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FOR THE WORLD'S PRIVATE REAL ESTATE MARKETS

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## THE FUTURE'S BRIGHT

The Netherlands' market is on the way up

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A photograph of two men in dark blue suits and ties standing in a modern office. The man on the left has his hands clasped in front of him, while the man on the right stands with his hands at his sides. They are both smiling slightly. The background features a white wall, a large window, and a green wall section. A vase of flowers is visible on the left side of the frame.

## On the way up

An encouraging macroeconomic climate, the availability of debt and a strong supply and demand dynamic means the future for investing in Dutch real estate is looking positive for the first time in a long while.

By Thomas Duffell







**All smiles:** the roundtable shows the buoyant mood of the Dutch real estate market

Confidence in the Dutch real estate market is high, and that is an attitude not only shared among domestic players but international real estate investors too. Foreign acquisitions of Dutch property increased from 30 percent of the total between 2004 and 2012 to 66 percent in 2013 and 2014, a recent report from Dutch bank ABN AMRO Bank states. Notable names among the 66 percent are US investors Lone Star Funds and The Blackstone Group as well as Chinese investor First Sponsor Group which have all been buying properties in the country.

So on the bright and breezy Thursday afternoon before Easter *PERE* gathered four industry professionals working in Amsterdam to explain just why investors purchased real estate valued at more than €10 billion in the Netherlands in 2014, nearly double the amounts in 2013 and 2012 (€5 billion and €4 billion respectively), according to CBRE research.

Sitting in the offices of property services giants CBRE, located in the rapidly developing South Axis business district, *PERE* was able to assemble a roundtable consisting of: Maurits Cammeraat, director at the real estate trade body European Association for Investors in Non-listed Real Estate Vehicles (INREV); Tinka Kleine, director private

real estate at the Dutch pension fund manager PGGM; Robert Koot, head of research at Dutch real estate fund and investment manager Bouwinvest Real Estate Investment Management; and, Bart Verhelst, executive director capital markets at CBRE.

The South Axis is a relatively young office district and the concept was only conceived in the mid-nineties by the Amsterdam city government. Large-scale development did not truly gain pace before the turn of the century. This means that more than one third of the offices that make up the South Axis are less than 10 years old and in the heart of the district nearly all of the properties are less than five years old. Understandably the South Axis has been a focus of much of the real estate activity in the Netherlands of late.

Though it is not only core property that is getting all the attention in the Netherlands recently. Back in 2013, Fortress Investment Group closed the purchase of the €1 billion Project Vemeer from Morgan Stanley. Project Vemeer comprised 64 offices, including 36 offices in the Netherlands suffering from rising vacancy rates. Going back a little further, Ivanhoe Cambridge, TPG Capital and Patron Capital gained ownership of Dutch property company

Uni-Invest and its €634 million office portfolio after acquiring a loan in a soured securitized debt vehicle known as Opera Finance.

The roundtable participants all initially pointed to a favorable macroeconomic environment within the Netherlands as one reason the South Axis, and real estate in the country more generally, was receiving extra attention from real estate investors.

“Last year GDP growth was just under 1 percent and it is expected to continue and improve and get to maybe 1.5 percent in the next 12 months,” says CBRE’s Verhelst. “If you compare it to other European countries we score well on our debt to GDP ratio and unemployment level too.”

PGGM’s Kleine agrees that the macro conditions are creating a positive mindset among investors, but adds that it is not as simple as riding a market on the up. To get the required returns capital needs to be selective and pick the best locations and sectors within the Netherlands. “On a country level we might have low growth, but it will concentrate in certain areas and that is where we want to be.”

However, Bouwinvest’s Koot tempers the optimism and explains that due to the “open” nature of the Dutch economy it can feel the effects of seemingly unconnected events. Koot points to the current wrangling in Greece and the situation in Russia as areas to watch as developments may have a knock-on effect on the economy and the Dutch real estate market.

