Investment in retail property in the Netherlands

a European perspective

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a European perspective


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Foreword

The Netherlands has long had a dense and well-structured retail network that enables most people to shop daily only a few minutes from home. Large cities and regional shopping centres are never far away. Unlike many other European countries, shops in the Netherlands are at the heart of the community, with dynamic retail areas making a valuable contribution to social cohesion and offering a lively place to spend time. Retail is a key sector of the Dutch economy, providing jobs for over 775,000 people (8% of the working population) and generating 93 billion euros in revenue (14% of our GDP).

As in the rest of Europe, the Dutch retail market is currently undergoing major structural changes. New technologies and economic developments are altering customer attitudes and demands. People are now shopping increasingly online. They have better access to information about products. And they are seeking greater convenience and enhanced customer experience. All this has an impact not only on retailers and their staff but also on property owners, municipalities, provinces and investors. To respond to this shift in our buying culture, all stakeholders – both government and market parties – have set up a national Retail Agenda, coordinated by the Ministry of Economic Affairs. The agenda sets out twenty goals towards which stakeholders are working together to make Dutch retail future proof.

One of the main tasks is to create a better balance in the retail property market by cutting back on the available retail space, while at the same time providing perspective for new and innovative store concepts. In doing so, we want to ensure that shopping areas remain attractive and that retail continues to be a healthy, innovative and thriving sector.

As well as looking at the challenges facing the Dutch retail market, this Ecorys study shows there are plenty of reasons for optimism. The economic outlook is promising and consumer confidence is growing. These factors together with the relatively high level of transparency, stable demographics, high profitability and relatively favourable prices make retail property in the Netherlands an attractive investment for Dutch and foreign investors alike.

Henk Kamp

Minister of Economic Affairs of the Netherlands

Executive summary

This report sets out the financial performance of Dutch retail property in a European perspective and the structure and dynamics of the Dutch retail sector. Based on this assessment, it seems there is a momentum for domestic and foreign investors to consider investment in retail property in the Netherlands.

Transparent and highly developed market

The Dutch retail market is known for its stable structure that will enable it to continue to grow. The legal framework is sound. Real estate is registered in the publicly accessible national cadaster. In addition, institutional investors are required to have real estate property valued at least annually by an independent officially registered appraiser. This makes the Dutch retail property market transparent, which is an advantage for real estate investment.

Stable demographic and prosperous economic context

The population of the Netherlands is increasing at a slow pace and is expected to reach approximately 17.8 million in 2030. The population will grow even faster in the country's metropolitan regions, including the largest cities of Amsterdam, Rotterdam, The Hague and Utrecht. Compared to other European countries economic indicators are equal or even better for the Netherlands.

Furthermore, the interest rate of 10 years government bonds is second lowest to that in the other six countries in the comparison. Consumer confidence is higher and is likely to remain higher in the Netherlands than in the other countries.

Long-term performance

Total returns on retail property in the Netherlands remained positive during the crisis years. Investments in Dutch retail property have performed reasonably well on the long-term compared to other assets and other real estate classes and this can be expected to continue in future. The return-risk profile of Dutch retail property is attractive. Thus, retail property can play a beneficial role in an investment portfolio.

Steady returns now and in future

Although public debate on retail is dominated by the recent retail bankruptcies, overall performance of Dutch retail property stands out in a European perspective. Total return on retail property is expected to increase as the economy recovers. Investment in retail property is likely to generate a steady income return in in the next five to ten years. Since the crisis in 2008, the average capital growth in the Netherlands has been better than that in most other countries. In the Netherlands, rental cash flows for investors show potential for years ahead.

Diversification opportunities and polarisation

Dutch retail property offers opportunities for diversification and historical performance has shown a stable cash flow and positive long-term capital growth. However, the Dutch retail market is strongly polarising, which will lead to differences between the historical and expected performance of the various types of retail locations. The prime high streets of the large cities and of small cities with a large catchment area are becoming stronger, while retail locations in medium-sized cities, dispersed locations and secondary streets are becoming weaker. Thus, investors need to choose carefully.

Interest of investors and liquidity

Investment in retail property in the Netherlands reached a peak in 2015. The recovery started in 2013 and was driven by the positive economic outlook and low interest rates. Numerous parties are active in retail property in the Netherlands. The proportion of retail property owned by professional investors is expected to grow further in the next five to ten years. These investors include experienced non-listed fund managers, acting mostly on behalf of Dutch pension funds and insurance companies. Foreign interest in Dutch retail property has been and will continue to be substantial, because of the attractive relative value compared to retail property in other European countries.

Attractive risk premium

Retail turnover has decreased by 3.1% since the beginning of the crisis and a decrease of the retail rent in the near future cannot be excluded for some locations. The Dutch retail property is now more soundly priced than at the beginning of the crisis. On average, retail rents are at an attractive level, and there is rent growth potential in the market in the coming years. The initial yield on retail property in the Netherlands varies according to type of retail locations. The average IPD initial yield of retail property in the Netherlands was 6.8%. The average yield reported on actual retail transactions in the prime high streets in the first half of 2016 was 4.0% in Amsterdam and Rotterdam, 4.75% in Utrecht and 5.0% in The Hague. This indicates a considerable risk premium on Dutch retail property compared to the annual interest rate.

Impact of e-commerce

In the Netherlands, the growth of e-commerce has had a distortive effect on the number of stores and amount of floor space used by travel agencies, banking, insurance agencies and retail of consumer electronics and media. We expect in the foreseeable future the online market share of well-known chain store retailers to grow, requiring retailers to develop a multichannel business strategy and reducing the position of the pure players and long tail e-retailers. This next phase of the development of e-commerce however will have less effect on demand for stores and floor space than the initial phases.

Little growth in retail floor space in future

The area of floor space for food retail has increased since 2008 by more than 10% and for non-food floor space by 3%. Property vacancy has increased because of the combined effect of crisis-related bankruptcies and growth in e-commerce. The turning point for the new retail floor space was in 2008 and in subsequent year, projects have been cancelled, reduced or delayed. This trend is reinforced by the retail policy of the Dutch authorities to safeguard existing retail structure and to discourage the construction of new retail floor space in order to establish market equilibrium. In the coming three to five years, increase in retail floor space will further decrease while redevelopment of existing floor space will increase. From the investor's perspective, this trend could contribute to enhancing the future value of retail property in the Netherlands.


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1 Introduction

On the nature of Dutch retail

The Netherlands is one of the most densely populated countries in the world and has a dense retail structure. For instance, most people in urban areas live within a kilometre of the nearest supermarket and in the large cities, this distance is only about 600 metre on average. Most supermarkets are located in convenience centres in the middle of a neighbourhood, and are close to a bakery, butcher, drug store and to shops selling household goods and basic textiles. Consumers are used to visit a convenience centre more than three times a week and more than half come on bicycle or on foot.

Non-food shopping is done mainly in the inner city, which people of the Netherlands consider to be the heart of their community. As well as retail stores, the inner city has a concentration of leisure and entertainment including cafes, restaurants, cinemas and theatres. Most inner cities have high-quality public space and an historical heritage. A visit to the inner city is seen as a pleasure trip. For this type of shopping, the main means of transport is the car, which requires a network of parking garages around the inner city. Yet, almost half of the consumers travel by bicycle or by public transport, or come on foot.

The spatial network of convenience centres and inner cities at short distance is highly appreciated. For this reason, there are few large regional shopping centres, big box shopping on city outskirts is restricted by the local authorities, and the introduction of hypermarkets have not been successful to date.

Report purpose and data sources

This report sets out the financial performance of Dutch retail property in a European perspective, and the structure and dynamics of the Dutch retail sector. This assessment makes it possible to consider whether there is a momentum for domestic and foreign investors to invest in retail property in the Netherlands. Financial indicators of retail property in the Netherlands are compared with those for France, Germany, Norway, Sweden, Spain and the United Kingdom. These countries were selected for comparison because of similarities in the level of national wealth and the structure of real estate.

The Investment Property Databank (IPD) of MSCI has similar time series from 2000 and institutional investors for the countries compared. The prognosis on demographics and economy used in this report are based on Oxford Economics, for 13 June 2016, and thus prior to the Brexit referendum of 23 June in the United Kingdom. In addition, four international chain store retailers were interviewed on their views on the Dutch retail sector and on their expansion plans for the Netherlands.


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2 Retail property in an investment portfolio

In this chapter the financial performance of retail property in the Netherlands is compared to that of other asset classes and other types of real estate property. For the comparisions long time series have been used. Most statistics on the Netherlands start in 1995, but the comparison with other European countries starts from 2000 because valuation methods have not been harmonised for some countries for the period 1995-2000.

2.1 Financial indicators for retail property

Several financial indicators of performance of retail property are compared with other potential investments.

2.1.1 Relatively good long-term return

Since 1995, investments in retail property in the Netherlands have achieved an excellent total return, accompanied by a moderate risk (standard deviation). The total return is divided by the standard deviation to obtain the return-risk ratio, which enables different asset classes to be compared. Investment in retail property in the Netherlands has achieved an average annual total return of 8.8%, a standard deviation of 3.9%, and a return-risk ratio of 2.25 over the long term. Thus, retail property has outperformed liquidity, stocks and bonds in the Netherlands and European listed funds (Table 2.1).

Table 2.1 Comparison of the average total return on asset classes,1995-2014

	Total return %	Risk %	Return-risk ratio
Liquidity Netherlands [1]	2.7	1.2	2.2
Dutch retail property [2]	8.8	3.9	2.3
Bonds Netherlands [3]	4.0	1.4	2.9
Stocks Netherlands [4]	6.7	19.7	0.3
Listed real estate EU [5]	6.8	20.7	0.3

Source: MSCI 2016

1) 3 month Euro deposits non-financial DNB 1995-2014
2) IPD-index total return retail The Netherlands 1995-2014
3) Oxford Economics 10-Year Government Bond Yield The Netherlands 1995-2014
4) MSCI shares Netherlands 1995-2014
5) FTSE EPRA/NAREIT European Union 1995-2005 and Developed Europe 2006-2014

Compared to other Dutch real estate classes (Table 2.2), the return-risk ratio of retail investments since 1995 has been high, outperforming residential and office property. Despite the decrease in capital value of retail property in recent years, the long-term total return on Dutch retail property has been high. Dutch retail property has been shown to be a relatively better investment option than other types of real estate.

Table 2.2 Total return of real estate classes in the Netherlands, 1995-2015

	Total return %	Risk %	Return-risk ratio
Retail	8.6	4.0	2.2
Office	6.7	5.4	1.2
Residential	8.1	5.6	1.5

Source: MSCI 2016

In the period 1995-2015, total return differed per type of retail location, particularly so in the lower performance of medium-sized inner cities (Table 2.3). These differences have increased over the last five years (2010-2015). The inner cities of the four largest cities have done better in this respect.

Table 2.3 Total return on types of retail locations in the Netherlands, 1995-2015

	Total return %	Risk %	Return-risk ratio
Inner centre Amsterdam	8.1	3.3	2.5
Inner centres largest cities [1)]	8.4	4.0	2.1
Large inner centres	8.5	3.5	2.4
Medium-sized inner centres	7.8	4.7	1.7
Small inner centres	8.1	4.5	1.8
Large district centres	8.5	4.6	1.8
Convenience centres	8.7	4.4	2.0
Retail warehousing	8.3	4.7	1.7
Dutch Retail	**8.6**	**4.0**	**2.2**

Source: MSCI 2016

1) Amsterdam, Rotterdam, The Hague and Utrecht

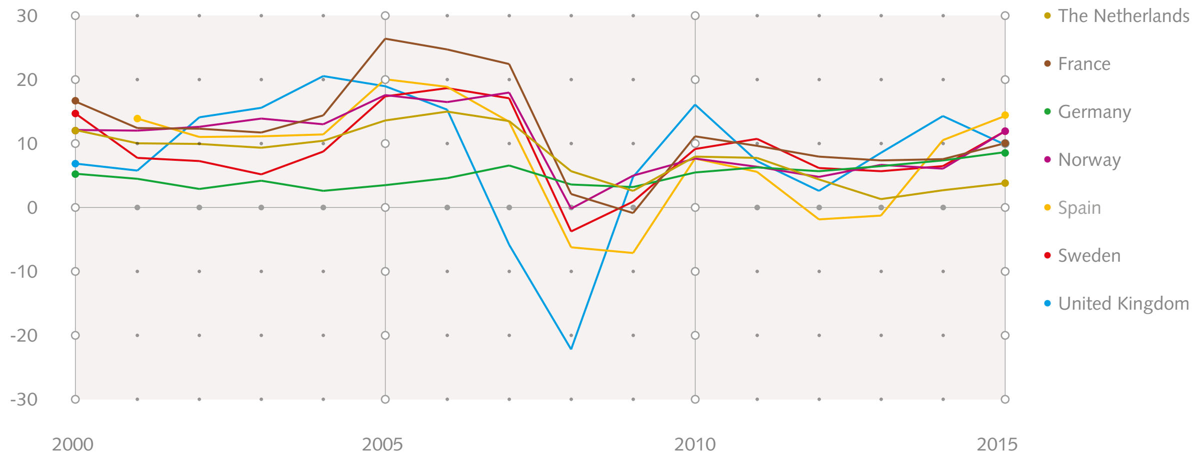
Although the total return on retail property has been good in all seven countries over the last 15 years, there are major differences between the countries (Table 2.4). The total return in France and Norway was highest and the total return in Germany lowest, while in the other countries including the Netherlands, the total return was between 7.5 and 8.5%.

Table 2.4 Total return retail property in seven European countries, 2000-2015

	Total return %	Risk %	Return-risk ratio
The Netherlands	7.6	4.2	1.8
France	11.6	7.3	1.6
Germany	4.8	1.7	2.9
Norway	9.9	5.1	1.9
Spain	7.6	8.3	0.9
Sweden	8.3	5.9	1.4
United Kingdom	7.6	10.3	0.7

Source: MSCI 2016

Figure 2.1 Annual total return on retail property in European countries, 2000-2015



Source: IPD 2000-2015

A higher total return is not always accompanied by a higher level of volatility. In this respect, the return-risk ratio for Germany stands out. After Germany and Norway, retail property in the Netherlands has achieved the best return-risk ratio (1.8). Although total return on retail property in the Netherlands was the lowest in the last few years, it was positive. Over the last 15 years, total return on retail property was positive only in the Netherlands and Germany. The low total return can be explained by a rent correction in response to the lower turnover during the crisis years. But in the long term, investments in retail property in the Netherlands have generated a high total return and risks have been limited.

2.1.2 Steady income return

Retail property in the Netherlands has delivered steady income returns in the last 15 years (see Table 2.5). The type of retail location in the Netherlands has shown a different picture in terms of income return over the same period, varying between 5.9% (medium-sized inner cities) and 7.1% (retail warehousing). Again, medium-sized inner cities have not performed as well as other types of retail locations because of structural polarisation in the retail sector.

In the European countries compared, income return varied in this period between 5.4% in Germany and 6.5% in the Netherlands (Table 2.5). The low standard deviation shows that income streams were consistent in all countries.

Table 2.5 Income return on retail property in European countries, 2000-2015

	Income return %	Risk %
The Netherlands	6.5	0.5
France	6.2	0.7
Germany	5.4	0.3
Norway	6.2	1.1
Spain	6.3	0.5
Sweden	5.5	0.2
United Kingdom	5.7	0.7

Source: MSCI 2016

2.1.3 Fluctuating capital growth

Since 2000, capital growth has been lower than income return in all countries compared, and was slightly more volatile than income return. These fluctuations in the total return have been attributed to volatility in capital growth, which was especially high in France, Spain and the United Kingdom (Table 2.6).

