Dutch Retail Outlook 2025-2027

Bouwinvest Real Estate Investors

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Executive summary

Retail market

- High street retail has recovered over recent years, albeit selectively, with retail chains primarily opening new stores in larger cities.
- The convenience market has proven to be a stable investment category over the past decade, characterised by low vacancy and stable rents.
- The polarisation between well-performing and underperforming assets is expected to continue, both in city centres and convenience centres.
- Investors are likely to focus on prime locations in major city centres and convenience-focused retail, which are expected to see further rent increases.

Economy, policy and capital markets

- Supported by an improved economic outlook, a recovery in the real estate market is becoming increasingly evident as interest rates decline and property values stabilise.
- The new government intends to accelerate housing market growth, despite challenging investment conditions.
- The Netherlands remains a prime destination, with 2025 poised to offer an attractive entry point for investments in Dutch real estate.

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Market trends defining the Dutch retail market

A wide range of trends impact the way we shop and thus the future of high streets and neighbourhood shopping centres. Three of most important trends are highlighted below. In addition, the retail market is strongly influenced by short-term developments, such as inflation and interest rates, the general investment climate in the Netherlands and the international sentiment regarding investments in retail real estate. Additionally, changing regulations such as the ban on the sale of tobacco by supermarkets and the intended VAT increase for books and magazines do have a certain influence on the retail market.

Online shopping: restoring the balance post-Covid-19

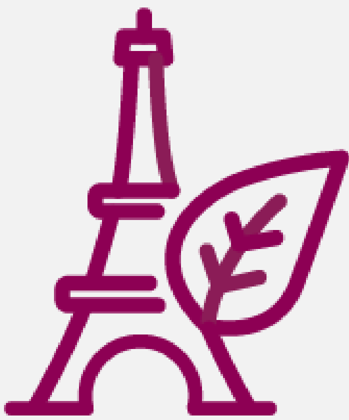
Over the past decade, the growth of online sales has had a substantial impact, mainly on high streets. Post-Covid-19, people started to revalue the main shopping streets, the city centres, their shopping trips. Although online is expected to continue to grow in certain sectors, there are sectors, toy stores as a good example, where physical store turnover has started to rise again, and the number of stores has stabilised.

On the convenience shopping front, online supermarket sales are growing, but at a very moderate rate. Post-Covid-19 growth has been limited, but despite the apparent determination with which consumers do their grocery shopping in-store, online sales are likely to increase further in this segment too.

Gradual socio-demographic shifts

The Dutch population is ageing. This is positive for convenience centres, as elderly people generally tend to spend their income closer to home, while they have on average more accumulated wealth than younger generations. However, it is important for convenience centres to adapt to the changing demographics in their catchment areas.

Young people and young families are overrepresented in terms of visits to city centres. While the share of these age groups is shrinking on average, they are continuing to grow in the largest Dutch cities. Coupled with the rise of (day) tourism, this continues to provide a solid basis for high street shopping.



