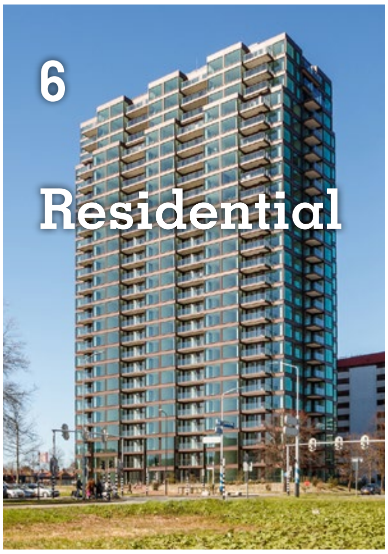
Real estate market update

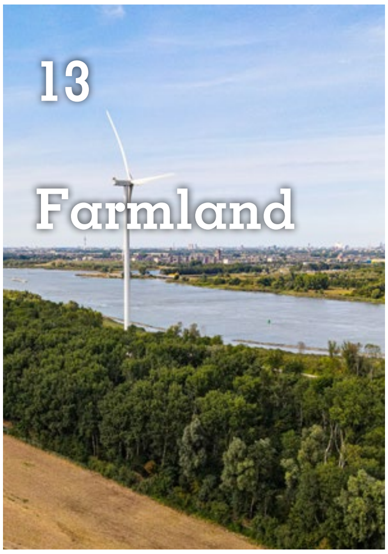
First quarter 2023

a.s.r. real estate

Contents





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Economy

Despite a slowdown in economic growth due to last year's inflation shock, the Dutch economy has shown itself adaptable and resilient. However, due to the persistent increase in core inflation, the ECB finds itself compelled to announce further interest rate hikes until the summer. This could have an additional impact on economic activity for the remainder of the year.

GDP growth (y-o-y real)	Q4 2022	3.2%	Q3 2022	3.4%	↘
Consumer prices (y-o-y inflation (HICP))	March 2023	4.5%	December 2022	11.0%	↘
Consumer confidence (Average balance)	March 2023	-39	December 2022	-52	↗
Unemployment (ILO unemployment rate)	March 2023	3.6%	December 2022	3.3%	↗
Private consumption (y-o-y consumer spending)	Q4 2022	4.0%	Q3 2022	2.8%	↗
Producer confidence (Average balance)	March 2023	4.0	December 2022	3.3	↗

Source: Statistics Netherlands (CBS), Eurostat, a.s.r. real estate, 2023 | The arrows refer to the experienced change over the comparison period.

Last year's inflation shock has slowed down economic growth, but a recession was avoided. As a result of the relatively mild winter, in which the Netherlands had the lowest natural gas consumption since 1972, the increase in energy prices has slowed down significantly. In fact, by March 2023, consumer energy prices had dropped compared to the previous year. However, the inflation rate for food and beverages remains high. So, after almost a year of sharp price increases, households saw a decline in their purchasing power and energy-intensive companies are struggling with rising production costs. That said, additional government spending and the tight labour market contributed to a soft landing. These developments once again prove the adaptability of the Dutch economy. Indeed, last year the economy proved to be able to cope with significant shifts, such as the radical change in the energy mix while maintaining industrial production. However, two crises in three years will most likely continue to affect the economy, with changes in relative prices impacting demand, and the sector structure in the long term. This adjustment process can be erratic, but so far, that has not been the case.

In 2023, the Dutch economy is expected to grow by 1.6%, followed by 1.4% growth in 2024. Several restraining factors from the international environment are affecting growth: exports are weighed down by cooled-down world trade and investments are suffering from high (geopolitical) uncertainty and higher interest rates.

Inflation is quickly dropping due to lower energy prices, but core inflation will continue to rise. Wholesale energy prices have fallen sharply in recent months, but the effect on the consumer price of energy is delayed. As a result, inflation was 4.5% by the end of the first quarter, coming from 11.0% in December 2022. However, inflation has broadened, with food prices and the price of other goods rising first, followed by the price of services. This led to an historically high core inflation rate of 7.6% in March 2023. Besides the shock of last year's high energy prices, which continues to affect the prices of goods and services, there remains a strong incentive for companies to raise prices due to the overheating of the Dutch economy. In addition, wage growth had taken off by the end of 2022, which creates upward pressure on prices.

In the remainder of the year, consumer prices are expected to increase by 3.0% (including a downward effect of 1 percentage point due to the price ceiling for energy costs) and 3.1% in 2024, although this forecast is still highly dependent on the availability of energy and the severity of the coming winter.

