Dutch Office Outlook 2025-2027

Bouwinvest Real Estate Investors

Bouwinvest Real Estate Investors

Executive summary

Office market

- The impact of working from home on vacancy levels in the Netherlands has so far been limited, with current vacancy rates even lower than at the onset of Covid-19.
- As companies increasingly consider more effective use of office space, market polarisation is expected.
- Although investment activity is currently low, sustainable, high-quality assets in multimodal prime locations remain attractive.
- Limited new construction and low vacancy rates are likely to support continued rental growth for prime offices.

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 Netherlands remains a prime destination, with 2025 poised to offer an attractive entry point for investments in Dutch real estate.

Contents

Market trends defining the Dutch office market 4

Occupier view 5

Investor view 6

Economy, policy and capital markets 7

Market trends defining the Dutch office market

A wide range of trends are redefining the way we work, directly shaping the future demand of office spaces. Three of these are highlighted below. In addition, the sentiment surrounding the office real estate market is influenced by developments such as inflation and interest rates and the general investment climate in the Netherlands. In contrast to almost all other Dutch real estate markets, the office sector is not substantially hampered by new regulations on the employer/employee side. Additionally, the Netherlands consistently ranks among the top-10 global competitive economies, has a large multi-language work force, a strong infrastructure and an overall high quality of life. This is why the office market remains a focus area for international companies.

Working from home: finding new balance

The most defining trend for the office market is related to the increase of working from home (WFH), catapulted by the Covid-19 outbreak in 2020. Even in the Netherlands, where remote working was quite common well before 2020, the increase was fundamental.

The effects of this increase were immediately visible in lower take-up of office space. Companies extended their rental contracts and postponed decisions regarding future housing. It is now much clearer how to respond to the WFH trend and companies will increasingly opt for less floor space when their contract expires. Bouwinvest thus expects vacancy levels to increase in the short term, especially so at secondary locations.

Limited new construction and redevelopments

New construction is still difficult to realise in the Netherlands due to high construction costs (further increased by the necessary sustainability requirements) combined with the decline in valuations over the past two years. It is only at prime office locations that vacancy still is very low, where occupier demand remains strong, and prime rents continue to rise. This is also where we are seeing a fair share of new construction taking place.

Limited new construction means that the number of investment opportunities in new-build offices will be limited, but at the same time restrictions on new construction are helping to maintain occupancy rates.

Sustainability in the office market

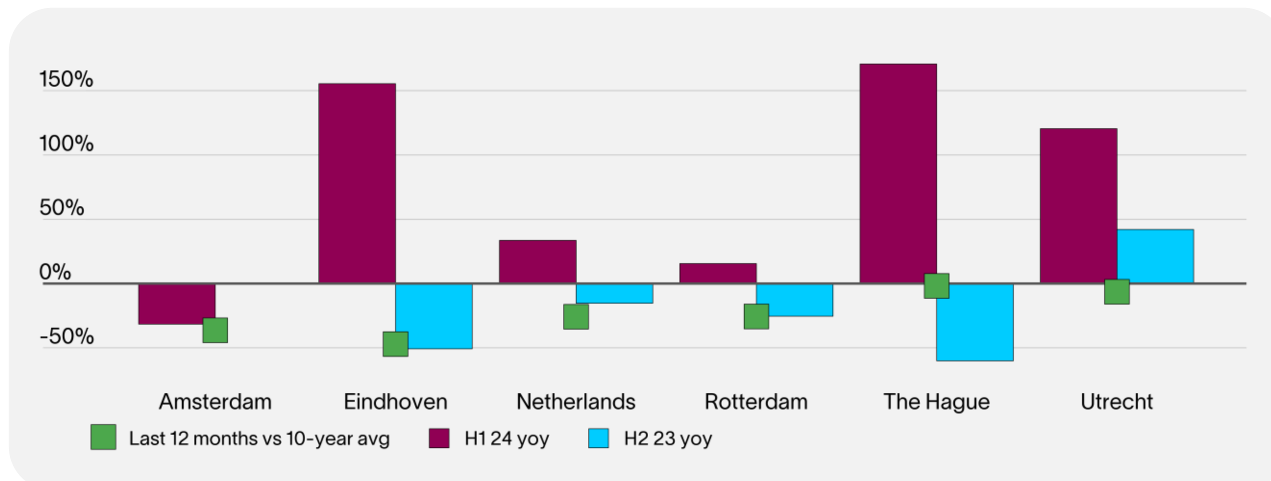
From 2050, all real estate will have to meet Paris Proof requirements. This means that by then the actual energy usage of office buildings must be below stated thresholds and must meet CO_2 reduction targets. Long-term investors, including institutional investors, are taking this into account and the costs of meeting these thresholds are generally assessed when investors look at potential acquisitions.