Paris proofing retail real estate

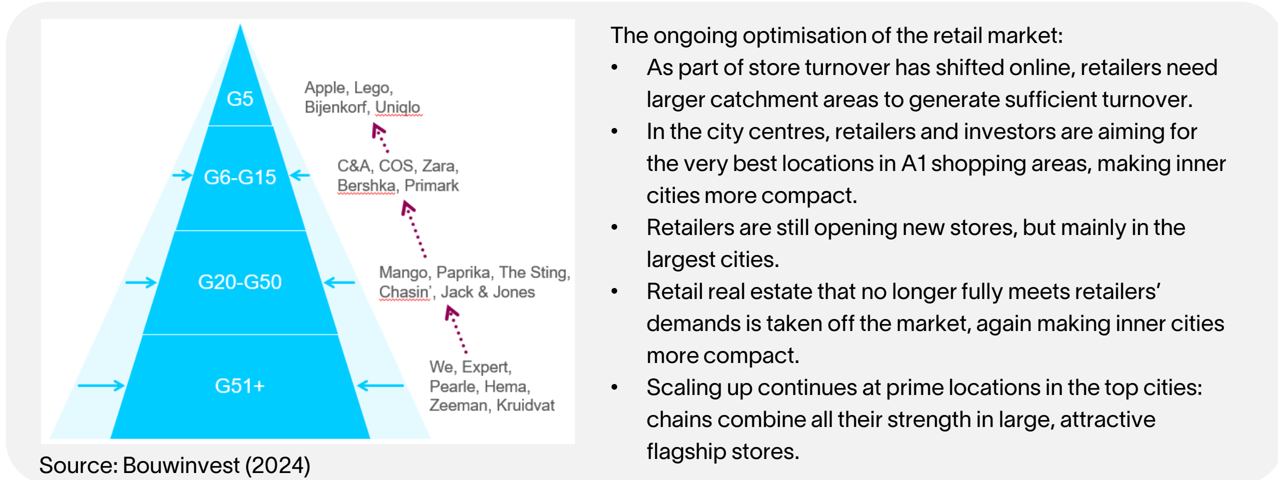
Sustainability for retailers was previously focused primarily on the production process of items sold in-store, as well as logistics. It is only in the last few years, with several supermarket chains at the forefront, that attention has started to shift to retail real estate. Bouwinvest believes that investing in sustainability will pay off as the spread between green and brown assets will increase, also in the retail market.

However, retail real estate faces major challenges in complying with the Paris Agreement, both in terms of the real estate itself (often historical) and the energy consumption of daily retail operations. Additionally, inner cities are vulnerable to increasing heat stress and excessive rainfall due to climate change. Cooperation between, retailers, property owners and local government is essential to combat these potential effects.

Occupier view
Further consolidation in high streets; convenience solid

The overall conservative sentiment regarding high streets in particular is seemingly starting to evaporate. After a series of difficult years, resulting in dropping rents and increased vacancy, many high streets started to regain their footing from 2020 onwards. In the largest cities, this was mainly due to the continued interest of (international) retailers in locations in these cities. In some of the medium-sized and smaller cities, this was due to active concentrations of the local retail offering, transforming vacant units and investing in the overall quality of the city centres – a process involving strong cooperation between the local councils, retailers and property owners.

Figure 1: Retail chains concentrating towards the top of the pyramid



The ongoing optimisation of the retail market:

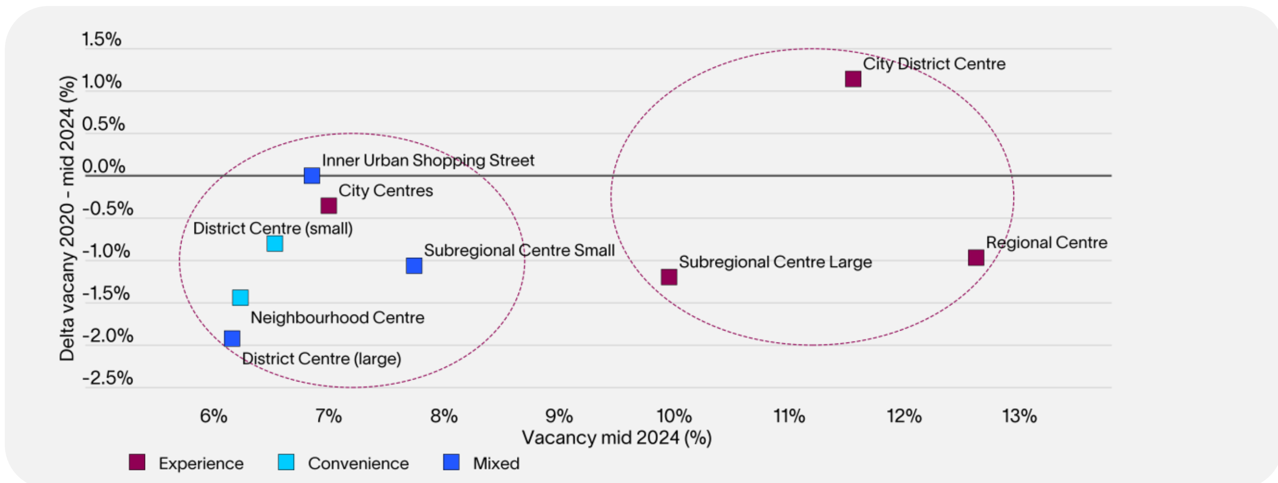
- As part of store turnover has shifted online, retailers need larger catchment areas to generate sufficient turnover.
- In the city centres, retailers and investors are aiming for the very best locations in A1 shopping areas, making inner cities more compact.
- Retailers are still opening new stores, but mainly in the largest cities.
- Retail real estate that no longer fully meets retailers' demands is taken off the market, again making inner cities more compact.
- Scaling up continues at prime locations in the top cities: chains combine all their strength in large, attractive flagship stores.

