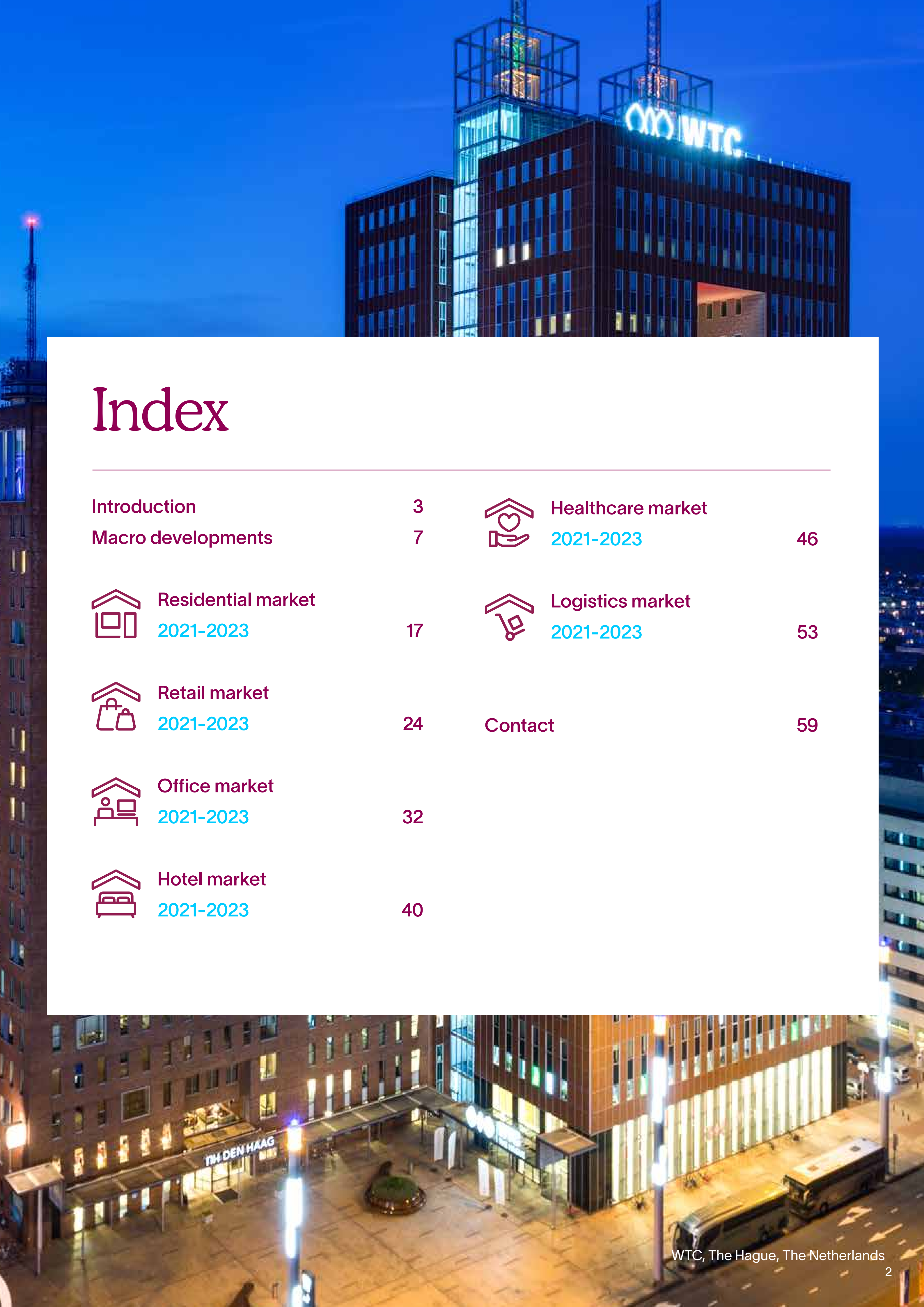
*Insights

Real Estate Market Outlook 2021-2023

Long-term prospects real estate sector remain favourable

Bouwinvest Real Estate Investors

Index



WTC, The Hague, The Netherlands

Covid-19 storm strikes property sectors **to widely varying degrees**

The dramatic 'demand shock' to the economy from the Covid-19 pandemic has had a widely varying impact on real estate investment sectors. The hospitality and retail sectors have been hit the hardest by the storm, as travel and consumer spending on durable goods dried up. Residential appears relatively unscathed so far, as house prices rise and transaction volumes have continued to grow. The convenience retail sector – for daily grocery staples – and logistics have even benefitted from the swing to more local shopping and the e-commerce boom, while offices have been left in limbo until post-crisis working patterns become clearer.

The permanent shifts in the real estate investment landscape will evolve with the fortunes of the economy and the ultimate resolution of the pandemic. Initially, however, the crisis appears to have accelerated the profound restructuring that was already underway in the retail sector. And the surge in online shopping has spurred demand for logistics capacity, particularly for 'last mile' deliveries to homes and businesses.

Covid-19 has created myriad uncertainties regarding the near-term prospects for the five core real estate sectors in which Bouwinvest invests in the Netherlands – residential, retail, office, hotels and healthcare. Despite this, we remain broadly optimistic on the outlook for all these sectors for the scope of this report (2021-2023) and beyond. This optimism was borne out by the marked rebound we saw this summer, when the government eased contact restrictions and reopened a number of sectors. Once the pandemic is behind us, we expect most sectors to recover and show healthy and stable growth, as long-term market fundamentals remain broadly supportive.

> "Our optimism is borne out by the marked rebound we saw this summer, when the Dutch government eased restrictions."

Despite current disruption, long-term prospects for real estate sector remain healthy

The global upheaval ushered in by the Covid-19 pandemic is causing severe stress in many industries and economic sectors, but real estate continues to attract new investors thanks to its broadly favourable long-term prospects relative to other investment asset classes. This is also true of the Netherlands. Even in this time of crisis, Dutch house prices are still rising, driven by low interest rates and a major housing shortage. Building new homes therefore remains a key priority for the government and the market.

The healthcare market correlates only marginally with economic cycles and is mainly driven by the long-term structural ageing profile of the population. However, if the health crisis and the economic downturn are more prolonged, healthcare institutions may focus on their core activities, and postpone additional investments or expansion moves, at least in the near to medium term.

In the hotel market, and the hospitality sector in general, the signals have gone from green to red for many operators, but we expect the sector to eventually rebound when people are allowed to resume normal leisure activities and (international) tourism flows return to relatively normal levels.

On the office market front, we believe working from home will have less impact in the longer term than is being suggested in the media. Most office workers miss the personal contact with their colleagues and we expect offices to retain their social function, especially those that provide multifunctional meeting spaces in easily accessible locations.

Convenience food stores remain a very stable investment and have been posting record sales since the onset of the pandemic. Fashion stores in the main high streets, cafes, restaurants and hotels are currently being hit the hardest. However, post-Covid-19 we expect consumers will once again crave social 'experience' and those establishments that cater to this segment will benefit. Experience-led retail has become a major market trend in recent years and is eventually expected to revive, although online competition will remain strong.

Logistics is emerging from the Covid-19 crisis as one of the most resilient asset classes in the real estate universe, alongside residential and healthcare, due to the boom in e-commerce during lockdowns. The global economic recession and decline in international trade volumes triggered by the pandemic have clearly increased the risk of corporate bankruptcies among occupiers of warehouses. However, these risks are largely being offset by the high e-commerce demand. The logistics real estate market is currently experiencing historically low vacancy levels, and there are few signs this will change in the longer term.

Long-term investments in 'Real value for life'

Most investors believe the real estate market will recover after the current period of volatility and uncertainty. This is borne out by the current rise in transaction volumes, following the decline triggered by the Covid-19 outbreak in the spring. The reality is that there is still a lot of investment capital waiting in the wings and real estate offers an attractive risk-return profile for the coming years.

Rising capital flows into the real estate sector are driven by investors looking for attractive returns beyond the low yields available in fixed-income markets. Like many other asset classes, however, real estate has seen values rise sharply in recent years and finding a sufficiently rewarding risk premium in certain segments and markets is a challenge. This is why expertise, know-how and speed in execution are essential to finding interesting investment opportunities.

We believe we can only generate stable long-term financial returns for our investors if we take the societal impact of our investments into account in every decision we take. We aim to create 'Real Value for Life' for our institutional investors by investing in a responsible manner in sustainable real estate in accessible and liveable cities that are already adapting to what the future may bring.

Alternative scenarios guide us in these unprecedented times

Producing this Market Outlook has been more challenging than ever this year. The Covid-19 crisis has clearly demonstrated how quickly circumstances can change from one moment to the next. We would therefore like to stress that the situation described in this report and our forecasts may well differ at the time of publication, given that a great deal of uncertainty still remains.