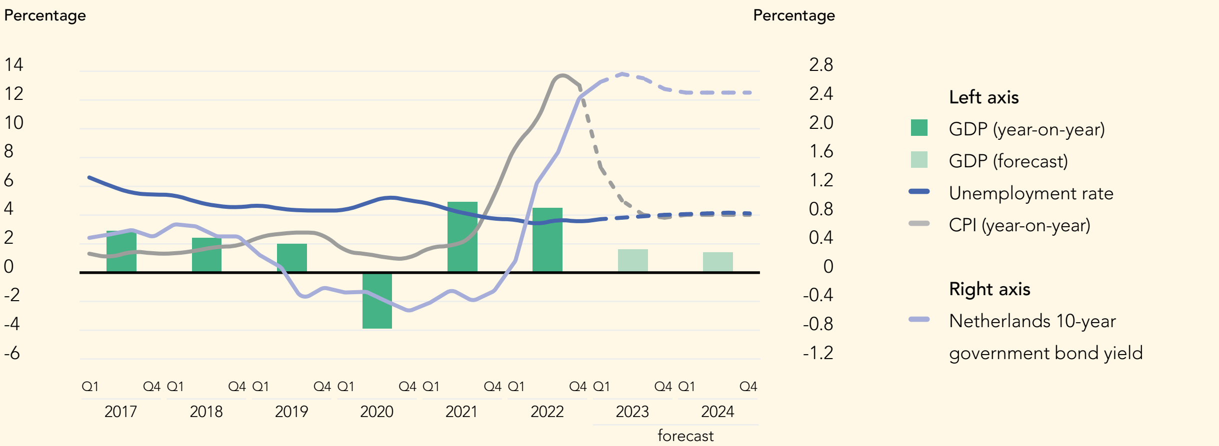
Consumer confidence remained low but is trending upwards. After having reached a record low in September and October (-/- 59), consumer confidence stood at -/- 39 at the end of the first quarter, which is historically still very low. Due to many economic and geopolitical uncertainties and high interest rates that affected the housing market, consumers remain pessimistic about the Dutch economy. In addition, they are reluctant to make large purchases in the coming year, which many households had already done during the COVID-years. That said, consumer spending increased throughout 2022; at year end, it was up 6.7% compared to 2021. Volume-wise there were significant changes in spending patterns, however. Spending on services increased consistently in 2022 after the last remaining COVID measures were lifted in the first quarter of 2022. Conversely, households have reduced their volumetric spending on energy as a result of energy saving measures and lowered their food spend due to steep price increases. For 2023 and 2024, the volume of household consumption is expected to grow by 1.7% and 1.4%, respectively, which is a notable cool-down of spending compared to 2021 and 2022, but in line with pre-COVID years.

Unemployment is expected to increase but the rate will remain low. Coming in at 3.3% at the end of 2022 and 3.6% in March, the Dutch unemployment rate remained low. This was well below the average eurozone unemployment rate of 6.7%. The tight labour market combined with considerable increases in wages due to the renegotiation of collective labour agreements might brighten the financial perspective of many Dutch households. Although the labour market is expected to remain tight, rising producer prices and general economic uncertainties are expected to push the unemployment rate up to 3.9% and 4.1% in 2023 and 2024, respectively.

ECB kept increasing interest rates in the first quarter. To bring down inflation in the eurozone to the target of 2% in 2025, the European Central Bank (ECB) increased its key interest rates by another 100 bps in the first quarter of 2023. As in the previous quarter, the ECB took two separate steps, one in February and one in March. The March rate hike of 50 bps especially had been expected to be less high due to the financial market turmoil, most notably the collapse of Silicon Valley Bank in California and Credit Suisse in Switzerland, which did not yet have a direct impact on financial markets worldwide. Banks in the eurozone have strong capital buffers that make it less likely that they will experience the same problems as the aforementioned banks.

Ending 2022 at 2.43%, the interest rate of 10-year Dutch government bonds reached 3% in the first week of March, but dropped in the weeks after, ending the first quarter at 2.76%. This increase was in line with the eurozone average, although, at 3.11%, the eurozone rate was 35 bps higher at the end of March.

Figure 1 Dutch economic indicators



Source: Statistics Netherlands, Eurostat, CPB, Consensus Forecast, ECB, 2023

Retail

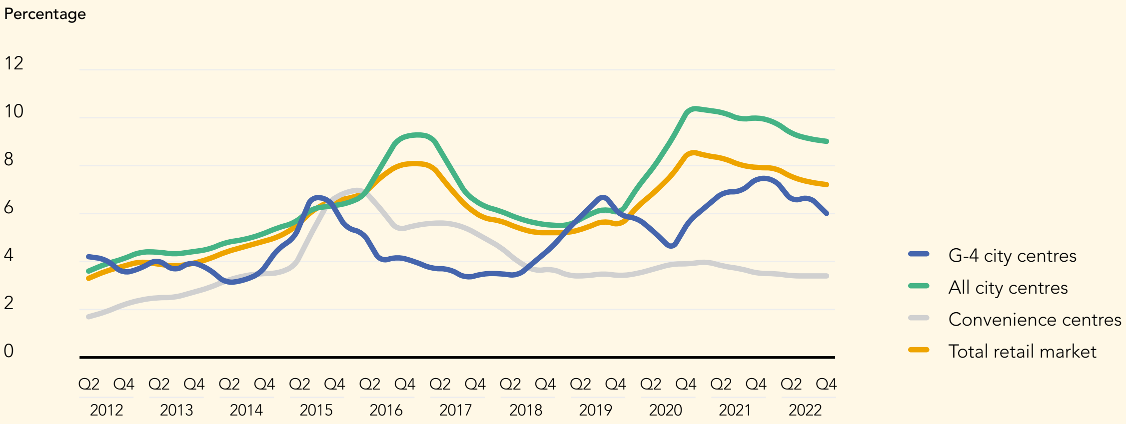
Consumers in the Dutch retail market were selective, and retailers were price-conscious due to high inflation, which continued to pressure household purchasing power and retailers' profitability. On the other hand financial vacancy rates continued to fall, and the decrease in capital value was relatively subtle. Going forward, retailers' cost increases and the ECB interest rate policy will provide another test for the retail market.

Discerning consumers chose to spend their money in physical stores. Part of the online sales growth during COVID-19 flowed back to physical shops. Online sales continued their decline since the social distancing measures were relaxed in Q1 2022, with a nominal turnover decline of 1.1% in Q4 2022 and 7.6% for the full year 2022. In physical shops, consumers were especially selective in their food-related expenses. Turnover volumes declined by 9.2% in Q4 2022. Consumers continued to spend money on non-food, sales of which recorded modest turnover volume growth (+0.8%). That said, there were major differences between non-food sectors. Clothing shops achieved solid turnover volume growth (+7.3%) in Q4 2022, whereas furniture shops were less popular (-/- 9.1%). This reflects the struggling housing market, the atypical consumer spending during lockdowns, low consumer confidence (-/- 52) and a hesitance to make large purchases (-/- 61) in December.