Source: Bouwinvest (2024)

High street retail, however, is and will be very competitive with oftentimes a very thin line between success and failure. In the past 12 months, several retail chains have been declared bankrupt, including Esprit, Scotch & Soda, Perry Sport and recently Game Mania, due to online competition, a lack of financial reserves and the increase of costs due to high inflation in the 2022-2023 period. At the same time, high street vacancies are often swiftly re-filled[1] by new entrants or retailers expanding and optimising their chains, especially in the larger cities.

The convenience market paints a stabler picture. Vacancy has remained very low over the past decade and rents have been fairly stable. The outbreak of Covid-19 even had a positive impact on revenue, especially for the daily goods sector. Supermarkets also proved to be an inflation hedge, as market rents grew substantially in the period of high inflation. Still, convenience centres are adapting continuously as subsectors grow and shrink and as retailers come and go.

Figure 2: Changes in retail vacancy over time (split by convenience, experience and mixed retail)



Source: Locatus, edited by Bouwinvest (2024)

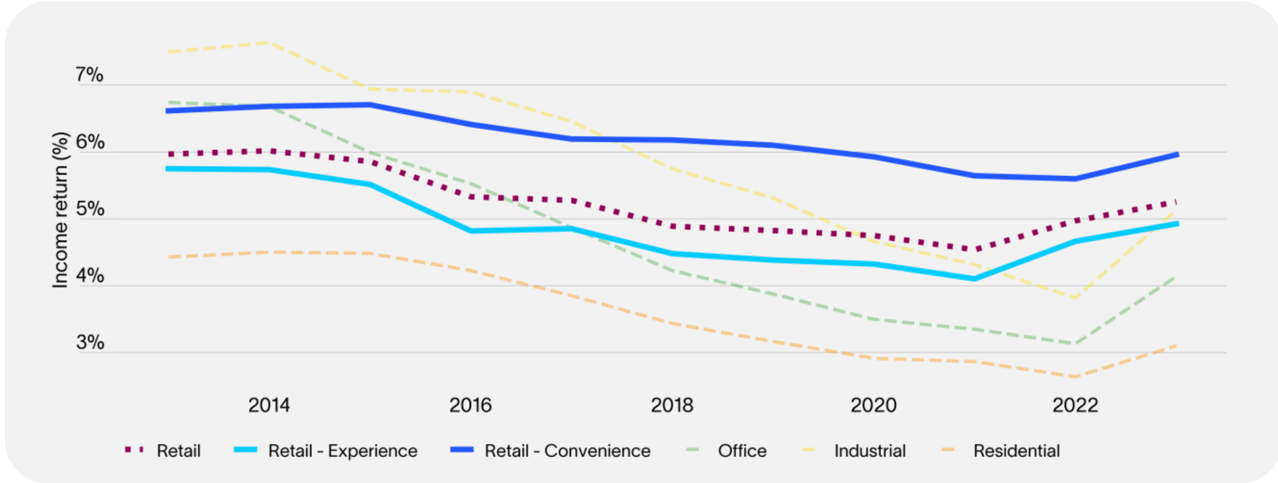
Vacancy levels differ substantially by type of retail destination. To the left, we find convenience-oriented shopping centres, as well as mixed centres. On the right side, we find the centres focused on non-daily shopping. City centres are the exception. While they may be focusing on non-daily shopping, they are performing well. However, these are the top 17 cities in the Netherlands. Looking ahead, we expect this picture to gradually change. Vacancy in the shopping destinations on the right side of the graph will be reduced due to contracting city centres and further transformation.