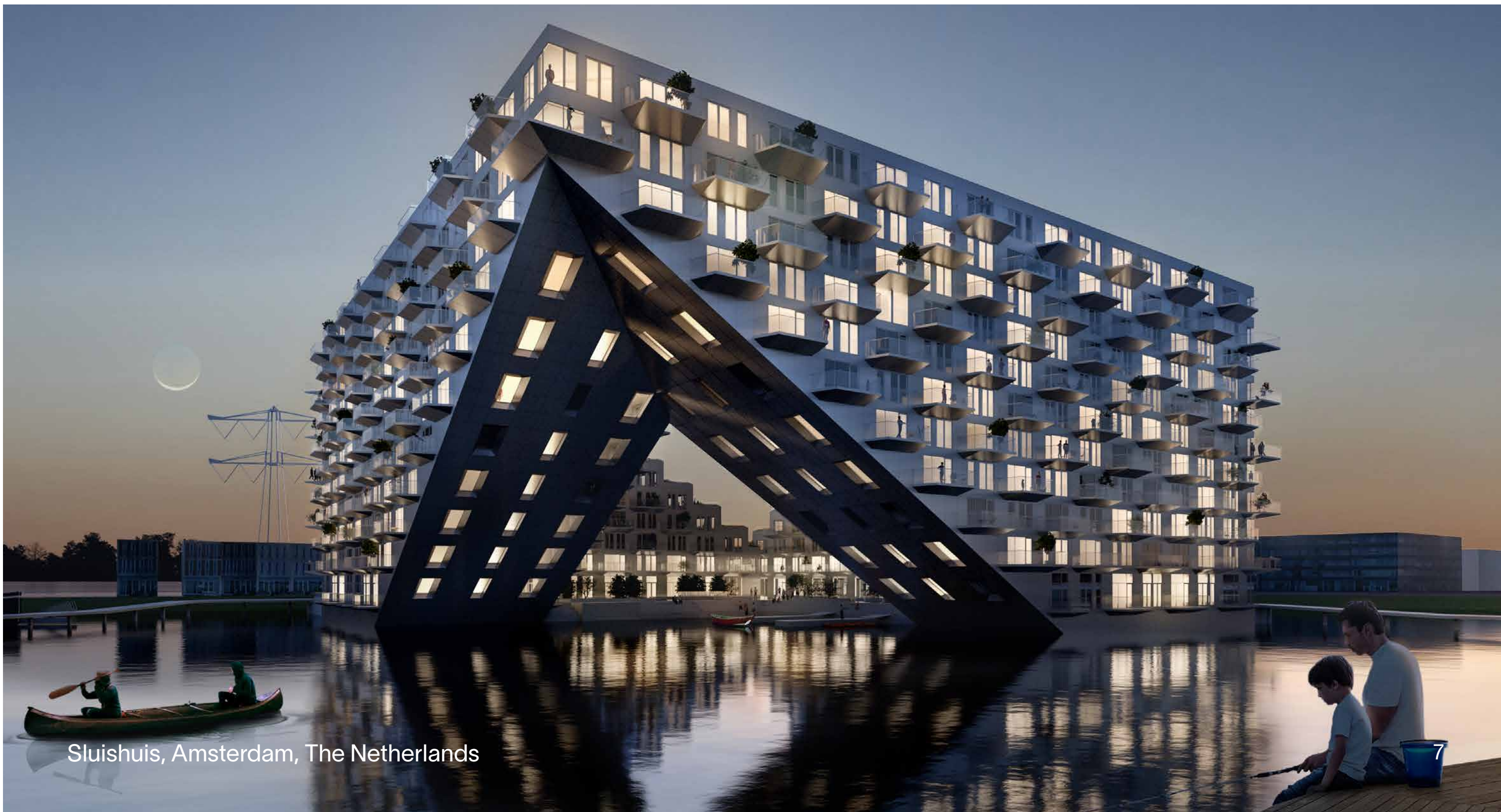
In these unprecedented times, we need to consider a range of potential outcomes (see page 12) and we will continue to update our own scenarios in line with our latest insights. This Market Outlook draws on our baseline scenario from autumn 2020 in an international context (where applicable). Where relevant, we also provide an alternative scenario.

“Most investors believe the real estate market will recover after the current period of volatility and uncertainty.”

State, Amsterdam, The Netherlands

Macro developments
From emergency to recovery and resilience

The dominant macro-economic and political themes of 2019 appear to have faded into the background somewhat due to the Covid-19 crisis, but many are still playing an important role today. These include the difficult Brexit negotiations, which now seem likely to result in a so-called hard Brexit, and the ongoing trade war between the US and China. Over the past few years, we have also seen the rise of populist and nationalist political parties across Europe and beyond. And we have the Hong Kong pro-democracy protests and China's introduction of a security law that is likely to restrict democratic rights in the territory. On top of this, we have the worsening climate crisis, with forest fires and extreme weather conditions on the rise in various parts of the world. While all of these have the potential to affect (the investment climate for) the real estate sector, climate change poses the greatest physical risk to real estate assets. It is also an area in which the real estate sector can play a significant role in reducing climate impact and mitigating climate risks.



Sluishuis, Amsterdam, The Netherlands

Politics

Resistance to globalisation bolsters supply chain reconfiguration

After an extended period of unbridled growth, globalisation has increasingly come under attack in recent years from populist political and social movements that share common positions such as opposing immigration and a multilateral approach to issues such as security and trade.

Countries around the world are questioning whether they should reduce their economic interdependence, with national security and public health concerns providing new rationales for protectionism. Many policy makers are concerned about supply chain security and are calling for a greater focus on domestic sourcing.

The trade tensions between the US and China have weakened their relationship and led to what has been dubbed a 'decoupling' of the world's two largest economies. Europe appears to be caught in the middle, as it is a major trading partner of both countries. As a result, the European Union is likely to strengthen its independent trade policy. In the not too distant future, international economic activity may be shaped more by multiple competing trade blocs as globalisation retreats.

The restructuring of global trade links has accelerated during the pandemic, with greater attention given to manufacturing industry onshoring and the building of stock buffers due to supply chain disruptions. This may result in a permanent dislocation to 'just-in-time' logistics models that have increasingly dominated corporate thinking for decades. If this occurs and there is no return to pre-Covid-19 business as usual, then the composite global map of goods and people flows will be permanently redrawn even before the impact of advances such as e-commerce and clean technologies to combat climate change are considered.

Uncertainties around Brexit terms persist

Within Europe, and specifically the UK, Brexit-related uncertainty is likely to persist. The UK officially left the EU on 31 January 2020 and the transition period runs to 31 December 2020. Until then, the UK is supposed to abide by all EU rules and laws while the UK and EU conduct trade negotiations. A new trade deal should take effect from the end of 2020. If no agreement is reached, the UK will start to trade on World Trade Organization (WTO) terms with the EU (a so-called 'hard Brexit'). The economic consequences will be significant for both the UK and the EU.

Hotel Casa, Amsterdam, The Netherlands

Economics

World economy heads towards a sharp contraction in 2020

The global economy was growing at a pace of around 2.5% until the final quarter of 2019, but the Covid-19 pandemic brought that positive trend to a grinding halt. Asia, Europe and the US all reported sharp economic downturns in the first half of 2020, albeit at varying paces. At the time of writing, Oxford Economics was forecasting a global economic contraction of -4.3% for the full-year 2020, with recovery on the cards from 2021 to 2023.

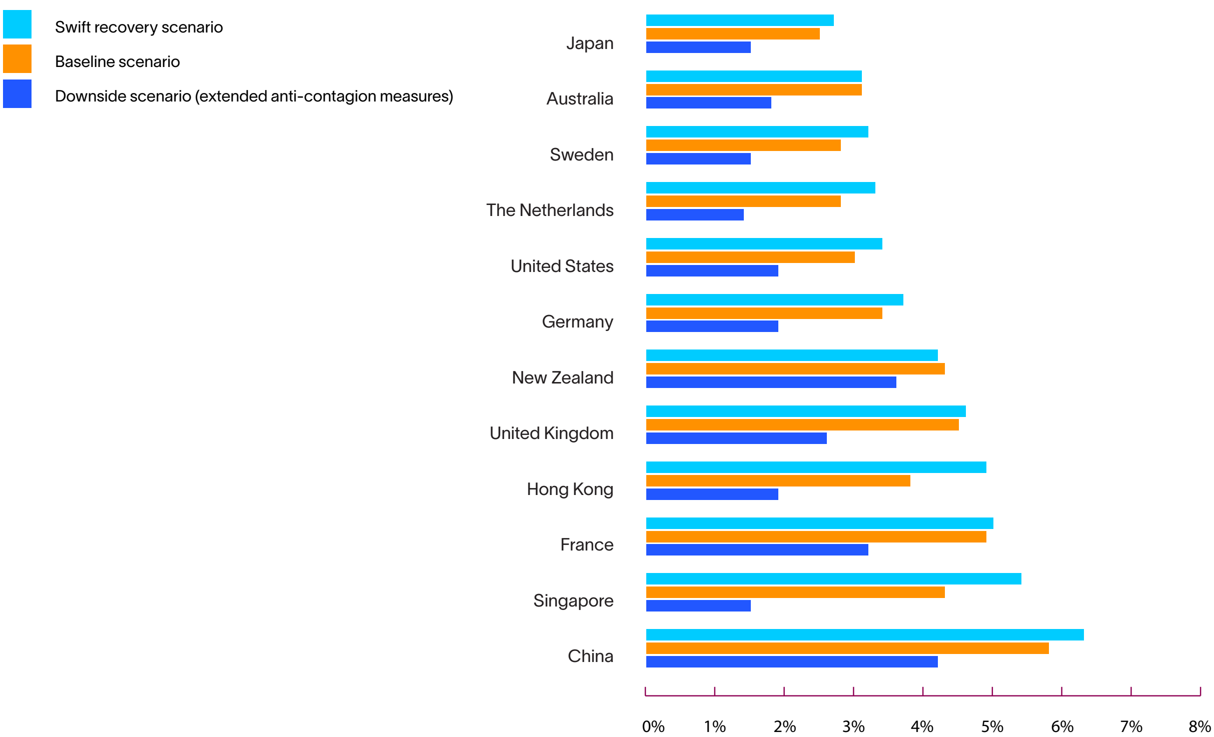
The table below shows economic growth forecasts for the world's leading regions and the Netherlands for the three-year period under review.

	2020	2021	2022	2023
World	-4.3%	+5.3%	+4.0%	+3.3%
Asia Pacific	-1.6%	+6.2%	+4.8%	+4.5%
United States	-3.7%	+3.7%	+2.9%	+2.3%
Eurozone	-7.9%	+5.7%	+3.8%	+2.3%
The Netherlands	-4.8%	+3.6%	+2.9%	+1.9%

Economic growth forecasts (baseline scenario) (Source: Oxford Economics, as at 22 September 2020)

Three scenarios for average annual GDP growth 2021-2023

Source: Oxford Economics, Bouwinvest Research & Strategic Advisory (R&SA)



Central banks, governments combat economic damage of Covid-19

The main monetary developments in recent months have all revolved around measures that central banks have taken to alleviate the economic pain of the Covid-19 crisis. The European Central Bank (ECB) boosted its emergency asset-purchase programme by € 600 billion in June 2020, bringing the total to € 1.35 trillion. Since the ECB's intervention, market conditions have improved and borrowing costs in Italy and other southern European countries have fallen back to pre-Covid-19 levels. National governments around the world have also resorted to sizeable fiscal support schemes to mitigate the social and economic damage caused by restrictive lockdown measures.

Dutch recovery package is one of the biggest in the EU

In the Netherlands, the government's budget deficit is rising sharply due to its fiscal support package, but thankfully this was relatively low prior to the Covid-19 outbreak. During the 2008 Global Financial Crisis (GFC), the government curtailed spending in a bid to limit the economic fallout, but in retrospect the cutbacks were made too soon. This time round the focus is on investment, and the government has set up the National Growth Fund to stimulate public spending on infrastructure, innovation and climate change mitigation measures. The Dutch government's Covid-19 emergency package is already at least five times bigger than for the GFC in 2008. The Netherlands is one of the top three countries in Europe with the largest fiscal support package relative to GDP.

> "The Dutch government's Covid-19 emergency package is already at least five times bigger than for the GFC in 2008."

Interest rates may edge up slightly should fundamentals improve

The ECB has so far left its official interest rate unchanged in 2020 and interest rates are widely expected to remain low during the period under review. For the time being, the ECB assumes inflation will move towards its target of 2% in the foreseeable future. However, whether this actually happens remains to be seen, as inflation is likely to stay relatively low. Any increase in inflation will depend on a recovery of consumer spending. Should economic growth remain in negative territory in 2021, together with depressed consumer spending and high or even rising savings quotas, low inflation levels will most likely persist.