Table 2.6 Capital growth on retail property in seven European countries, 2000-2015

	Capital growth %	Risk %
The Netherlands	1.1	3.7
France	5.1	6.6
Germany	-0.5	1.5
Norway	3.4	4.3
Spain	1.3	7.7
Sweden	2.7	5.6
United Kingdom	1.9	9.8

Source: MSCI 2016

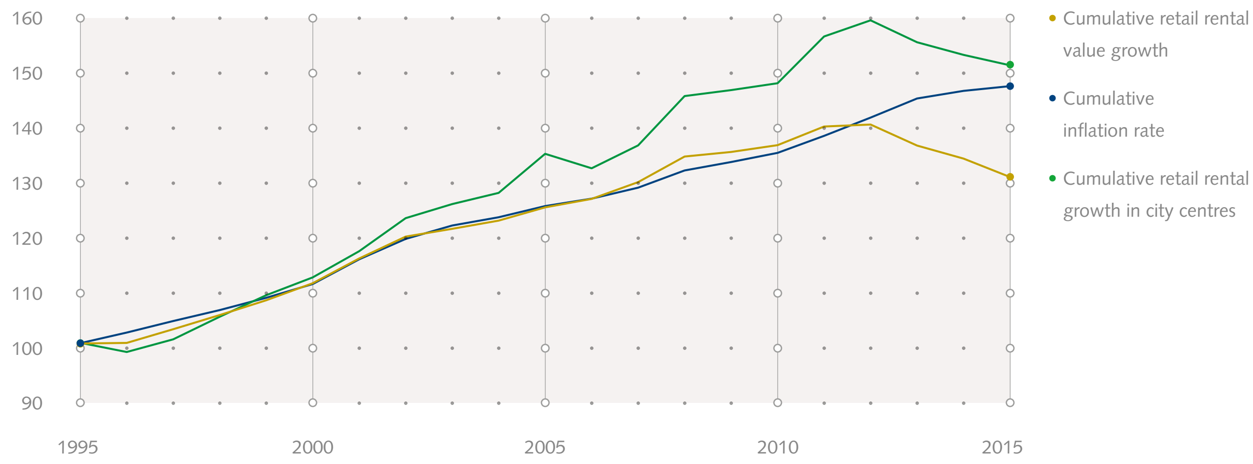
A general pattern in capital growth in retail property cannot be discerned for the seven countries. In the period 2000-2015, capital growth in retail property in the Netherlands was quite small compared to the other countries because of a decrease since the crisis in 2008. Capital growth on retail property has also differed between types of retail locations. For instance, capital growth for retail warehousing was 0.2%, while capital growth in Amsterdam has been 2.1% over the last 15 years.

Investment in retail property in the Netherlands is likely to generate a comfortable income return in the next five to ten years. Although some tenants will apply for a lower rent when their lease agreement expire, many retail locations in the better performing locations will have upside potential.

2.2 Inflation hedging

Institutional investors in real estate often name inflation hedging as one of their key investment drivers. Especially for pension funds with liabilities in real terms due to indexed pension agreements, assets that positively correlate with inflation are an essential component of their investment portfolio. Dutch contract rents are inflation indexed annually. Thus, annual growth in retail rent on average is usually at least equal to the annual inflation rate, with one year lag (Figure 2.2).

Figure 2.2 Cumulative rental value growth of retail property and cumulative inflation in the Netherlands (1995=100)



Source: Oxford Economics 2016, MSCI 2016

Between 2008 and the first half of 2016, retail turnover decreased by 3.1% totally (CBS, 2016). The subsequent rent adjustment emerged only from 2013 because of the regular five or ten years fixed rent in most lease agreements (see Appendix 1). As a result of this price correction, indexing of the average retail rent since 2008 has dried up. Turnover is recovering in most retail categories. Some lag in price reduction cannot be excluded in the coming two to three years, which would reduce income return. Inflation hedging is stronger for the better retail locations and is a feature of the polarisation process.
The crisis did not slow down annual growth in rental value in the city centres and has remained higher there than the annual inflation rate.

2.3 Diversification opportunities

To reduce risk, investors usually look to diversify their investment portfolio by combining assets with returns that correlate less than perfectly. A perfect positive correlation (1.00) implies no diversification and a perfect negative correlation (-1.00) implies full diversification and complete avoidance of risk. Diversification opportunities are considered in terms of cross-asset correlations, correlations between different types of real estate, and international cross-correlations between the national retail property markets.

2.3.1 Low correlation with other asset classes

An historical correlation between Dutch retail property and other asset classes is presented in Table 2.7. The output suggests that stocks and listed real estate have a weak correlation with retail property while bonds and liquidity correlate more strongly with retail. Diversification could be achieved by investing in retail property and in stocks, for instance in the Netherlands.

Table 2.7 Correlations across the asset classes in the Netherlands 1995-2014

	Retail Property	Stocks	Bonds	Liquidity	Listed real estate
Dutch retail property	1.00				
Stocks Netherlands	0.01	1.00			
Bonds Netherlands	0.53 [1)]	-0.15	1.00		
Liquidity Netherlands	0.51 [1)]	-0.07	0.93 [1)]	1.00	
Listed RE EU	0.00	0.62 [1)]	-0.26	-0.24	1.00

Source: MSCI 2016

1) Significant at a 95% level

As shown in Table 2.8, there are strong and significant corrections between real estate classes.

Table 2.8 Correlation of real estate classes in the Netherlands, 1995-2015

	Retail	Residential	Offices
Retail	1.00		
Residential	0.73 [1)]	1.00	
Offices	0.83 [1)]	0.93 [1)]	1.00

Source: MSCI 2016

1) Significant at a 95% level

This implies that investors seeking diversification could choose Dutch retail property because of the higher total return and better return-risk than other types of Dutch real estate. In the Dutch retail property market, correlations are also strong between different types of retail locations. Cross-correlations are all significant at the 95% significance level and range between 0.81 (medium-sized inner cities and retail warehousing) and 0.97 (large and small inner cities).

2.3.2 High correlation across European retail markets

Another way to reduce risk in an investment portfolio is to consider broadening the portfolio to other countries if there is a relatively high negative correlation between countries.

Table 2.9 Correlation of retail property between countries, 2000-2015

	Netherlands	France	Germany	Norway	Spain	Sweden	United Kingdom
The Netherlands	1.00						
France	0.89 [2)]	1.00					
Germany	-0.32	-0.04	1.00				
Norway	0.79 [2)]	0.89 [2)]	-0.08	1.00			
Spain	0.70 [2)]	0.88 [2)]	0.28	0.87 [2)]	1.00		
Sweden	0.72 [2)]	0.91 [2)]	0.25	0.82 [2)]	0.91 [2)]	1.00	
United Kingdom	0.26	0.41 [1)]	-0.04	0.49 [1)]	0.58 [1)]	0.42 [1)]	1.00

Source: MSCI 2016

1) Significant at a 90% level

2) Significant at a 95% level

As shown in Table 2.9, investment in Dutch retail property positively correlates with investment in retail property in the other countries, except for the German retail property. Dutch retail property offers an opportunity for risk diversification for investors in retail property in Germany. Investment in Dutch retail property compared to the other countries becomes interesting because of the high total return state and a medium return-risk ratio.

2.4 Summary and outlook for 2016-2020

Although total return on retail property in the Netherlands in the long term (2000-2015) was on average with all countries compared, there was positive growth during this period. The return-risk profile of Dutch retail property was more attractive than other asset classes and the other real estate classes. At the same time, income return on Dutch retail property has remained stable.

Investment in retail property in the Netherlands can play a beneficial role in an investment portfolio. The long-term overall performance of retail property in the Netherlands performs reasonably well, from an international perspective. In the short term, real estate in the Netherlands offered a sound total return of 2.2% in the first quarter 2016 and 3.0% in the second quarter. Retail property throughout the country recorded a total return of 1.1% and 0.2% decrease in capital value in the first half of 2016.

For all types of retail locations, total return, income return and capital growth differed significantly due to structural polarisation in the sector. Good locations became stronger, and less favourable locations became weaker. The inner city of the largest cities performed best. In the first half of 2016, capital growth of 1.2% was recorded for high streets in these cities, resulting in 2.2% total return for this type of retail location. This type of retail location achieved the same total return as total real estate. The prime yield of actual retail transactions reported for the first half of 2016 was between 4.0 and 5.0% in these largest cities. Compared to the long-term interest rate, there is a considerable risk premium on prime retail property. Long-term financial performance of investment in Dutch retail property will give a steady return probably in the next three to five years.

Real estate analysts expect the total return on retail property in the Netherlands to rise further as a result of economic recovery. The total return of 3.0% in the second quarter of 2016 was significantly better than 0.9% in the second quarter of 2014 and 1.8% in the second quarter of 2015. The strong value growth reflects optimism of investors in Dutch real estate. However, capital growth in retail dropped to 0.2% in the second quarter of 2016. Meanwhile, large inner cities achieved capital growth of 1.2%, again contributing to the polarisation process. An investor considering Dutch retail property in the next two to three years could obtain a rental cash flow at a more attractive price than at the beginning of the crisis.

Steady income return will give stable cash flows for the investors. Dutch retail property offers diversification opportunities to investors in German retail property, since there is no correlation between retail property in these two countries. Retail property in the Netherlands is also of interest to investors in other countries because of a stable cash flow, positive capital growth and better return-risk ratio.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3 Demand: demographic and economic context

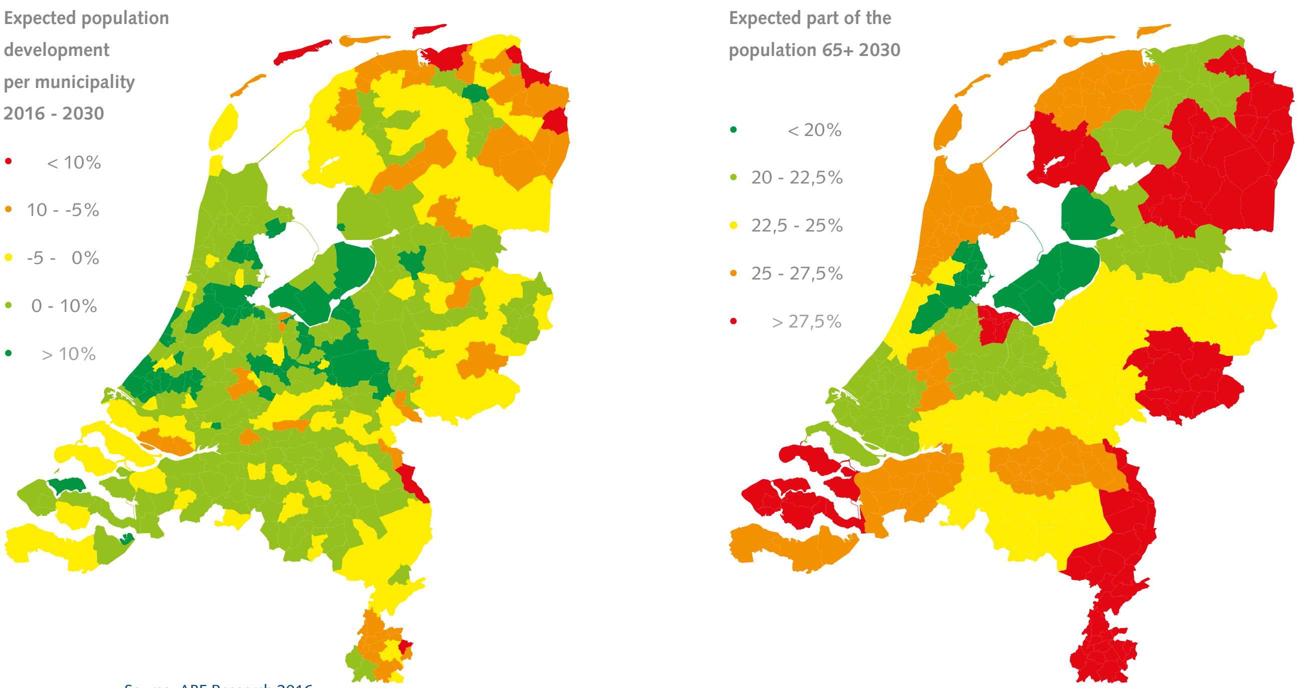
The current conditions regarding demand for retail in the Netherlands are discussed including demography, income and consumer spending. These conditions need to be taken into account when considering investment in retail property.

3.1 Demographic growth rate

In the next 15 years, the population of the Netherlands is expected to increase from 17 million to about 17.8 million (6%). The Dutch population has grown steady but slowly over the last few decades. Although there are differences in the growth rate, the population has grown in almost all municipalities.

This trend will change in the next 15 years (see Figure 3.1). The population of the largest metropolitan areas will increase, including the four largest cities of Amsterdam, Rotterdam, The Hague and Utrecht, as well as large and medium-sized cities. However, the population in the border areas of the country is expected to decline, and a modest increase in the intermediate regions. The underlying factors for the population decline are an aging population, higher mortality than birth rate, and further urbanisation.

Figure 3.1 Expected population growth per municipality, 2015-2030 and percentage over the age of 65 per region, 2030

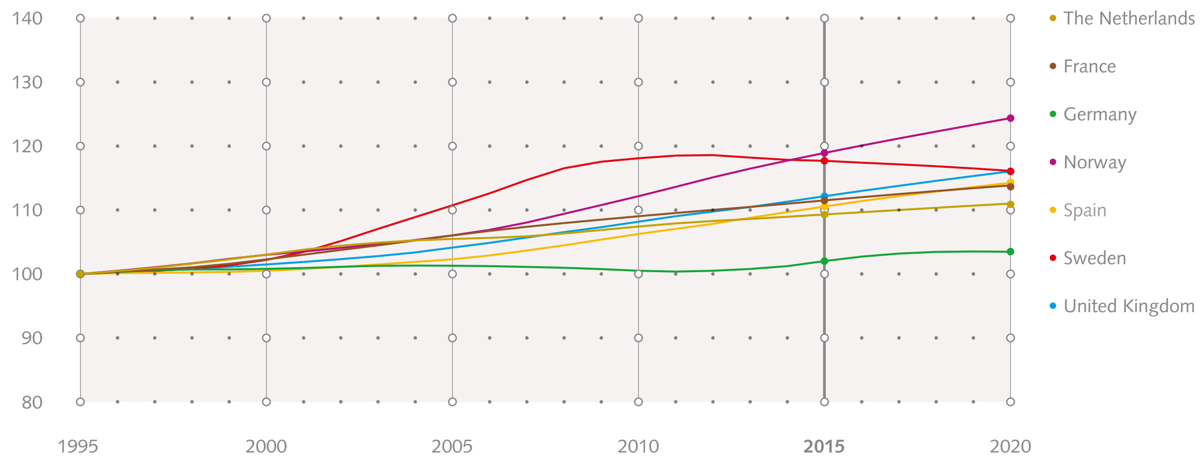


Source: ABF Research 2016

> ‘A few reasons to open shops in the Netherlands? The country has positive demographics, is a very densely populated area, is a gateway to Europe, has a unique retail structure and is small: just 2 or 3 hours from North to South or from East to West. Fantastic for logistics!’
>
> F. van Sebille (Deichmann)

In addition to natural population growth, urbanisation is the driving force for growth in the country's largest cities and their satellite towns (Figure 3.2). Approximately 75% of the population growth up until 2025 is expected to occur in the 27 cities with more than 100,000 inhabitants. In general, the largest cities will grow at a faster rate than the medium-sized and smaller cities. From 2023, small towns will have even fewer inhabitants. As consumer spending is linked to the number of inhabitants, the differential in population growth is one reason for the polarisation of the Dutch retail structure.