[1] Recent analysis by CBRE on the repurposing of vacant stores in city centres due to bankruptcies indicates that the average vacancy period until repurposing is 18 months. In the top five largest cities this is shorter at 15 months.

Investor view
Investment fundamentals provide solid base

The long period of rent declines in the retail experience market has had a major impact on historical investor interest in this subsector. However, now that rents are stabilising, vacancy remains limited and footfall in the shopping streets is back to normal, Bouwinvest is seeing sentiment returning to more positive territory. Is it likely that rents will quickly return to the levels seen five years ago? Probably not, but in the best locations in inner city areas, demand from retailers remains solid and the supply of suitable retail units is limited. There is a serious case to be made for a positive rebound of high street rents.

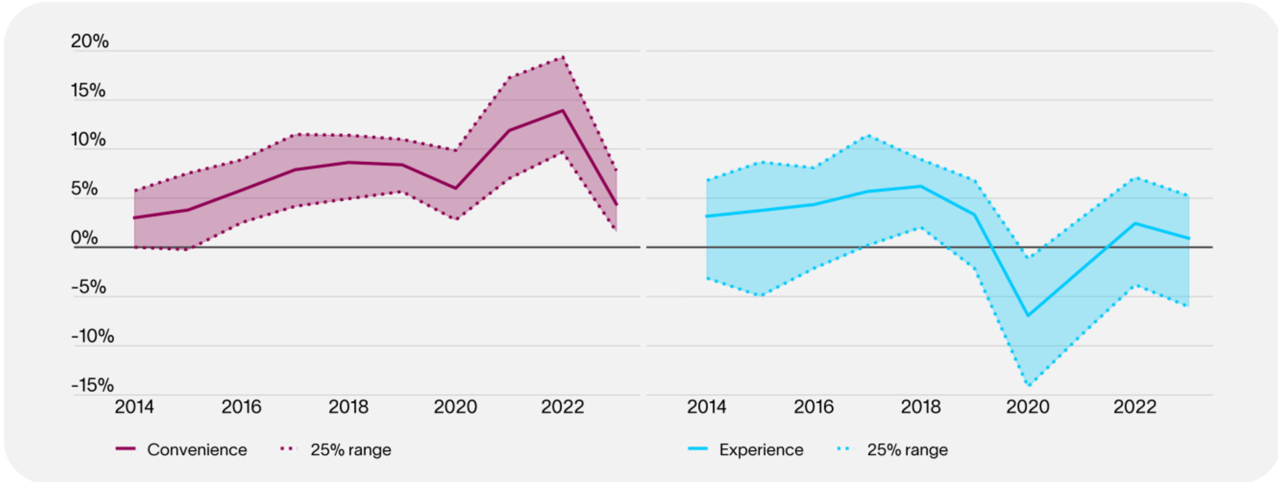
Figure 3: Income return Retail (split by comparison and convenience) versus other sectors



Source: MSCI (2024)

The graph above depicts the income return of retail (including a split by comparison and convenience) versus the other main investment categories over the past 10 years. Despite the turmoil in this sector, actual data shows that retail has shown a consistent strong direct return and thus a solid base for investment in this segment. And the retail convenience subsector is outperforming all others over this period, further strengthening interest of investors in this sector. As a result of this, convenience retail saw only a minimal increase in net initial yields due to the interest rate hike from Q1 2021 onward, even less so than the residential sector. The increase was more substantial for high street retail, but also there it was far less than for the office and industrial sectors.