### Cycling to Amsterdam

Timing of the real estate cycles of the individual European nations was also cited as a reason for the swell of capital making its way to Amsterdam and other cities within the Netherlands. “If you look at the global real estate market, many markets in the last few years have bounced back after 2007-2008. So take the UK and the US for example, pricing increased three or four years in a row so the Netherlands became attractive again in a global context and that

## Participants:



### Maurits Cammeraat

Director

INREV

As director of professional standards for INREV one of Cammeraat’s key responsibilities will be the implementation of the new INREV Guidelines. He has extensive experience in this field, having been lead architect of REDEX, a premier master data management solution for real estate fund managers in the Netherlands, during his time as a senior manager at PwC Advisory. He has over 10 years’ experience advising real estate asset managers and was a contributor to the European real estate data standards established by international real estate open data consortium OSCRE.



### Tinka Kleine

Director

PGGM

Tinka Kleine is a director in the private real estate investment team at Dutch pension fund PGGM. She joined PGGM as a portfolio manager in the real estate team back in 2006. She has previously worked as area manager at Housing East and as investment analyst at SNS Securities, a Dutch specialist in securities brokerage, capital market transactions and asset management.



### Robert Koot

Head of research

Bouwinvest Real Estate Investment Management

Koot is head of research at the real estate investment manager. Before joining in 2011, Koot worked for realtor JLL where he was responsible for producing feasibility studies, publications, concept developments and scenario-analyses in CRE. Specialized in market research as the basis for advising, he graduated as Master of Real Estate Finance in 2006 from the University of Amsterdam.



### Bart Verhelst

Executive director capital markets

CBRE

Bart Verhelst is an executive director at CBRE and is head of capital markets for offices and logistics within CBRE, the Netherlands. Verhelst has more than 13 years of experience, working in the investment transaction industry and he joined CBRE in 2006 as a senior investment adviser. He has previously worked as a senior member of the capital markets team at Cushman & Wakefield and as an associate at ABN AMRO Bank.



is shown in the figures, there is a lot of foreign capital coming into this market next to domestic demand which, to be fair, is still pretty strong,” says Koot.

Domestic investors counted for a third of all of Dutch real estate investment in 2014 (€3.35 billion) but US-based investors were not far behind and they collectively pumped €2.85 billion into the market, says CBRE research

Verhelst of CBRE says: “The main reason the market came back in the Netherlands last year is that investors first focused on the core markets in Europe, London and Paris, before going to Germany. These markets have now become incredibly expensive over the last two years or so and if you look at the Dutch market our prices are still relatively cheap.

“If you compare prime office yields here and with prime office yields in London the difference is about 165 basis points, I don’t think the difference should be zero but 165 is quite a lot. If you take into account debt financing which is cheaper here than in the UK for example then the gap becomes even wider. Investors have picked up on that, they know they can get attractive yields in the Netherlands and the economic fundamentals are much more attractive than Italy and Spain.”

Though despite domestic investment being strong in the Netherlands, Verhelst rather cheekily suggests that the local players were slow out of the gates when the Dutch real estate market was ripe for investment. “At the bottom of the market when the Rock was traded, or the Vinoly building, yields were 7 percent-plus and I thought that would be an excellent



**Kleine:** macro conditions are creating a positive mindset among investors

time for Dutch investors to acquire a position at the South Axis but no one dared to move in except for the German investors.”

The Rock is a visually stunning 261,563 square foot office building located in the South Axis, occupied by Dutch law firm De Brauw Blackstone Westbroek, which was acquired by Deka, the central asset manager of the German Sparkassen public bank. Deka also acquired another property in the South Axis, the 24 floor 344,445 square feet office known as the Vinoly building.

PGGM’s Kleine counters the point when she says many Dutch investors would not have been in a position to take advantage of the opportunities at the South Axis as many already had a large exposure to the Netherlands in their portfolios and the local financing market was pretty much closed for new transactions at the time. “The market had been in free fall and the prices were very difficult to determine because transaction volumes were extremely low. The local banks were tough on negotiations and couldn’t write that big of a ticket. International investors had other sources of money and could move quicker.”