On the office occupier side, we are noticing that sustainability remains of great importance. Apart from the fact that sustainable buildings reduce energy costs, offering a sustainable and healthy workplace remains essential in the context of the ongoing 'war for talent'.

Occupier view
Occupier market picking up speed but still has ground to cover

The impact of working from home on the effective use of offices is enormous. On Tuesdays and Thursdays, the Netherlands is full of traffic jams and offices are fully occupied. Monday is relatively busy, but on Wednesdays and certainly on Fridays, plenty of desks are simply gathering dust. The translation of this shift on the actual real estate market has – so far - been limited. Office vacancy in the Netherlands is currently lower than in Q1 2020 when Covid-19 broke out. This also applies to four of the five largest Dutch cities, Amsterdam being the exception. However, in the best locations in Amsterdam, the vacancy rate is still very low: around 5.0% in the centre and as low as 2.5% in the Zuidas business district. Additionally, take-up is improving, with H1 2024 better overall than H2 2023, but still trailing the 10-year average.

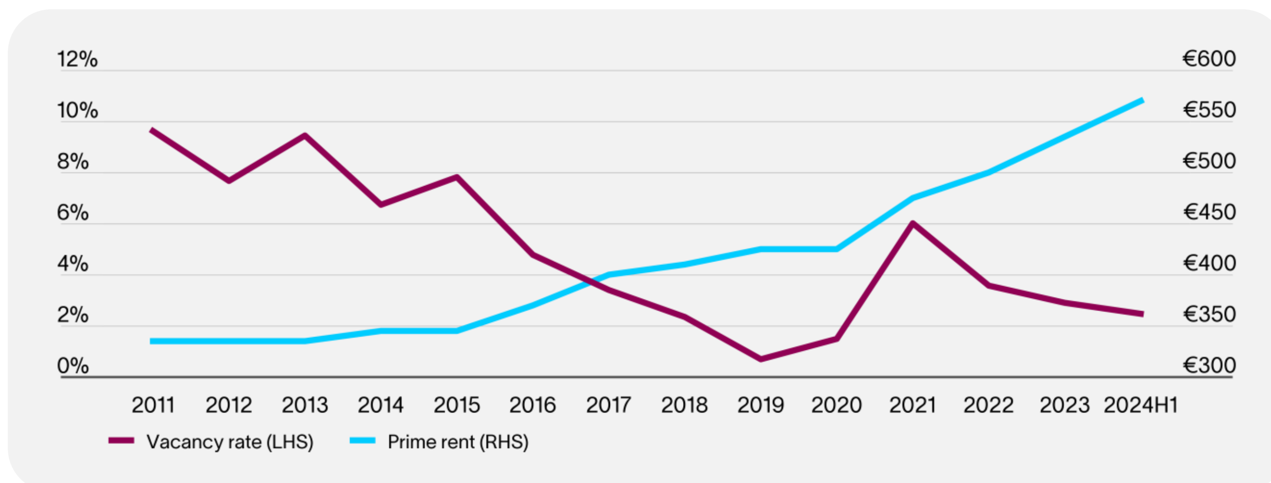
Figure 1: Relative increase in take-up in previous two half-year periods and compared to 10-year average



Source: JLL (2024)

The low vacancy rate was reflected in a positive development of office rents. In particular, prime office rents showed a more than substantial increase in rental levels. Prime properties at the Amsterdam Zuidas business district, Rotterdam city centre and Utrecht city centre saw their market rents increase by 15%-20% over the past two years. Outside of these top locations, however, the picture is much more diverse. Rent increases vary from 0 to 4% over the past two years at the likes of Amsterdam Sloterdijk, The Hague city centre and Utrecht's Papendorp district, while at the same time increasing by almost 20% in Amsterdam's South East district.