Figure 4: Total return of 25th, 50th (average) and 75th percentile in convenience (left) and high streets (right)



Source: MSCI, edited by Bouwinvest (2024)

Historical data clearly shows that selection is essential (see graphs above). As polarisation is set to continue, both in city centres and convenience centres, assessing which asset is best suited to future retailers' demands is key.

Looking ahead, Bouwinvest expects a return of market rental growth in high streets and the best assets will benefit the most. This will, in itself, translate into increasing values. A similar case can be made for the convenience centres; Bouwinvest also expects rental increases in this segment, especially in the most dominant centres. The limited yield decompression during the recent spate of interest rate hikes demonstrates the overall interest of investors in this segment. The drawback is that future drops in risk-free rates will leave little room for substantial future contraction, especially for the convenience segment.

Dutch Retail Outlook 2025-2027

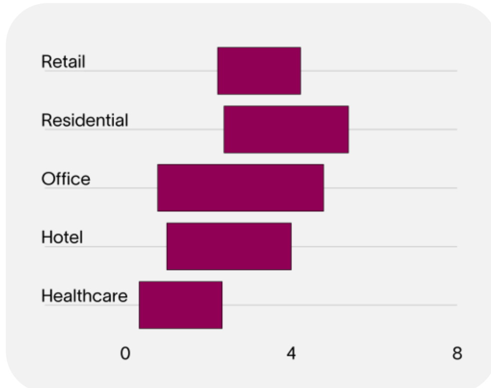
Economy, policy and capital markets

'Winkelcentrum 't Fort, Apeldoorn

Markets moving back into positive territory again

The outlook for the Dutch real estate investment market has improved when compared with the past few years. Real estate markets are reaching the bottom and specific segments, such as the residential market, are seeing a recovery. Now that interest rates have peaked, most of the declines in real estate values are a thing of the past. The Netherlands is one of the first markets to show signs of recovery, which offers attractive investment opportunities from a tactical perspective.

Figure 5: Baseline forecast average annual capital growth (%, 2025-2027)



Source: Bouwinvest Research (2024)

Key trends and expectations Dutch real estate markets

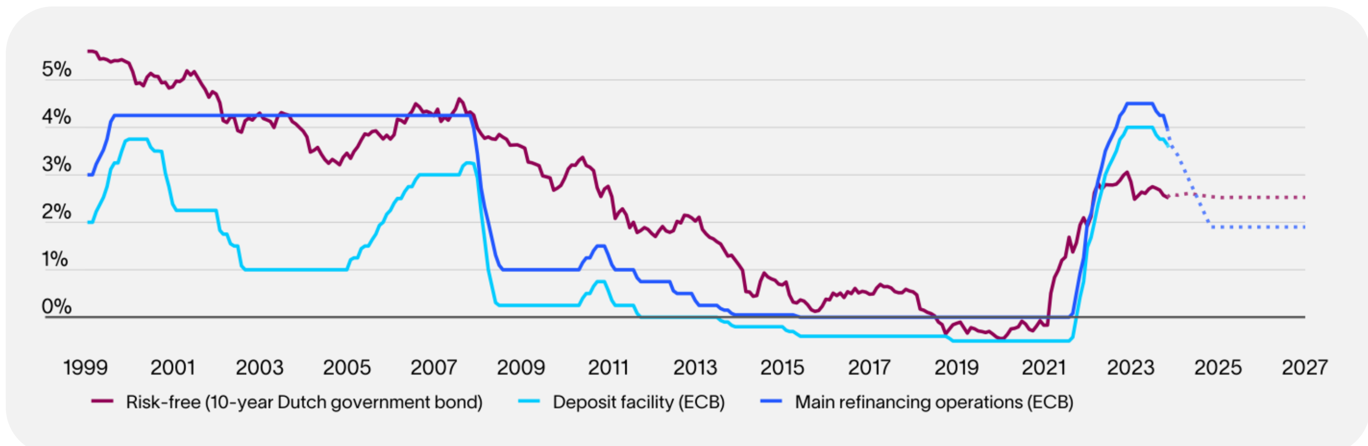
- The Dutch real estate market is bottoming out, which provides opportunities from a tactical perspective.
- Economic perspectives are moderate with inflation and interest rates back in calmer waters.
- Favourable fundamentals remain in place and support the recovery of the real estate market.
- The new government intends to promote residential construction to reduce the housing shortage.
- Average annual capital growth (in core markets) for the period 2025-2027 is expected to be in the range from 1% to 4.5% in our base scenario.