The yield on 10-year Dutch government bonds had fallen to -0.32% as of 30 June 2020. In our baseline scenario for the Netherlands, 10-year government bond yields are expected to rise slightly to a positive level but still below 1% during the three-year period under review. In the most negative scenario, 10-year government bond yields will remain even lower (at around 0%) over the next three years.

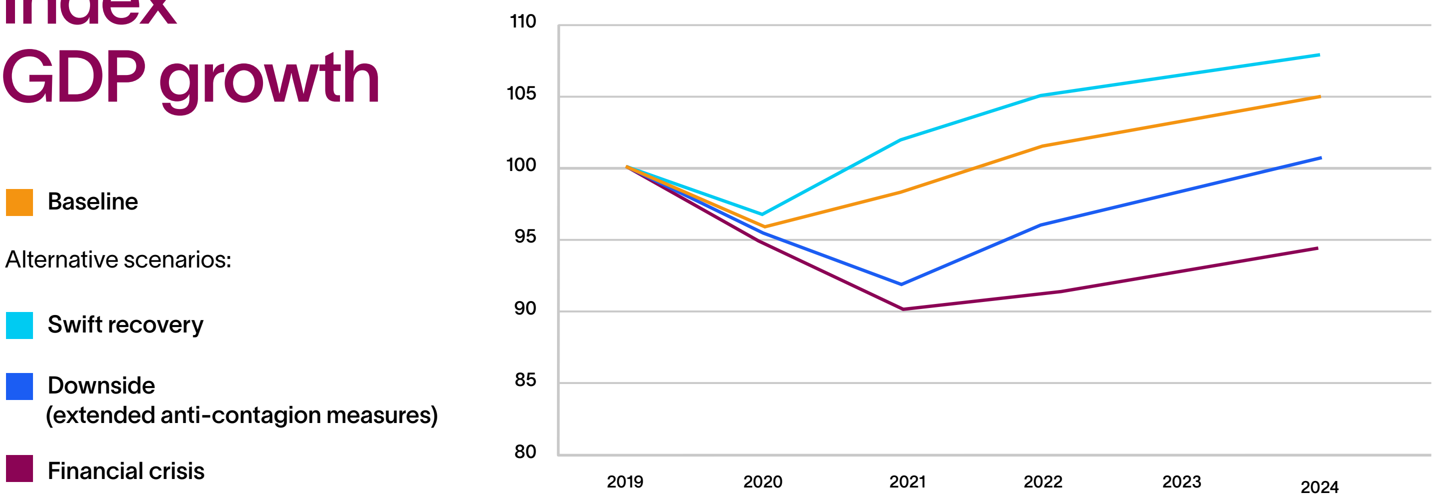
Dutch economy: various scenarios

From an economic perspective, the Netherlands found itself in a relatively favourable position pre-Covid-19 compared to many other countries in Europe, due to its tradition of innovation, strong IT infrastructure and relatively low dependency on tourism. We believe the Netherlands can also profit from this in the recovery phase. However, the economic outlook for the Netherlands remains uncertain, which is why we have provided three alternatives in this report. Of these, we believe the baseline and the downside scenario (extended anti-contagion measures) are the most likely at the time of writing (see page 12).

UP:TOWN, Rotterdam, The Netherlands

Dutch economic scenarios
Covid-19 impact

Index GDP growth



Baseline

- Spread of the virus remains broadly under control; partial lockdown measures have a positive effect.
- Economic recovery in 2021 after a sharp fall in GDP in 2020; moderate economic growth in the following years.
- Consumer confidence remains negative as a result of unwinding (fiscal) support measures.
- Unemployment rises to 5-6% in 2021.

Alternative scenario

Swift recovery

- Spread of the virus is controlled relatively quickly; anti-contagion measures are soon abandoned.
- Economic and social activity recover relatively quickly to pre-crisis levels; minimal longer-term economic damage.
- Consumer confidence improves.
- Unemployment remains low at 4-5% in 2021.

Alternative scenario

Downside

(extended anti-contagion measures)

- The virus continues to spread, peaking in Q1 2021; further lockdown measures are needed for a longer period.
- Economic recovery halted; further GDP contraction in 2021.
- Persistent health concerns weigh on consumer confidence in the medium term.
- Unemployment rises to 6-7% in 2021.

Alternative scenario

Financial crisis

- The virus continues to spread; anti-contagion measures are eased gradually, continuing well into 2021.
- Severe economic contraction in 2021 is followed by a moderate economic and market recovery in subsequent years.
- Concerns over economic downturn weigh heavily on financial markets.
- Unemployment rises to >7% in 2021.

The baseline economic scenario assumes an economic recovery in 2021 after a sharp fall in 2020. The pandemic remains broadly under control and anti-contagion measures will be relatively loose going forward with more room for economic activity. In the years after 2021, economic growth is positive, albeit modest. Unemployment remains within a moderate bandwidth.

The downside 'extended anti-contagion measures' scenario assumes severe economic impact in 2021 with further economic contraction. Companies need to cut back even more and unemployment reaches a peak of 6-7%. After 2021, the economy will grow at a much slower pace than in the baseline scenario.

Should things get even worse, we could see an (international) financial crisis, but the consequences are hard to predict due to the many uncertainties. Unfortunately, we cannot yet fully exclude this scenario.

Dutch unemployment numbers set to rise but labour market remains tight in some segments

Many companies are reporting lower turnover and profit due to the fallout from the pandemic, and the number of bankruptcies in the Netherlands is expected to rise in the coming period, fuelled by the partial lockdown measures in the autumn of 2020. Despite the government's substantial financial support packages aimed at shielding companies forced to shed staff, corporate redundancies are now inevitable. This is expected to have an impact on overall unemployment levels. Depending on which scenario emerges, unemployment in the Netherlands will increase further in 2021, falling again in line with economic recovery in the years thereafter. A mitigating factor is that the starting point was relatively low and the labour market remains tight in a number of sectors including healthcare, IT, construction and education, as well as those sectors that rely on seasonal foreign workers.

Hourglass , Amsterdam, The Netherlands


WTC Rotterdam, The Netherlands

Sustainablility and climate risk

We need to accelerate the move to a circular economy

The move from our traditionally linear economy to a circular model will gather pace in the coming decades, resulting in a greater focus on recycling due to growing awareness that our resources are limited. From a climate perspective, there is still a wide gap between the environmental impact that is already visible and the structural measures needed to combat global warming. The coming years will be crucial in garnering global support for urgent, fast, and effective action.

Roadmaps are emerging for a net-zero carbon future

Many countries, including the Netherlands, are increasingly aware of the need to transition to low-carbon, resource-efficient and environmentally protective economies. In the aftermath of the Paris Climate Agreement, the European Commission and a growing number of countries are introducing legislation aimed at realising a net-zero carbon future. For example, France, Denmark and the UK are striving to become net-zero carbon by 2050 and some frontrunners such as Norway and Sweden are targeting a net-zero carbon economy between 2030 and 2035. This is driving the introduction of new legislation and new standards in the fields of renewable energy and biodiversity, reductions in the use of raw materials and waste, and an overhaul of the labour market.

Tackling the climate change challenge

As the built environment accounts for 30% of global CO_2 emissions and the construction industry is a major user of raw materials, we expect to see growing demand worldwide for sustainable and circular buildings. The drive to mitigate the effects of climate change is prompting a need for real estate assets that are more adaptable and resilient in the future.

Buildings should be low or even net-zero carbon emitting before 2050. This pertains largely to existing buildings, as new development projects need to be near energy-neutral from 2021 onwards. All property owners must take into account future investments to make buildings energy-efficient and net-zero carbon by 2050. Buildings must also be resistant to climate change.

Demographic & social trends

World population set to grow to almost 10 billion by 2050

Global demographic developments will differ for each geographical area, but we see a number of dominant long-term trends, such as growing populations, increasing urbanisation, structurally ageing societies and smaller households. According to United Nations forecasts, the global population will expand by two billion in the next 30 years, from the current 7.7 billion to 9.7 billion in 2050. More than half of this growth will be driven by just nine countries and, by around 2027, India is expected to overtake China as the world's most populous country.

A large portion of the population increase in developed countries will be driven by immigration, whether that be refugees, workers, highly educated employees or international students. By contrast, emerging countries will continue to see natural population growth, despite declining birth rates.

Ongoing urbanisation trend will fuel demand for real estate

Covid-19 has created some uncertainty about the pace of increasing urbanisation, but we expect this trend to continue in the long term in most regions around the world. Economic growth levels are still expected to remain higher in large cities and surrounding metropolitan areas when compared to national averages. In 2018, the UN stated that 68% of the world's population will live in metropolitan areas in 2050, up from 55% in 2018. For Europe, this percentage is set to rise to 84% in 2050, from 74% in 2018. This will drive an ongoing boost in demand for real estate in cities.

Increasing urbanisation is creating challenges, such as liveability, affordability and good transport connections, and cities where these goals are unattainable for a wide range of target groups are seeing a reversal in this trend. These cities are actually seeing the growth of their populations level off as more people move to surrounding (suburban) regions and smaller (and more affordable) towns and cities.

In the Netherlands, the majority of the one million homes needed to meet burgeoning demand will still be concentrated in the most urbanised regions of the country. This is especially true for the so-called Holland Metropole alliance, which includes the big cities of Amsterdam, The Hague, Rotterdam, Utrecht and Eindhoven. Although it is unclear as yet what impact Covid-19 will ultimately have on living requirements, we expect criteria such as sufficient indoor and outdoor space will rise in importance for many households.

Ageing populations create a need for new homes and care concepts

Populations are ageing in many countries around the world, especially in developed countries where life expectancy is increasing and birth rates are falling, with the exception of those with relatively high immigration levels. Demand for senior housing and healthcare real estate is expected to rise in countries with ageing populations. We may also see a qualitative shift in demand for retail, leisure or specific (convenience) services.

In the Netherlands, the number of households is forecast to grow by around 13% in the period to 2040. This is equivalent to an additional one million homes. Single-person households and seniors are expected to account for the largest share of this increase. The Dutch population is undergoing what is termed 'double ageing': not only is the number of elderly people rising, they are also on average projected to live to an increasingly advanced age. The ageing of the Dutch population is expected to lead to a 43% rise in the number of residents over the age of 65 to 4.8 million in 2040, with the bulk – or 2.6 million – of these people aged over 75. This means governments will not only see more pressure on their fiscal resources and the level of pension benefits; they will also need to invest more in healthcare and pursue new policies to maintain economic growth.