Broadening inflation pressured retailers' profit margins. Clothing and food inflation accelerated to 11.8% and 18.4% year-on-year growth in February 2023. This triggered more selective consumer behaviour and greater price-consciousness by retailers trying to stay profitable. Retail profits are also pressured by higher energy costs, staff shortages, inflated rents, repayment of government support and the elevation of the minimum wage. At the same time, the continued energy price decline provides some relief for both retailers and consumers. Preliminary figures show that retail bankruptcies increased in the first quarter, although the increase was smaller for large retailers than sole retail proprietors.

High street market rents pressure lessened whilst vacancy rates continued to fall. That said, there are differences between segments. The resilience of G4 city centres was confirmed by the latest (Q4) y-o-y rental growth figures, which showed a 1.9% decline. This reflects their ongoing recovery from the trough in Q1 2021 (-/- 10.7%) and Q1 2022 (-/- 3.1%). Also, the city centre vacancy rate is continuing to fall gradually. In the G4, the city centre vacancy rate was noticeably lower (6.1%) than the overall city centres rate (9.3%) in the fourth quarter. This was mostly attributable to redevelopment schemes. Convenience retail rental growth remained solid at 2.5% y-o-y rental growth in Q4.

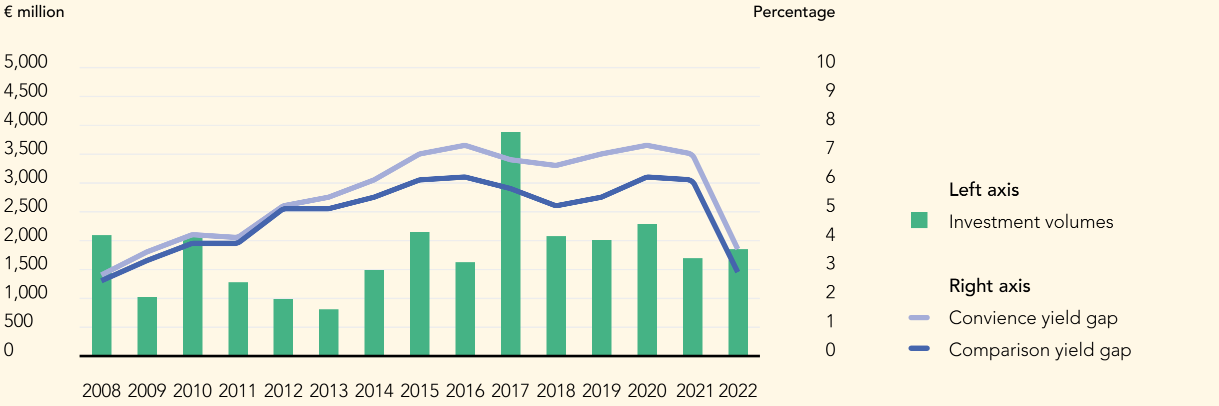
Figure 2 Financial vacancy rates [1]



Source: MSCI, a.s.r. real estate, 2023

1 Four-quarter moving average

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



Source: MSCI, CBRE, ECB, 2023

Capital losses relatively subtle in retail segment. Investment volumes in the second half of 2022 came to a standstill with a 42% y-o-y volume decline after a rather promising first half of the year. The interest rate hikes continued to narrow the yield gap in the fourth quarter. Consequently, investors are continuing to re-evaluate the viability of business cases.

Furthermore, leveraged investors are withdrawing from the acquisition market. This especially holds true for the convenience market, where leveraged investors were very active before the interest rate hikes. However, the yield difference with logistics, office and residential assets remained large, which could prove vital in the much-anticipated continued value recovery of the retail market. Capital losses in Q4 were relatively subtle and improving occupier market fundamentals could convince investors to consider retail investments.

ECB tests resilience of the retail investment market. In March 2023, the ECB again increased the base interest rate by 50 bps. The ECB might follow up with more hikes, but caution is advised due to the current turmoil in the banking sector. Investment dynamics will stay subdued until pricing will fully capture increased interest rates and high inflation. Full equity investors could strike first, but core investors will remain cautious. They will continue to focus on the G8 as investors find most liquidity here and retailers pursue brand exposure in these multi-functional city centres. Furthermore, competitive retail pricing might encourage investors with a greater risk appetite in the short to medium term. Strategic reweighting of retail exposure could push up investment volumes in the longer term.

Outlook

Mixed signals for the occupier market. Retail redevelopment will continue to benefit the occupier market, although high construction costs and interest rate hikes are frustrating some business cases. Successful retailers will continue to open up brand stores in sought-after high streets in the G8 and – to a lesser extent – in the G9-16 of the most attractive Dutch cities. That said, consumers will limit their purchases to what is strictly needed and retailers will face increased costs (rent, staff and deferred tax and rent). This combination will most likely increase bankruptcies of outdated and inflexible retail formats that are unable to attract frugal consumers and cannot cut costs.

1 Yield gap calculated on retail's reversionary yield and Netherlands 10-year government bond yield

Residential

Since the fourth quarter of 2022 owner-occupied house prices and the capital value of rental homes experienced a substantial correction due to rising interest rates. Although the residential investment market is facing multiple regulatory measures, impacting rents, rent growth and capital values, the market remains attractive, especially for long-term, core investors.

