

The Netherlands Retail MarketView H1 2015

Rising investment volume, falling take-up

 Take-up
-22% y-o-y

 Vacancy
+0.4% y-o-y

 Investment volume
+63% y-on-y

 Prime yield high street
-50 bps y-on-y

HEADLINES

- Improving economic fundamentals
- Occupier demand continues to fall
- Investment volume continues to rise
- Investment volume pushed by a unique transaction

OCCUPIER MARKET REMAINS SUBDUED

The economic fundamentals of the retail market have been improving in the first half of 2015: consumer confidence as well as retail sales values increased. Bankruptcies do still occur but the number has been declining (297, against 352 in H1 2014).

Despite the improving economy, the take-up volume is still declining. So far, around 170,000 sq m of retail space was let, a decline of 22% y-on-y. The take-up volume dropped by roughly 53.5% y-on-y in the first quarter of 2015, but demand picked up again in the second quarter, both compared to the first quarter of 2015 and the same quarter in 2014. Usually the letting market responds delayed on the economic cycle, however, the current decreasing take-up is likely to reflect more structural changes in the retail market as well. This shift is also revealed by the market rental growth. The prime rent for the best high street units in the four largest cities may hold up well, overall rents are declining.

Exemplary for the trend of expansion of both the luxury and discount segment are the leases of luxury department store Gallery Haussmann in Amsterdam (approx. 6,000 sq m, Rokin) and Primark in Hilversum (approx. 5,000 sq m, Kerkstraat). Also active was the supermarket sector. At least 27 deals were concluded. Albert

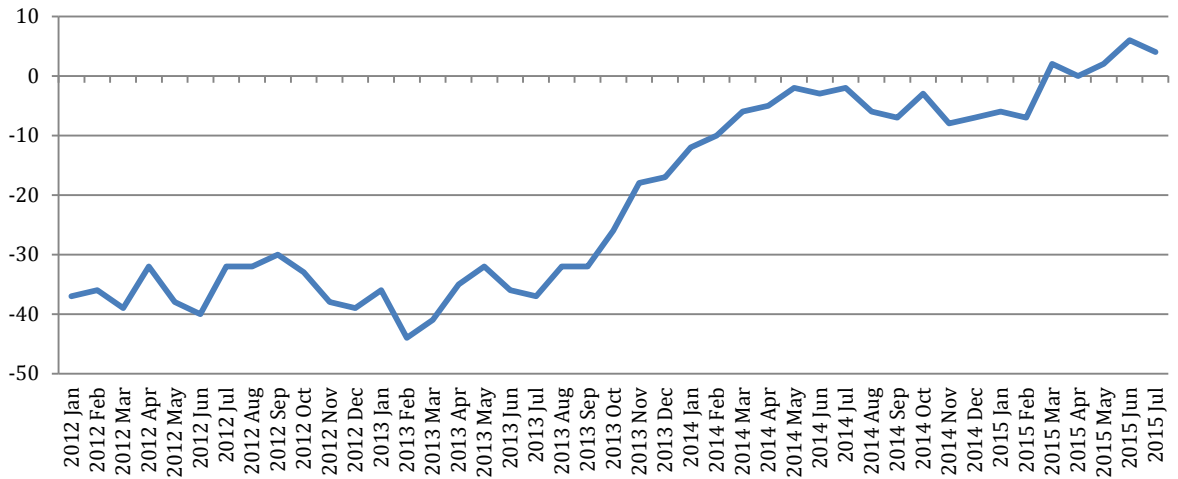
Heijn signed most leases (5), including expansion, movement and a take-over of the unit of another supermarket. Ethnic supermarkets signed at least 10 leases. Boon's Markt rented a unit in the centre of Utrecht (>1,400 sq m, Ganzenmarkt). This supermarket will be the fourth store of Boon's Markt in the country.

FLAGSHIP STORES AND CITY CENTRES IN DEMAND

Flagship stores set the tone in the occupier market. Apart from Mango renting a unit for a flagship store in Almere, Kiehl's has opened a flagship store at Kalverstraat 94 in Amsterdam. A newcomer in the Netherlands, immediately starting with a flagship store, is Ted Baker. Ted Baker has rented the unit of Replay at Leidsestraat in Amsterdam. Also a newcomer is fashion designer Michal Negrin, occupying retail space at Koningsplein. Inditex is planning a rollout of Stradivarius and Oysho in the Netherlands. For Stradivarius Inditex has already found a unit in Amsterdam, at Kalverstraat 42-44.