Figure 3.2 Population development index EU 1995-2020 (1995=100%), prognosis as of 2015



Source: Oxford Economics and Eurostat 2016

As shown in Figure 3.2, the population of most countries will increase in the coming years, except for Spain where the population has been decreasing since 2010. The population of Germany is expected to decrease after 2019. With a relatively small total population, the growth rate in Norway is the highest of the seven European countries compared.

In the countries compared, population growth differs between large and smaller cities, and also between urban, suburban and rural areas. Thus, the location of retail property will continue to be a key factor in future. In areas where the population will decrease, the value of retail property will also decline at a specific rate.

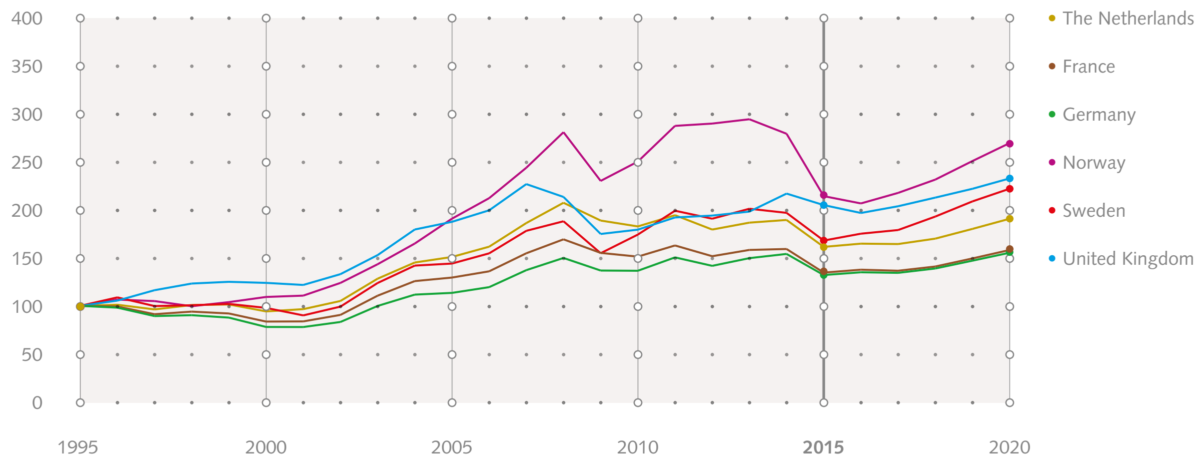
3.2 Economic indicators

In addition to the size and possible growth of the catchment area, retail turnover is influenced by consumer spending power, which is influenced by average per capita income (GDP), consumer price inflation, interest rate, and consumer confidence.

3.2.1 GDP

The crisis that emerged in 2008 had substantial impact on GDP in all seven European countries. In most countries, GDP showed a recovery in 2015, which is expected to continue up to 2020. Oxford Economics' GDP prognosis per capita for the Netherlands is similar to the other compared countries (see Figure 3.3). A more rapid increase is predicted for the United Kingdom (prior to the Brexit referendum) and the Scandinavian countries, and a slower increase for France and Germany.

Figure 3.3 GDP development index, per capita 1995-2020 (1995=100), prognosis as of 2015.



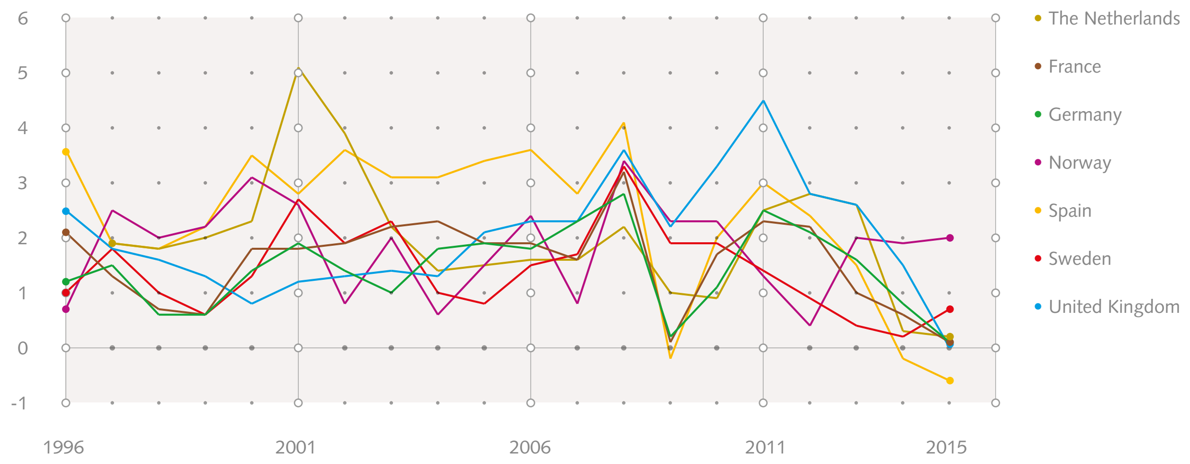
Source: Oxford Economics 2016

The Netherlands Economic Planning Agency (CPB) indicates an average GDP growth rate of about 1.85% annually for the period 2016-2021.

3.2.2 Consumer price inflation

The Netherlands had unusually high inflation in 2001-2002 (Figure 3.4) due to a combination of factors including increase in VAT, environmental tax, prices for gas, electricity and housing rents, and price inflation because of poor harvests (CBS, 2002). Despite these exceptional years, inflation in the Netherlands over the last 20 years was comparable to that of the other seven countries.

Figure 3.4 Harmonised development (%) of consumer prices (HICP) 1996-2015



Source: Oxford Economics 2016

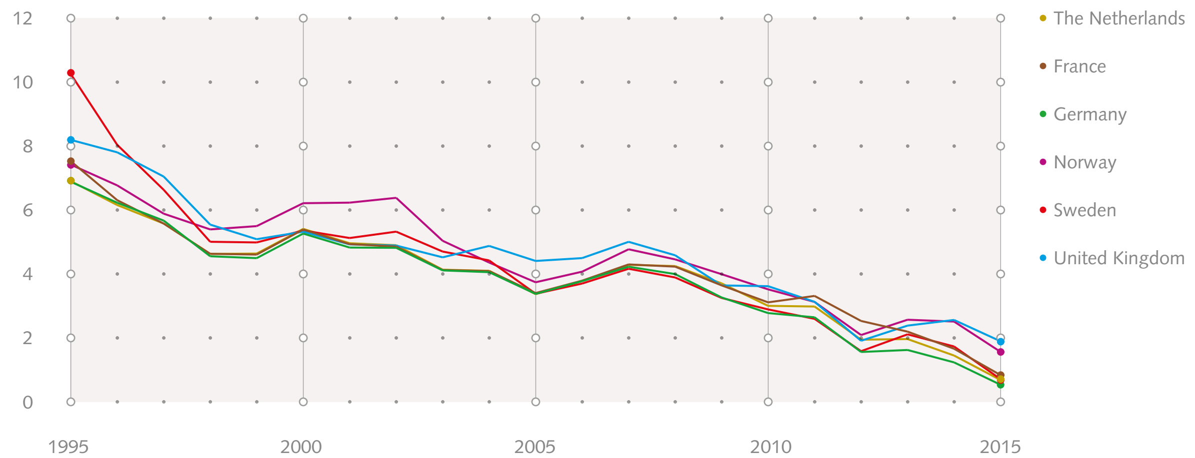
At present, annual inflation is below 1.0% in almost all of the countries compared. In the Netherlands, inflation in 2015 was 0.2%.

Sound, low price inflation leads to a reliable economic situation and prevents erosion of the consumer spending. The Netherlands Central Bank (DNB) and the European Central Bank (ECB) strive for an inflation rate at or below 2.0%. The Netherlands Bureau for Economic Policy Analysis (CPB) expects the inflation rate to be almost 2.0% in the coming years. Average inflation in the Harmonised Index of Consumer Prices (HICP) in the Netherlands is expected to be 1.5% annually in the period 2016-2021. Inflation will rise slightly annually to 1.8% in 2021.

3.2.3 Interest rate

Interest rates are at an historical low point, and banks are not rewarding savers. As ECB will pursue their current monetary policy up until 2017, interest rates are expected to remain relatively low. Over the last 20 years, the Netherlands and Germany have had the lowest interest rates of all EU Member States (Figure 3.5). As interest rates also reflect investment risk level, the risk on investments in the Netherlands has been and is likely to remain relatively small.

Figure 3.5 Annual interest rate 10-years, government bonds (%) 1995-2015



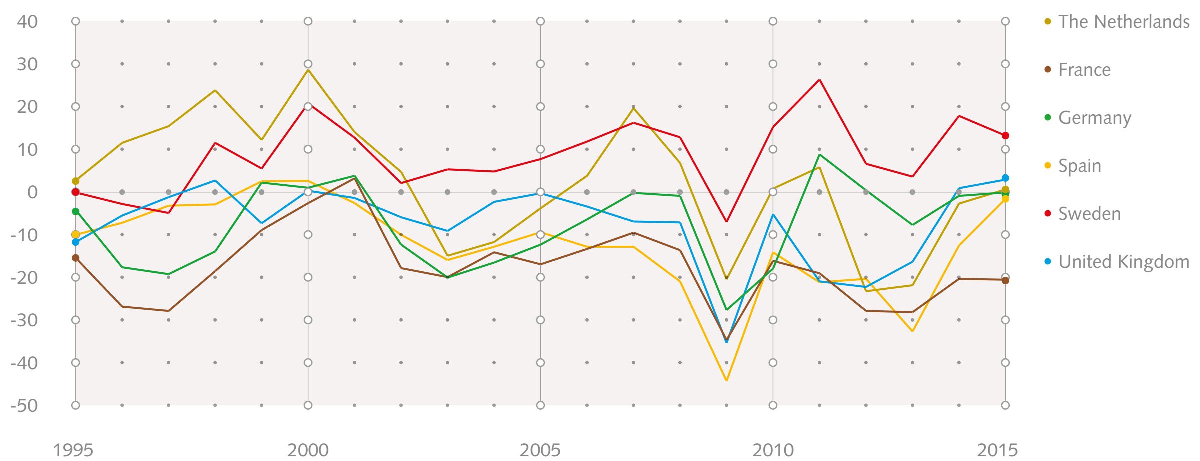
Source: Oxford Economics 2016

Although interest rates are expected to increase, rates in the Netherlands are expected to remain the second lowest after Germany. CPB expects the long-term rate to be 1.1% annually for the period 2016-2021, increasing from 0.6% in 2016 to 1.9% in 2021.

3.3 Consumer confidence and consumer spending

A frequently used economic indicator is consumer confidence (Figure 3.6). As in other countries, there is a strong correlation between consumer confidence and consumer spending in the Netherlands (Figure 3.7). Dutch consumer confidence was relatively high until the crisis but has reflected the double dip during the crisis. Since 2013, consumer confidence has recovered. The latest survey by Statistics Netherlands (CBS) indicates that consumer confidence will be higher in 2017 than it is currently in 2016.

Figure 3.6 Consumer confidence indicator 1995-2015

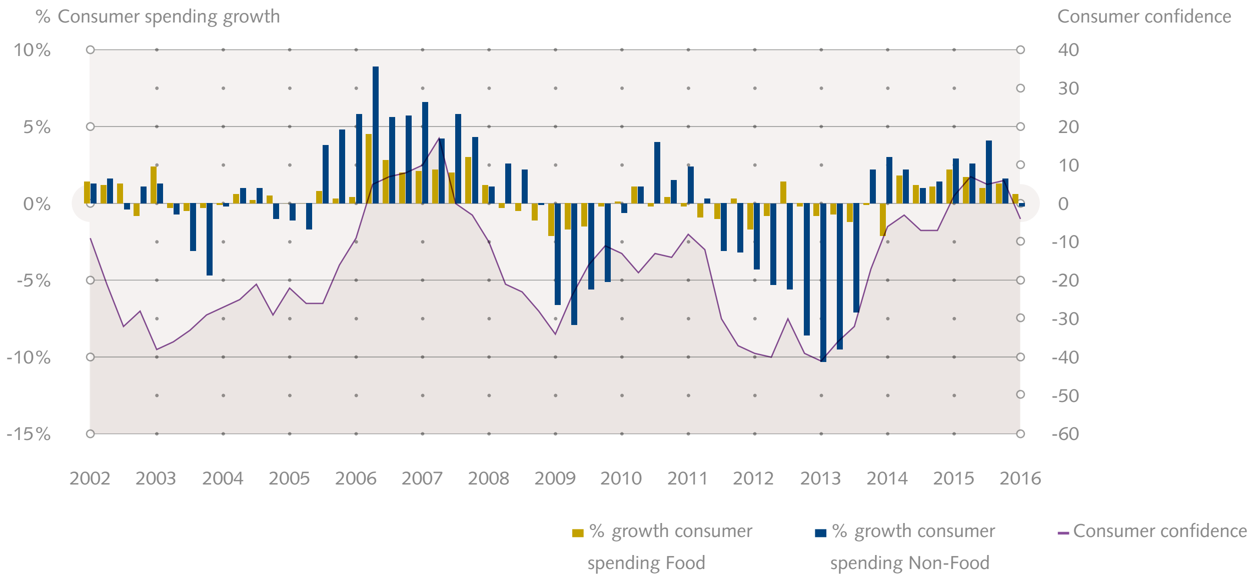


Source: European Commission 2016

No data available for Norway

The expected increase in consumer confidence is reflected in the national prognosis on consumer spending. Oxford Economics predicts 1.0% growth in consumer spending in the Netherlands in the period 2015-2020, and 0.2% annually in the period 2020-2025. CPB expects for the period 2017-2021 slightly higher growth in consumer spending of about 0.9% for food retail and 2.5% for non-food retail annually. Thus, growth in consumer spending in the part of the retail sector that suffered most during the crisis will be higher.

Figure 3.7 Consumer spending and consumer confidence Netherlands 2002-2016



Source: Statistics Netherlands (CBS), 2016

3.4 Summary and outlook 2016-2020

The Dutch population is expected to grow by almost 6% to about 17.8 million in the next 15 years, with the population of the largest cities and their satellite towns growing faster. Thus, retail turnover will grow more rapidly in the metropolitan areas as well as footfall in the high streets of their inner cities. Urbanisation is one of the main reasons for polarisation in the Dutch retail structure.