### Door open to debt

The participants all agree that the availability of debt for real estate is back, and in a big way in the Netherlands. “A couple of years ago leverage was simply not available, if you wanted to use it you couldn’t,” says INREV’s Cammeraat.

“In the crisis all of the debt financiers went back to their home markets and now they are coming back again. In the Netherlands there are more than 70 institutions active for debt financing at the moment, a couple of years ago that was maybe two or three. So you have the usual players, Deutsche Pfandbriefbank and so on, but also debt funds, insurance companies and more. It’s a very liquid market at the moment and you can find debt financing for all sorts of products and all across the risk curve,” adds Verhelst.

And what surprised Kleine was the speed of the change in which The Netherlands moved from a capital drained market to a capital rich market. However, Kleine is quick to point out that, despite the easy access to debt, PGGM has learnt its lesson from the last financial crisis and limits its real estate leverage to 40 percent of the overall portfolio. “There is a tendency to use more because it’s so cheap but we are below the 40 percent figure at the moment and we think that is the right number.”

Verhelst thinks that overall investors in the Dutch real estate market are not getting carried away with the available debt. “If you look at how deals are being leveraged at the moment it is not the same as in 2007. The equity amount

invested in the Dutch real estate market in 2014 was much bigger than the equity stake in 2007 when we had the highest investment volume.”

Verhelst backs this up and says that the loan-to-value ratios (LTVs) are much lower than in 2007. “We don’t see the ridiculous LTVs we saw then and we won’t see that for a while. The debt is cheap but it could also still get lower.”

### Capital control

Yet, despite the buoyancy of the Dutch real estate market, fund managers looking to solicit capital from Dutch investors may face a tougher time than in the past. According to this year’s INREV Investor Intentions survey, in France and the UK no investors said they will decrease their allocation to non-listed funds, whereas 20 percent of their Dutch counterparts expect to decrease their allocation in 2015.

Not that Dutch investors are shying away from the asset class, says PGGM’s Kleine, rather they want more control over the assets. Again the INREV survey backs this up as it says 70 percent of investors based in the Netherlands, show a strong preference for investment into European real estate by way of joint ventures and club deals.

We have already seen this from PGGM in 2015 as the Dutch pension plan started two joint ventures with Legal & General; one to acquire a UK diversified portfolio for £370 million (€470 million; \$561 million) and one to invest £375 million in London offices. In Germany it teamed up with Rockspring and AG Real Estate to acquire a €350 million retail portfolio.

### Capital finds a home

For fund managers and investors that are targeting the Netherlands the roundtable participants agree that Dutch residential will be a key growth sector in the coming years



**Verhelst:** Amsterdam is home to prime office yields

and Koot says Bouwinvest has already done deals in the sector and expects to be doing more.

“We invested strongly in residential, more than €600 million in the last few years, as we saw residential as the best opportunity in the Netherlands, especially in cities like Amsterdam and Utrecht. There was some office and retail plays, like the WTC building in Rotterdam and the historic Citroën buildings in Amsterdam, but the market is smaller. Residential is a nice product for pension funds, which was the market to bottom out first in the Netherlands. It has strong occupier market fundamentals, with hardly any vacancy and solid rental growth, resulting in a low risk 6 percent to 7 percent average annual return without leverage.”