Higher mortgage rates are slowly impacting the residential market. In the owner-occupied market, Dutch quarter-on-quarter transaction prices in the fourth quarter of 2022 dropped for the first time since 2013. They were down by 2.4%, followed by 1.6% contraction in the first quarter of 2023.

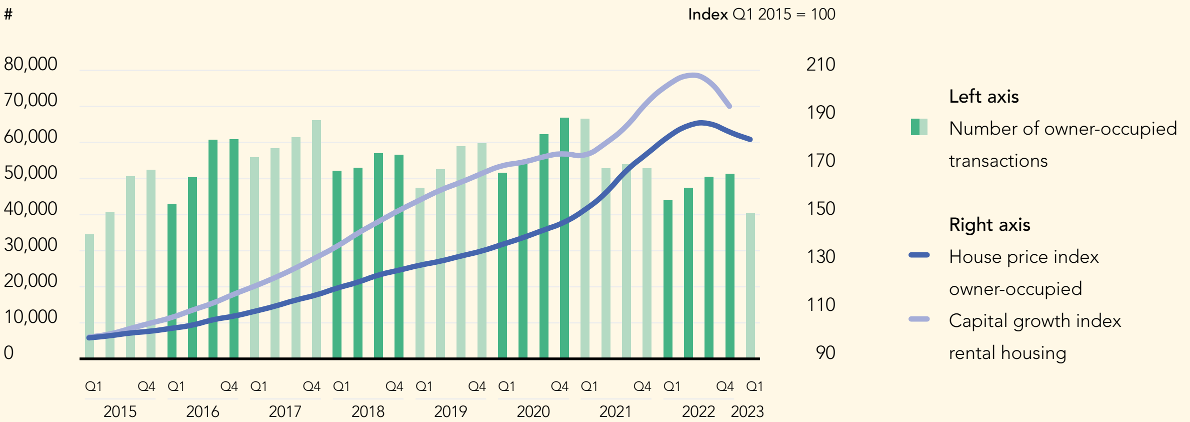
The mortgage rate increased significantly throughout 2022. Rates of new mortgage contracts with a longer fixed-rate period (10-30 years), for instance, increased from approximately 1.5% at the start of the year to more than 4.5% in the first quarter of 2023. This has impacted the lending capacity of Dutch households, leading to the current price decreases. Although mortgage rates have stabilized since the fourth quarter of 2022, the combination of persistently high consumer prices and historically low consumer confidence will weigh down on the market dynamic. More actual market data from NVM, the Dutch Association of Real Estate Brokers, confirms the downward trend: in the first quarter, the average year-on-year transaction price dropped by 8.2%. Also, for the first time in four years, residential properties are no longer typically being sold above the asking price.

While the market dynamic was already decreasing since 2021, the number of transactions in the first quarter of 2023 was the lowest Q1 figure since 2015, with approximately 40,400 homes sold. Although the first quarter usually is the slowest part of the year, this is an indication that the total number of transactions in 2023 will most likely not exceed 185,000 (2022: 193,100).

The residential investment market experienced devaluations as a result of rising interest rates. The fourth quarter figures of 2022 are the latest available Quarterly Benchmark figures from MSCI. While y-o-y capital growth was 11.0% in the third quarter of 2022, the growth turned negative in the fourth quarter. With a contraction of 1% in Q4, this difference with the previous quarter was the most significant quarterly change in capital value since the inception of the benchmark in 2008. Although latest data is not yet available this downward trend is expected to continue into the first quarter of 2023 with a q-o-q decrease by 4% to 5%.

Rising interest rates and subsequent increases in (risk-free) government bond rates since the start of 2022 tightened the spread with the net yield of the residential investment market. As a result, investors are becoming more and more reluctant to buy, thereby widening the bid-ask spread. This has led to price decreases.

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



Source: Statistics Netherlands, MSCI, 2023

Yields at market rent (reversionary yield) had increased by 24 basis points to 4.27% by the end of the fourth quarter. A similar upward yield shift can be expected during the first quarter of 2023.

While the decrease in capital value will lead to an increase of income return, this will be reflected no sooner than in the figures for the next quarter. Therefore, income return decreased slightly to 2.6% (Q3 2022: 2.7%).

Occupiers still experience persistent pressure on the available supply of rental properties in the residential market. This is reflected in the market rental value growth, which ended the fourth quarter at 3.4% y-o-y. This is well above the historic average of consumer price increases, but has, unsurprisingly, lagged behind the inflation rate since the start of 2022.

Outlook

The residential market is facing price corrections in the wake of rising interest and mortgage rates. On the owner-occupied market, the purchasing power of households relying on a mortgage to buy a home has decreased as a result of increased mortgage rates. While we already saw devaluations since the fourth quarter of 2022, house prices are expected to drop this year by some 5%. Although a new balance between buy and sell prices will presumably have been established by the end of 2023, prices are still expected to contract by 3% in 2024.