Compared to other countries economic indicators are equal or even better for the Netherlands. Household consumption will grow with 1.5% annually on average in the coming five years. In this period, the inflation rate will increase gradually to almost 2.0% annually. Consumer confidence is higher in the Netherlands than in the other European countries compared.


crocs

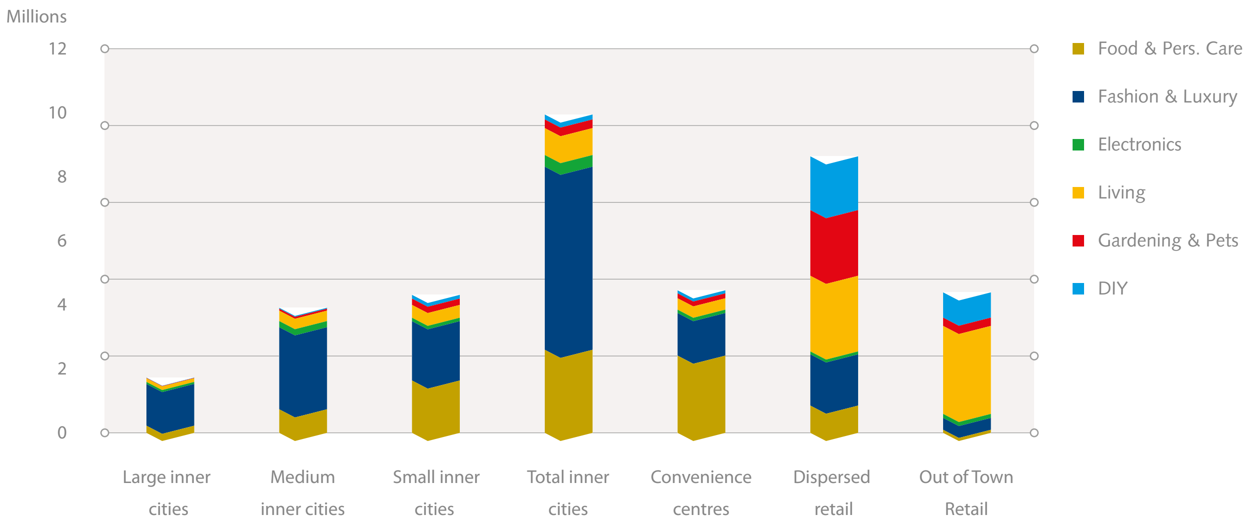
4 Polarisation of the retail market

Various features of the Dutch retail market are considered, including floor space, ownership of retail property, annual investment volume and indicators of economic performance in the retail sector, and the impact of Internet retail on retail vacancy and bankruptcy. Finally, how to control the future growth of retail floor space is considered.

4.1 Existing retail floor space

The total retail floor space in the Netherlands is estimated to be 28 million m² in a total of 100,000 stores and distributed over the various location types (Figure 4.1). The main type of retail location is the inner city.

Figure 4.1 Retail floor space in the Netherlands per location type (m²), 2016



Source: JLL 2016

Inner cities: About 40% of the retail floor space in the Netherlands is in the 150 inner cities. Dutch retail is characterised by a dense network in inner cities, which are valued by the catchment area as the heart of society. Fashion and luxury retail is dominant in the high streets. Institutional investors are mainly interested in real estate in these streets and own more than half of the retail property. Between 2006 and 2016, independent local fashion retailers decreased (from 69 to 62%) in favour of chain store retailers. In the last ten years, the share of foreign fashion chain store retailers in the high streets has almost doubled from 28 to 56% at the expense of local independent fashion retailers and several national retailers (Financieel Dagblad, 20-2-2016). In 2015, fashion retail had almost one-third of the national take-up of retail floor space (NVM, 2016). This concerns mainly take-up by foreign fashion retailers, for instance Primark.

This process is expected to continue in the coming ten years. Most newcomers originate from the countries compared in this report, and from Belgium, Denmark and Italy. As foreign newcomers prefer the high streets of the largest inner cities, this has reinforced polarisation of the Dutch retail structure. The secondary streets offer a broad variety of retail, leisure and entertainment, but footfall is usually higher in the high streets than in the secondary streets. In general, the larger the city and retail floor space, the larger the footfall. This also depends on the location, the presence of leisure and entertainment and accessibility by foot, bicycle, car and public transport.

Convenience shopping centres: About 15% of the national retail floor space is located in convenience centres, which supplement the inner cities and serve the surrounding neighbourhoods. Most convenience centres have one or more supermarkets accompanied by bakeries, butchers, drug stores and shops for household goods. Larger convenience centres also offer a variety store, fashion stores and a few restaurants. There are 26 urban district shopping centres, each of about 25,000 m^2 in floor space.

'In our market expansion we aim to cover the entire market. Our locations range from inner cities to convenience centres, and anything in between'

G.J. de Rooij (A.S. Watson)

Out-of-town retail concentrations: Out-of-town retail, such as retail warehousing and retail parks, is relatively well developed occupying about 15 to 20% of the retail floor space. Retail in furniture and DIY is dominant. Other types of retail are occasionally permitted by authorities. It is generally considered there are too many out-of-town retail locations in the smaller urban areas. Only a few out-of-town concentrations in the largest cities have been successful. Throughout the country, there are some 20 out-of-town convenience centres, concentrated around a mega-supermarket of more than 2,500 m^2. There are no hypermarkets in the Netherlands. Several attempts to establish hypermarkets have failed mainly because of the dense spread of convenience centres throughout the country. Currently, there are three factory outlet centres, together occupying 81,500 m^2, which is about 0.3% of the total retail floor space. In general, retail policy aims at no or limited growth in out-of-town retail because this type of retail is considered to have a negative impact on the performance of inner cities and convenience centres.

'In our market expansion we seek for well accessible peripheral locations in populated regions.'

G. van Heeren (Hornbach)

Dispersed retail: About 30% of the national retail floor space is scattered in the neighbourhoods (retail strips with shops of less than 1,000 m^2), in industrial areas and along urban access roads. This retail space is mainly occupied by DIY and garden centres. Dispersed retail floor space, which occupies a large number of retail square metres per inhabitant, will decrease in the coming ten to 20 years. This is largely due to a combination of concentration in out-of-town retail locations, a reluctant retail policy and the disappearance of small strips and dispersed small-scale shops.

4.1.1 Dutch retail supply from an international perspective

Shopping centres as defined by the International Council of Shopping Centres (ICSC) are under-represented in the Netherlands (Table 4.1) mainly because of the dense spatial structure of the Dutch retail sector. According to ICSC, only about 36% of the total retail floor space in inner cities and convenience centres, and only 3% of out-of-town retail in the Netherlands are considered to be shopping centres. Shopping centres in the Netherlands are relatively small and re only a few centres larger than 50,000 m^2.

Table 4.1 Retail floor space and shopping centres, 2015

	Retail floor space (m^2) per 1,000 inhabitants	Shopping centres (m^2) per 1,000 inhabitants [1]	Market share shopping centres (%)
The Netherlands	1,670	370	22
France	1,230	533	43
Germany	1,460	218	14
Norway	1,310	926	70
Spain	1,110	274	24
Sweden	1,260	732	58
United Kingdom	1,100	456	41
Compared countries	**1,266**	**364**	**28**

Source: Eurostat, GfK, International Council Shopping Centres 2016

1) Shopping centres (also in inner cities), factory outlet centres and retail parks

The Netherlands has relatively more retail area per inhabitant than the other countries surveyed (Table 4.1), possibly because of the regular and systematic measurement of each store in a retail category. This cannot be compared with the other countries because the method of measurement differs from country to country.

4.1.2 Importance of leisure and entertainment

The success of inner cities, urban district centres and large out-of-town concentrations partly depends on leisure and entertainment facilities, such as cafes, restaurants, cinemas and theatres. Inner cities are visited not only for shopping but also for leisure activities. The number of leisure and entertainment units has increased in the last ten years in all types of retail location (see Table 4.2).

Table 4.2 Share of total number of units and increase in share of leisure and entertainment units per retail location type in the Netherlands

	Percentage of total number of units 2016 (%)	Growth rate number of units 2006-2016 (%)
Large inner cities	72	37
Medium sized inner cities	40	20
Small inner cities	36	59
Convenience centres	39	42
Out of town locations	15	171
Dispersed locations	92	47

Source: Locatus 2016

‘Improvements to the attractiveness of retail locations should be made to enrich consumer experience’

G.J. de Rooij (A.S. Watson)

The proportion of leisure and entertainment units to the total number of commercial units is higher in the large inner cities, and a significant proportion of these units are in dispersed locations (with a lot of automotive). In the large inner cities about 28% of all commercial units are used for retail and 72% for leisure and entertainment. A retail location with well-developed leisure and entertainment has a strong competitive advantage.

4.2 Ownership retail property

The national cadastral register of real estate property is complete and accurate, and is publicly accessible.

Ownership of retail property is diverse. Almost 10% of retail property is owner-occupied, half by local shopkeepers and half by national chain store retailers. Former local shopkeepers lease retail property to national chain store retailers. More than half of total retail floor space is owned by international and national private investors with considerable liquidity. Some are specialised in a retail category, for instance supermarkets, out-of-town retail and prime high streets.

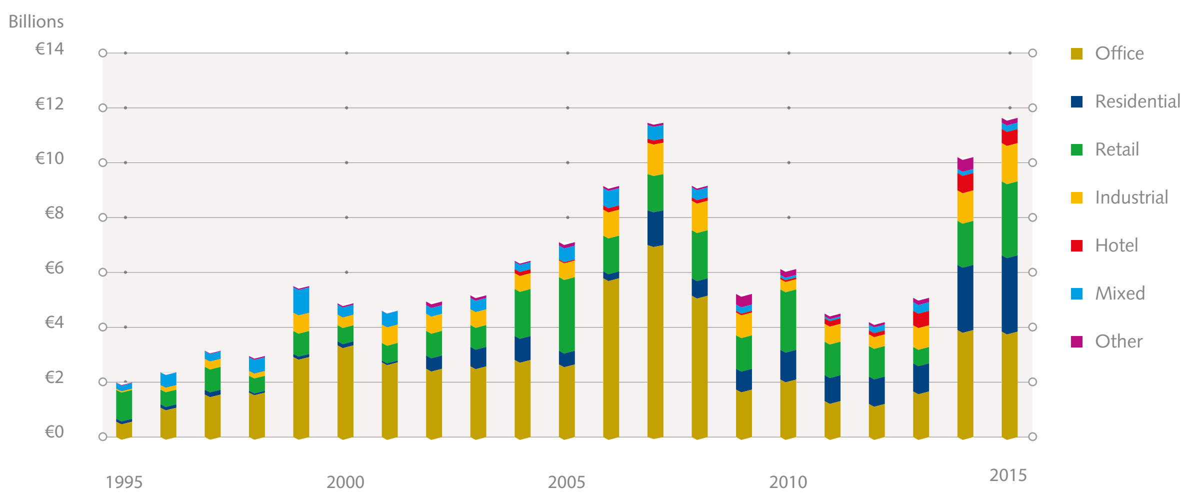
In recent years, institutional investment in retail property has increased. About 10% of retail floor space is owned by listed and a few non-listed funds, catering for several Dutch pension funds and insurance companies. About 10% of retail floor space is owned by social housing associations, and the proportion is higher in cities, such as Amsterdam (about 15%, especially in neighbourhoods).

The proportion of professional private investors and institutional investors is expected to grow in the next ten years at the expense of local owner-occupied shopkeepers, small private investors and housing associations. Demand exceeds the supply. More parties are interested in purchasing retail property and a relatively small number of retail properties are offered for sale each year.

4.3 Annual investment volume

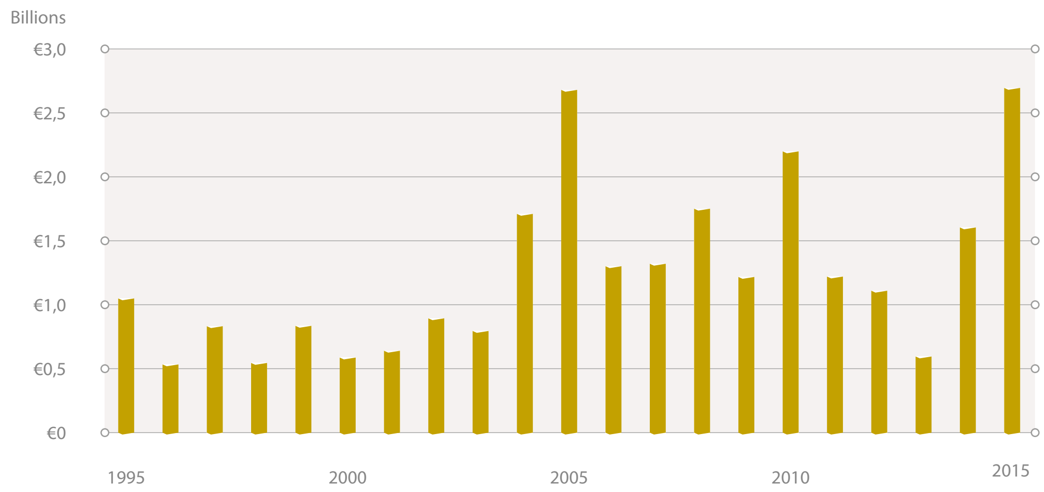
The highly developed and socially stable Dutch economy offers an open environment for new retail investment by foreign and domestic investors. In 2015, real estate investment reached its highest level since the start of the crisis. Driven by the positive economic outlook, low interest rates and more favourable relative pricing than in the other European countries, the retail market started to recover in 2013 and reached a peak in 2015.
The proportion of residential, retail and office investments has grown in the last two years (Figure 4.2). Annual investment in retail property in the Netherlands is presented in Figure 4.3.

Figure 4.2 Annual investment in real estate in the Netherlands, 1995-2015



Source: JLL 2016

Figure 4.3 Annual investment volume in retailproperty in the Netherlands,1995-2015

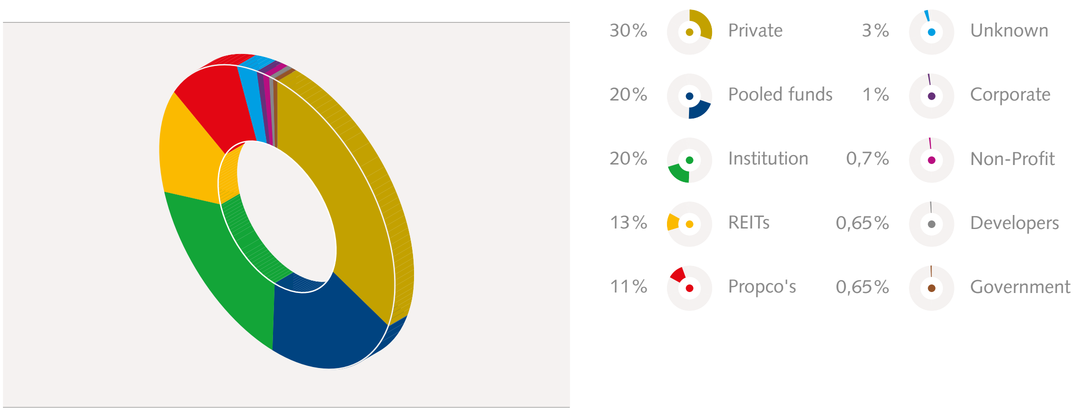


Source: JLL 2016

In 2015, the market was set by an increased number of single asset deals (compared to 2014) and a few exceptional large portfolio transactions. Buyers were private equity funds using the current liquidity in the market, and sellers were institutional investors re-defining their portfolio strategies. The Dutch retail market seems to have a threshold of about 500 million annually. Annual retail investment has been more than twice this threshold in almost every year of the crisis.

