recent developments show risk premiums for selected science parks slightly below offices, with science parks demonstrating more resilience compared to the office market amid rising gross reversionary yields due to a challenging macro-economic environment. Venture capital saw fewer transactions but slightly increased funding volumes. ESG goals are increasingly influencing the market, driving demand for high-quality, sustainable space, while older, lower-quality assets lose appeal.

Risk premium of selected science parks slightly below offices, although seemingly more resilient. Starting in mid-2022, gross reversionary yields for offices began to rise significantly, surpassing science park yields approximately a year later. As of 2024, gross yields stand at 7.8% for science parks and 8.0% for offices. This shift is largely attributed to a challenging macro-economic environment characterised by high interest rates, compounded by changing occupier trends.

The rise of hybrid working and the deteriorated macro-economic conditions have dampened demand for traditional office space. Additionally, the increasing importance of sustainability goals for occupiers have created a polarising effect on demand, where older, energy-inefficient, non-smart and poorly accessible assets have fallen out of taste.

When evaluating the current landscape, science parks and office properties present a roughly comparable investment appeal based on reversionary yields and their associated risk-return profiles. However, science parks have demonstrated greater resilience to macro-economic challenges and the difficulties facing the office market, particularly given their stronger starting position in terms of yields. This is apparent in the yield developments of recent years where offices have climbed above science park yields, which have developed more in line with other sectors.

The stalemate between buyers and sellers might be weakening. Whilst a stalemate persisted through the first three quarters of 2024 as ECB rates came down gradually, two significant transactions occurred at Leiden Bio Science Park in the last quarter of 2024. Although located at the other side of Leiden Central Station and offering traditional office space, Le Carrefour was sold for € 80m. At the very end of 2024, ASR Dutch Science Park Fund acquired the Avery Dennison building at the Oegstgeest side of the science park.

The number of venture capital deals has decreased substantially in the last four quartiles from 114 in Q3 2023 to 79 in Q3 2024. Still, the y-o-y deals decreased with only 7.1%, coming from 85 in Q3 2023. The q-o-q number of deals decreased with 9.2%, coming from 87. The y-o-y funding volume decreased slightly with 1.1% from € 465m to € 460m. The q-o-q funding volume grew more, coming from € 441m in Q2 2024 to a q-o-q growth of 4.3% in Q3 2024. These latest q-o-q numbers continue the trend of last quartile with higher funding volume but fewer deals.

The first growth stage deals (Series A, € 4-15m) had the number of deals remain approximately the same at 14 in Q2 2024 and 15 in the last quarter. Series B investments (€ 15m and above) saw a drop, from 9 deals to just 6. However, early-stage investments (pre-seed, up to € 1m) showed strong growth, increasing from 19 to 37 compared to the second quarter of 2024. The most deals occurred in the software sector (28), high-tech (11) and med-tech (10). Moreover, the largest sum of fundings were in the high-tech sector (€ 229.5m), cleantech (€ 56.1m) and med-tech (€ 55.7m). Out of these deals, 24% of the capital landed in companies located on science parks. Additionally, the largest deal, at € 135m, was for Nearfield Instruments, which is located on the border of Rotterdam just below the TU Delft Campus. Considering the intentions of collaboration with and expansion towards Rotterdam of the TU Delft Campus, and therefore including the deal in science park ecosystems, would bring the share of venture capital investments in science park-based companies to 53%.

Like last quartile, the low amount of large single deals indicate investors might still be holding off serious and higher risk investments, waiting for more favourable economic conditions.

The growing importance of ESG goals. As mentioned earlier, sustainability goals are of increasing importance for companies, influencing both market trends and investment decisions. These priorities are a key factor driving polarisation in both the office and science

park markets. Demand for older, lower-quality office buildings continues to decline, while interest in modern, high-grade office spaces – and especially laboratory facilities – remains strong. The increasing importance of ESG goals is also apparent from the recent agreement between salt producer and chemistry company Nobian and the Dutch government, with Nobian receiving € 185m in subsidies to become CO_2 neutral by 2030 instead of 2040. Although this news is not directly related to science parks, Nobian is also located on Kennispark Twente, indicating companies on science parks are also increasingly concerned with these matters. With laboratory space being inherently energy intensive, opportunities for future asset enhancements are especially present in these types of assets.