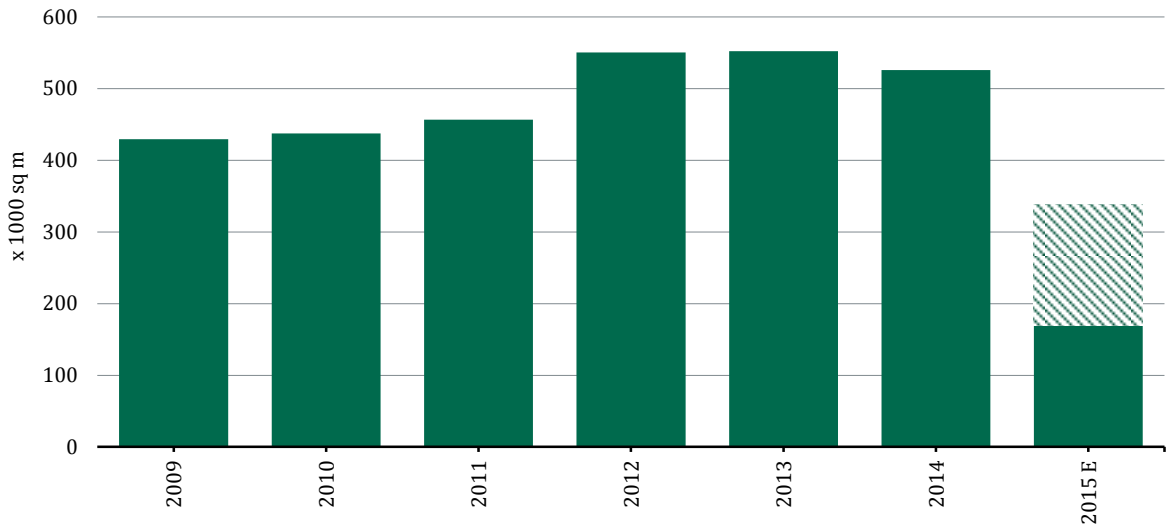
Generally demand is focusing on Amsterdam (37 transactions), Utrecht (27) and The Hague and Rotterdam (both 22). Of the smaller cities Breda and Leiden stood out: so far roughly 23 and 19 transactions respectively. International retailers are still focusing mainly on Amsterdam

Chart 1: Consumer confidence



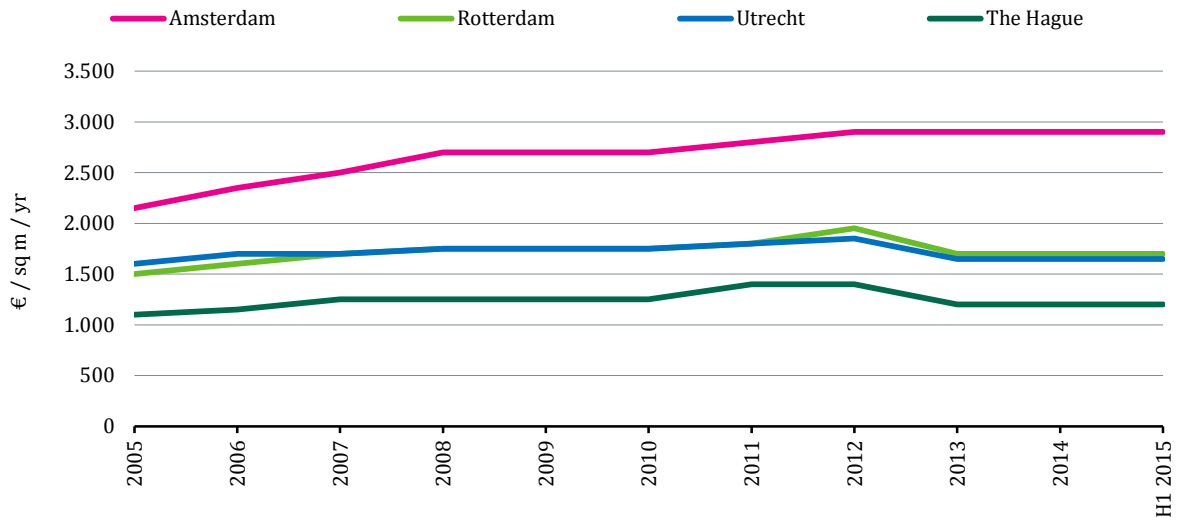
Source: Statistics Netherlands

Chart 2: Retail take-up



Source: CBRE

Chart 3: Retail prime rental levels



Source: CBRE

and secondarily on the other three big cities. Similar to the previous quarters, tenants preferred the inner city. This was also the case in Breda and Leiden.