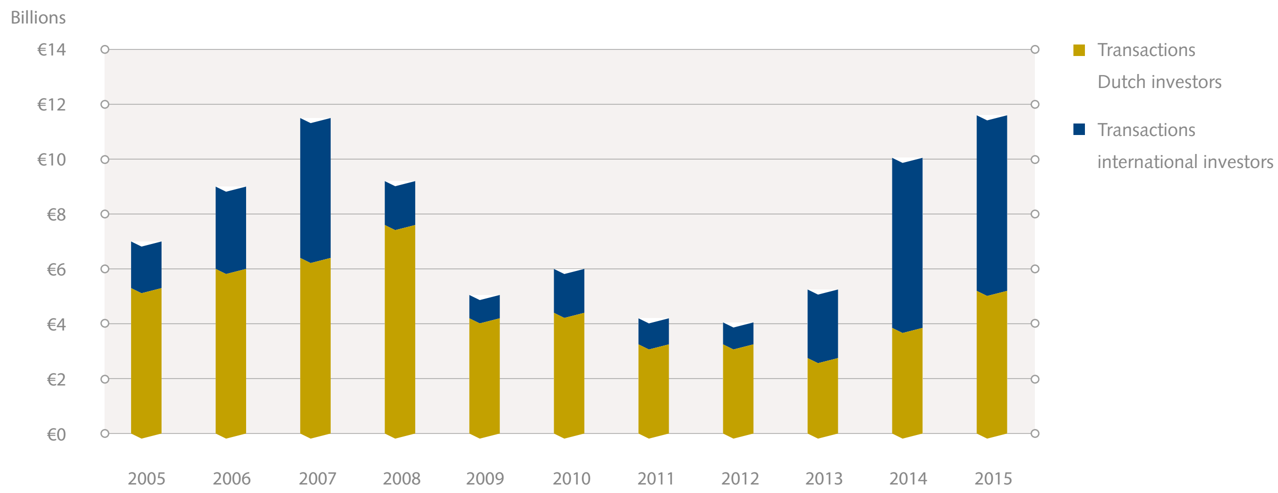
The breakdown of total real estate investment according to investor types is presented in Figure 4.4. The proportion private investors and institutional investors has dropped since the crisis, followed by unlisted funds and private equity investors in the last three years. Part of the investment was made by foreign investors. The contribution of foreign investors to the market volume is volatile (Figure 4.5) and has grown in recent years.

Figure 4.4 Market share investors in Dutch real estate, 2016



Source: JLL 2016

Figure 4.5 Foreign and domestic investment in real estate in the Netherlands, 2005-2015



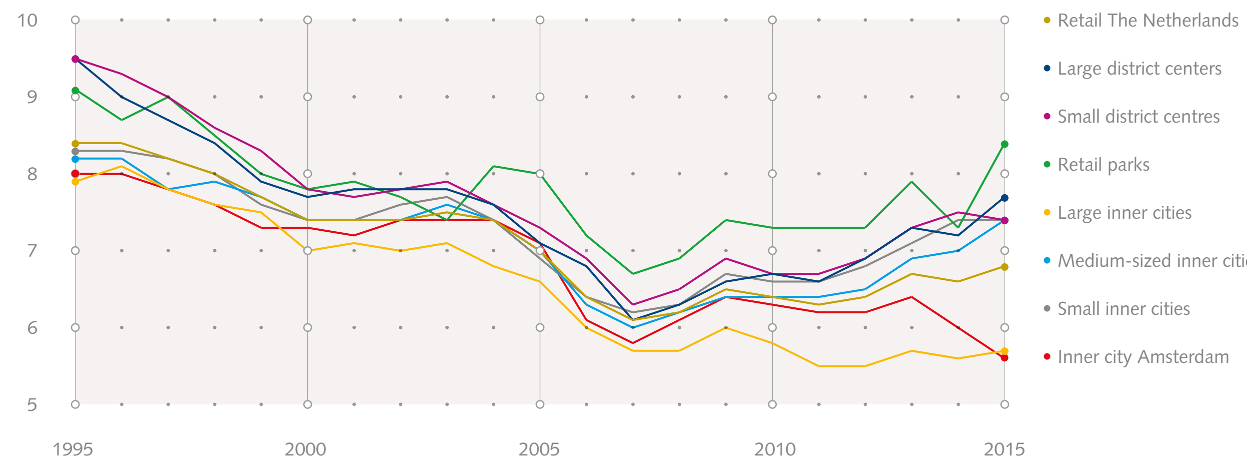
Source: JLL 2016

'The Dutch retail market has become increasingly international.'

R. Schulte, Inditex

Between 2008 and 2012, about 75 to 80% of real estate in the Netherlands was purchased by domestic parties, and 20 to 25% by foreign investors. The foreign share started to grow in 2013, to reach nearly 55% of the investment in real estate in the Netherlands at the end of 2015. There is less uncertainty about the Dutch market, which seems to be benefiting from the low interest rates. In 2014, foremost investors from the United States (18%), the United Kingdom (11%) and Germany (10%) were active in all real estate segments. There is substantially more interest from foreign investors and domestic investors with foreign investors contributing significantly to the liquidity circulating in the national market.

Figure 4.6 Initial yield of retail property in the Netherlands 1995-2015



Source: MSCI, 2016

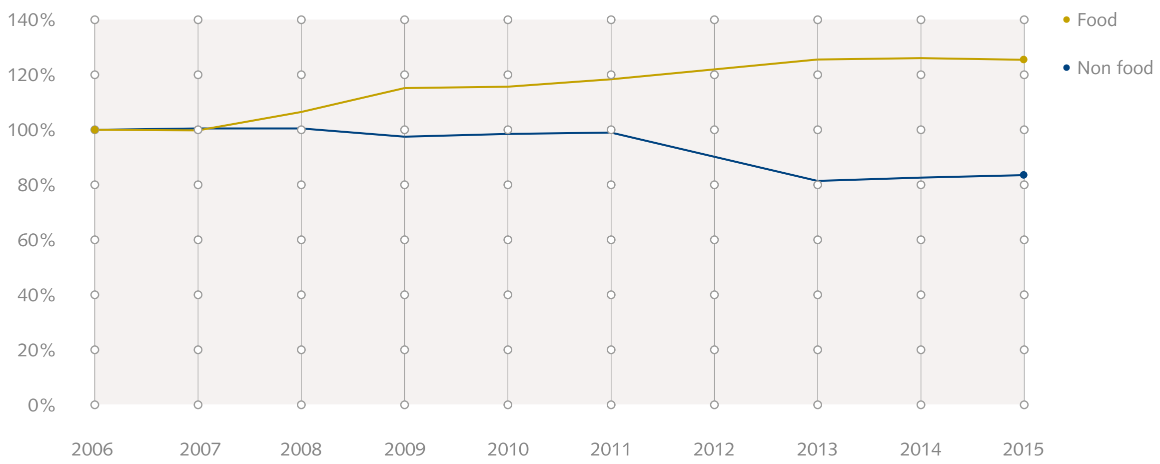
The recovering foreign interest in real estate investment and in retail property in the Netherlands since 2013 could have led to a sudden yield compression. However based on IPD data, all retail property in the Netherlands has shown increasing initial yield since the beginning of the crisis (Figure 4.6). The polarisation of Dutch retail has also implications for yield on retail property types. Since 2008, yield in large inner cities has fluctuated from decreasing to stabilisation, but yields in small inner centres, district centres and retail parks are increasing.

The yields presented in Figure 4.6 are averages based on IPD data from MSCI. The initial yield of actual retail transactions in the prime high streets is sharper. In the first half of 2016, 4.0% was reported in Amsterdam and Rotterdam, 4.8% in Utrecht and 5.0% in The Hague. There is considerable risk premium on prime retail property compared to the annual interest rate (see Figure 3.5).

4.4 Floor productivity, footfall and rent

Floor space productivity of Dutch food and non-food retail in the period 2005-2015 is presented in Figure 4.7. Floor productivity for non-food retail has decreased over the last few years while that for food retail has shown growth higher than annual inflation.

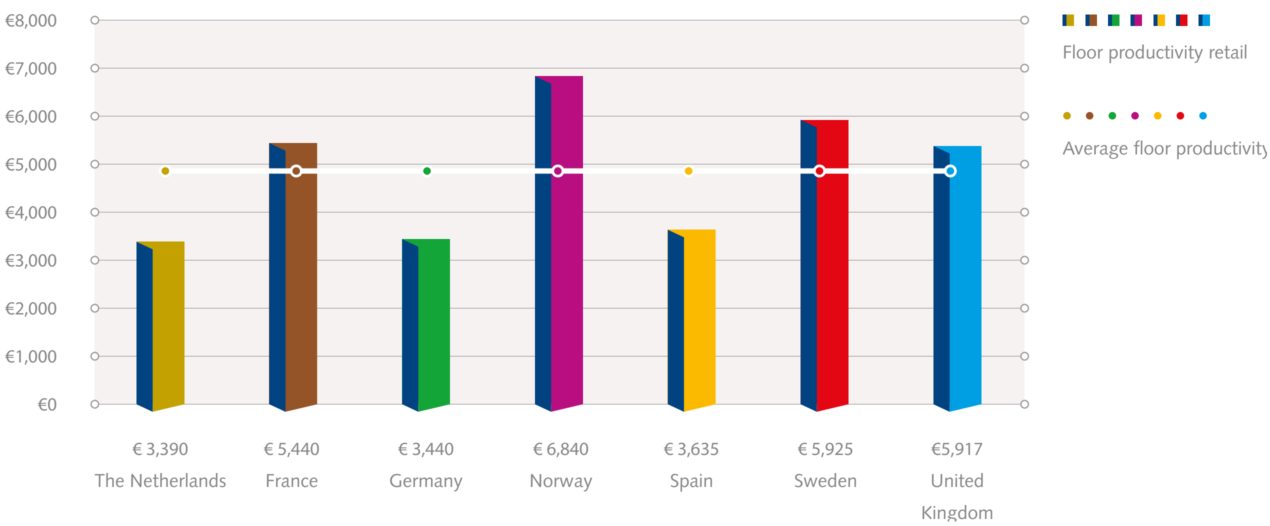
Figure 4.7 Floor productivity growth index Dutch retail, per m², 2005-2015



Source: CBS, HBD/Panteia, Locatus 2016, adaption Ecorys

Floor productivity of food retail and non-food retail has tended to stabilise over the last few years. Non-food productivity reflects the impact of reduced consumer spending during the crisis and the upward swing in Internet retail (see Section 4.5).

Figure 4.8 Average floor productivity in the Netherlands compared to other countries in Europe, 2014



Source: Eurostat 2016

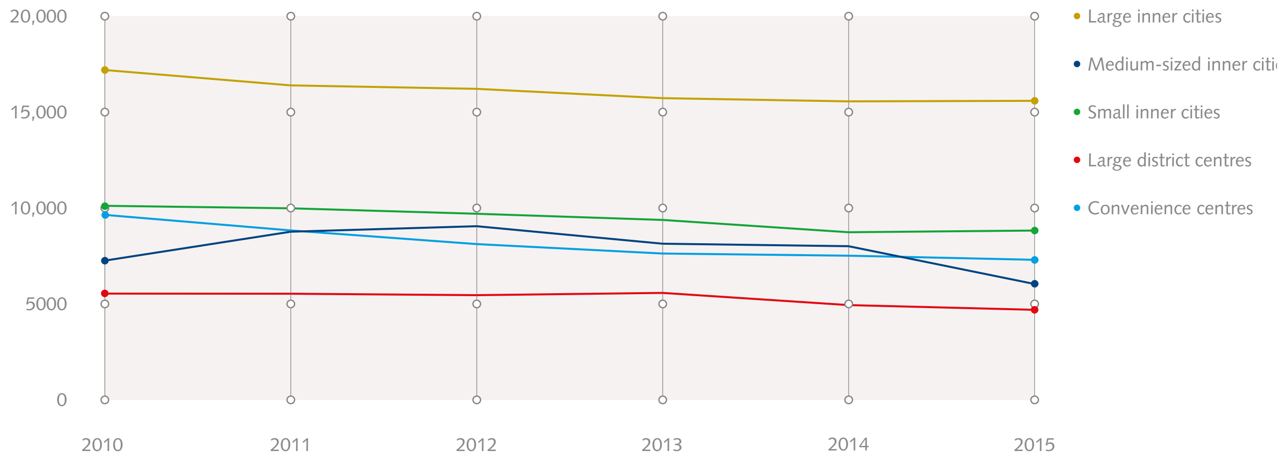
Retail floor productivity in the Netherlands is almost equal to that of German retail but is lowest of all countries compared. The relatively low floor area results from the relatively large retail floor space with average national retail turnover per inhabitant (see Table 4.1 and Figure 4.8).

'The Dutch retail environment is highly competitive.'

G.J. de Rooij (A.S. Watson)

There are significant differences in floor productivity between types of retail locations, which is another indicator of polarisation in the Dutch retail sector. Floor productivity of convenience centres and of small district centres is highest because of the higher floor productivity in food retail.

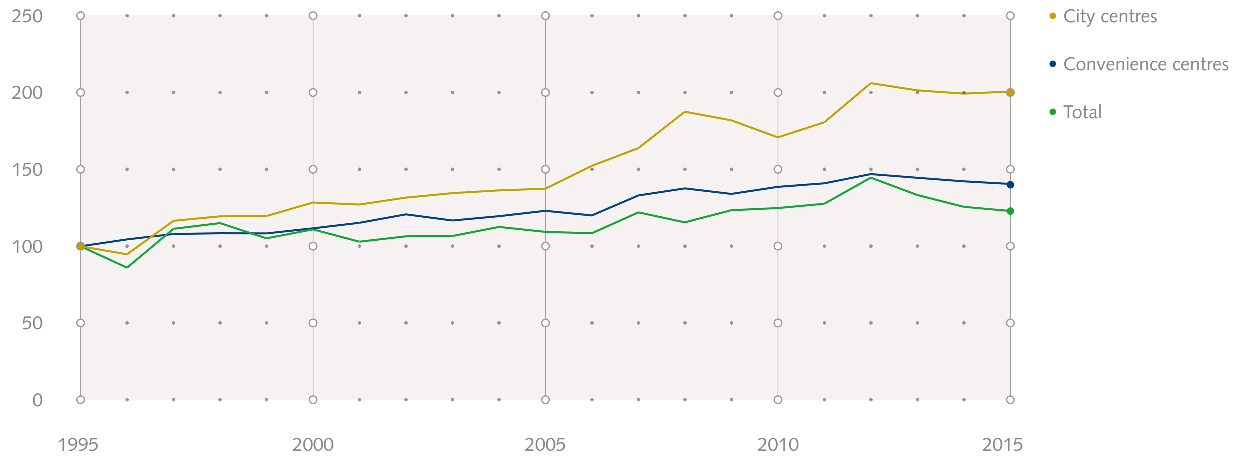
Figure 4.9 Footfall in high streets by type of inner city in the Netherlands, 2010-2015



Source: Locatus 2016

The difference and evolution of footfall in high streets confirm polarisation in the retail sector (Figure 4.9). Footfall is higher in the high streets of the largest cities than in the other types of inner cities and the convenience centres. There is a long-term decrease in footfall in the Netherlands. This trend can be partly attributed to the measurement method used. Because local footfall was measured every two years between 2008 and 2015 on a Saturday, declining popularity of shopping on Saturdays in favour of other days, such as Sunday, has had an impact. Other factors have also had an impact on footfall in high streets, such as temporary reduction in the annual number of shopping trips per inhabitant during the crisis and growth in fashion spending on the Internet.

Figure 4.10 Indexed growth in rent per m² in the four largest cities, 1995-2015



Source: MSCI 2016

Differences in floor productivity is one factor accounting for increasing differences in the growth in rent per square metre between the types of retail locations in the Netherlands.

'The Netherlands has at this moment affordable spots in the top cities. (Do not tell owners!)'

F. van Sebille (Deichmann)

Difference in average rent per square metre between the inner cities and convenience centres based on the IPD database of MSCI are presented in Figure 4.10. The average rent per square metre in inner cities is increasing faster than that of retail in general and of convenience centres.

4.5 Impact of Internet retail

Growth in e-commerce has had effect on use of retail area in all European countries (Table 4.3). Daily use of Internet by Dutch consumers is above average. The percentage of consumers who purchased online in 2015 was nearly at the same level as in the other European countries surveyed. Share of e-commerce of the total retail turnover [2)] in the Netherlands is almost the same as the average of the seven European countries compared.

