



Conclusion

planning, decentralising revenue streams to match local decision rights, cutting out a layer of government, or even introducing government service desks to facilitate contact with and between different sections of government.

The newly founded Joint State Development Agency (*Gemeenschappelijk Ontwikkelings Bedrijf*) has a mandate to deal with spatial issues on behalf of the various ministries. It operates as a sort of front office for the national government, and it offers a promising perspective on more uniform and faster governmental spatial policies. It should also be mentioned that, from an international perspective, the Dutch situation is seen as fairly positive.

The outlook for the Dutch real estate market is positive for the coming year. A number of issues have proved to be important to the respondents. These included, for the largest part, a positive response to the question of concentration in urban areas, with a surprisingly strong call for more public transport and other infrastructure.

The need for a more restrictive land policy could possibly be joined by a more market style approach to planning, by introducing or researching so-called *tradable development rights*.



Emerging Trends in Real Estate® The Netherlands

2007

Economic expectations and capital market trends

The mood in the Dutch real estate market became much more positive in 2006, and industry players in almost every sector are optimistic for 2007. A number of real estate development and investment companies are experiencing strong growth. The Dutch real estate professionals that were interviewed anticipate low to medium growth in the Dutch economy. Inflation and interest rates are expected to remain flat or increase slightly in 2007. However, this is not completely in line with official expectations, which forecast higher growth rates (Netherlands Bureau for Economic Policy Analysis, Centraal Planbureau, expects 3% growth in 2007).

It is generally expected that capital will remain widely available in the Netherlands. Some market participants expect an even higher inflow of capital, and almost none of the interviewees thought they had entered a real estate 'bubble'. As someone explained, "Yes, prices are high, but they can go even higher, and there is a sustainable demand which will keep prices where they are." As long as the stock market remains an unattractive alternative, private equity and hedge funds style investors will operate in Dutch real estate markets and prices will stay at a high level.

Private equity parties were mentioned as one of the main engines behind the strong price increases. Due to their debt leverage, they can outbid most other players. Real estate prices are rising while underlying rents remain predominantly flat in most sectors. Yields are diminishing accordingly. The perceived risk of investing in real estate is perhaps diminishing even further. As a consequence, investors are prepared to settle for lower returns and risk premiums. If there is a turnaround in the capital supply, it is likely to be driven by higher interest rates.

This report on Emerging Real Estate Trends in the Netherlands has been compiled for the first time as a special country supplement to the ULI-PWC Emerging Trends Europe Report. Its purpose is to give a more in-depth view on the trends and issues which currently dominate the Dutch real estate market.

The report was achieved by adding a set of questions relating to Dutch real estate to the general European questionnaire, and conducting interviews throughout the Netherlands. The report provides the results of interviews held with a large number of Dutch real estate industry leaders. All interviewees have been quoted anonymously.

Interview participants

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ULI Netherlands

A district council of the Urban Land Institute



ULI—the Urban Land Institute is a nonprofit research and education organisation that is supported by its members. Its mission is to provide responsible leadership in the use of land in order to enhance the total environment. The Institute maintains a membership representing a broad spectrum of interests and sponsors a wide variety of educational programmes and forums to encourage an open exchange of ideas and sharing of experience. ULI initiates research that anticipates emerging land use trends and issues and proposes creative solutions based on this research; provides advisory services; and publishes a wide variety of materials to disseminate information on land use and development.

- The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating thriving communities worldwide.
- 34,000 members worldwide including over 1,800 in Europe representing the entire spectrum of real estate development disciplines in both the private and public sectors.
- The leading multidisciplinary industry forum encouraging the exchange of ideas, information, and experience.

www.uli-nl.com

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PricewaterhouseCoopers real estate group assists real estate investment advisers, real estate investment trusts, public and private real estate investors, corporations, and real estate management funds in developing real estate strategies; evaluating acquisitions and dispositions; and appraising and valuing real estate. Its global network of dedicated realestate professionals enables it to assemble for its clients the most qualified and appropriate team of specialists in the areas of capital markets, systems analysis and implementation, research, accounting and tax.