Outlook

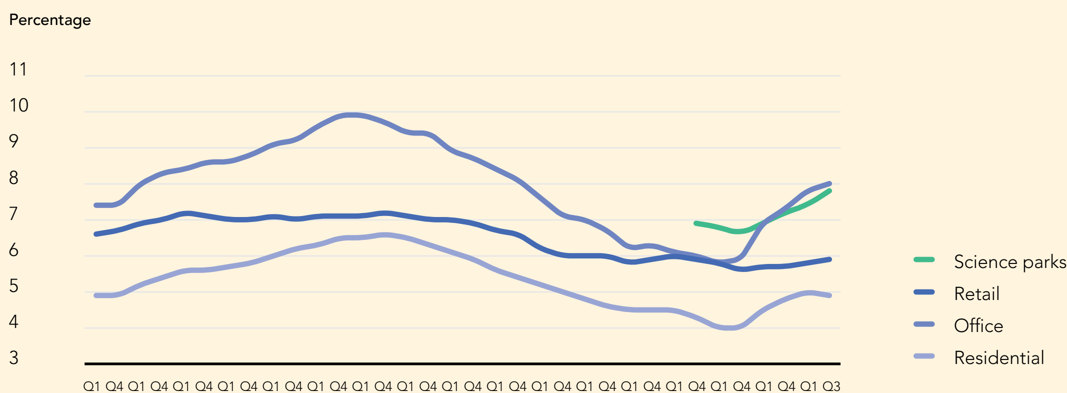
The expansion of science park tenants might be brighter in the future. Despite the recent dip in deals and funding for Dutch start-ups, the Dutch Startup Association (DSA) remains hopeful for a new growth phase. Key factors that could play a role in this are more stable market conditions, reduced interest rates, forthcoming initial public offerings, and substantially higher availability of investment capital. As venture capital could return, the demand for science parks is likely to increase. In addition to this, the core strength of the science park occupier market remains strong, based on the need for R&D equipment and specialised laboratory spaces.

Several uncertain and limiting factors to keep an eye on remain. The national budget cuts in higher education and science, amounting to € 1b over the next four years, will affect innovation funding and migration policies. Additional resources, specifically Invest-NL, are meant to support start-up growth with plans for a fund-of-funds targeting € 600m to € 1b could potentially cover for these budget cuts.

Recent years have also seen significant stock growth in the real estate market, with take-up rates failing to keep pace. This imbalance, indicative of a classic real estate cycle, suggests it will take time for the current surplus to be absorbed. However, this phenomenon is present on a few science parks, where it affects nearly exclusively older lower-quality office buildings. Furthermore, ongoing geopolitical tensions and economic uncertainties continue to pose risks, potentially limit the recovery of the macro-economic climate.

Due to the increasing pressure on attaining ESG goals, opportunities lie in smart, sustainable and modern assets. With companies looking to reduce their footprint, more and more occupiers will move towards higher grade assets. As laboratory facilities are generally more energy intensive, opportunities lie in offering intelligent and sustainable building solutions, assisting companies in reducing their environmental impact. This polarisation within science parks will persist, meaning that not only that high-quality assets will increase in demand , but also older assets experiencing more and longer term vacancies.

Figure 9 Gross reversionary yields Retail, Office, Residential and Science parks



Source: a.s.r. real estate, MSCI, 2024

Farmland

The Dutch farmland market is evolving with a focus on empowering farmers and ensuring food security. The Ministry of Agriculture is prioritizing innovation and sustainability, launching initiatives like the "Robots to the Farm" program in 2025. Despite rising costs and diseases affecting confidence, farmland prices have increased, with average price of farmland reaching €82,200 per hectare. The market remains robust due to efficiency, land scarcity, and sustainable transitions. However, uncertainties around Dutch and European agricultural policies persist, impacting long-term confidence and market dynamics.

New direction for rural areas: empowering Farmers and Ensuring Food Security. The Ministry of Agriculture, Fisheries, Food Security, and Nature (LVVN) is committed to providing farmers, fishers, and horticulturists with more freedom to operate while helping them meet agreed-upon goals. The new strategy prioritises food security and emphasises innovation, aiming to create a vibrant countryside that supports biodiversity and nature conservation.