'E-commerce should be considered as an additional sales channel. Physical shops will remain to be so as well. Consumer experience is however becoming more and more important to physical stores to maintain competitiveness.'

R. Schulte, Inditex

Table 4.3 Internet use and share e-commerce in total retail turnover, 2015

	Daily internet use 16-74 years old (%)	Purchased online last 12 months (%)	Share retail turnover e-commerce (%)
The Netherlands	85	71	9
France	68	65	7
Germany	75	73	12
Norway	89	76	7
Sweden	82	71	19
Spain	64	42	3
United Kingdom	83	81	9
Countries, average	**78**	**68**	**10**

Source: Eurostat 2016

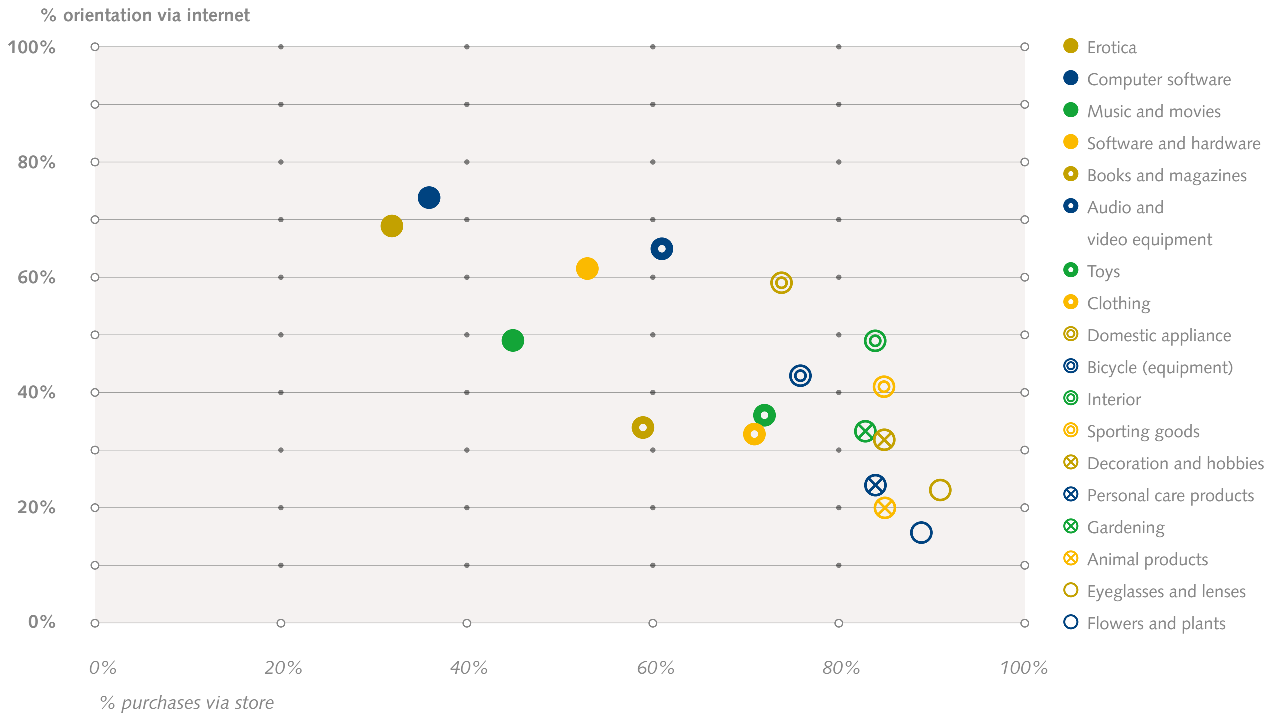
2) Eurostat NACE-division 47: The goods sold in this division are limited to goods usually referred to as consumer goods or retail goods. Therefore, goods are excluded that do not normally enter the retail trade sector, such as intermediate goods and industrial machinery. This division also excludes the sale of farm products by farmers, the combined manufacture and sale of goods that is generally classified as a manufacturing activity, retal sale of motor vehicles, motor cycles and their parts and accessories, sale of food and drinks for consumption on the premises and sale of takeaway food, and rent of personal and household goods to the general public.

In terms of the effect of e-commerce on use of retail floor space, a distinction is made between non-food and food retail:

1 There are small differences in non-food categories between the countries compared. In the European Union, the most popular type of goods purchased online are music, entertainment and media (65%), followed by clothing and sporting goods (50%).
2 There are considerable differences in online sale of food. Market researcher Sindy (2015) reported 0.8% of groceries purchased online in Germany, 1.5% in the Netherlands, 3.6% in France, and 4.4% in the United Kingdom.

Commercial customer services especially travel agencies, banking and insurance agencies have been affected by e-commerce (Eurostat 2016).

Figure 4.11 Percentage of information orientation on Internet before purchasing versus percentage purchasing in stores in the Netherlands



Source: Blaauw Research 2014, adaption Ecorys

In the next phase in e-commerce (growth to maturity), the market share of well-known retail chains is expected to grow online, reducing the market shares of pure players and long tail players.

'E-commerce does not harm our retail store performance. In fact, e-commerce enables a complementary strategy.'

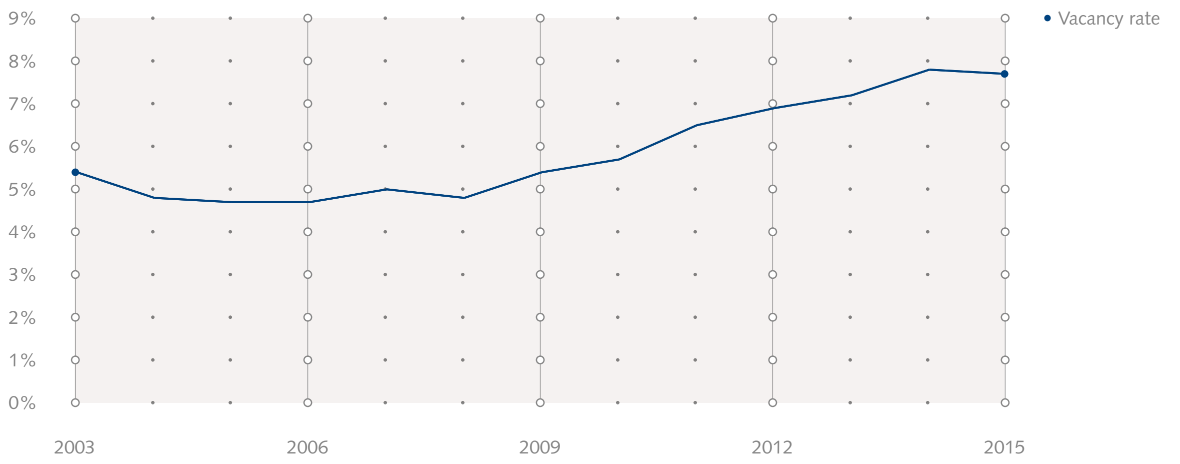
G. van Heeren (Hornbach)

This process is being accelerated as chain store retailers explore opportunities to strengthen their economic performance by developing a multichannel strategy. Thus, e-commerce is expected to have less effect on demand for shops and floor space than it did in the initial phases in the development of e-commerce.

4.6 Vacancy and bankruptcy

The decrease in turnover resulting from decrease in consumer spending during the crisis and the growth of e-commerce has in turn lead to retail bankruptcies and to retail vacancy. The relative significance of retail vacancy has been assessed and empirical data are presented on refilling retail vacancy, for instance, after bankruptcies.

Figure 4.12 Retail vacancy rate (percentage m²) in the Netherlands, 2000-2015

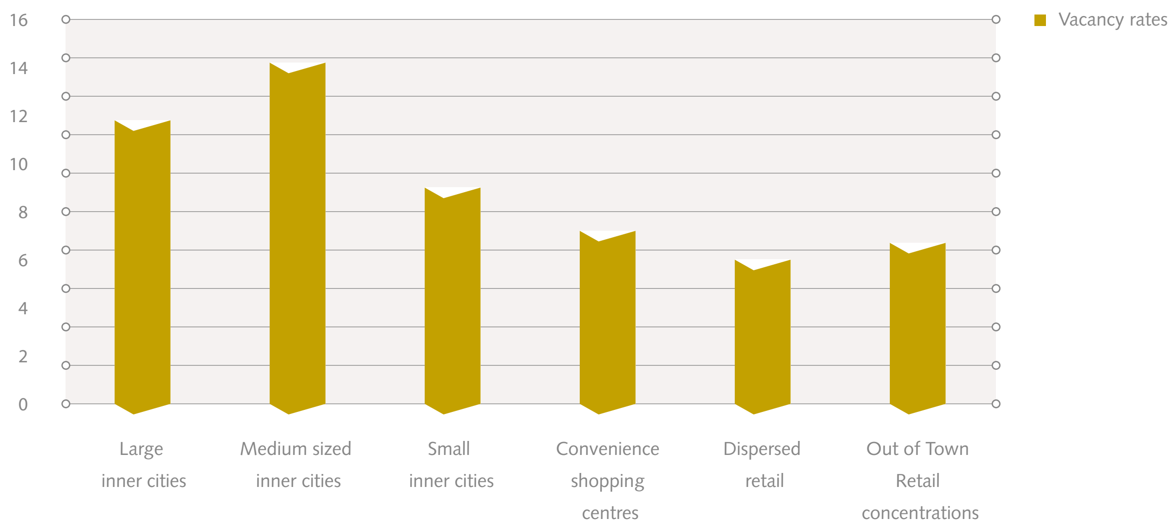


Source: Locatus 2016

The impact of the crisis together with the toll of e-commerce is presented in Figure 4.12. On average, retail vacancy increased from 5 to 8%, with food retail less affected than non-food retail. In the foreseeable future, retail vacancy is expected to stabilise and then to decrease to the friction level of 5% in the long term.

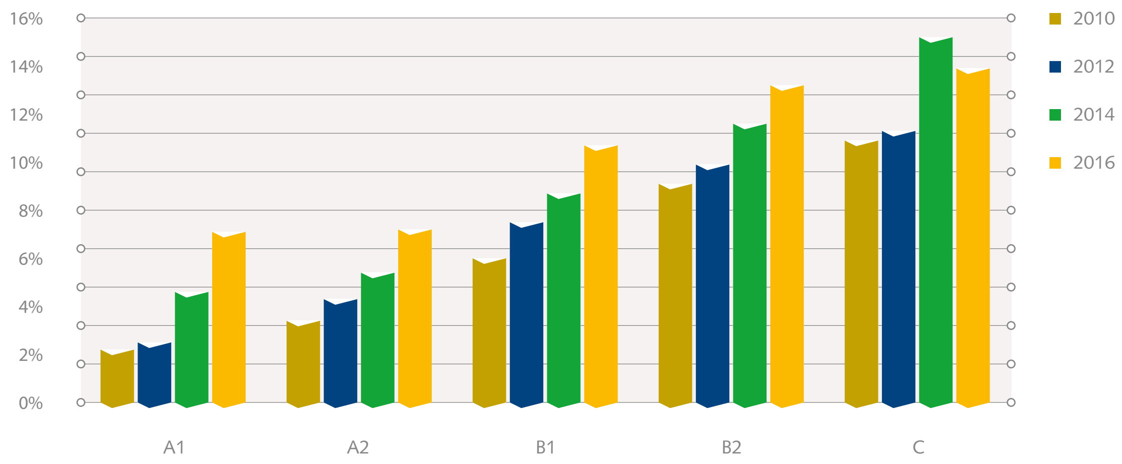
Vacancy differs according to type of retail locations (Figure 4.13). The vacancy rate is relatively low in the small inner cities and convenience centres (relatively small share of the sensitive non-food sector) and relatively high in large and medium-sized inner cities (larger share of non-food). The vacancy rate is also low in out-of-town retail and dispersed retail because when outlets on the outskirts of urban areas are closed, local authorities endeavour to change the zoning plan for the location for non-retail purposes. Vacancy rate in footfall zones of the inner cities are presented in Figure 4.14. High streets (A) have a lower vacancy than secondary streets (B and C). The data in Figures 4.13 and 4.14 further substantiate the polarisation taking place in Dutch retail structure.

Figure 4.13 Vacancy in types of retail locations in the Netherlands (percentage m²), 2016



Source: Locatus 2016

Figure 4.14 Vacancy rates in A B and C zones inner cities as percentage total m², 2010-2016



Source: Locatus 2016

'Creative and flexible solutions should be found to utilise existing real estate. Vacancy could be tackled via sales based rent, in which rent is related to turnover. This would enable for win-win situations for property owners and retailers.'

R. Schulte (Inditex)

Altera investigated changes in use of retail floor space in 2015. About 31,000 stores in 129 inner cities during the four to five year crisis were studied (Table 4.4). Two-thirds of all stores were used by the same user during the whole period, and one-fifth of all stores got a new retail user. Only 1% was vacant during the period, indicating that vacancy had a limited structural impact on retail locations after four or five years.

The Dutch retail structure seems to be sufficiently resilient to absorb sudden vacancy over a period of a few years. However, refilling vacancy was and will continue to be a relatively tough process and is tougher for some types of retail location, such as medium-sized inner cities.

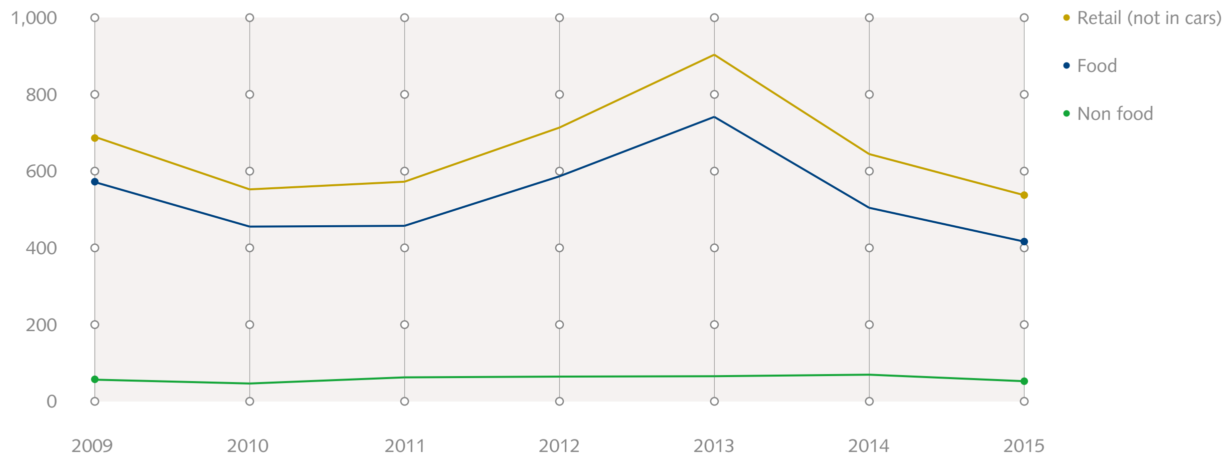
Table 4.4 Changing use of Dutch retail units, 2011-2015

	Large inner cities (%)	Medium-sized inner cities (%)	Small inner cities (%)	Urban district shopping centres (%)
Shop in use with same sort of retail	67	67	70	69
Shop in use by other sort of retail	22	18	18	21
Shop was vacant, now in use	4	4	4	3
Shop was vacant, now vacant	6	9	6	6
Structural vacancy	1	2	2	1
Total	**100**	**100**	**100**	**100**
Share shops in use after vacancy	78.9	67.3	74.5	76.6

Source: Locatus, Altera, 2015

About 10 to 20% of retail vacancy have resulted from bankruptcy. The number of bankruptcies in Dutch non-food retail decreased during the first years after the start of the crisis in 2008, increased a few years during the crisis until 2013 and 2013 and decreased after 2013. Meanwhile, the number of bankruptcies in food retail has remained almost constant (Figure 4.15).