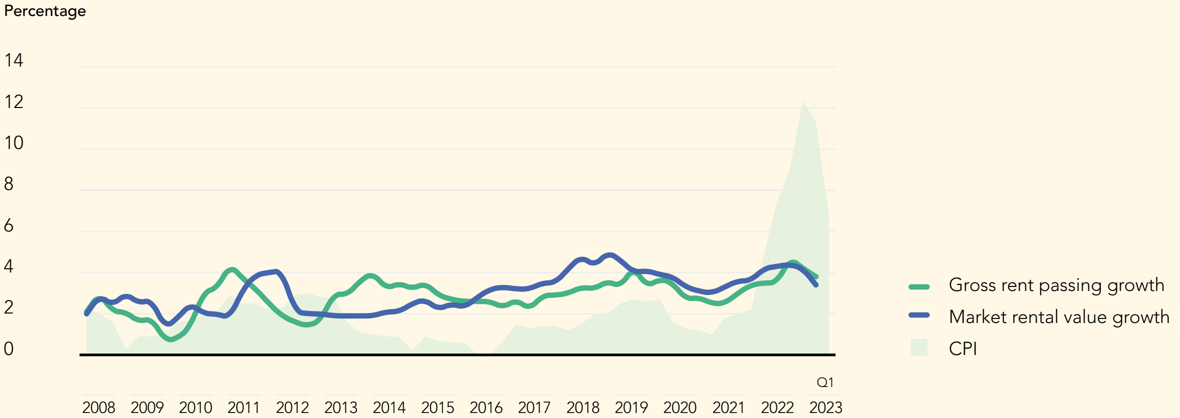
On the residential investment market, rising interest rates caused a drop in the yield spread between the higher risk-free rate and the residential investments yield in the second half of 2022. This resulted in a yield shift in the fourth quarter of 2022 and expectations are that this revaluation of the residential risk premium will continue in the first quarters of 2023. In addition, the residential investment market is faced with the impact of the proposed government regulations on rent control and the cap on annual indexation. This dampens the short-term appetite for residential real estate among value-add and opportunistic investors. That said, long-term core investors are expected to remain active, especially equity-only investors and those who are willing to invest in new-builds with a view to improving the technical side of their portfolios whilst still aiming for affordable rents.

Apart from the negative market sentiment for the coming two years, the fundamentals of the residential market remain strong from a valuation perspective. While demographic growth accelerated in 2022 and is expected to remain at a relatively high level in 2023 and beyond, the production of new-builds has not yet picked up speed. In fact, with tightening environmental regulations, due to the nitrogen emissions issue, combined with uncertainties regarding the way forward now that the political landscape in the Netherlands has changed, many property developments are experiencing challenges in different development stages.

Furthermore, rising interest rates and construction costs make it more challenging to offer new-build developments at acceptable price levels. The owner-occupier market is already suffering from a lack of interest from homebuyers, especially in the higher price tiers.

From an occupier's perspective, the residential rental market remains attractive and highly sought-after. Mid-priced rental properties, in particular, hardly experience any vacancies. As a result, (market) rental growth will likely persist in the coming years, even with the proposed regulations.

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



Source: Statistics Netherlands, MSCI, 2023

Offices

For 2023 the Dutch office market is expected to be affected by a search for a new price balance between buyers and sellers, which will be influenced by the availability of high-quality office space, economic uncertainty, and hybrid working. However, ESG obligations are driving demand for high-quality, energy-efficient offices located at mobility hubs.

Office take-up is recovering but still below pre-pandemic levels. Take-up in the fourth quarter of 2022 increased compared to the same quarter last year (see Figure 6). At approximately 213,000 sq.m., take-up was nearly 2.5% higher than in Q4 2021 but 14.7% down on Q3 2022, which can be attributed to a relatively strong third quarter. Approximately 73% of take-up in the Netherlands was in the G5. Historically, the majority of quarterly take-up has been in Amsterdam. However, the fourth quarter of 2022 showed a more balanced picture: in fact, both Rotterdam (21%) and The Hague (23%) accounted for a higher share of total take-up in the Netherlands than Amsterdam (18%).

The vacancy rate in the G5 office markets increased, but rent levels are also going up. Compared to the third quarter of 2022, the vacancy rate in the Dutch office market fell slightly by 23 basis points, landing at 10.4% in the fourth quarter. At 5.8%, the average vacancy rate of offices near IC railway stations in the G5 increased considerably in the fourth quarter compared to the previous quarter (4.7%). This was due mostly to the completion of a number of developments and redevelopments, totalling approximately 165,000 sq.m., that were not fully pre-let. In fact, by the end of 2022, around 30% of vacant office space in Amsterdam was attributable to recent completions. However, the vacancy rate is still below that of a well-functioning office market. This tells us that office space near transport hubs in the larger cities is still sought after. That said, businesses are reconsidering their corporate real estate strategy in the wake of increased hybrid working. Most have not taken action to date, although it is observed that current office users are not planning to leave but, in some case, intend to downsize to some extent. This could potentially increase the availability of office space in the medium to long term. Average office rents in the G5 cities largely outperformed the Dutch average of €145 per sq.m. in the fourth quarter of 2022 (Q4 2021: €140). The only exception was The Hague, where the average rent is €140 per sq.m. Amsterdam was again the greatest outperformer in the fourth quarter, with an average rent of €275 per sq.m. (Q4 2021: €265) and a prime rent of €500 per sq.m. in the Zuidas business district (Q4 2021: €475). This prime rent reached another all-time high while, during the pandemic, it was expected to hit €500 per sq.m. no earlier than in 2024.

Real estate markets contract as interest rates rise. In order to tackle inflation, central banks, including the ECB, raised their key interest rates, which led to yield increases in the second half of 2022. Prime yields in the top central business districts (i.e., Amsterdam), other CBDs in the G5 (i.e., Rotterdam), and major provincial cities increased by 50, 70 and 90 basis points, respectively, in the fourth quarter of 2022 (see Table 1).