Figure 2: Vacancy (LHA) and prime rent (RHA) Amsterdam Zuidas



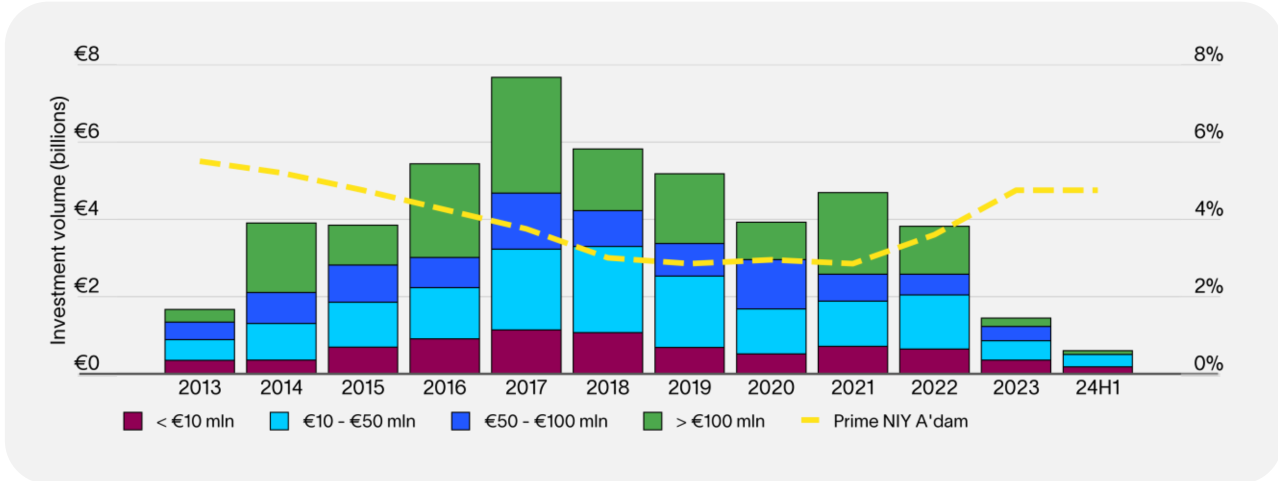
Source: JLL (2024)

Looking ahead, Bouwinvest expects this polarisation to intensify, and we expect (in line with our previous forecasts on the effects of WFH) vacancy rates to increase in the coming period. Companies will use the moments of lease extensions to reduce their floorspace at their current location or – alternatively – move to a higher quality office and/or stronger location. The latter option is also the result of companies relocating to keep or attract personnel. The effects of increased WFH will therefore be limited at prime locations. While we do expect vacancy to rise at prime locations, too, vacancy levels will remain relatively low. This leaves further room for rental increases, albeit less strong than in the past 2-3 years.

Investor view
Investors still cautious, despite less uncertainty

Investors have only invested sparingly in the office sector over the past 24 months. This has everything to do with the combination of higher interest rates and the uncertainty surrounding the ultimate effects of (WFH) on office demand (and thus occupancy). This uncertainty was at first very much driven by the huge impact WFH had on the major US office markets, where vacancy rose very sharply and has remained extremely high ever since. It has now become clear that the European and Dutch office user markets are responding much less dramatically to WFH. Although Bouwinvest still expects an increase in vacancy as current leases run out, this will be limited, certainly at prime locations.