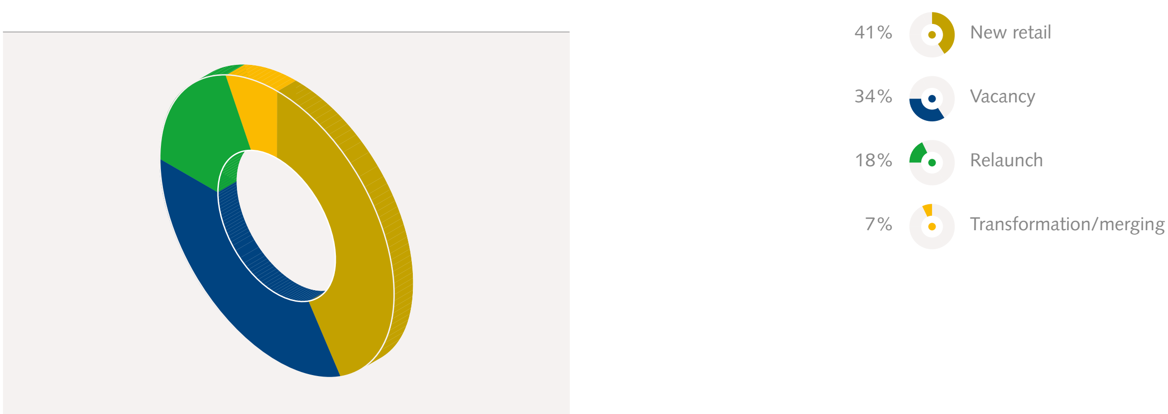
Figure 4.15 Retail bankruptcies in the Netherlands, 2009-2016



Source: CBS 2016

Statistics Netherlands (CBS) makes no difference between bankruptcies of local shopkeepers and bankruptcies of chain store retailers, each bankruptcy counts as one. Also CBS counts small categories in addition to food and non-food retail in the total retail sector. Chain store retailers have been shown to withstand crisis periods better than smaller retailers, and account for 54% of all retail floor space in the Netherlands. This proportion increases with a city's population, and thus offers risk reduction for investors in retail property in the larger and largest cities. The number of retail bankruptcies in 2016 and 2017 will remain at the 2015 level. Credit insurer, Altradius, expects the number of retail bankruptcies to decrease after 2017.

Figure 4.16 Refilling retail property after bankruptcy in the Netherlands



Source: Locatus, Syntrus 2015

Syntrus Achmea has investigated the process of refilling 1,720 units after bankruptcies in three consecutive years during the crisis (Figure 4.16). Two-thirds was refilled after several years. There were differences in refilling after bankruptcy between types of retail locations (Figure 4.16). The largest proportion of vacancy after bankruptcy (about 40%) was refilled with another retail format. About 7% of the vacant floor space was transformed and merged to a larger scale, making the property interesting for fashion chain stores and for other purposes, such as residential.

‘Retail building in the high streets of inner cities should be aggregated to meet the demand of international retailers for large shops. Authorities should facilitate this as much as possible to make their retail area stronger.’

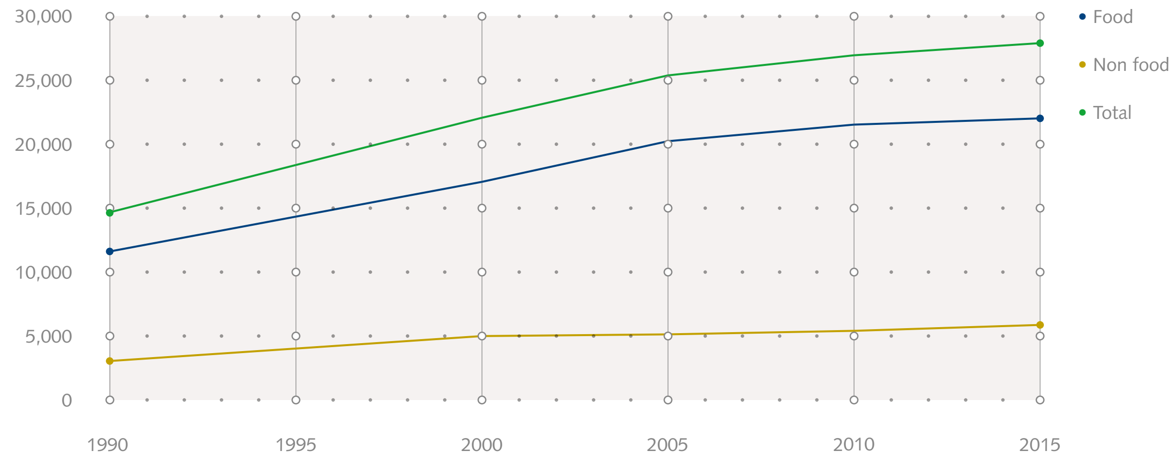
R. Schulte (Inditex)

In the first half of 2016, about 210,000 m² of floor space became vacant due to bankruptcy, and in the same period, take-up of retail floor area was about 230,000 m². This take-up seems to have compensated for the increase in bankruptcy vacancy. Hudson’s Bay took 30% of the take-up. In the same period, retail vacancy decreased fastest in the four largest cities (15%) but increased fastest in the medium-sized cities (13%). In the large cities, about 80% of the former V&D department stores had new tenants within nine months, and 15 to 20% was refilled in other cities in the same period. This is another indicator of polarisation in the Dutch retail sector.

4.7 Development pipeline retail floor space

The increase in floor space for food retail, non-food retail and total retail in the Netherlands in the period 1990-2015 is presented in Figure 4.17. In 1990, about 0.98 m² per inhabitant was available and in 2015, this was 1.65 m². There was steady growth in non-food retail from 1990 up to the crisis, and between 2000 and 2010, the policy on out-of-town retail was temporarily relaxed.

Figure 4.17 Total retail floor space (‘000 m²) in the Netherlands, 1990-2015

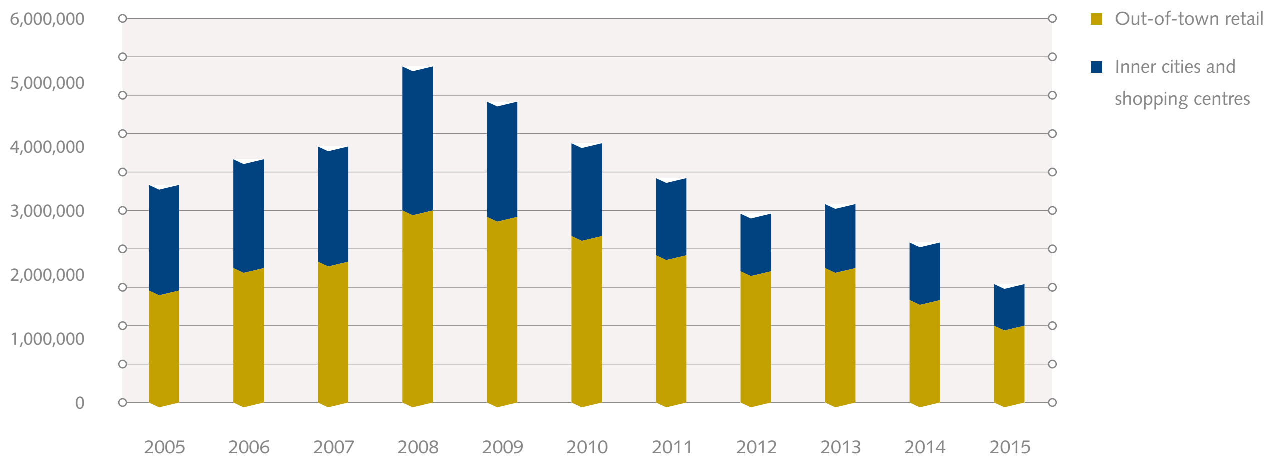


Source: MBO 1987, Chmber of Commerce DIS 1991, D&P 2001, Locatus 2016

Since the beginning of the crisis, the retail floor space in the Netherlands has increased by 4.4% (Figure 4.17). Floor space for food retail increased by 10.3% and for non-food retail by 3.0%. Non-food and food retail floor space are expected to match growth in consumer spending in the next ten years.

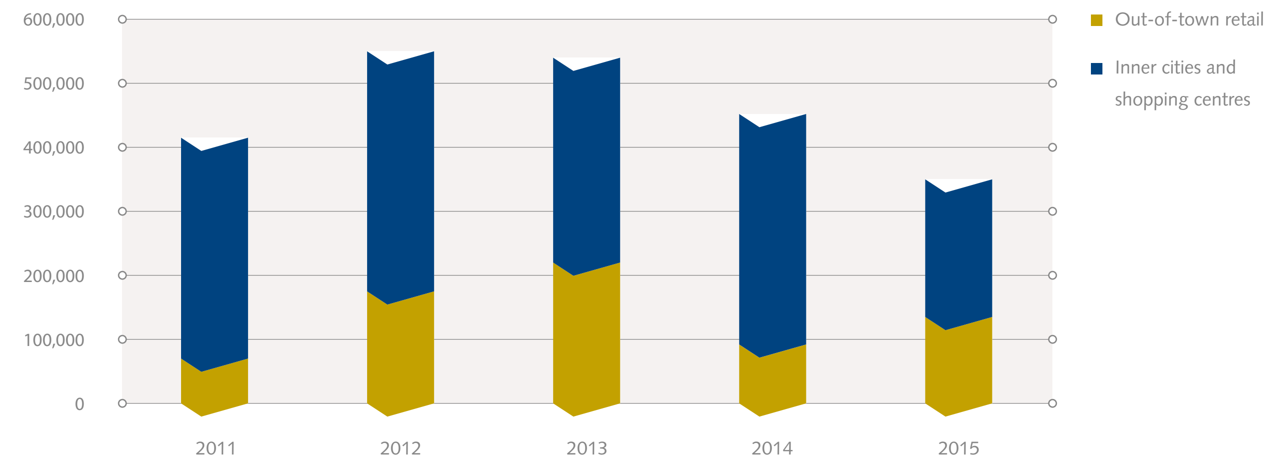
The national mid-term development pipeline for new retail floor space is presented in Figure 4.18. The first year of the crisis (2008) was a turning point, and in the following years, a number of projects were stopped, reduced or delayed for out-of-town retail and inner cities and other shopping centres. In the last five years, about 15 to 20% of this pipeline has been developed (Figure 4.19).

Figure 4.18 Development pipeline for new retail floor space in the Netherlands, 2011-2015



Source: PropertyNL 2016

Figure 4.19 New retail floor space in the Netherlands, 2011-2015



Source: Source: PropertyNL 2016

In 2008, only 10% of all new floor space was redevelopment and in subsequent years, the proportion of redevelopment increased. In 2015, 40 to 45% of new floor space was redevelopment, mainly in the inner cities and in the larger convenience centres. Most new retail projects were small scale in size. The authorities prefer locations in or near to the inner cities and convenience centres, where few retail projects are larger than 10,000 m². The main out-of-town retail expansions and new construction were for IKEA and Hornbach.

Table 4.5 Short-term development pipeline new retail floor space in European countries, 2016-2017

	Pipeline in 2016-2017 (m^2)	Pipeline 2016-2017 as % retail floor space	Pipeline 2016-2017 per 1,000 inhabitants (m^2)
The Netherlands	215,000	0.8	12.7
France	1,091,174	1.4	17.4
Germany	310,000	0.3	3.8
Norway	-	0.0	0
Sweden	135,000	1.1	13.9
Spain	105,000	0.2	2.2
United Kingdom	317,500	0.5	5
Compared countries	**2,800,000**	**0.6**	**8.1**

Source: GfK, Cushman Wakefield 2016

National retail policy discourages the construction of new retail floor space and the pipeline for new retail floor space by developers had been cut substantially. However, the short-term development pipeline for new retail floor space the Netherlands is still relatively large compared to other countries (Table 4.5). The areas of 215,000 m^2 in the Netherlands includes redevelopment, but the redevelopment/development rate in the other countries is not known.

At this pace, the total development pipeline for the Netherlands (1.9 million m^2) will meet the need in the coming ten years.

4.8 Retail policy, sustainability and spatial planning

Retail policy tends to discourage new retail floor space, and making the national hierarchy of shopping centres more resilient and future proof. The hierarchy refers to the dense national network of inner cities and convenience centres, in which out-of-town retail (including retail parks) is considered to be a disruptive factor. The keynote of Dutch retail policy is to safeguard existing retail structure. The inner cities are seen as valuable social assets to be cherished, and not only for the historical heritage. A few new retail initiatives are permitted.

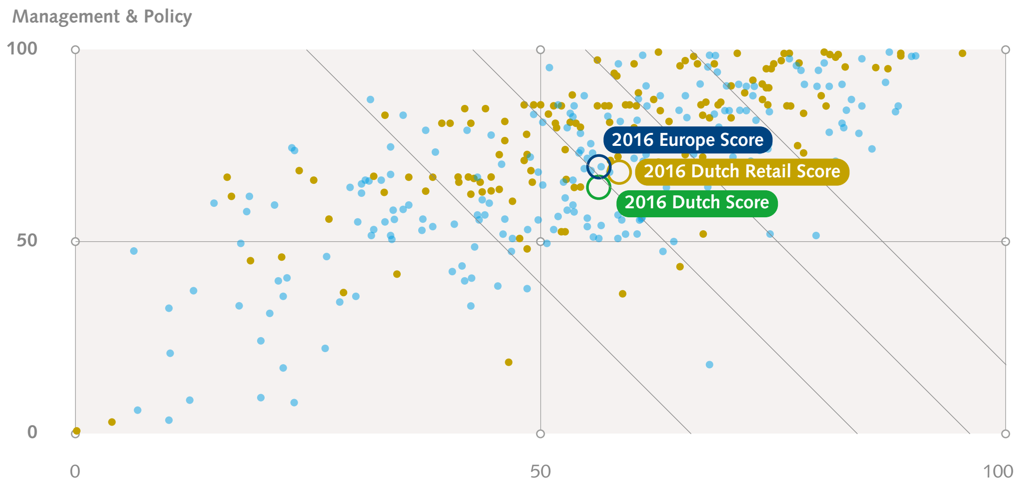
All new spatial initiatives need to be assessed in terms of the need for new floor space in the specific catchment areas. This assessment for sustainable development applies to floor space for retail as well as for restaurants and hotels, culture, residential, offices and business parks. Thus, demand for the near future has to exceed the present total floor space. All zoning plans have to be included as existing floor space. Preference is given to sites in the inner cities near high streets or close to strong convenience centres.

‘The Dutch retail environment could be improved from an institutional perspective by local authorities increasing progress towards business expansions.’

G. van Heeren (Hornbach)

The hierarchy must be seen in the context of sustainability. For most Dutch real estate investors, sustainability is relevant not only for individual properties but also for the total real estate portfolio. The Global Real Estate Sustainability Benchmark (GRESB) is used to assess the sustainability of real estate investors worldwide. The GRESB score for the retail property and real estate in the Netherlands is presented in Figure 4.20.