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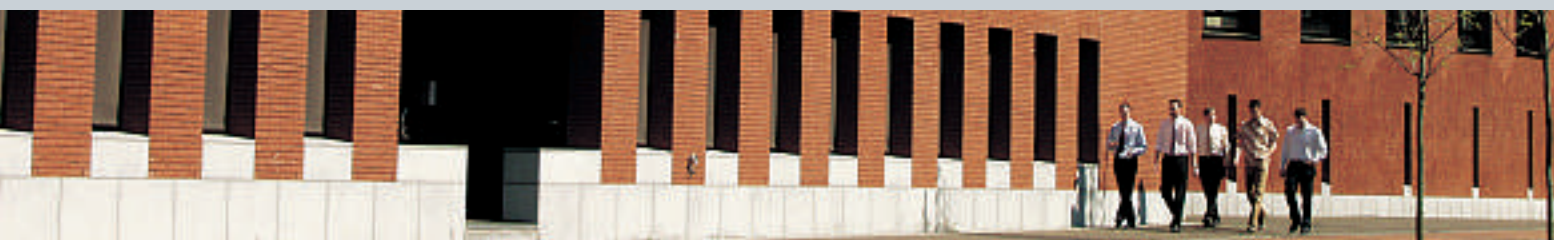
We have performed this research to the best of our professional knowledge and capabilities. All research and analysis was carried out using public sources and interviews with professionals. The Urban Land Institute and PricewaterhouseCoopers cannot be held responsible for errors or misinterpretations originating from these sources. Any quote should refer to "Emerging Trends in Real Estate The Netherlands Report" by PwC and ULI.

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Although there is an interest in real estate derivatives in the Netherlands, these products are not (yet) actively in use.

Due to new legislation introduced in 2007, Fiscal Asset Management institutions (*Fiscale Beleggings Instellingen*) can develop real estate more easily or buy into developers without losing their fiscal status. This should encourage investment in development activities.

Asset classes

Offices

There is strong demand in the end-user market to rent high-end office space in prime locations. In addition, the differential that tenants and investors are willing to pay for primary and secondary office space is increasing fast. The Amsterdam office market and, in a broader sense, the Dutch office market have become a replacement rather than a growth market. Amsterdam offices experience, on average, a vacancy rate of 16.5%. (*JonesLangLaSalle*) Some older, empty office buildings are likely to remain unoccupied. This has become a problem not only for the investors who own them, but also for the areas in which they are located as they become steadily unattractive. At the same time, high-end offices are popular and vacancy rates are low.

Some interviewees stated 2007 to be the year in which investors finally start to depreciate their empty office properties, and redevelop them as modern office spaces or alternative functions. Such activities need to be done collectively; no industry player will take the initiative single-handedly. New, lower prices will open doors to redevelopment, but there are mixed opinions about whether the government should be a mere facilitator or become more active in the transformation of empty office areas.

Industrial & logistics

The logistics sector is performing extremely well. Venlo, Rotterdam, North Brabant and Schiphol are quoted as successful areas to develop and invest in logistical facilities.

Retail

The Dutch retail and logistics sectors have performed very well and the outlook is still positive. Amsterdam, Haarlem, Arnhem and Breda are quoted as good retail cities. In the long term, the liveliness and differentiation of Dutch inner-city retail needs attention if it is to remain competitive on the national and international stage. The first Dutch mega malls have been planned, but are unlikely to appear in 2007.

Residential

The residential market in the Netherlands depends, for the large part, on government regulations. Government rent protection policy partly influences the outlook of investors in the residential market. The need to concentrate on housing in populated areas in the Netherlands has created a demand for inner-city high-rise living. Some developers expect a growing demand for such urban lifestyle apartments and residential high-rise blocks with an accompanying high service level.

Mixed-use and urban regeneration

The outlook is positive for mixed-use and urban regeneration projects. Yet most investors continue to be careful due to the many complexities that arise with inner-city mixed-use and urban regeneration developments.