Table 1 Market indicators

Market indicator	Q4 2022	q-o-q growth	1-year growth	3-year growth
Average rent / sq.m. (NL)	€ 145	0.0%	3.6%	11.5%
Average prime rent / sq.m. (G5 IC)	€ 347	2.7%	6.6%	8.9%
Prime rent / sq.m. (NL)	€ 500	1.0%	5.3%	8.7%
Stock (sq.m.) (NL)	51,723,824	0.3%	0.3%	2.6%
Take-up (sq.m.) (NL)	212,793	(14.7%)	2.5%	(48.9%)
Vacancy (sq.m.) (NL)	5,353,544	(1.8%)	(11.7%)	(7.8%)
Vacancy rate (%) (NL)	10.4%	(0.2%)	(1.4%)	(1.2%)
Vacancy rate (%) (G5 IC)	5.8%	1.1%	1.1%	2.1%
Prime yield – Prime CBD (Zuidas)	4.0%	0.5%	1.0%	1.0%
Prime yield – Other CBDs (G5)	5.3%	0.7%	1.4%	1.3%
Prime yield – Major provincial cities	6.6%	0.9%	1.5%	1.6%

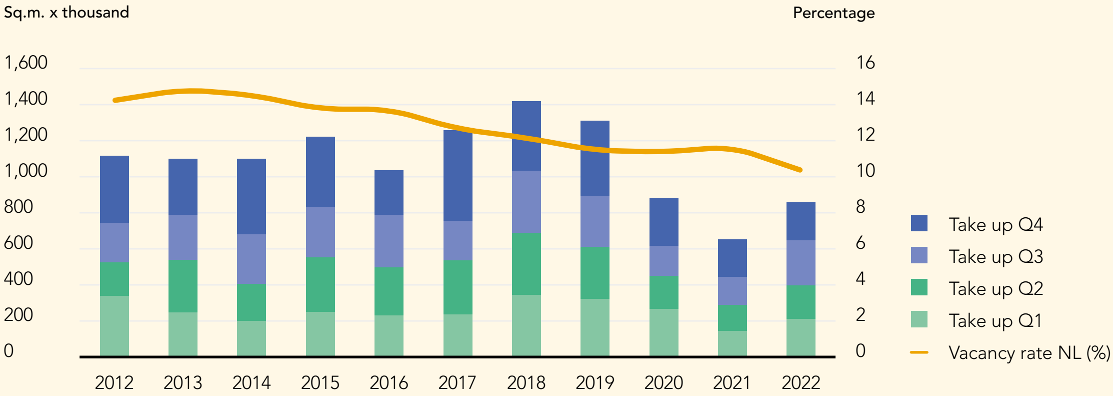
Source: CBRE, 2023

This shows that, while buyers and sellers of office assets are seeking an equilibrium in terms of pricing in the new economic climate, the most sought-after submarkets – the CBDs of the G5 – faced the least yield corrections.

Additional sustainability regulations (i.e., energy label C requirement and carbon emissions of vehicles) are likely to continue to push towards energy-efficient, high-quality offices, and potential green premiums.

Outdated office buildings require capital expenditures to meet the minimum energy label C, which has been required for leased office space with effect from 1 January 2023. A clear division is emerging between attractive office buildings and buildings with poor letting prospects. This division will probably become more prevalent, favouring prime office assets in G5 segments, particularly those close to public transport hubs, in view of the upcoming requirement to report on carbon emissions caused by employee mobility.

Figure 6 Take-up of Dutch office space and vacancy rate



Source: CBRE, 2023

Outlook

Economic and market developments are fuelling polarization. In 2023, the office transaction market will be affected by the search for a new price balance between buyers and sellers, and the availability of high-quality office space. The steep increase in interest rates in the second half of 2022 is likely to continue in the first half of 2023, leading to rising office yields and subsequent price corrections. This trend, combined with economic uncertainty and hybrid working, could limit additional spatial demand, especially for poor-quality offices. As a result, vacancy rates may increase.

Sustainability and ESG obligations continue to drive the demand for high-quality office space. Starting this year, offices that do not meet the energy label C requirement can not be leased, which makes them - in practice - obsolete, and larger companies are required to report on the carbon emissions of their employee mobility.

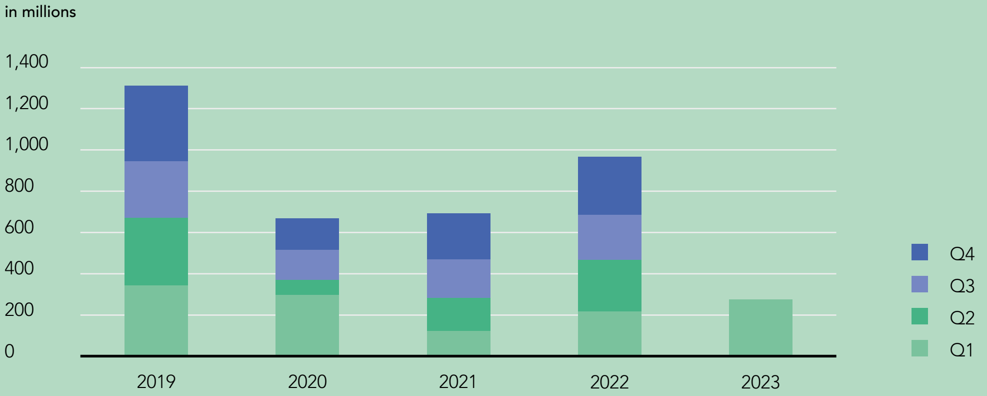
As a result, demand for sustainable, high-quality offices located at mobility hubs in the G5 cities is expected to increase. In general, these offices are expected to be more resilient in the long term than average office assets in other locations. However, there will be a shortage of new office buildings due to rising building costs and environmental challenges, such as nitrogen emissions. This shortage, combined with the ESG ambitions of investors, is expected to boost the appeal and increase the rent of premium-quality offices in prime locations.