STRONG INVESTMENT GROWTH

Investors are anticipating on a recovery of retail sales and occupier demand. Investment volume in the first half of 2015 surged to € 1.3 billion, which is an increase of 79.9% compared to the last 6 months of 2014 and an increase of 63.3% compared to the same period last year. With this strong growth, the 2015 semi-annual investment volume reached a new high since the second half year of 2008.

A single € 730 million transaction is mainly attributable to this new high. In the second quarter of 2015 Klépierre sold a large part of the former Dutch Corio shopping centre portfolio in an off-market transaction to Wereldhave. With this transaction, Klépierre resold the non-core assets purchased in the acquisition of Corio earlier this year. Another large portfolio transaction was the 85 high street unit portfolio sold by Eljans to Och-Ziff Capital Group (a hedge fund and alternative asset manager from the US). The transaction price was €109 million.

SHOPPING CENTRES PREFERRED ASSET CLASS

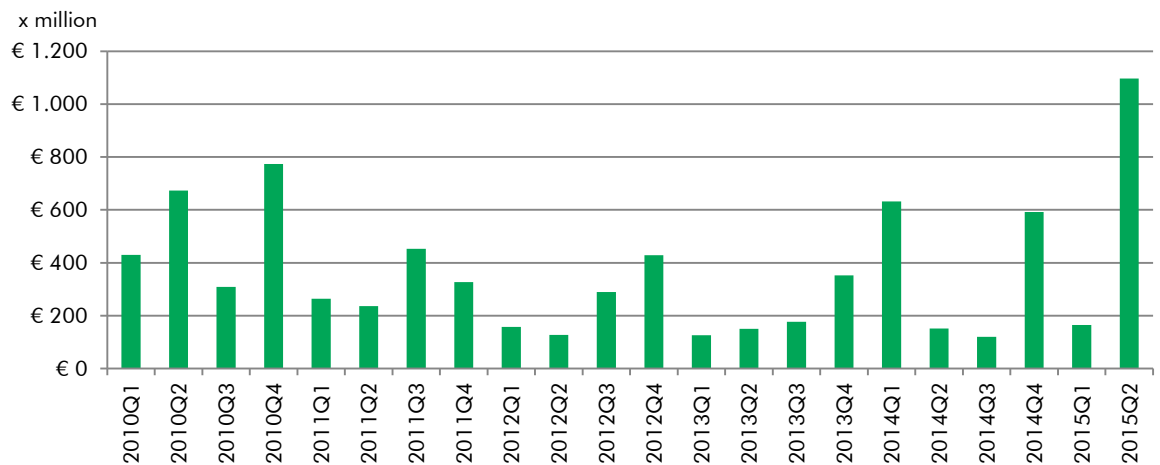
Shopping centres were the most traded retail assets. Just over 70% of all transacted retail assets were shopping centres. Again, the unique Klépierre - Wereldhave portfolio transaction was largely responsible for this extensive share. But also a substantial number of single neighbourhood shopping centres was transacted in single asset deals with maximum transaction values of € 20 million. High street units were the second most traded type of retail assets. Supermarkets and retail warehousing both accounted for around 3% of the investment volume.

INVESTOR ACTIVITY

The focus on prime locations witnessed in the occupier market is reflected in the investment market where core investors (REITs and institutional investors) are buying well performing shopping centres and high street units. A good example is the latest € 108 million purchase of Rokin Plaza (Kalverstraat 11-17: Forever 21 and Pull & Bear) , a 6,000-sq m high street unit by Vastned.

Opportunistic funds, by contrast, are active on the value add side of the market. Retail properties with vacancy or deferred maintenance are traded at considerable yield premiums compared to prime properties. The acquisition of Mega Stores The Hague by CQS/Meijer Realty Partners is a good illustration of investor

Chart 4: Retail quarterly investment volume



Source: CBRE

preferences at the non-core side of the market.

Now that investor interest in retail real estate is growing, fund managers are bringing more assets to the market. However, despite the increased appetite, demand is still short on supply. Consequently, not all assets that are on the market are transacted. Most notably, secondary assets that lack upside potential, or that do not meet the buyer's or seller's pricing perception are difficult to transact.

Moreover, larger portfolios are attracting investor attention from both domestic and international (mostly Anglo-Saxon) investors whereas smaller portfolios and single assets can mostly count on interest from amongst others domestic and German core investors. International investors are interested in larger portfolios because these larger portfolios enable them to make their entry into the Netherlands or if already present, expand their management platform by one transaction.

PRIME YIELD COMPRESSION

The increasing interest in retail assets led to a downward shift in the prime yields of high street units and shopping centres. However, the spread between prime and secondary assets remains unprecedented high, illustrating the hesitation of investors to accept additional risk.