## Back on track

CBRE data shows that Dutch real estate investment levels are getting to pre-crisis levels, and in sectors such as residential even outgunning the last market peak

Sector	2013	2014	2007
Office	€ 1,979,377,530	€ 3,750,379,026	€ 8,913,824,420
Retail	€ 805,274,752	€ 1,492,482,092	€ 1,194,366,909
Industrial	€ 758,845,779	€ 1,131,751,560	€ 1,526,489,465
Residential	€ 1,040,913,150	€ 2,882,936,794	€ 1,267,000,000
Other	€ 742,793,751	€ 786,055,370	€ 248,000,000
<b>Total</b>	<b>€ 5,327,204,962</b>	<b>€ 10,043,604,842</b>	<b>€ 13,149,680,794</b>

Source: CBRE

But, Bouwinvest was not alone in recognizing the potential in a Dutch residential play. Last year, Round Hill Capital, the London-based private equity real estate firm, purchased a large residential property portfolio in the Netherlands. The firm acquired 3,786 units for €365 million from Dutch housing association Wooninvesteringfond (WIF), in one of the largest residential real estate deals in the Netherlands to have been struck since the global financial crisis. The deal is also the second of its kind to be struck by Round Hill in the Netherlands following its June acquisition of 1,534 units from funds managed by CBRE Global Investors for €180 million.

The largest residential deal to be struck in the Netherlands was the acquisition of the Vestia portfolio by Patrizia for €500 million-plus.

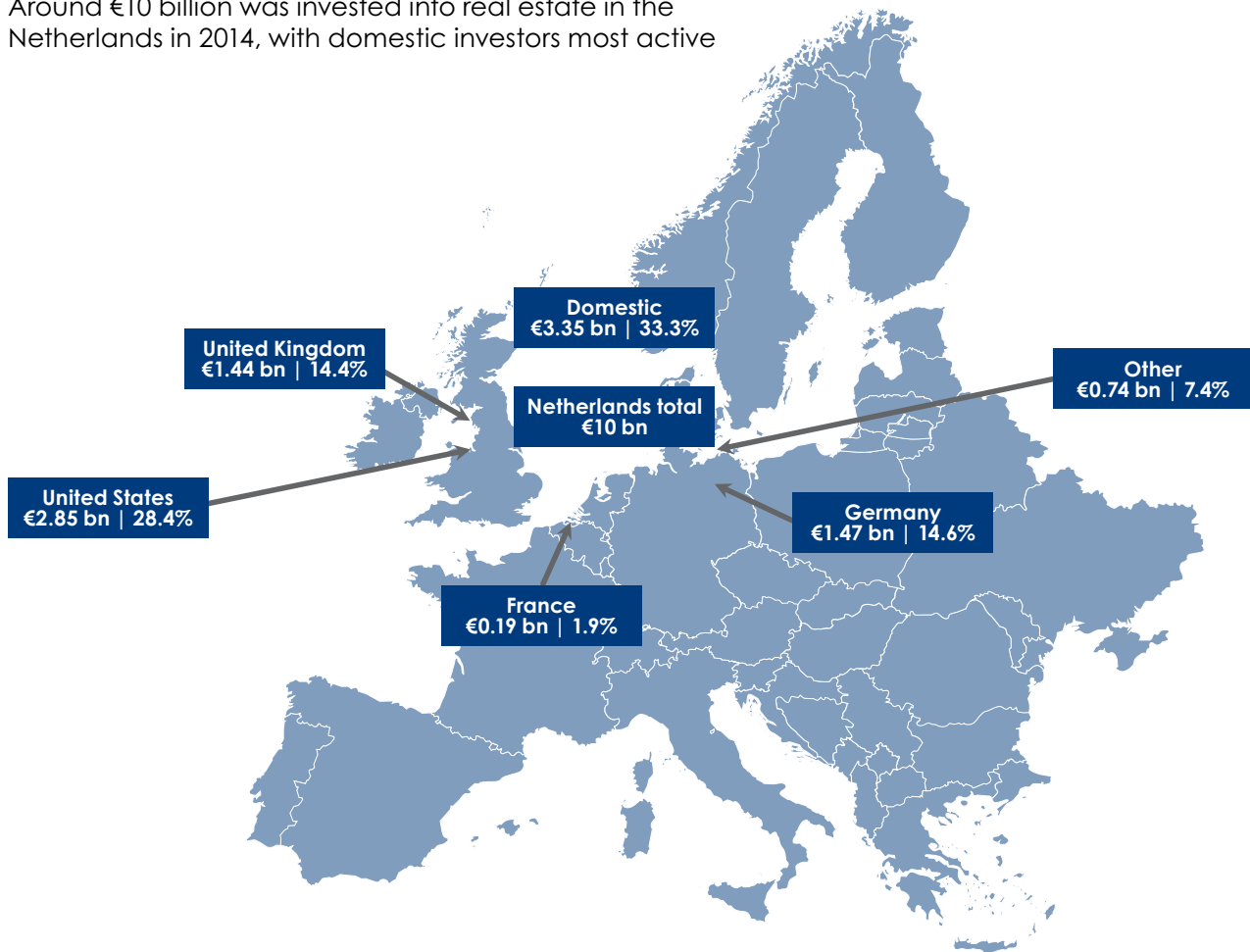
“The large scale portfolio deals of Dutch residential transactions by foreign investors is a new phenomenon in the Netherlands that has developed over the past 12 months,” says Koot.