Global population growth:

+2 billion

between 2020 and 2050

Central Park, Utrecht, The Netherlands

Residential properties are weathering the Covid-19 storm well

Residential market 2021-2023

So far, Covid-19 and the resulting economic downturn do not seem to be having a significant impact on (rental) housing markets in most regions around the world. Some softness in certain countries is expected as supportive fiscal measures are scaled down, unemployment levels rise and consumer confidence subsequently declines. However, low interest rates, a growing number of households and increased urbanisation are the structural fundamentals that continue to underpin demand for new housing.

Pontsteiger, Amsterdam, The Netherlands

The housing shortage in many markets, driven by the ongoing lag in construction in recent years, has so far continued to push up prices. For example, the Dutch residential market is expected to remain relatively resilient in an economic recession thanks to the structural shortfall in supply (>350,000 homes in 2021 according to ABF Research).

In the Netherlands, the share of rental residential real estate as a proportion of overall real estate investment volumes has been rising steadily over the past decade and it has been the largest real estate investment sector since 2018. One of the reasons is a sharp increase in activity from foreign buyers in recent years and that trend persisted in 2020.

In the years ahead, we see opportunities mainly in the affordable (mid-range) rental segment. The premium end of the rental housing market carries more risk, partly because it has been affected by an exodus of expats during the lockdown. Household growth in large cities has been highly dependent on foreign immigration. The question is whether this trend will recover at the same pace as the pandemic fades.

Metropolitan areas will remain attractive for households

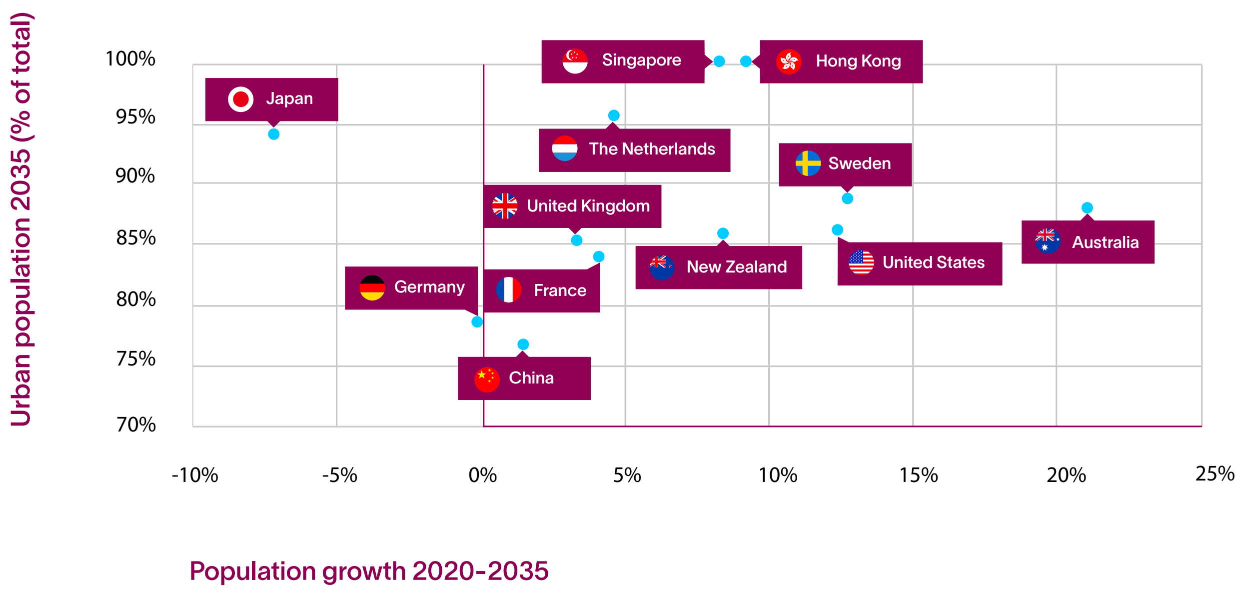
The populations of most metropolitan areas across Asia-Pacific, North America and Europe have been expanding in recent years due to urbanisation, fuelled by employment growth and the growing ranks of students and young professionals. Due to their attractiveness, these areas often suffer from housing shortages and affordability is a growing issue. Building new housing at a faster pace in cities and neighbouring areas would alleviate these problems. For some target groups (families, for example), we expect a greater appetite for locations slightly further out from the larger city centres, as these offer more living space for the same price as smaller inner-city homes.

This trend was already underway pre-Covid-19 and has actually led to rising prices in the peripheral areas around cities. For many people forced into lockdown during 2020, their home has gained importance as a place to work, as well as live. This might result in a slight shift in home buyer preferences due to greater appreciation of space and a green environment.

> “The Dutch residential market is expected to remain relatively resilient in an economic recession thanks to the structural shortfall in supply (>350,000 homes in 2021).”

Population growth 2020-2035 versus urban population 2035

Source: Oxford Economics, Bouwinvest R&SA (estimated scenarios)



We do not expect Covid-19 to result in any major change to long-term demographic developments in the Netherlands, such as limited overall household growth (approx. + 1 million households (+13 %) through to 2040 according to ABF Research), ongoing urbanisation in major metropolitan areas, an ageing society and the steady rise in the number of smaller households. However, we did see a year-on-year decrease in foreign immigration to the Netherlands since the outbreak. If this trend persists for a longer period of time, this could have a negative impact on population growth. With urbanisation expected to persist, population and economic growth will be stronger in large cities and surrounding metropolitan areas compared with the national average. Due to the expected continuation of the influx of students and young professionals, the ageing of the population is expected to be relatively less visible in major cities than in the rest of the Netherlands. Rising house prices in these cities have been pushing families towards surrounding suburban locations for many years and we believe this trend will intensify in the coming period following the Covid-19 crisis. Nevertheless, we still believe that cities that offer a range of healthy living environments, from highly urbanised to suburban, will remain attractive. However, it is important that local and national government authorities and investors work together to alleviate the housing shortage. Investing in innovative modular and flexible construction could potentially accelerate housing construction in many locations.

"We still believe that cities that offer a range of healthy living environments, from highly urbanised to suburban, will remain attractive."

Quality of living city ranking 2019

Source: Mercer, Bouwinvest R&SA

Highest ranking city per focus country

City	Country	Ranking
Auckland	New Zealand	**3rd** out of 231
Sydney	Australia	**11th** out of 231
Amsterdam	Netherlands	**11th** out of 231
Berlin	Germany	**13th** out of 231
Stockholm	Sweden	**23rd** out of 231
Singapore	Singapore	**25th** out of 231
San Fransisco	United States	**34rd** out of 231
Paris	France	**39th** out of 231
London	United Kingdom	**41st** out of 231
Tokyo	Japan	**49th** out of 231
Hong Kong	Hong Kong	**71st** out of 231
Shanghai	China	**103rd** out of 231

Demand for affordable housing remains strong and high on the agenda

The need for affordable housing across the Netherlands to retain middle-income earners was already high on the agendas of both the national government and local municipalities before Covid-19. The pandemic has put the urgency of providing affordable accommodation for essential workers firmly in the spotlight. New housing policies have already been put in place, ranging from increased regulation on a national level to a more local collaborative approach with the private real estate investment sector. Many cities around the country have now introduced rent controls, varying from strict to more lenient. This trend is also visible elsewhere in Europe such as Germany, France and the UK, as well as the US. We expect affordability to remain an important topic in the housing market in the coming years.

On Budget Day 2020 ('Prinsjesdag'), the Dutch government announced various measures to improve the accessibility of the housing market. Measures included additional investments to accelerate housing construction and additional capital to solve the nitrogen emissions issue. Additionally, the national government is looking to help developers and investors find locations for housing developments. The proposed adjustment of the real estate transfer tax (RETT) is expected to have the greatest impact on investors. From 1 January 2021, the transfer tax on the acquisition of existing residential property by investors is proposed to be raised to 8%, from 2%.

Haarzicht, Utrecht, The Netherlands

Greening the housing supply is a challenge; Paris Proof is the goal

Populations and governments worldwide are increasingly aware of the need to transition to more low-carbon, resource-efficient and environmentally protective economies. Over the past few years, we have seen a growing awareness of, and dissatisfaction with, environmental threats of climate change. As the built environment accounts for around 30% of global CO_2 emissions and the construction industry is a major user of raw materials, we expect to see growing global demand for sustainable buildings constructed according to ‘circular’ principles. The impact of climate change at a local level is also accelerating planning for real estate assets that are more adaptable and resilient. For instance, we are seeing strong growth in the supply of buildings with green facades and plant biodiversity.

As a result of the Dutch Climate agreement, seven million homes will have to be low, or even net-zero carbon emitting before 2050. This pertains largely to existing buildings, as new development projects will have to be close to energy-neutral from 2021 onwards. The key challenge to achieving this long-term goal to make existing homes carbon-neutral by 2050 is that greening initiatives will come at a cost in the short term. In the owner-occupied market, we are already seeing a greater appetite for sustainable homes, which sell faster and often at a premium. We believe this trend will intensify as more institutional investors focus on ESG and look to make a positive contribution to a carbon-neutral, sustainable, circular, vital and healthy living environment. In addition to sustainable real estate, smarter and cleaner mobility, such as mobility-as-a-service, is also gaining traction in the residential market.

Downside scenario the Netherlands - extended anti-contagion measures

Occupier market

Should the Covid-19 crisis and related restrictive anti-contagion measures persist well into 2021, the housing market could be hit by weak sentiment as uncertainty about the future and a rise in unemployment lead to less demand. This could affect the premium market in particular, possibly resulting in falling prices and some downward revaluations. In this scenario, cities might be hit relatively hard, due to lockdown measures and closed amenities. For instance, in this scenario we expect to see a lower influx of students and expats, two groups that generally want to live in the larger Dutch cities. Urban agglomerations are expected to retain their appeal, as will cities that score high in terms of quality of life. Affordability will remain a key factor in retaining households in urban areas. In the long term, we expect all these trends to return to pre-Covid-19 levels.

Investment market

In a downside scenario, uncertainty will result in delayed investments as deal and price uncertainty increases. In this case, we will not see any alleviation of the housing shortage in the foreseeable future. Investors are expected to increase their focus on core market product. On top of this, we expect to see less interest in niche housing segments, such as student housing for foreign students and short & extended stay accommodation.

Suresnes, Paris, France

Residential market
Covid-19 scenarios

Baseline scenario (2021-2023)

Occupier market

Focus on affordability
Living in the city has become expensive due to rising house prices.

Continued urbanisation
We expect metropolitan areas that score high on liveability and affordability to remain attractive to most households.

Investment market

Government regulation
Government regulation of rental market increases due to concerns about affordability.

Sustainable homes
Greening of the housing supply is a major focus; Paris Proof (carbon-neutral) by 2050 is the ultimate goal.

Downside scenario extended anti-contagion measures (2021-2023)

Occupier market

Temporary standstill
The housing market will come to a temporary standstill due to higher unemployment and lower affordability. Also: lower influx of expats and students.