Inflation and interest rates are navigating towards stabilisation

Sharp interest rate increases were the main cause of the slump in real estate markets, and these have been a pivotal tool in managing the economy's response to inflation and economic fluctuations. Inflation has been a significant concern over the past few years, driven by a combination of supply chain disruptions, rising energy prices, and increased consumer demand as economies reopened post-pandemic. Core inflation in the Netherlands, and elsewhere in Europe, is easing gradually and more slowly than previously anticipated, supported by robust wage growth. Dutch inflation appears to be more stubborn then elsewhere in the eurozone. The 2% inflation target is not expected to be reached before 2026.

The European Central Bank (ECB) has tightened its monetary policy in recent years, and (policy) interest rates increased substantially. Interest rates have now peaked, as the ECB has recently reduced policy interest rates three times from 4.0% to 3.25%. However, the effects of these rate cuts will take time to materialise in real estate markets. The favourable development of inflation, combined with a weaker-than-expected recovery in the eurozone economy, increases the likelihood of additional rate cuts.
Since the substantial increases of rates in recent years, policy rates currently stand significantly above risk-free interest rates, with gaps reaching up to 100 basis points. This occurrence is unprecedented in the last 25 years, making the current situation unique. Expected future reductions in policy rates are already reflected in current risk-free rates. It is anticipated that these risk-free rates, as well as the swap rates that are important for the real estate market, will remain relatively stable in the coming period.

Figure 6: Reverse gap between risk-free and policy interest rates expected to evaporate thanks to stabilising risk-free rates



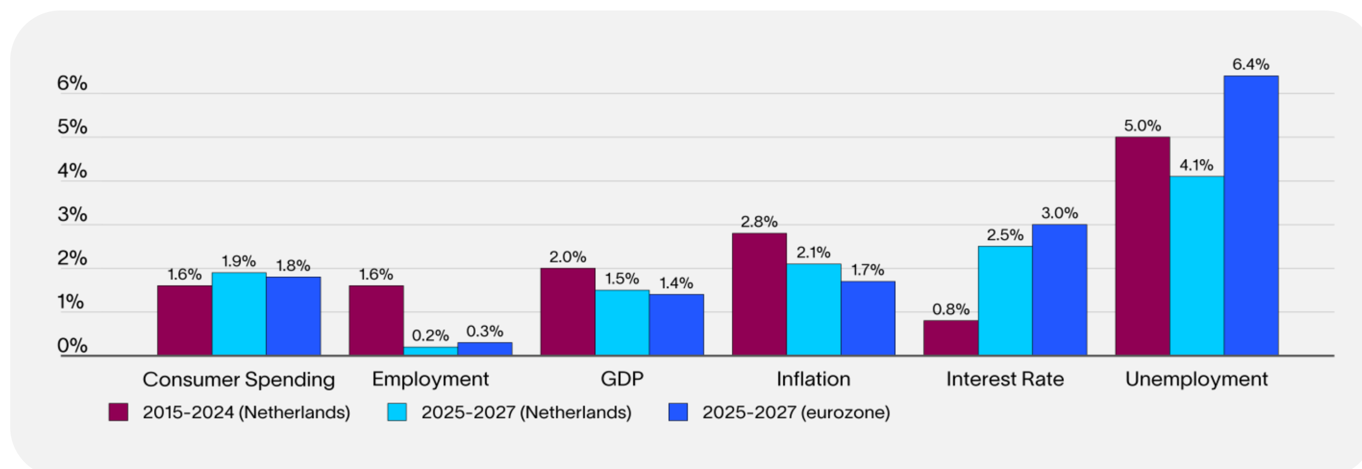
Source: ECB, Oxford Economics, edited Bouwinvest Research (2024)