London-based real estate investment management firm Internos Global Investors is also plotting investments in Dutch residential. The firm set a series of targets for 2015, including acquisitions in this market, as well as UK residential. Internos did not divulge investment targets for the two markets in its announcement, but previously told *PERE* that it expected to deploy up to €250 million of equity in both strategies on behalf of UK and German pension funds.

INREV’s Investment Intentions Survey 2015 also says that Dutch residential is the most popular strategy for fund managers who are putting money to work in the

### Dutch capital flows

Around €10 billion was invested into real estate in the Netherlands in 2014, with domestic investors most active



Source: CBRE research



Netherlands. Last year it was the second most popular strategy (after office investing) and saw investment levels of €2.9 billion, more than double 2007's €1.3 billion, according to CBRE research.

However, not all agree that fund managers will be able to access a great deal of Dutch residential in 2015. "We think that sellers are very scarce. They are aware that the market will improve so they are waiting for better prices. We feel there are more portfolios coming later this year but it will be a big challenge to reach the near €3 billion of last year in residential, unless a lot of large portfolios come to market in the second half, but I haven't seen any yet," says Verhelst.

INREV's Cammeraat though thinks that an oversupply of government-backed social housing will create a more balanced supply and demand dynamic. "I see that the government actions are based on their calculation that there are 2.4 million social houses and actually there are 1.4 million households that need it. So there are a million houses too many in the market which puts pressure on the social housing organizations to sell more. I think more portfolios eventually will come to the market."

Aside from residential Koot says that many investors will have an eye on Dutch retail too. "Prime location yields are coming down but now also in other cities like Rotterdam we see transactions taking place, the same with The Hague and Utrecht."

"Retail has been lagging behind the last few years but that will come back this year as all the investors we speak to are



**Koot:** Expects Bouwinvest to do more retail deals



**Cammeraat:** oversupply of residential will create opportunities

interested in this sector whereas last year nobody was interested in retail. The lack of product across Europe pushes these investors into new sectors and also up the risk curve and to other locations," says Verhelst.

And we should not forget, Kleine adds, that the logistic market is one to keep an eye on. The high demand for modern logistic space has spurred the European market in recent years and started moving into The Netherlands as well. PGGM sees it as a welcome side effect of e-commerce and a good example of how new technology can impact the real estate market. We will see structural changes in all market segments and this creates great opportunities for more active strategies.

INREV's Investment Intentions Survey also points to a shift towards value-added among real estate investors with more Dutch fund strategies and an increase in appetite for opportunistic funds.

PGGM is looking more into value-add and opportunistic, but prefers to call it manage-to-core or develop-to-core strategies, because the ultimate goal is to get exposure to core.

So with an economy in rude health, an increase in the availability of debt and a good supply of real estate product the outlook for 2015 is very positive, agree the roundtable participants. CBRE's Verhelst sums up the confident mood nicely: "We had a big increase in investment volume last year and we should be able to reach similar levels or even go a bit higher in 2015." □