Back pressure from suburbanisation
Cities may (temporarily) lose their attractiveness for some groups due to ongoing lockdown measures/working-from-home/closed facilities.

Investment market

Delayed investments
Housing shortage is not alleviated due to ongoing (price) uncertainties and delayed investments.

Increased focus on core
Focus on low-risk investments: affordable housing in core regions, fewer rental homes outside core regions.

Retail sector seeks new balance as Covid-19 boosts e-commerce momentum

Retail market 2021-2023

Shopping centres and high street retail in Europe have been hit hard by Covid-19. Lockdown measures and temporary closures of retailers have led to a dramatic decline in overall retail sales. The sector has also seen the intensification of headwinds that were visible pre-Covid-19, notably the accelerated penetration of e-commerce.

Macquarie Shopping Centre, Sydney, Australia

The sector will need to adjust continuously to a changing retail environment and growing online shopping, which is projected to continue its rise in the years ahead, following the substantial boost from Covid-19. For the Eurozone as a whole, e-commerce penetration is currently (October 2020) around 14%, compared to 8% in 2019. This level is expected to drop slightly in 2021, as high street footfall is forecast to return to more normal levels, but is still expected to increase to around 20% in 2025.

Europe is marked by significant cultural differences in how people shop, due to the likes of the level of internet penetration, population density and the quality of digital infrastructure. The estimated share of internet sales in Europe in 2020 ranges from below 10% in Portugal, Italy and Spain, to just over 25% in the UK. Outside Europe, percentages range from 9% in Hong Kong to 28% in China. Growth is expected across the board, but will be strongest relatively speaking in countries that currently have low e-commerce penetration levels. In the Netherlands, e-commerce sales increased from a substantial 13% pre-Covid-19, to around 20% in 2020 and this is expected to increase to 23% in 2023.

23%
share of e-commerce sales in the Netherlands in 2023

Damrak 70, Amsterdam, The Netherlands

Convenience stores performing well overall with fashion segment hit hardest

Neighbourhood convenience centres have fared exceptionally well during the pandemic and remain better placed to outperform during lockdown periods, especially in growing catchment areas. At convenience locations, supermarkets and fresh produce stores actually saw their turnover levels rise quite sharply, as customers spent less in restaurants and spent more time at home. The same applies to a number of other segments, generally not situated in convenience centres, such as furniture stores, do-it-yourself (DIY) stores, sports outlets and electronics stores. Overall, higher online sales boosted retail turnover levels in 2020.

The decline in sales is being felt most keenly in fashion and shoe stores, as well as experience-led retail. This is due to the sharp decline in the number of passers-by on high streets and in large shopping centres. However, the largest city centres are expected to bounce back eventually, as they generally boast the broadest offerings, the largest catchment areas and the highest number of tourists and day trippers.

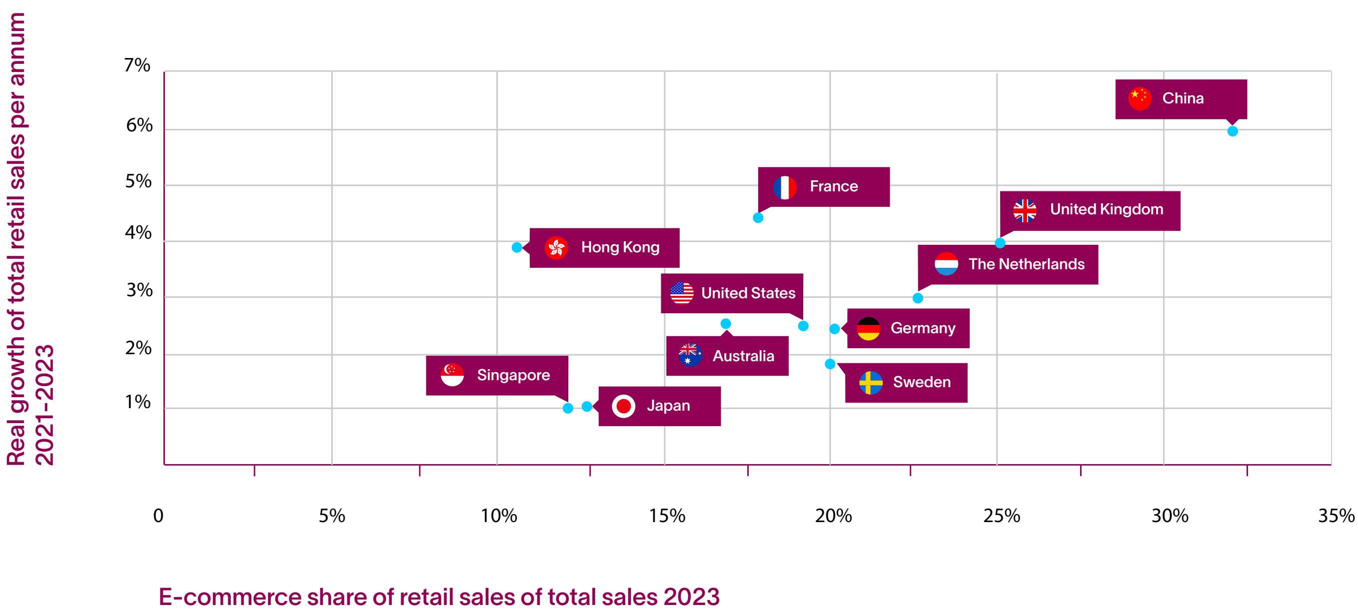
In the coming period, we expect to see more bankruptcies and retail chains forced to further optimise their portfolios. This is especially true for fashion stores, as they have to contend with both the impact of Covid-19 and the large and growing pulling power of e-commerce.

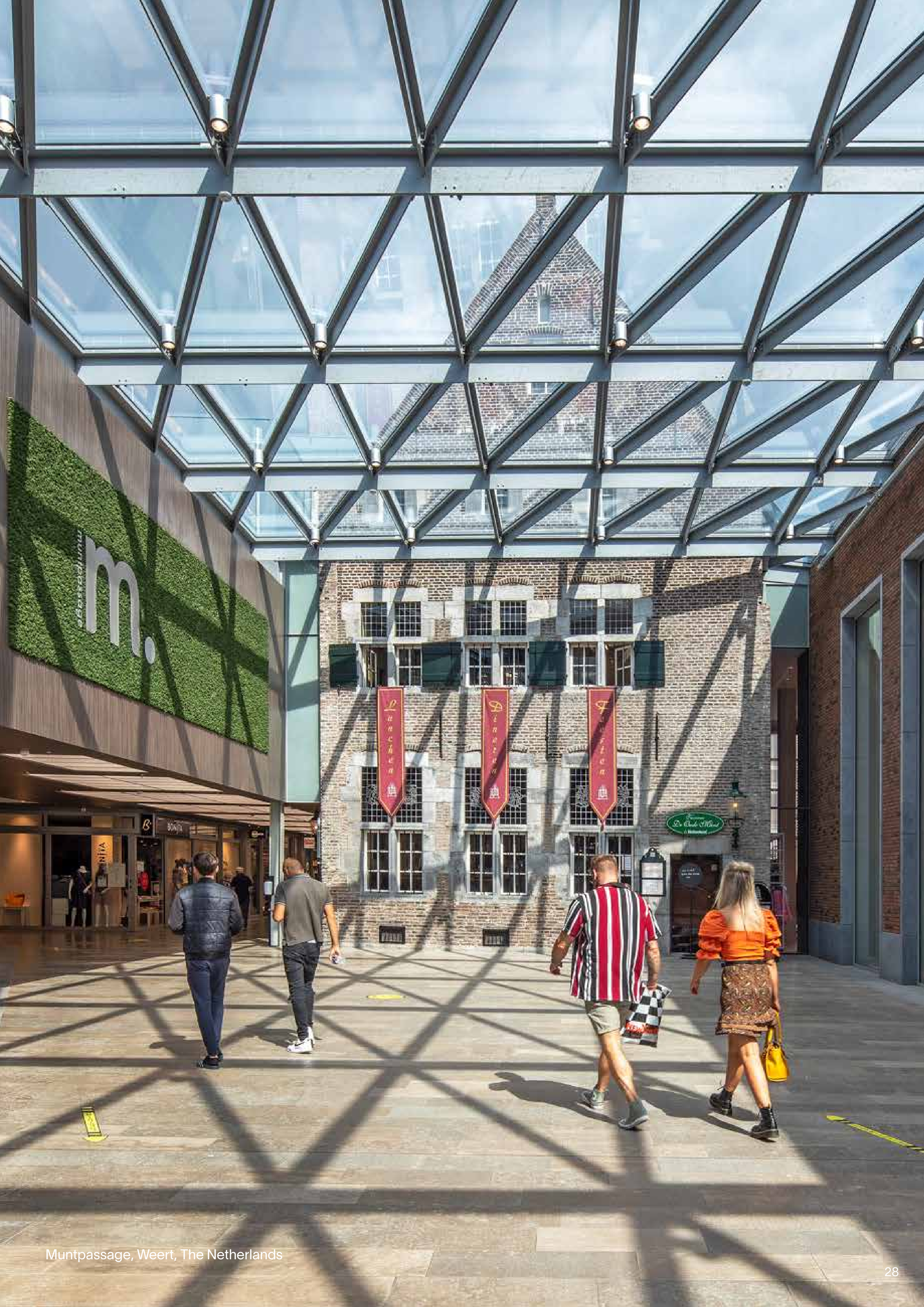
However, there will also be winners in this battle, as even now new entrants are still emerging, while a number of established retail chains are expanding or moving to higher-quality and larger retail assets. Retail formats that execute a well thought-out omnichannel strategy by combining physical stores for an optimal customer experience with a strong online presence offering a broad product range and fast delivery, are most likely to be successful.

"The largest city centres are expected to bounce back eventually, as they generally boast the broadest offerings, the largest catchment areas and the highest number of tourists and day trippers."

Share of e-commerce versus growth retail sales

Source: PMA, Bouwinvest R&SA (estimated scenarios)





Muntpassage, Weert, The Netherlands

Retail space expected to contract in smaller towns

While it is not the sole cause, the growth of e-commerce has been a dominant factor in the rise of retail vacancy rates worldwide. In the Netherlands, total consumer spending is virtually flat and is shifting increasingly towards online purchases, reducing the need for retail space. However, convenience shopping centres will be affected the least, in part because the online share of grocery sales is still relatively low.

The expected decline in retail space will affect smaller towns and cities in particular, and it will be difficult to fill vacant stores with new chains in these locations. We expect central shopping areas in such locations to shrink, as retail chains downsize or disappear altogether, and vacant space is transformed to other functions, such as housing. In time, the resultant reduction of total retail space will push down vacancy rates. However, that process will not happen overnight and we foresee an extended period of challenges ahead during the transformation.