While vacancy rates increased in the G5 in 2022, many vacancies occurred in new developments that are expected to be absorbed more quickly than vacant office space in existing buildings. Investors seeking to achieve their ESG goals are expected to upgrade existing assets so as to be awarded green certification, with one-third willing to pay more for ESG-friendly assets.

Public transport usage is on its way to pre-pandemic levels

At the start of the COVID pandemic in March 2020, the use of public transport decreased considerably. Since then however, it has picked up momentum. Although hybrid working and studying is here to stay, people still use public transport and the number of check-ins in the first quarter of 2023 was nearly at the same level as in the first quarter of 2020 (see Figure 7).

Figure 7 Public transport check-ins, per quarter



Source: Translink, 2023

Science parks

Despite interest rate hikes R&D spaces remain more resilient to devaluations compared to office spaces. The Netherlands further solidifies its international allure for the life science and tech sector by hosting both the European Medicine Agency and the NATO Innovation Fund, which could potentially increase the ease of access to capital for innovative startups.

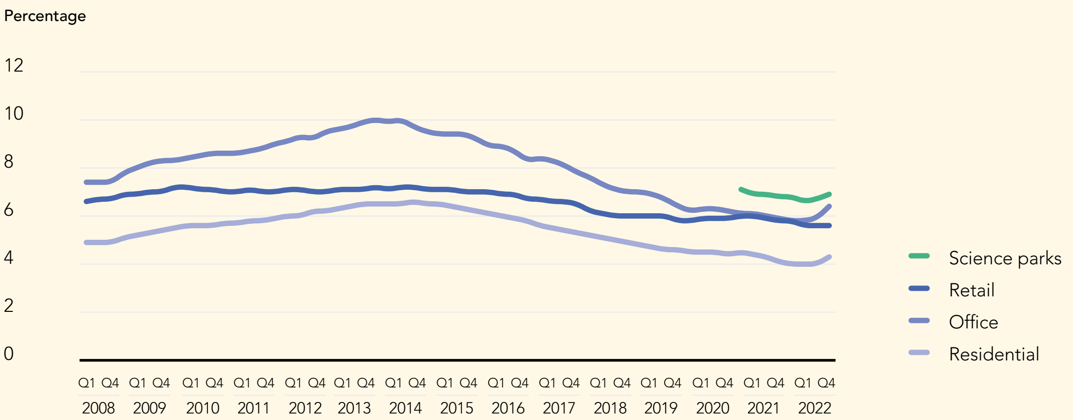
Rising yields as interest hikes continues. Real estate investment yields continued to increase in response to the ECB's interest rate hikes and subsequent increase in government bond yields. The average reversionary yield of a bespoke science park benchmark, as defined by a.s.r. real estate, rose as well and stood at 6.9% at the end of the first quarter, representing an 18 bps increase compared to the previous quarter (see Figure 8). The yield gap between traditional offices and science parks widened to 47 bps in Q4 2022.

This yield increase was lower than the average office market yield as businesses in traditional offices are relatively more cyclical. Market evidence shows that, in general, laboratory assets are more resilient to devaluations than office assets. In addition, compared to traditional offices, lab space often yield rental premiums, two major reasons being the higher construction costs of labs and the imbalance between demand and supply. Due to the specialist nature of the work people do at science parks, the impact of the pandemic on the vacancy rate was limited.

The Netherlands further solidifies its international appeal to the life sciences and tech sector, hosting both the European Medicine Agency and the NATO Innovation Fund. NATO has chosen the Netherlands as the location for the headquarters of its NATO Innovation Fund (NIF). The NIF may potentially improve access to capital for innovative startups. The NIF aims to encourage the development of complex key technologies to address various social and military-related issues. These technologies include artificial intelligence and quantum computing. The NIF has a 15-year timeframe and will invest € 1 billion, which has been accumulated by NATO members.

Financial climate for startups worsened in 2022. The arrival of the NIF might help to overcome one of the main challenges for the Dutch startup ecosystem. According to the State of Dutch Tech 2023, the Netherlands lags behind other European countries in terms of its scaleup/startup ratio and venture capital funding in millions per startup. Greater availability of funding in other European startup ecosystems is argued to be one of the main drivers for them to outperform the Netherlands.

Figure 8 Gross reversionary yields



Source: MSCI, a.s.r. real estate, 2022

Outlook

Occupier market solidifies as stock additions are limited and vacancy rate remains low. Higher construction and financing costs, combined with environmental challenges (e.g. nitrogen emissions) could limit and delay new developments on the science park market. Taking into account the minimal vacancy rate at science park locations, we can expect additional upward pressure on rents for modern assets with R&D facilities.

Difficult times lie ahead for the IT tech sector as many tech companies have announced layoffs, limiting their expansion aspirations.

Greater protectionism lessens competitiveness of European knowledge economies. In order to safeguard intellectual property, members of the EU have agreed that, in some situations, Member States must oversee mergers and acquisitions of companies active in key technologies (e.g. quantum and photonic technologies). Experts fear that this costly and time-consuming process of protectionism can make the Netherlands less competitive on the global market.

Farmland

In 2022, farmers' confidence is recovering, but uncertainties surrounding policy and the economy have led to a decline in farmland transactions. Despite rising prices, uncertainties in the agricultural sector, such as inflation, the nitrogen issue, and stricter European policy, continue to persist, making a clear long-term vision essential for the sustainability of the sector.