Figure 3: Office investments in the Netherlands 2013 – H1 2024 by size and prime net initial yield (NIY) Amsterdam

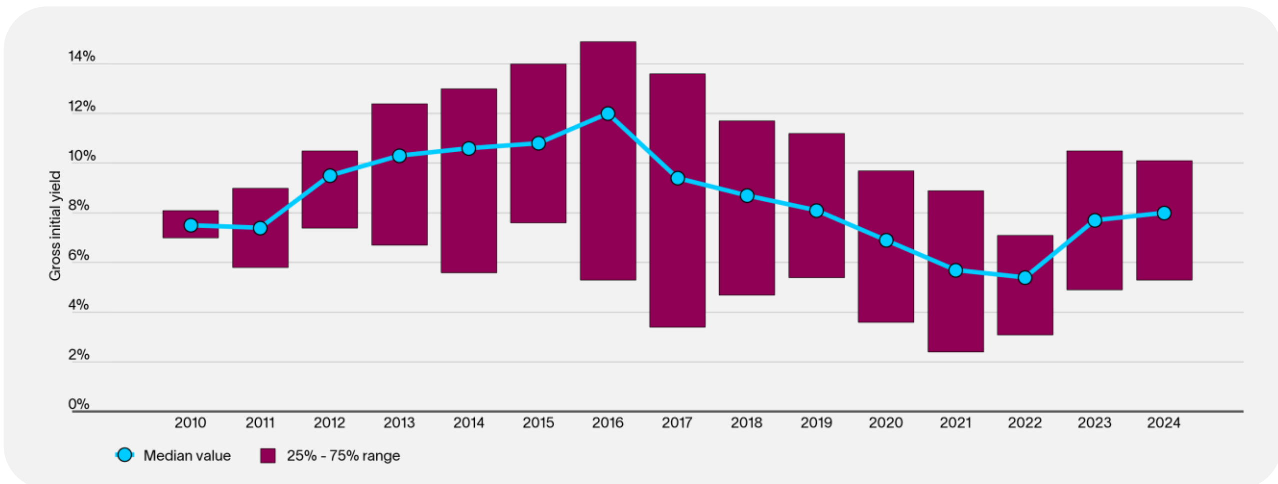


Source: JLL, edited by Bouwinvest (2024)

The interest rate hikes seen in 2022/2023 were a game changer, especially in the office sector, where yields are historically low (due to the large share of leveraged international investors in this sector), and low yields are generally hit hardest by interest rate increases. MSCI data shows that average office NIY rose by around 140 bps, with only the Industrial sector seeing a steeper increase. The graph above shows that the impact on prime Amsterdam office properties was even greater, with an increase of almost 200 bps, before they stabilised as of 2023.

The chart below focuses on the yield spread[1]. The bottom of the bar (i.e. the better assets) rose in 2022, 2023 and – slightly – in 2024. The top of the bar (higher yield and therefore less attractive assets) rose sharply in 2023 and fell again in 2024. This supports the idea that the market is stabilising and that the overshoot at the top of the chart is now being corrected.

Figure 4: Spread in yields of Dutch office investment transactions 2010-2024



Source: StiVAD, edited by Bouwinvest (2024)

The withdrawal of international investors offers opportunities for those Dutch institutional investors that can operate without (or with little) external financing. The majority of investors remain focused on sustainable, high-quality offices in the core segment at multimodal top locations with a high level of amenities close by.

[1] The yield spread in this case is the difference in gross initial yield levels between the 25th and the 75th percentile of transactions analysed by StiVAD. Bottom and top are not included in the graph for reasons of clarity but do show a very similar trend.