LVVN is driving efforts to support farmers' entrepreneurship through goal-oriented policies and innovations. A national food strategy will be launched in 2025, with pilots to develop a substance balance for environmental compliance. Innovation is key to maintaining the competitiveness and sustainability of Dutch agriculture. The Robots to the Farm programme will start in 2025 to improve labour efficiency. Plans to support the North Sea fishing sector and shrimp fishing, including reintroducing the pulse fishing technique, are also underway.

A targeted, area-specific approach will replace the National Rural Area Programme, with € 500m annually for agricultural nature management. Enhanced nature monitoring will guide rural development, considering various environmental pressures.

LVVN has also proposed measures to ease the manure market pressure. A one-time investment of € 5b and € 500m annually from 2026 will support the agricultural sector, with € 40m allocated for 2025 to address immediate challenges.

The confidence of farmers and horticulturists in their businesses remains low, as indicated by the Agro Vertrouwensindex, which dropped by 1 point to 4 points in Q3 2024. Key factors contributing to this decline include rising costs, increasing interest rates, and diseases like bluetongue, despite higher prices for products such as milk, cheese, butter, milk powder, and broiler chickens.

The sentiment index for arable farming is over 3 points below the overall agricultural average for Q3 2024. Factors such as lower beet prices and high input costs (e.g., crop protection) contribute to a less optimistic economic outlook. The wheat harvest is poor, but prices are starting to rise, suggesting an average year overall. Confidence among dairy farmers has improved from -7 points in Q1 2024 to nearly 6 points in Q3 2024, though still below the long-term average of 11 points.
The sentiment index fell by 2 points in Q3, remaining significantly below the long-term average. Long-term confidence is also low, influenced by rising costs and uncertainties around nitrogen emission reductions and European nature policies.

The confidence and sentiment indices together make up the Agro Confidence Index, which, while improved, still reflects significant uncertainty and challenges in the agricultural sector.

In collaboration with Wageningen Economic Research, a.s.r. real estate introduced an confidence indicator which gives insights in the confidence, mood and outlook of organic and traditional farmers.

Full results (in Dutch) are available here.

In the third quarter of 2024, the average agricultural land price in the Netherlands was € 82,160 per hectare, 6.9% higher than the 2023 average of € 78,800 per hectare. The average price of arable land increased by 3.0% to € 101,200 per hectare, which is 11.3% higher than the 2023 average of € 90,900 per hectare. The average price of grassland reached up to € 72,500 per hectare, yet remains 4.5% above the 2023 average of € 69,400 per hectare. Over the past four quarters, a total of 30,000 hectares were traded, marking a 6.2% increase from the previous year.
The relative land mobility, which measures the traded area against the total agricultural land area, was 1.7%, up from 1.6% in the previous year.

Outlook

The fundamentals of the Dutch farmland market remain robust. The ongoing efficiency in the sector, land scarcity, and the push for a sustainable transition are expected to continue driving the market. Future buy-outs, particularly for dairy farms near Natura 2000 areas and the aging farmer population without successors, are likely to create more market dynamics and opportunities for larger companies to expand. Consequently, farmland prices are anticipated to keep rising, albeit at a slower growth rate compared to recent years.

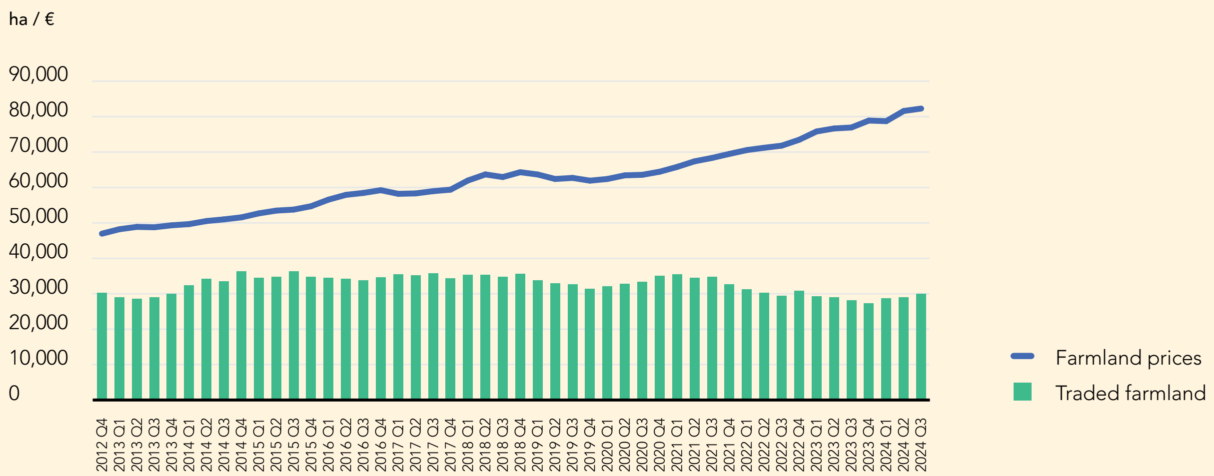
However, uncertainties persist regarding Dutch agricultural policies. It remains to be seen how these policies will evolve and what decisions the cabinet will make, as well as their feasibility. European policy is also exerting increased pressure on the agricultural sector to transition to more sustainable practices, with water quality regulations potentially having significant impacts. Last year, stringent European environmental regulations were somewhat relaxed following farmer protests and the upcoming elections at that time. This temporary reprieve may provide the Dutch farmland market with more time to adapt and transition towards greater sustainability.