While 'convenience-led' shopping locations are expected to emerge relatively unscathed from the Covid-19 crisis, supermarkets are doing particularly well. At present, the online share of grocery sales – around 4% in the Netherlands – is much lower than in other segments. However, this is growing due to online-only disruptors, which are forcing traditional supermarket chains to improve their own online delivery services.

As physical supermarkets continue to generate the lion's share of turnover, we do not expect online growth to result in a decline in the number of supermarkets for the time being. Nevertheless, the rise of online as a share of total grocery sales will have an impact on the role of the supermarket, and could well lead to an increase in click-and-collect services and continued growth of solitary pick-up points.

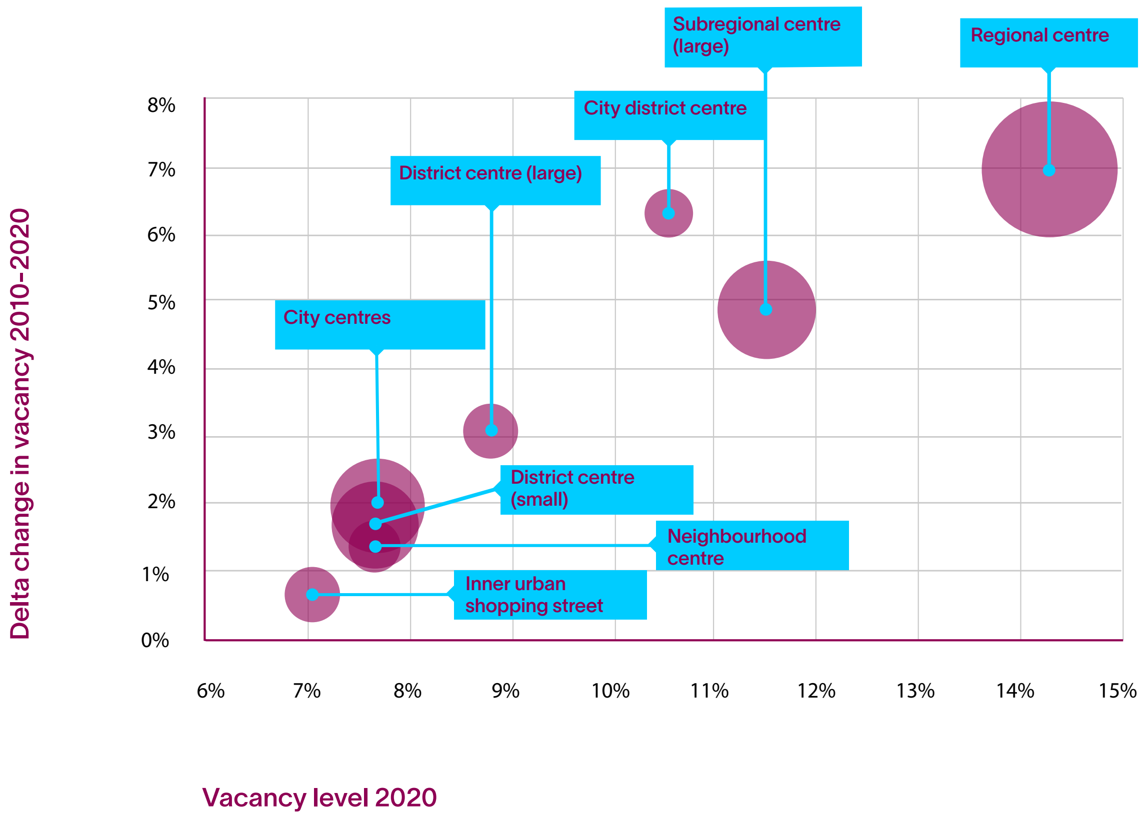
Vacancy rates are set to rise in the 'experience-led' market

We expect the increase in vacancy rates to continue in the 'experience-led' retail segment, pressuring rents over the next two to three years even in the strongest cities. This trend will be far less visible in the convenience retail segment, where vacancy rates are not expected to rise much, if at all, limiting the impact on rents.

We expect transaction volumes in in the experience-led retail segment to lag significantly and pricing will be driven primarily by the current weaker market sentiment and uncertainty. That will lead to a jump in risk premiums for weaker locations and the gap between good and bad will widen further. The best experience-led locations have so far seen limited movement in initial yields and we expect them to remain relatively robust.

Vacancy by type of retail destination

Source: Locatus, Bouwinvest R&SA



Transformation of outdated retail space is expected to accelerate

With total occupied retail gross lettable floor area (GLA) expected to shrink in the years ahead, the repurposing of outdated retail space will gather pace, mirroring the trend seen in the Dutch office sector in the slipstream of the Global Financial Crisis. Since the peak in 2015, the number of stores in the Netherlands has declined by 2.6% to around 142,400 as of mid-2020. This was driven by the conversion of redundant retail space, mainly into residential units and healthcare facilities, or the consolidation of existing units.

2.6%

reduction of stores in the Netherlands between 2015-2020

Retail units are now also being mooted for repurposing into flexible offices and last-mile delivery or pick-up locations. Neighbourhood shopping centres have proven their robustness during the recent lockdowns. We believe accessible multifunctional shopping centres improve the liveability of urban areas and are also more sustainable than their monofunctional counterparts.

Downside scenario the Netherlands - extended anti-contagion measures

Occupier market
Should the Covid-19 pandemic persist, rising unemployment and falling consumer confidence will put pressure on spending in physical stores in segments beyond fashion and shoes. This will lead to higher vacancies in multiple retail segments and location types, falling rents and values. Prime locations will also be affected, but they are expected to bounce back. In the longer term, retail chains may need to rebalance their turnover sources, close their worst performing stores and boost the profitability of their online operations.

Investment market
In a downside scenario, pricing will come under pressure, especially in city centre high streets. Investors will be cautious, especially about experience-led retail, and will eventually shift their focus to low-risk, core investments in the daily convenience sector and the best locations in the largest cities.

Oosterheem, Zoetermeer, The Netherlands

Retail market
Covid-19 scenarios

Baseline scenario (2021-2023)

Occupier market

Covid-19 effects unevenly distributed
Fashion and other recreational shopping hit hard, while convenience, hardware, DIY and furniture benefit.

Fewer retail m² needed
Increase in online shopping (boosted by Covid-19) results in decline in required stock of retail space; especially in the city centres of all but the largest cities.

Investment market

Increased focus on future liveability
Investors increasingly take into account the positive societal impact of investing in (local) shopping centres to improve the liveability of urban areas.

Polarisation in retail property market
Sharp divergence as investors' interest in convenience retail is strong, while it remains subdued for experience locations.

Downside scenario extended anti-contagion measures (2021-2023)

Occupier market

(Temporary) decline in retail turnover
Deteriorating economy, rising unemployment and falling consumer confidence will put (temporary) pressure on overall spending.

Realignment of experience retail
Retail chains will need to find a new balance between online and store sales and make online sales more profitable.

Investment market

Delayed investments
(Price) uncertainties will make investors more cautious; total investment volume will remain low for a more prolonged period.

Focus on core
Focus on low-risk investments and secure and stable income streams, particularly in the stable segment of daily convenience shopping.

Offices of the future will continue to play a vital role in corporate culture

Office market 2021-2023

Despite the current crisis and its impact on the office sector, we are firmly convinced that offices will continue to play an important role in the workplace in the future. They foster social contact and exchanges of knowledge and ideas between employees. They are also the ideal breeding grounds for the innovative ideas companies will need to thrive in the face of economic and environmental challenges. Plus in the ongoing war for talent, offices located in dynamic and well-connected urban centres will continue to be a draw for workers, especially if they incorporate features such as meet-and-greet areas with private cubicles, blending social interaction with individual space.

Hourglass, Amsterdam, The Netherlands

The office sector entered the current economic downturn in a position of strength, but Covid-19 is still expected to have a significant impact. This impact is twofold: companies have been affected financially and government measures have driven a strong increase in working from home. However, there are regional differences and in some countries we could well see a wholesale return to the office once the virus is under control. In Asia, for example, residential units in cities are generally very small and not well suited for working from home.

Full impact of Covid-19 will be clearer once the dust has settled

Covid-19 is having an enormous impact on current office use globally and the same is true of the Netherlands. Many employees across the country are working mainly from home and, despite a return to a semblance of normality during the summer of 2020, offices are still being used relatively sparingly. As a result, companies are delaying moves, which resulted in lower take-up figures in H1 2020 after an especially weak second quarter. If the pandemic results in a protracted recession with corresponding insolvencies and lay-offs, the temporary initial drop in demand will be prolonged and vacancy rates will rise (pre-Covid-19: 7.7% in Q1 2020). However, there are still many uncertainties, and we expect the structural impact of Covid-19 to be clearer once the economy has stabilised.

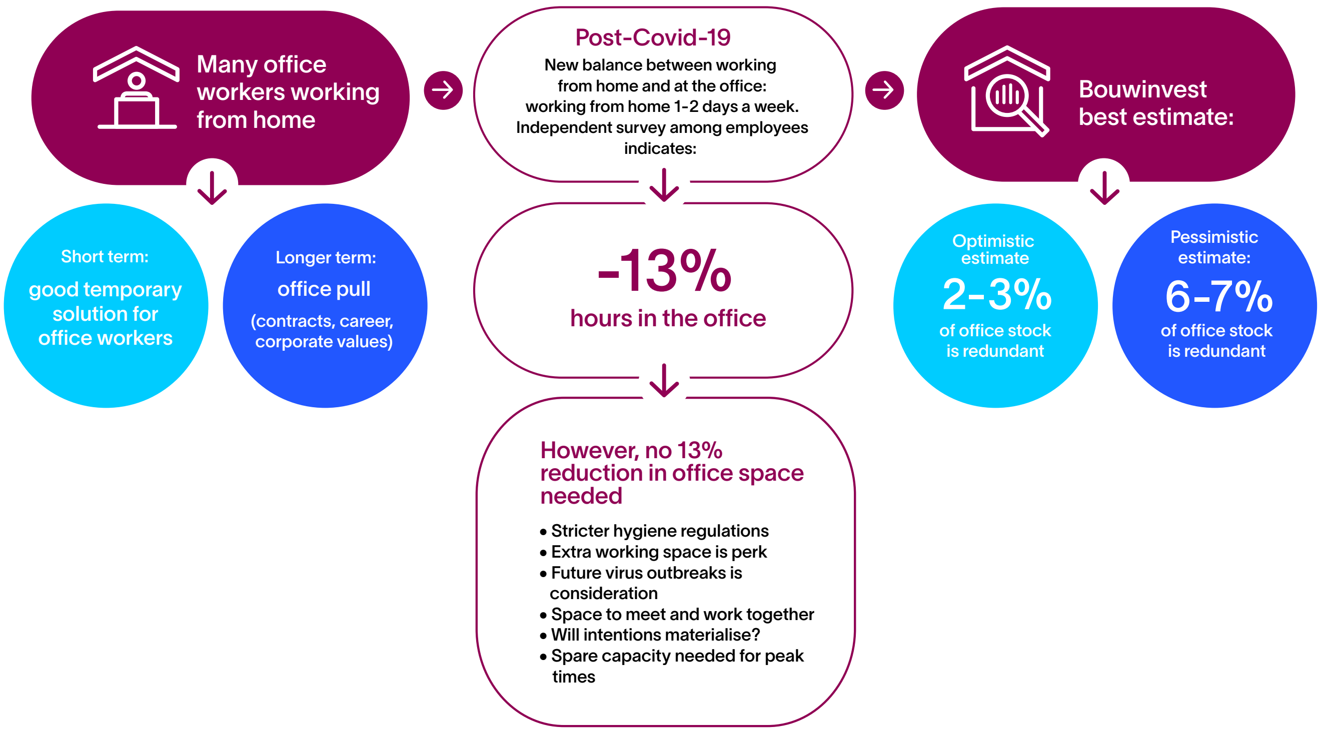
Higher level of working from home expected to persist post-Covid-19