Figure 4.20 GRESB score retail property and real estate in the Netherlands and Europe, 2016



Source: GRESB 2016

The GRESB 2016 gave the average score for retail property in the Netherlands as almost equal to the average score for real estate in the Netherlands and in Europe (Figure 4.20). Dutch retail property performs on average on project level with Europe. The investor sustainability policy has to improve a little to reach the European average. Many Dutch institutional investors are combining GRESB scores on project and portfolio with their own investigations and policy on environmental, social and governance issues.

In the Netherlands, local zoning plan determines the schedule and retail categories permitted. Although the zoning plan is reviewed every five years, the municipality tends to make the new zoning plan similar to the previous plan.

From the investor's perspective, current retail policy puts a break on future growth of retail floor space. Retail policy aims to discourage the construction of new retail floor space and to encourage innovation by setting quality and sustainability requirements for existing retail floor space.

The zoning plans are binding on citizens and public authorities, and offer legal security and transparency. Thus, retail policy and the spatial planning system could contribute to enhancing the value of existing retail floor space in the coming 10 to 15 years. This process will reduce the probability of price decreases in retail rents, and is an further reason for investing in retail property in the Netherlands.

4.9 Summary and outlook for 2015-2020

Many parties are active in the retail property market and have considerable liquidity. Ownership of retail property by professional investors is expected to grow in the coming 10 to 15 years at the expense of small private investors who operate on local scale. Housing associations (owning about 10% of retail floor space) will reduce their share. Foreign interest has been and will continue to be more substantial than domestic interest.

Investment in retail property in the Netherlands reached in 2015 a peak. The recovery started in 2013 was driven by the positive economic outlook, low interest rates and relatively favourable pricing compared to other European countries. There is a significant difference between the yields as reported by MSCI on the basis of the IPD databank and the yields of actual transactions as reported by real estate brokers. The initial yield of actual retail transactions reported for the first half of 2016 in the four largest cities was around 4.0% in Amsterdam and Rotterdam, 4.75% in Utrecht, and 5.0% in The Hague. There is a considerable risk premium on Dutch prime retail compared to the annual interest rate.

The Netherlands is considered to have a relatively high area of retail floor space per inhabitant. The retail floor productivity in the Netherlands is similar to German retail, but is the lowest of the European countries compared. High population density in many parts of the country maintains a significant amount of dispersed retail supply but this is expected to largely disappear in the coming 10 to 20 years, thus decreasing retail floor space per capita.

Since 2008, food floor space has increased by 10% and non-food floor space by 3%. Growth in food and non-food floor space is expected to match that of consumer spending in the next ten years.

Growth in e-commerce has had a significant effect on the use of retail floor area. The market share of chain stores in e-commerce is expected to increase, thus reducing that of pure players and long tail players. This next phase of e-commerce will have less effect on demand for stores and floor space than previously.

The crisis and the upswing in e-commerce have taken a toll on retail property, with vacancy increased from 5 to 8% on average, and food retail less vulnerable than non-food retail. Retail vacancy is expected to decrease to the friction level in the long term (< 5%), and about 90% retail vacancy is expected to be refilled within a few years. About 10-20% of retail vacancy results from bankruptcy and about one-third is still to be refilled.

The vacancy rate and refilling vacant floor space differ according to type of retail locations. This confirms the structural polarisation in the Dutch retail structure with the strong becomes stronger, and the weak becomes weaker. Polarisation is confirmed by the difference in floor productivity, footfall and rent per square metre. Within inner cities, A zones will become stronger and B/C zones weaker.

Investors in retail property in the Netherlands will need to concentrate on the better retail locations that offer consumers retail as well as leisure, entertainment and other services. Most value growth is expected in the largest inner cities, strong convenience centres, and smaller inner cities with a relatively large catchment area.

The first year of the crisis (2008) was a turning point for the development pipeline for new retail floor space, and in subsequent years, various projects were cancelled, reduced or delayed. Annually, a smaller area of new floor space has been developed. This market trend is reinforced by national, regional and local policy to safeguard existing retail structure and to discourage development of new retail floor space. The importance of redevelopment is growing. From the investor's perspective, this could contribute to enhancing the future value of retail property in the Netherlands.

5 Mid-term outlook

The overall performance of investment in retail property in the Netherlands is presented in a European perspective. It can be concluded that there is momentum to consider new investment in Dutch retail property.

5.1 Inner cities: the living-rooms of the country

In the Netherlands, there are no hypermarkets and only a few large shopping centres with abundant parking and covered passages. The country has a wide range of inner cities with historical quarters, a well developed public domain and excellent infrastructure provisions for pedestrians, cyclists, public transport, and cars. There is one inner city to every 40,000 inhabitants, and about 40% of the retail floor space is located in these inner cities. The inner city is considered to be the city's living room, and offers fashion retail in the high streets, and restaurants, culture and leisure in the secondary streets.

Retail polarisation in inner cities is, seen for the investor's perspective, a key market trend. Capital growth and growth in floor productivity, footfall and retail rent in the inner city of the largest cities and of smaller cities with a large regional catchment area will increase faster the coming five to ten years than that of the medium-sized cities. Furthermore, the inner cities in the largest cities offer better prospects than those in more rural regions.

Polarisation is also occurring within the inner cities. Capital growth, footfall and retail rent in the high streets of the inner city of the larger cities will tend to be higher than in the inner city of medium-sized and smaller cities. A relevant accelerator is the continuing interest of foreign fashion labels looking for larger stores in the high streets of the largest cities.

5.2 Kitchen cupboards of the country

The second dominant type of retail location is the convenience centre. Most people in the Netherlands visit a nearby convenience centre at least once a week mostly to purchase groceries. Convenience centres of 10,000 to 20,000 m^2 with enough supermarket supply at a central location in the catchment area are doing well in general. Investors are interested in the convenience centres and in their supermarkets, because food retail is less vulnerable for conjuncture, and the relative low rent level is a comfortable basis. Capital growth, footfall and retail rent of convenience centres are expected to stabilise in the next three to five years.

In the Netherlands, there are also 26 urban district shopping centres, on average 25,000 m^2 in area, which are a hybrid of a city centre and a convenience centre. Although the footfall of these shopping centres is relatively low, domestic and foreign investors are showing particular interest in these shopping centres because of their size.

5.3 Shopping on the run in retail parks

Many retail experts in the Netherlands talk about 'run shopping' in relation to out-of-town retail, which accounts for 15 to 20% of retail floor space in the country. This is an interesting market for investors looking to invest in retail parks and retail warehouses. Retail policy limits out-of-town retail to furniture retail and to DIY, and excludes other retail categories. Polarisation is also taking place in this type of retail. The general feeling is that there are too many specialised retail parks and one retail park tends to dominate in each urban region. These retail parks will endeavour to grow in future, but the authorities will only permit park enlargements after it can be established this will not affect high valued inner cities.

5.4 Conclusion

Several features of the economy, demographics and the dynamics of the retail sector in the Netherlands show a positive trend. The Netherlands is a wealthy country that is socially stable and has a fully developed retail structure. In the next few years, consumer spending is expected to grow gradually to reach the same level as at the beginning of the crisis. Retail policy is committed to reducing the development of new retail floor space. The upswing of Internet e-commerce has had an impact on the demand on retail floor space.

'The Dutch retail environment is highly sophisticated. The clear market enhances business execution.'

G.J. De Rooij (A.S. Watson)

The impact of retail bankruptcies is largely compensated by the annual take-up of retail floor space.

As a result of the crisis, subsequent rent adjustments emerged from 2013. Turnover is recovering in most retail categories. But some lag in price reduction cannot be excluded, in the coming years.The crisis did not slow down annual growth in rental value in the city centres. There is considerable liquidity among domestic and foreign investors, and there are always several parties interested in purchasing good retail property. It seems there is a momentum for domestic and foreign investors to consider investment in Dutch retail property.

Appendix: regular lease terms

In the Netherlands lease of retail business premises is governed by mandatory legislation and regulations to protect the interests of the tenant and benefits the landlord. The lease legislation and the common lease conditions have considerable impact on rental income on retail units and on the way in which landlords and tenants act in the retail market. This appendix presents an initial overview of the legislation, but the impact of legislation can differ considerably per case. The main law on property lease is set out the Dutch Civil Code book 7.

Dutch Law distinguishes two categories of commercial premises, according to the use made of the property. The first category includes all types of retail, restaurants and hotels. The second category includes other types of non-residential real estate, such as offices, banks, travel agencies and fitness facilities. Tenants of property in the first category have more protection than tenants of property in the second category because they are considered to be more dependent on the premise for their income. Parties can deviate from the legal requirements in the lease agreement, provided the deviation does not restrict the tenant's legal rights. Deviation for property in the first category is only valid and enforceable if formally approved by the district court prior to the parties signing the agreements.

Table I.1 Regular conditions in Dutch retail lease agreements

Standard lease contract:	Most recent contract model together with general conditions published by the national real estate council (ROZ). The model is friendly for the lessor.
Lease payment:	Quarterly in advance, but nowadays per month in advance becomes more common, otherwise it takes up too much financial space for the lessee.
Guarantee:	Deposit or bank guarantee of three months rent + service costs including VAT.
Measurement surface:	Usable floor space (glass to glass, excluding vertical circulation areas and building related technical areas), according to a formal national norm.
Incentives:	A rental free period of 3 months for the shop fitting is (mostly) common, possibly in combination with a rental discount for the first year or an investment contribution for shop fitting for newly built large stores (average 3-6 months incentives); prevailing standard is shell delivery.
Disposal of a lease:	Permitted, subject to lease and landlord consent. Assignment: subject to initial lease contract or to be negotiated upon.
Inflation indexing:	Indexation take place annually in accordance with annual Consumer Price Index series all households (2006 = 100) published by national statistical agency CBS and start one year after the lease commencement date. Landlord and tenant may also agree an annual rent increase by a fixed percentage, that there will be no indexing at all or that the indexng will be capped to a certain maximum for example 3% per year. In case of a turnover rent, only a basic rent is indexed annually.
Lease term:	Prescribed for the first category are periods of 10 years, generally divided in a first lease term of 5 years and an extension of 5 years. The first lease term may be prolonged with 5 years or (tacidly) indefinite.
Early resignation:	Not allowed. Tenant may apply to court for on-year extension indefinitely, unless landlord wishes to occupy or develop/redevelop.
Subletting:	Generally not allowed. Landlords cannot turn down requests by tenants made on reasonable grounds and so subletting is subject to landlords written approval.

Rent	Usually quoted in per m² annually excl. VAT paid in advance monthly, quarterly or yearly. Turnover rent is no common practice and has no (legal) basis in Dutch law. When turnover rent is agreed on, the percentage of the annual turnover is frequently combined with a fixed base rent. When the percentage of the tenant's annual turnover exceeds the base rent, an extra rent has to be paid.
Energy and water supply:	The lessee has to take care of his own water and energy delivery.
Service charge, repairs and insurance:	Depends on the lease agreement. Tenant: minor repairs; liability insurance. Landlord: structural repairs. In retail premises it is common to rent only the shell, the interior and installations belongs to the retailer. Concerning prime retail locations service charges are not often seen, meanwhile repairs and maintenance is more important there.
Property tax:	Landlord and tenant are each responsible for the property tax levied by the local authority. Each property is assessed for valuation purposes by the local authority, giving a value annually. The rate depends on the local authority and is a percentage of the value according the Immovable Property Act. The average property tax amounts for the landlord 0.2476% and for the tenant 0.1944% of the value of the property.
VAT:	21%, but all retailers are able to charge VAT to their customers so there will be no (extra) tax / VAT surcharge.

Source: European Retail Space, Cushman & Wakefield, DTZ Zadelhoff, 2016.

In 2019, the IFRS standard (IASB) will change. Operational agreements, such as lease agreements for real estate, will have an impact on the balance sheet of tenants. It is expected that retailers will try to shorten the lease term (maximum 5 years, periods of 1 year) to influence their balance ratios in future. This will also be the case in other countries.

After each lease term and a subsequent indefinite lease term, a landlord can only terminate the lease in the event of 'urgent need for own use' or for 'renovation'. This termination option is strictly governed by legal requirements as stated in the Dutch Civil Law Code and such conditions are rarely met. If lease termination is granted, the practical procedure to vacate the property takes about three years. If a tenant does not agree to a lease termination by the landlord, the landlord has to summons the tenant to appear before the district court. The lease remains in effect until the court has delivered judgement. There are only two grounds on which the district court will allow the landlord's claim to terminate a lease at the end of the first period of five years: (a) the tenant has not managed the business as a good lessee or (b) urgent need - the landlord has been able to establish that he/she requires the premises urgently and for the long term. Renovation of a leased premise that cannot be postponed until the lease expires can also be seen as an urgent need.

If the district court decides that none of the above applies, the lease will be renewed for a second period of five years. Early termination is not possible. At the end of the second term the landlord can terminate the agreement on the basis of one of the conditions stated above, provided the landlord can prove that his interests in terminating the lease outweigh those of the tenant in continuing the lease.

In addition th these two grounds, the district court has to sustain the landlord's claim if (a) the tenant declines a reasonable offer for a new lease, in as far as this offer does not contain a rent review; (b) the landlord wants to achieve the intended use of the leased premise, in accordance with a valid zoning plan and (c) balance of general interest, which is the most commonly used ground.

Such a termination can be supported by many reasons, the court has to make a judgement based on a reasonable weighing of the interests.

When a tenant is declared bankrupt, a bankruptcy trustee can set a reasonable period within which a secured creditor should enforce his security right. A tenant can terminate the lease prematurely in case of bankruptcy. In a bankruptcy both trustee of the tenant and landlord can terminate the lease. The term is 3 months. If the rent has been paid in advance, the lease agreement cannot be terminated before the last day of the paid advance. The trustee can also use the right of substitution. As of the date of the bankruptcy, the rent becomes a debt on the estate. The trustee has to pay this debt first, after paying his own salary and other secured and preferred creditors.

While a debt on the estate is likely to be paid out, it is recommended that a landlord presents his claim explicitly to the trustee. On prime retail locations, bankruptcy of a retailer may also be an opportunity to terminate the lease and rent the premise to a new tenant for a higher market price.

At the end of each fixed lease term of at least 5 years both tenant and landlord in agreements on the first category property have the right to request an adjustment to the lease price, separately from annual indexing. A commission appointed by the district court compares with the current lease price of the premise with the average lease price of similar premises in a similar location over the last 5 years. If there is a significant difference, the lease price is adjusted accordingly to a higher or a lower rental price.

Retail rents on fixed lease terms are indexed annually for inflation.
This legislation was created to prevent high volatility in pricing. The effect of these regulations is that if the market goes up, the rental price increases and the rent review price increases. But because the rent review is an average price over the last 5 years, this average is lower than the current rental price in an upward market. If the market goes down, the rental price drops and the rent review price also decreases, but not as much as the drop in current rent.

The rent have increased over the last few years in prime retail locations. Not all landlords have adjusted the rent and so some tenants may be paying an historically low rental price. These properties are used as comparable premises in a rent review procedure. This can result in the rent review price being far below the current market price. Thus, it is more attractive for a landlord to buyout an existing tenant and subsequently rent the premise to a new retailer for a market price.

Real estate investors are required to have property valud by an extern assessor at least once a year. Every 5 years, the external assessor has to be changed. For the valuation, the definition of market value according to the International Valuation Standard is used. A valuation needs to be based on at least 3 actual reference transactions, as well as for the rent level as the initial yields. The market value applies to the 'costs to buyer' condition, this is the buying price including transaction costs, such as capital transfer tax, brokerage and notary costs. The national real estate council (ROZ) is preparing a best practice document on valuation.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