Table 1 Farmland market indicators

Market indicator	Current	q-o-q growth	1-year growth	3-year growth
Export of agriculture goods (x mln)	€ 30,051	(0.7%)	9.8%	25.1%
Farmland prices (12-month average)	€ 82,159	0.8%	6.9%	20.4%
Traded volume (12-month, in ha)	29,972	3.0%	6.2%	(14.0%)
Available farmland (in ha)	1,810,051		0.4%	(0.1%)
Number of agriculture farms	50,180		(0.9%)	(3.7%)
Agro confidence indicator (0=neutral)	4.1	(0.8)	(1.8)	(2.1)
Agro confidence BIO-indicator (0=neutral)	21.97	6.5	12.6	22.0

Source: Statistics Netherlands, Kadaster, Wageningen Economic Research (WER), 2024

Figure 10 Farmland prices & traded farmland 2012-2024



Source: Kadaster, Wageningen Economic Research (WER), 2024

Renewables

The Dutch government is enhancing energy independence and sustainability through offshore wind expansion, nuclear investments, reducing energy taxes and green hydrogen support. Electricity prices are expected to rise due to higher gas prices driven by geopolitical tensions and unplanned LNG outages.

Government policy continues to stimulate the renewable energy market.
At the beginning of the second half of 2024 a new cabinet took office in The Netherlands. As part of 'Prinsjesdag' in September, the cabinet announced their plans and budget for the sustainable energy sector. The Dutch government is dedicated to ensuring prosperity while fostering a cleaner and healthier world for future generations. This involves reducing reliance on foreign energy sources and critical raw materials, and seizing opportunities presented by the climate and energy transition. The government aims to enhance energy independence and promote sustainable energy production. Major challenges such as grid congestion needs to be addressed to ensure a sustainable, affordable, and secure energy supply. Below are the most import points from 'Prinsjesdag' and its effect for wind and solar farms:

- **Wind Energy:** Expansion of offshore wind farms, with careful consideration of the impact on nature and fisheries.
- **Gas and Nuclear Energy:** Increased gas extraction from the North Sea and investment in two new nuclear power plants, totalling €9.5 billion with the ambition to scale up to four new reactors. Gas extraction from the Groningen field will cease.
- **Energy Taxes:** Reduction of energy taxes on natural gas and electricity to stimulate sustainability efforts among businesses. The CO2 tax increase for industries will be reversed to give companies more financial flexibility during the transition.
- **Green Hydrogen:** Continued support for green hydrogen development, with a reduced energy tax rate for hydrogen starting January 1, 2026.
- **Net congestion** and the need for more energy infrastructure must be addressed more quickly. The government is investing in infrastructure and energy hubs to relieve the pressure on the electricity network. This is crucial for the futureproofing of the energy system and to ensure that the climate targets of 2030 and 2050 are achieved.

These measures and developments are expected to increase revenues from wind and solar farms by both increasing production capacity and reducing operational costs. Tackling grid congestion and investing in energy infrastructure will improve grid reliability and capacity, which is essential for integrating more wind and solar energy.