Working from home is likely to remain at a higher level post-Covid-19. However, the question is how many employees will continue to work from home and how often will they work at their office, and how will this affect structural demand for office space? The percentage of employees working from home is already relatively high in the Nordics and the Benelux, but there are significant differences at an international level. In Germany and Spain, for instance, the figures have traditionally been quite low.

Future demand for office space will also be affected by the extent to which tenants take into account the repercussions of Covid-19 lockdowns (and potential new virus outbreaks) in their site location searches. We expect to see a recovery in demand for well-connected locations that have been in vogue over the past decade. However, given that the working from home phenomenon is expected to persist, the 'new normal' will probably mean lower total levels of space utilisation.

Implications of Covid-19 for the Dutch office sector

Source: KiM ' Nieuwe inzichten mobiliteit en de Coronacrisis' & Bouwinvest R&SA



Disclaimer: These are rough estimates based on currently available data.
Various assumptions were made and alternative scenarios are certainly conceivable.

Multifunctional metropolitan locations will remain popular

During the pandemic, the government advised against the use of public transport. This had a significant impact on prime urban locations, which thrive on public transport. Additionally, offices in these locations generally have the highest density of employees per square metre. They are often multi-storey towers, where elevator use is necessary and social distancing possibilities are more limited. Nevertheless, we expect these prime locations to hold up in the long term, as the most sought after locations in the coming decade will be in multifunctional destinations with good public transport connections in metropolitan areas. The decline in demand will mainly affect poorly connected secondary and tertiary locations.
In the Netherlands, the strongest growth in office employment over the next 15 years is expected in the largest cities, as they attract young professionals and local and international companies. The design of future offices will increasingly adapt to the requirements of millennials and other younger groups as the proportion of the workforce they represent rises over time.

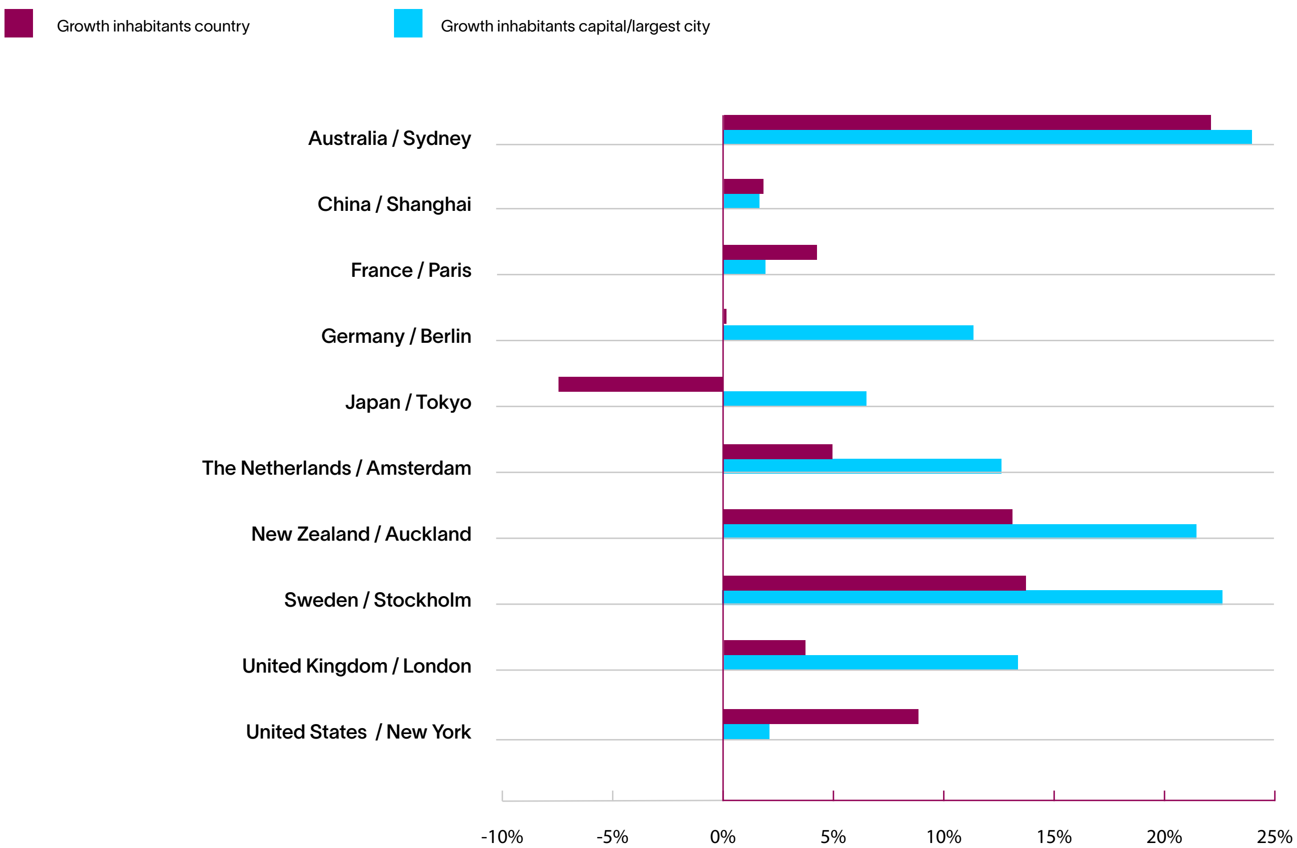
Well before the current pandemic, previously monofunctional office locations with good public transport links – such as Zuidoost, Sloterdijk and Riekerpolder in Amsterdam and Rivium and Fascinatio in Capelle aan den IJssel – were being adapted to incorporate a wider range of uses to make them more attractive beyond the work environment. Monofunctional, car-orientated peripheral locations are not doing nearly as well, with the exception of Papendorp in Utrecht, which benefits from the lack of high-quality offices in the city centre.

The uncertainties regarding the future of the office market have led to a slowdown in the construction and redevelopment of properties worldwide. While this may have a positive impact on the supply and demand balance of existing office markets, it does limit potential acquisition opportunities in the future.

> "The most sought after locations in the coming decade will be in multifunctional destinations with good public transport connections in metropolitan areas."

Growth population 2020-2035

Source: Oxford Economics & Bouwinvest R&SA (estimated scenarios)



Pressure on market rents, but starting position is sound

The Dutch office market is in much better shape now than at the outset of the Global Financial Crisis, following the conversion of well over four million m2 of office space to other uses from 2013 onwards. Vacancy levels are at the lowest rate in over 15 years, speculative development is largely absent, and yields have been tightening in tandem with rising rents. However, as supply/demand ratios change, rents will come under downward pressure, especially in less attractive locations in the smaller cities. Demand for office space is expected to decline both in the short and long term as working from home becomes entrenched.

Making office use more sustainable goes beyond energy labels

With Environmental, Social and Governance (ESG) criteria firmly near the top of many corporate agendas, the focus is not just on energy labels, but also on the extent to which owners and tenants can ensure that an office building is more sustainable in practice through reduced waste, electricity and water consumption. Office landlords and tenants have to work together to find ways to stimulate sustainable behaviour, for example by sharing data via newly developed apps. The debate on how landlords can provide incentives for their tenants to reduce their carbon footprint and whether data should be shared continues worldwide.

Mixed-use buildings are more flexible and thus future-proof

The investment market's focus on mixed-use buildings and locations is another long-term trend we see extending and broadening. A rising number of office buildings in city centres, central business districts and at railway stations, provide ground-floor retail or catering facilities that also serve the surrounding community. In the future, we expect to see an increasing focus on making a building's direct environment a safe and green meeting space. We also believe the trend of transforming existing buildings will continue, as an alternative to greenfield development.

4 million m^2

of office space in the Netherlands converted between 2013-2020

WTC, The Hague, The Netherlands

"Office landlords and tenants have to work together to find ways to stimulate sustainable behaviour."

The Garage, Amsterdam, The Netherlands

Office landlords need to prepare for structurally higher capex

Landlords seeking to make their offices future-proof will need to offer more than just a place to work. Smart buildings were already becoming the norm in prime locations before Covid-19 and the focus on the 'well-being' of users is also expected to gather pace. Given the additional services that will be required in the future, together with greater flexibility in rental periods, we expect to see structurally higher levels of capital expenditure. However, these investments should pay off, as they are likely to lead to higher tenant satisfaction and longer lease periods.

Bouwinvest expects investors to continue to focus on prime office destinations in the Netherlands, and thus on the best locations in the five largest cities where job creation is the most robust. We also expect redevelopments to provide value-add investment opportunities, especially in some upcoming office sub-markets. Market fundamentals remain sound in prime locations, generating further yield compression over the past year. However, the current market uncertainties could also put some downward pressure on rents for office properties in the largest cities.

Downside scenario the Netherlands - extended anti-contagion measures

Occupier market

In a downside scenario, bankruptcies and lay-offs could lead to a sharper drop in office demand, resulting in higher vacancy levels, falling rents and declines in capital values. In this scenario, prime locations could also be affected, although they will likely bounce back faster than secondary office sub-markets.

Investment market

The market pricing of office buildings is becoming more uncertain due to Covid-19 and the resultant economic downturn, as well as higher transfer taxes from 2021. The decline in transactions over the year is expected to be sharpest in cross-border deals, with investors taking a wait-and-see approach. Should the pandemic persist, investors may focus more on low-risk strategies: offices in the best locations in the largest cities. We expect companies to continue to prefer well-connected, multifunctional top locations in the CBDs of these urban centres.