Dutch Office Outlook 2025-2027

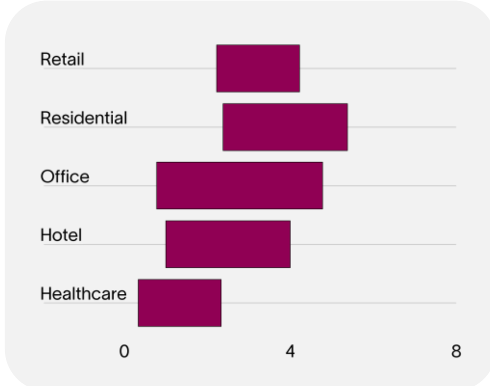
Economy, policy and capital markets

Central Park, Utrecht

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

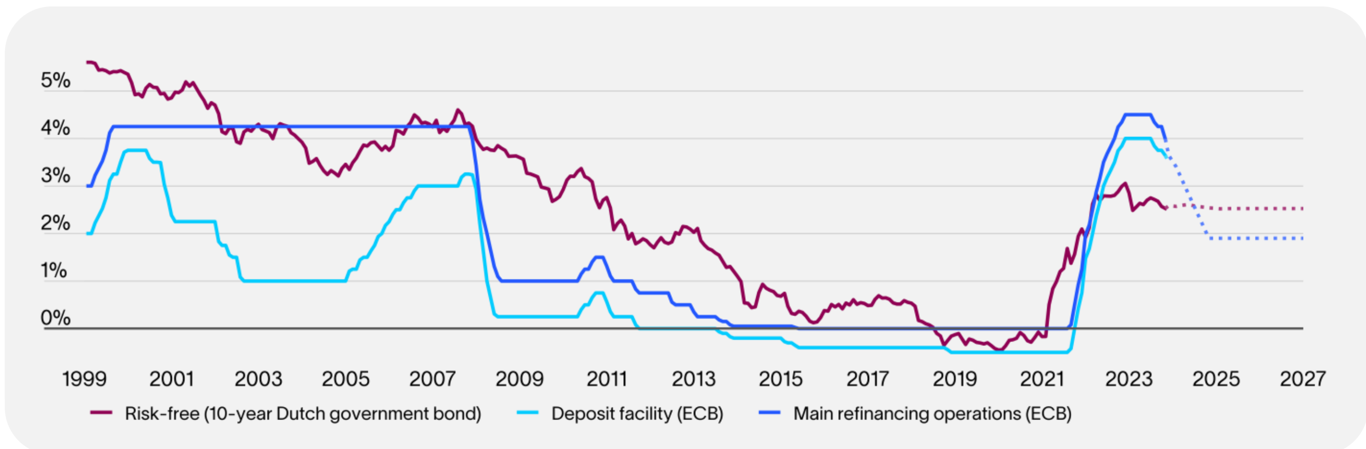
- The Dutch real estate market is bottoming out, which provides opportunities from a tactical perspective.
- Economic perspectives are moderate with inflation and interest rates back in calmer waters.
- Favourable fundamentals remain in place and support the recovery of the real estate market.
- The 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



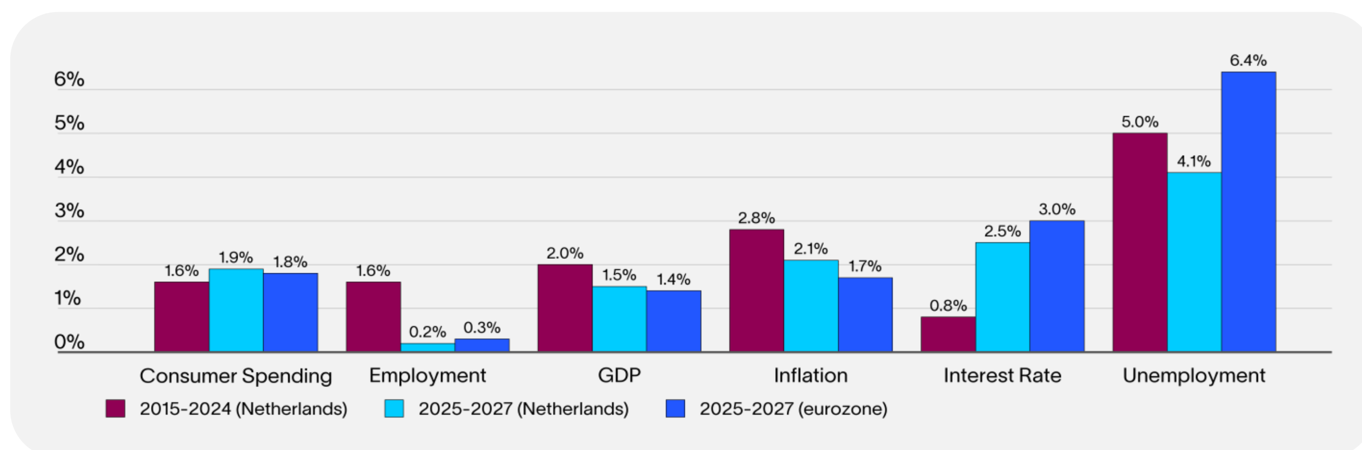
Source: ECB, Oxford Economics, edited Bouwinvest Research (2024)