Dutch agriculture exports increased in 2022, mainly due to higher prices. Dutch agricultural exports represented a value of € 122 billion in 2022, up 17.2% from 2021. This was entirely attributable to price increases as a result of the conflict in Ukraine and rising energy costs. In terms of volume, the picture was different. The volume of agricultural exports was down 0.5%. Agricultural imports into the Netherlands came in at € 88 billion, up 23.5% from 2021. This increase was also attributable to price increases.

Agro Confidence Index: farmers' confidence in their own businesses is recovering, but uncertainty reigns. Dutch farmers have become more confident in their business, as shown in the Agro Confidence Index. The index rose by more than 6 points from the third to the fourth quarter of 2022, and reached an index value of nearly 6.5 points. Dairy farmers in particular were very positive about the current situation, with an index value of 37.4 points. "The (record) high milk price could well be the main reason for the optimism among dairy farmers". With an index value of 19.1 points, arable farmers were also positive. "In the past year, arable farmers benefited from relatively favourable weather conditions compared to other European countries, where drought limited yields". Despite the current optimism, overall sentiment for the medium term is still negative. The uncertainty is prompted the reduction in nitrogen emissions the agricultural sector is expected to achieve. In addition, the (accelerated) phasing out of the derogation, targets for climate, water quality (buffer strips) and land-related issues also play an important role in this context.

Prices of farmland continue to rise steadily, number of farmland transactions is declining. In the fourth quarter of 2022, the average price of farmland (12-month average) reached approximately € 73,400 per hectare. Compared to the average price of farmland in the same period a year ago, the price has increased by 5.7%. The average price for arable farmland has increased to € 84,500 per hectare (+7.6% year-on-year) and the land price for grassland has increased to € 66,200 per hectare (+4.7% y-o-y). While prices are rising, the number of transactions fell by 5.7%, landing at approximately 30,800 traded hectares on an annual basis. Uncertainties about policy and the economic outlook is causing reluctance on the farmland market.

a.s.r. and the Agro Confidence Index

The Agro Confidence Index is an initiative of Wageningen University & Research (WUR). The index is funded by a.s.r. real estate and the Dutch Ministry of Agriculture, Nature and Food Quality (LNV). Its existence is now guaranteed for the next four years. WUR has measured the confidence of agricultural firms in the Netherlands since 2013, offering a unique long-term insight into the development of sentiments in the sector. From 2023 onwards, the results of the Agro Confidence Index will be accompanied by interpretations by WUR's arable and dairy sector economists. The results and interpretations will be published quarterly by a.s.r. real estate.

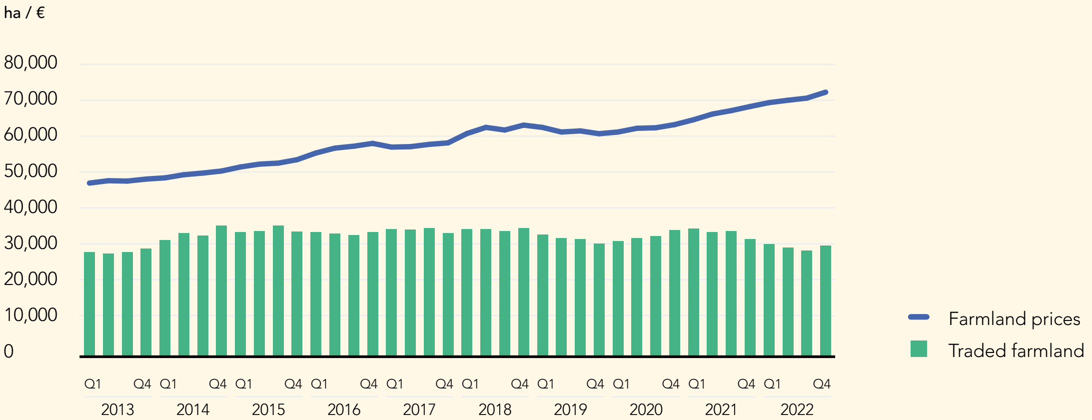
Full results (in Dutch) are available here

Table 2 Farmland market indicators

Market indicator	Q4 2022	q-o-q growth	1-year growth	3-year growth
Export of agriculture goods (x million)	€ 29,533	3.9%	17.7%	33.1%
Farmland (12 month average)	€ 73,367	2.3%	5.7%	18.6%
Traded hectares (12 month)	30,804	4.7%	(5.7%)	(2.0%)
Available farmland (in ha)	1,804,370		(0.4%)	(0.7%)
Number of agriculture farms	50,980		(2.2%)	(4.2%)
Agro Confidence Index	6.5	6.4	6.5	(3.2)

Source: Statistics Netherlands, Kadaster, Wageningen Economic Research (WER), 2023

Figure 9 Farmland prices & traded farmland 2013-2022



Source: Kadaster, Wageningen Economic Research, 2023

Outlook

In the short term, uncertainty continues to prevail in the Dutch agricultural sector. The sharp rise in inflation, which is driven by energy, food and other commodity prices, is hitting a global economy that is still struggling with the economic after-effects of the pandemic. The effects are felt in the agricultural sector as well, resulting in higher purchase and operating prices, as well as higher selling prices. It's unclear when the international supply chain will become more balanced. In addition, uncertainty in the Dutch agriculture sector is fuelled by the nitrogen issue.

This is still causing a lot of controversy and it remains to be seen to what extent measures will be implemented. The country needs a clear long-term vision for the future, which will hopefully be presented in 2023. The plans will eventually result in a stronger, more vital sector, but they will have major consequences for specific agricultural firms (especially livestock farmers) in the short term. As it stands, the debate is ongoing and progress is slow. What is more, stricter European policy is also putting more pressure on the agriculture sector as part of the road towards a sustainable sector.

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