The Dutch economy has navigated a complex landscape in recent years, marked by labour market tightness, productivity challenges, inflationary pressures, and a new government. External risks, including geopolitical tensions, global trade fluctuations, and downturns at key trading partners, have significantly impacted economic performance. Additionally, high pandemic-era inventory levels threaten future production and growth, resulting in declining consumer and producer confidence and marginal economic growth. Although (geo)political risks remain around the corner, economic growth is forecast to accelerate, with average growth rates set to be higher than in other eurozone countries.

Despite rising wages driven by higher inflation, Dutch households remain cautious in their spending, particularly on durable goods. Savings rates have increased compared to pre-pandemic levels, likely due to higher interest rates on long-term deposits and ongoing economic uncertainties and geopolitical tensions.

The labour market is expected to stay exceptionally tight, although sectors such as agriculture, industry, and construction are experiencing stagnation or declining employment. Wage growth is anticipated to stabilise but remain high, with collective labour agreement wage growth projections exceeding 4% this year and next.

Figure 7: Moderate expectations for the Dutch economy, but better positioned than other eurozone countries



Source: Oxford Economics, edited by Bouwinvest Research (2024)

New government intends to accelerate new construction housing market

The Dutch government recently presented its policy programme, in which it emphasises the importance of housing security for citizens. Consequently, housing is one of the four core pillars of this government and other real estate categories are not addressed in this programme.
The government has marked out high rents and house prices as one of the causes of growing inequality in the Netherlands. Earlier this year, we saw the approval of the Affordable Rent Act, which extends the regulated rental market to the mid-rental segment. The major proposed measures related to the real estate market are shown in the box below.

Major proposed real estate-related measures under the new government policy

- The government plans to address migration to ease the pressure on the existing housing market.
- For new construction, the government aims to reduce regulatory pressure and accelerate procedures, evaluating the accumulation of local regulations.
- A significant part of the government's plans is the financial support for municipalities through a new realisation incentive.
- In order to stimulate (cross-border) investments, the real estate transfer tax rate for residential investment properties will be reduced to 8% as per 1 January 2026, while that for other sectors will remain at 10.4%.
- On the other hand, the maximum interest deduction in corporate tax will be increased to 25% from 20% of adjusted profit. The threshold of € 1 million will expire for real estate entities with rented real estate.