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.

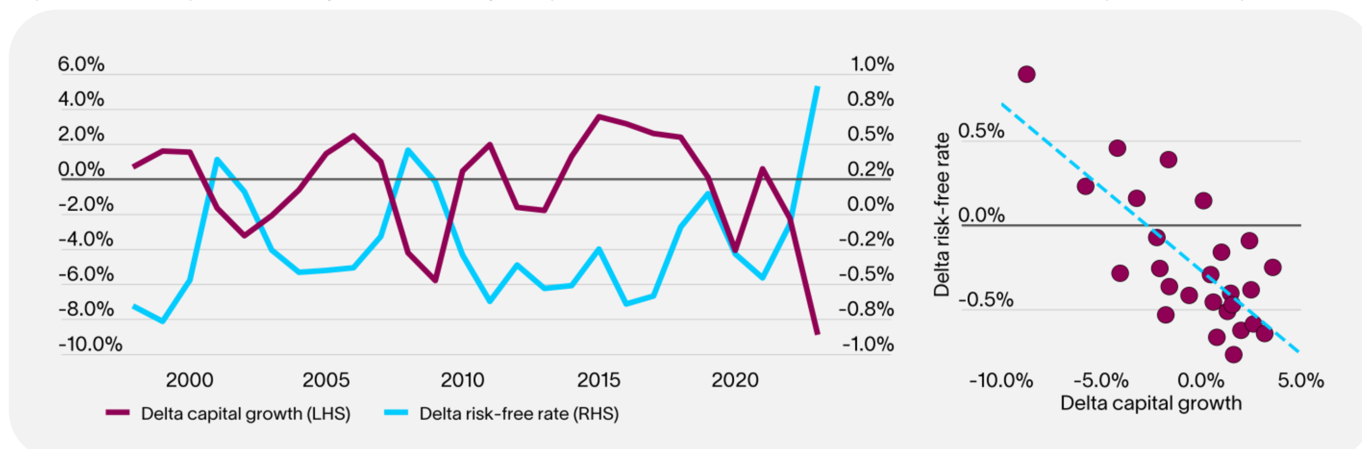
Moving forward, the Dutch government intends to address the housing shortage by tackling issues around the current grid and nitrogen problems. The combination of intended measures creates a new window of opportunity, especially in the residential market. The underwriting of investments has improved and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

Disclaimer: This Market Outlook and its contents, including all data contained therein, is exclusively provided as general information only and contains forward-looking statements, including statements regarding our intent, belief or current expectations about market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. No rights whatsoever can be derived from the content. Bouwinvest is not liable for any damages which may arise as a result of the use of the content or as a result of any incorrectness or incompleteness of the content. The content is by no means to be interpreted as being complete. This Outlook does not constitute a sale, an offer to sell or a solicitation of an offer to buy any interests in a fund. Bouwinvest has received a license from the Dutch Authority for the Financial Markets (AFM) within the meaning of Article 2:65 FSA and acts under the supervision of the AFM. All copyrights, patents, intellectual and other property, and licenses regarding the content are held and obtained by Bouwinvest and remain exclusive property of Bouwinvest. These rights will not be passed to persons accessing the content. No part of the content may be reproduced, distributed, stored in a retrieval system and/or published by print, photocopy, microfilm, uploaded to other websites or databases, or by any other means, without the prior written consent of Bouwinvest.