The KEV 2024 (Climate and Energy outlook) indicates that the Netherlands is not on track to meet its 2030 emission reduction targets.
The current policies are projected to achieve a 39% to 50% reduction in CO2 emissions in 2030 compared to 1990, falling short of the 55% reduction target by 2030. Significant efforts are being made to transition to renewable energy sources. This includes the expansion of offshore wind farms and increased investment in solar energy. For offshore wind, it is projected to catch up the years after 2030. By 2032, an extra 15 GW offshore wind is expected to be delivered by the addition of several projects, such as Nederwiek (6 GW) and Doordewind (2 GW). With regards to solar investments, the second quarter of 2024 marked a milestone as solar energy surpassed gas, constituting the largest share in the energy mix for the first time ever. The renewable energy share of total energy generation has impressively increased from 19% in 2019 to 53% in August 2024.

The KEV 2024 highlights the challenges in reducing industrial emissions. Despite various measures, the industry sector is unlikely to meet its sectoral targets without additional policies. The KEV suggests that further policy adjustments are necessary to close the gap between current projections and the 2030 targets. This may involve new measures and increased investments in green technologies. The KEV emphasises the importance of public and political support for achieving climate goals. It calls for more robust engagement with stakeholders to ensure the successful implementation of climate policies. These highlights underscore the urgent need for additional measures and stronger policies to meet the Netherlands' climate ambitions.

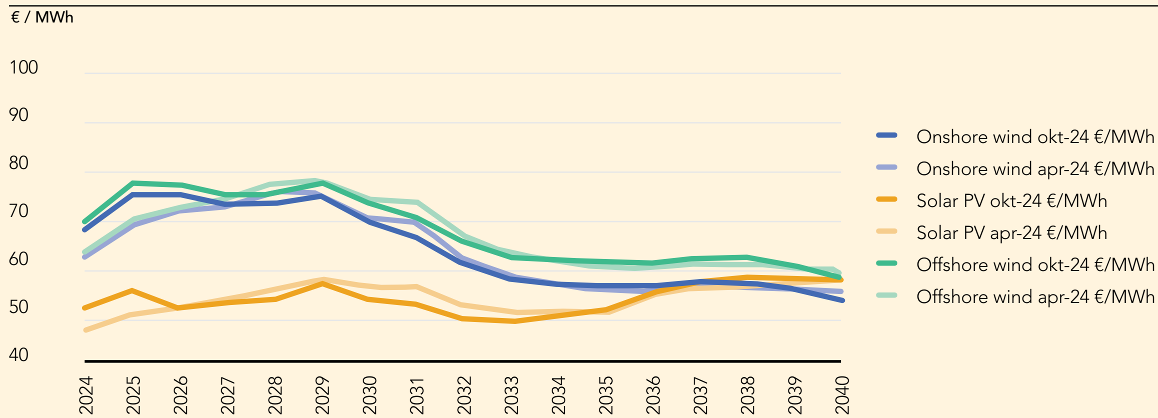
Dutch electricity prices higher in the the short term, while increasing negative hour prices depress revenues. The baseload electricity price is expected to increase from around 79 €/MWh in 2024 to 86 €/MWh

in 2030, driven by the increase of gas, coal, and carbo prices. In the short term, the electricity prices in the Netherlands are influenced by several key factors. Gas prices are expected to average 33.6 €/MWh in the short term (2024–2027), which is 6% higher than the previous forecast due to rising geopolitical tensions, heatwaves across Asia and Southern Europe, and unplanned outages at some LNG facilities. This increase in gas prices directly impacts electricity prices, as gas-fired power plants are a significant part of the energy mix. Meanwhile, the increasing share of generation from renewables has led to an increase in negative price hours and results in lower income on the short term. The large buildout of offshore wind and solar capacity is expected to reduce the capture prices on the long term. For instance, the offshore wind capture price is expected to move from 71 €/MWh in 2024 to 74 €/MWh in 2030, with strong cannibalization towards 2035 due to the large buildout in this period. The solar capture price is lower in the short term due to the subsidy-driven buildout and converges with wind in the long term.

Outlook

Overall, the Dutch electricity market is expected to see significant changes in the coming years, driven by policy initiatives, technological advancements, and market dynamics. The transition to a low-carbon energy system will require continued investment in renewable energy, grid infrastructure, and flexible technologies to ensure a reliable and affordable electricity supply. While the fundamentals remain strong, temporally influences due the geo-political situation in the world can possibly lead to more volatility on the energy market.

Figure 11 Capture energy price forecasts in €/MWh



Source: Aurora, 2024 edited by a.s.r. real estate

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