Hotel and new asset classes

Hotel real estate is not yet considered an important asset class, although investors are following it with interest. There is criticism of the dependency on management. At the same time, investors are actively researching new asset

classes since core assets have become either too expensive or almost unavailable. The most innovative banks, investors and developers are currently researching the development and financing of new asset classes. Interviewees quoted oil platforms, data hotels, self-storages, fitness clubs, infrastructure projects, bridges, toll roads, hospitals, schools and Public Private Partnerships as investment opportunities.

Specific trends

Service-oriented real estate

A number of developers and investors expect a growing interest among real estate companies for more service-oriented real estate concepts. These could be in the form of hotels, US style condominium-hotels (where one can live and make use of hotel services), flexible office space, care concepts or collective services offered as an adjunct to real estate. They present an interesting cash flow model.

Changing demographics

Most interviewees are highly aware of the change in demographics and the need for real estate that fits the needs of an increasingly elderly population. Different care opportunities such as hospital sales, development of private retirement communities, care boulevards and assisted living possibilities are being researched. A number of participants in the survey claim that it is desirable to keep elderly people in their own homes as long as possible.

Population decline

Industry professionals disagree about the extent of population decline in the future, and how they should react to this possible development. Either way, decline will reveal strong regional differences. Some argue that the



decline cannot be anticipated; others see opportunities as councils of shrinking cities outsource some of their decline-related real estate issues to industry. A few, on the other hand, see it as an opportunity for new types of flexible buildings that can easily change function over their life span, or simply to invest in consumption rather than production-driven real estate. As mentioned above, the office market has already turned into a replacement rather than a growth market. Some people argue that the current immigration policy will limit future growth.

Sustainability

In the real estate industry there is a considerable awareness of environmental issues and the need to work in a sustainable way. Ecological issues constitute a set of formidable risks in terms of politics, reputation and the economy. Some key industry people pointed out that the risk attached to the Netherlands being below sea level has been overlooked or underrated.

Spatial use

Among the interviewees there is overwhelming support for the need to intensify the Dutch urban system. To achieve that goal, they propose more high-rise developments in the city and more flexibility from the government for mixed-use and layered developments. Furthermore, a great number of people strongly argued for better infrastructure, especially public transport to facilitate the concentration in urban areas. A number of systematic improvements are the only way to enable further growth in the highly populated Randstad area.

The question of what to do with the 'Green Heart of Holland' (*bet Groene Hart*) received a much more mixed review. Some called for a protective approach and a halt to

most of the developments, whilst others proposed active development (*red for green*, housing development profits invested in green or top segment housing for foreign executives). A third group proposed stronger infrastructure connections to the *Green Heart* to improve links to the surrounding cities.

The real estate market, in general, is becoming more enthusiastic about the Amsterdam South Axis development (*Zuid As*). Critics, however, questioned the necessity for such development, and pointed out that it will have little influence on those crucial factors that concern the relocation of foreign companies to the Netherlands. These key factors include the Dutch fiscal regime, the ability to attract top foreign talent, and the effect of strict AFM rules and penalties on the business climate of (see the effect of the Sarbanes-Oxley Act in the US). Foreign companies see these issues as more important than the attractiveness of the South Axis. Others argued that the South Axis should be considered a top, national location and were positive about the pace of current developments.

Public Private Partnerships and Government policy

A good definition according to one industry expert of Public Private Partnerships (PPP) is that PPP finances public sector services with private money; risk and returns are dependant on the way the public services are run.

Not all real estate professionals who were interviewed have experienced PPP structures yet. One, however, remarked that the PPP structures are not entirely new since each

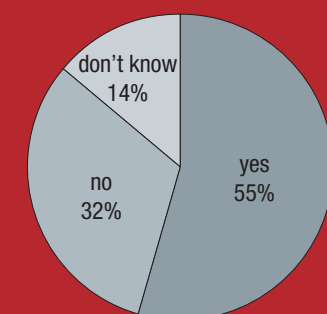


time a developer works on a mixed-use, inner city or urban regeneration project he co-operates with the government regarding the public aspects of the plan. Forthcoming infrastructure and area development agreements will probably evolve into a Private Finance Initiative (PFI) contracting environment (UK originated).