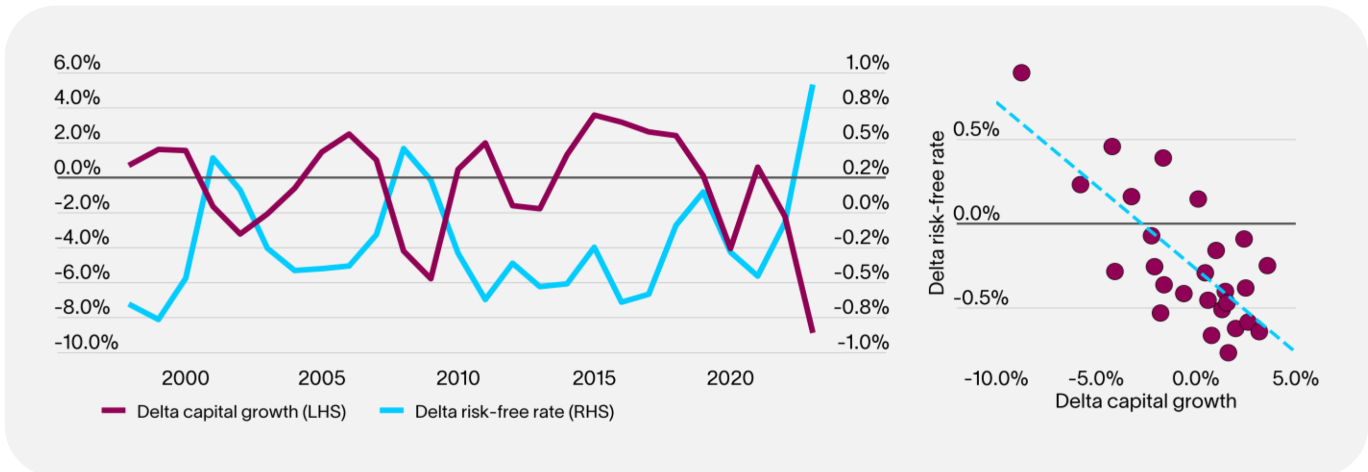
Moving forward, the Dutch government intends to address the housing shortage by tackling issues around the current grid and nitrogen problems. The combination of intended measures creates a new window of opportunity, especially in the residential market. The underwriting of investments has improved and become more secure on multiple fronts.

‘Economic outlook, bolstered by stable interest rates and positive trends in GDP and wage growth, provides a solid foundation for the revival of the real estate market.’

Rental growth primary driver of upward revaluations

The real estate market's road to recovery is highly dependent on these factors and the way the economy is forecast to recover from the recent period of high inflation. In our view, the expected stable risk-free rate creates little room for yield compression in the coming period.

Figure 8: Strong relationship between capital growth and risk-free rates for Dutch real estate (1998-2023)



Source: MSCI, Oxford Economics, edited by Bouwinvest Research (2024)

Historically, interest rate changes are a major driver of real estate capital growth. A substantial part of value changes can be attributed to deviations in the risk-free rate. The other major factor is rental growth. Since minor changes in risk-free rates are expected in the medium term, rental growth will be the main driver of capital growth. Shortages in the living sector are pushing market rental growth to higher levels and are a positive contributor to asset value growth. The ongoing impact of e-commerce and working-from-home on the retail and office segments fuels our expectation of more modest rental growth. Recovery on the Dutch real estate markets is expected to be bifurcated, with commercial segments lagging the living sectors.

Investor appetite for real estate investments has been hesitant over the past few years. Global fundraising for new products remains at low levels according to Realfin, with the living and diversified sectors the most in favour. Niche segments such as student housing and data centres are also able to attract fresh capital, as investors try to benefit from the J-curve effect. The recent strong performances on the global equities markets have taken allocations to real estate in mixed asset portfolios back into normal territory. This could give investors more room for real estate investments, which could be supported by the current good entry point in the market.

Despite the prevailing risks and challenges, the Netherlands remains a prime destination for global real estate investments. The country consistently ranks highly in indices measuring transparency, corruption, market size, liquidity, and overall attractiveness. Coupled with a moderate yet positive economic and demographic outlook, these fundamentals provide a robust foundation for real estate investments in the Netherlands. The year 2025 has the potential to be a particularly attractive year for such ventures.

> 'The year 2025 is poised to become an exceptionally attractive vintage year for investments in Dutch real estate.'

Reach out for more detailed insights

Please contact us for more information

General contact details

Postbus 56045
1040 AA Amsterdam

+31 (0)20 677 16 00
info@bouwinvest.nl

Jeroen Beimer
Head of Research
+31651364928
j.beimer@bouwinvest.nl

George Theuvenet
Business Development Director
+31653316074
g.theuvenet@bouwinvest.nl

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