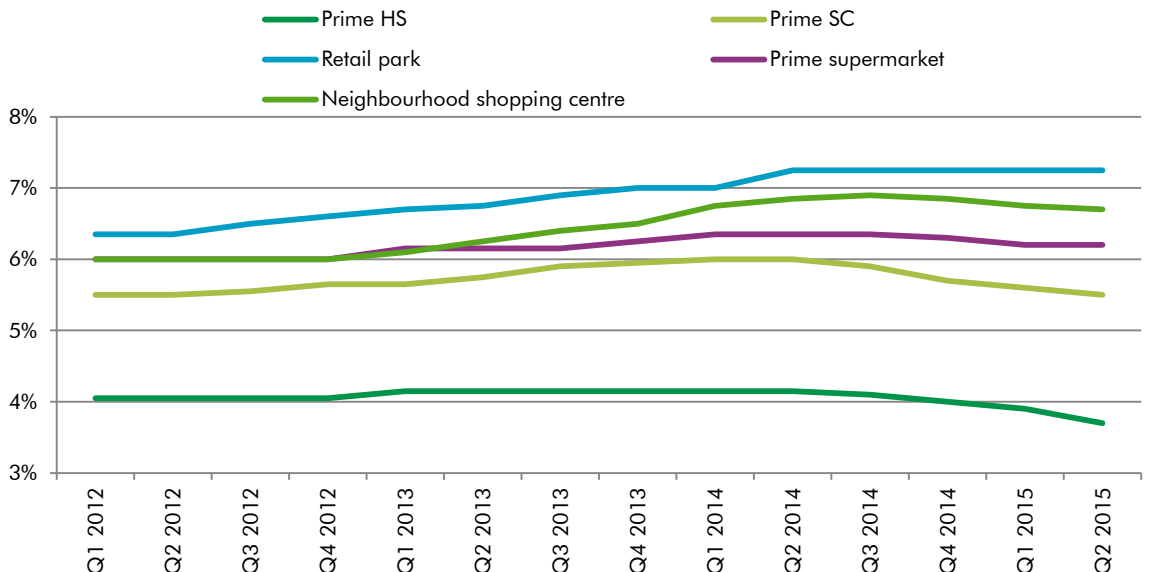
Also the reference yield for retail parks remains unchanged over time.

OUTLOOK

The low inflation, the further recovering housing market and an increase of the disposable income of most households (+3.2% in 2015, DNB) are expected to stimulate consumer spending. It still remains to be seen whether this will also result in increasing demand for retail space. Under the surface of take-up figures the retail market is undergoing a structural change. The retail trade and the catering sector are also increasingly becoming intertwined while also the blurring of sectors within the retail trade is continuing. The shake-out of retailers lacking a distinctive profile and excellent online and offline services will persist. Both large retail chains and niche players will have a chance to survive when they are fully complying with the needs of the modern consumer. While these changes are taking place, most likely occupier demand will continue to focus on the prime retail areas of the larger cities within the country.

Investment volume is expected to remain at elevated levels throughout 2015. Based on the improving economic fundamentals, low interest rates and good quality assets coming to the market, investors are expected to continue to buy.

Chart 5: Prime net yields



Source: CBRE

Furthermore, the offer of non-core assets is likely to remain higher than demand. In addition, large portfolios and good quality assets are expected to continue to attract investor interest of both domestic and international investors.

The gap between well-performing assets and value-add assets is expected to remain large and is likely to be reflected in the large yield spread between prime and secondary retail assets in the future.

Table 1: Largest investment transactions 2015 H1

Location	Address/project	Type	Purchaser	Price in € m	Size (sq m)
Nationwide	9 assets	Shopping centres	Wereldhave	730.0	236,000
Nation wide	Elizen portfolio	High street	Och-Ziff Capital Group	109.0	85 units
Amsterdam	Kalverstraat 11-17/Rokin Plaza	High street	Vastned	108.0	6,000
The Hague	SC Megastores The Hague	Shopping centre	CQS/Meyer Realty Partners	66.0	92,500
Amsterdam	SC Nieuw Waterlandplein	Shopping centre	Optare REI	29.5	9,600
Amsterdam	Woon- en Bouwcentrum	Retail park	Valad	20.0	45,000
Veenendaal	SC Scheepjeshof	Shopping centre	H.A. Punt Beheer	19.5	15,300
PC Hoofdstraat 24-28	Cornelisz Hotel	High street	Van der Vorm	18.2	2,000
Leidschendam	SC Leidsehage	Shopping centre	Unibail-Rodamco	15.0	11 units
Hendrik-Ido-Ambacht	SC Hoog Ambacht	Shopping centre	Vivesta Winkelfonds	14.3	7,500

Source: CBRE

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