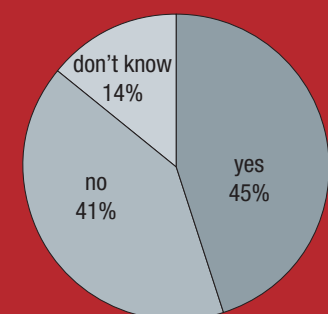
The Dutch central government is trying to standardise PPP and PFI contracts in order to lower transaction costs. At the same time, provincial and local governments are initiating such contracts as instruments for infrastructural and building developments. At the moment, the government has a large demand for market parties to deliver semi-collective services. If, in the future, it is possible to attribute and pay for such services on a more individualistic base, markets for semi-collective services might radically alter, and this will allow private companies to offer such services more easily.

Dutch real estate professionals express a clear need for more efficient government structures and more restricted spatial planning governance. The combination of decentralisation and the many layers of governmental interference continue to make development processes unnecessarily risky, slow and expensive. The lack of centralisation among local government creates an oversupply of land. There is simply no incentive to build more efficiently when land is so easy to obtain. As a result, we notice in some sectors and markets an oversupply of low quality and inefficient real estate.

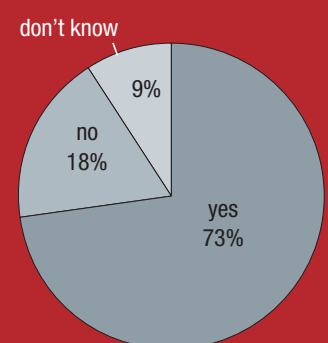
Real estate professionals offered a few thoughts on ways to improve the effectiveness of spatial planning governance. For example, creating a single Randstad authority (Amsterdam –Rotterdam –The Hague – Utrecht), merging smaller municipalities, centralising spatial planning decisions, restricting appeal processes in spatial



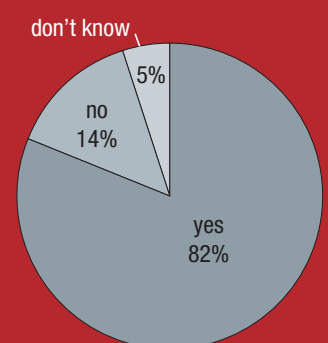
Does sustainability play an important role in your operational management?



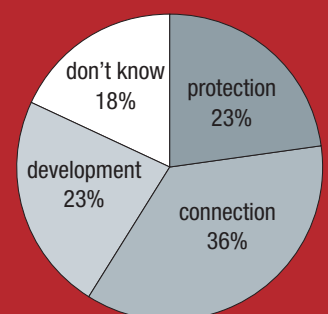
Do you identify opportunities for the sector in the light of a possible population decline?



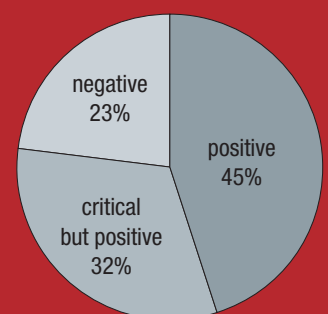
Do you identify opportunities for the sector in the light of developments in health care?



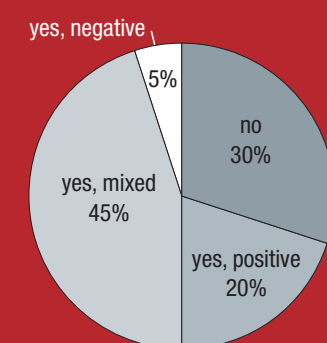
Is there any room for further intensification of the use of space in the Netherlands?



What possible scenarios do you envisage for the Green Heart conservation zone?



What, in your view, are the prospects for Amsterdam's Zuidas development zone?



Do you have any experience with PPP? If yes, are your experiences positive or negative?