The Spiral, New York, US

Office market
Covid-19 scenarios

Baseline scenario (2021-2023)

Occupier market

'Wait and see' mindset
Most companies will await the impact of Covid-19 before making major decisions regarding location and space needed.

Less office space needed
While ultimately less office space will be needed, mixed-use buildings in easily accessible metropolitan areas remain most attractive.

Investment market

Focus on mixed-use locations and assets
Investors' preference for mixed-use locations remains key and is additionally focused on mixed-use buildings.

Smart and sustainable offices
Increased focus on smart, carbon-neutral and climate-resilient buildings; this will lead to expected increase in CAPEX.

Downside scenario extended anti-contagion measures (2021-2023)

Occupier market

Temporary rise in vacancies
Office demand will fall on the back of bankruptcies and layoffs, combined with the increased and sustained trend of working from home.

Metropolitan areas may temporarily lose attractiveness
With the decline of office workers and their preference to refrain from using public transport, even prime locations may take a temporary hit. At a global level, we may see a rise in the number of flexible satellite offices, although this is not expected to happen in the Netherlands.

Investment market

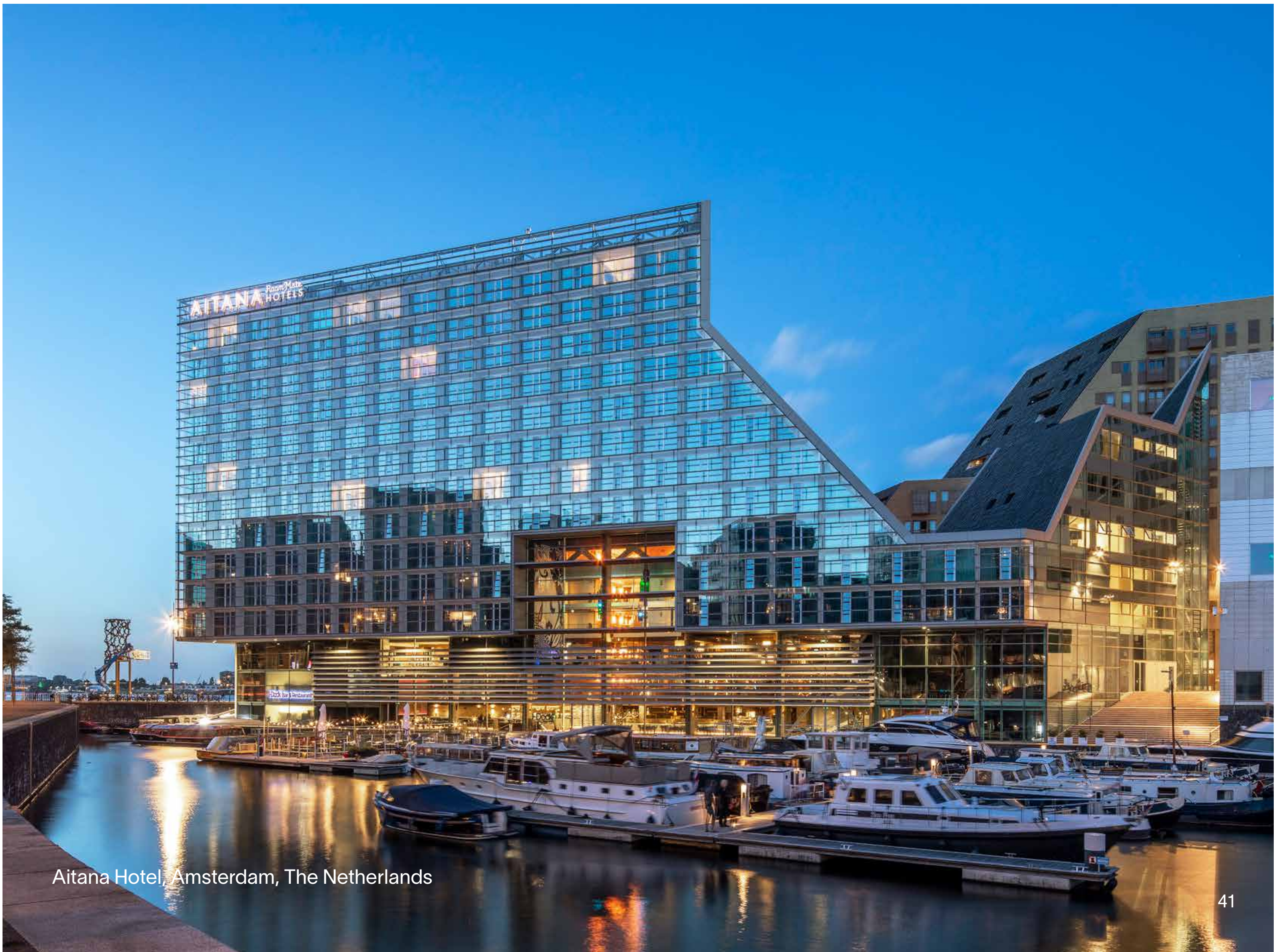
Delayed investments
(Price) uncertainties will make investors more cautious. Total investment volumes will remain low for a more prolonged period.

Focus on core
Focus on low-risk investments, particularly on flexible, mixed-use buildings in prime locations.

Signals switch from green to red for hotels, but sector will bounce back

Hotel market 2021-2023

The hotel sector has been pounded by Covid-19, as international and domestic flows of tourists and business travellers have virtually dried up during the pandemic. Tourism numbers plunged by 98% worldwide at the peak of the lockdowns, and the outlook for the hotel sector rapidly swung from highly favourable to the other end of the spectrum as occupancy rates collapsed amid the introduction of travel bans and restrictions. Tourism is expected to rebound eventually, but for the short to medium term the focus will be on short-distance and domestic travel, with a level of uncertainty regarding future prospects.



Aitana Hotel, Amsterdam, The Netherlands

According to advisor Horwath HTL, Dutch hotel occupancy rates fell below 10% in April and May 2020, at the deepest point in the lockdown. And although they did rise to around 40% in July and August, when the government eased restrictions, several operators still filed for bankruptcy. This marked a huge difference with 2019, when occupancy rates averaged 78.2%, the highest level ever measured by Horwath HTL. Business travellers normally account for about a third of all hotel overnight stays in Amsterdam and in other Dutch cities like The Hague, Rotterdam and Utrecht this proportion is even higher. The dramatic decline in occupancy rates continued in the second half of 2020, due to ongoing travel restrictions and the fact that events were cancelled for this traditional peak conference period.

Domestic leisure tourism props up local hotel operators

In the leisure market, hotels that typically rely heavily on domestic tourism are now performing better than those predominantly, or partly, dependent on foreign visitors or business travellers due to ongoing travel restrictions. This trend is expected to continue in the period under review, as many airlines do not expect air travel to fully recover until 2023/2024.

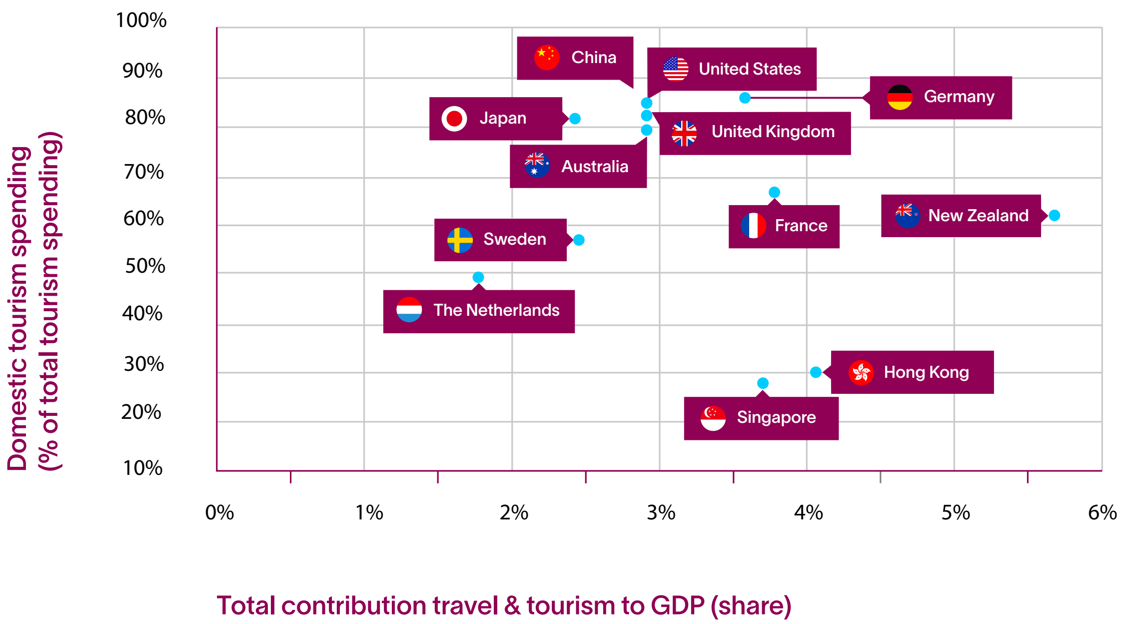
In the medium term, we expect hotel locations that were popular before Covid-19 to remain attractive to tourists. However, in the meantime hotels in regional cities or towns outside the big cities are outperforming those in large urban centres, with many guests opting for stays in locations with more space and a closer proximity to nature.

"In the leisure market, hotels that typically rely heavily on domestic tourism are now performing better than those predominantly, or partly, dependent on foreign visitors or business travellers due to ongoing travel restrictions."

Travel and tourism represent on average over 10% of global economic output, according to the World Travel and Tourism Council. Regions or countries that are highly dependent on international tourism in terms of GDP, for example in Southeast Asia, Central America and Southern Europe, are therefore being hit hard by the pandemic. The good news for hotel operators is that they stand to benefit from the reduced proportion of shared accommodation concepts, such as Airbnb. And given that local municipal governments continue to restrict Airbnb activities, the company's share of the market could well continue to decline.

Total contribution travel & tourism to GDP versus domestic tourism spending 2019

Source: World Travel & Tourism Council, Bouwinvest R&SA



Upward trend in hotel sector set to resume once crisis is over

The duration of the current interruption to international tourism will depend on how soon the pandemic is controlled. The pre-Covid-19 tourism boom is an international trend that has been in place since the 1970s. Following a brief interlude in 2008, in the immediate aftermath of the Global Financial Crisis and the contraction of the business travel market, the upward trend resumed. We foresee a similar development in the post-Covid-19 era, although the hiatus may be somewhat longer this time round. Travel has become even easier and more popular in the intervening period. Plus the enormous growth of the middle classes, particularly in developing countries in Asia, will continue to underpin the continued growth of international tourism.

Leisure market set to recover more quickly than business travel

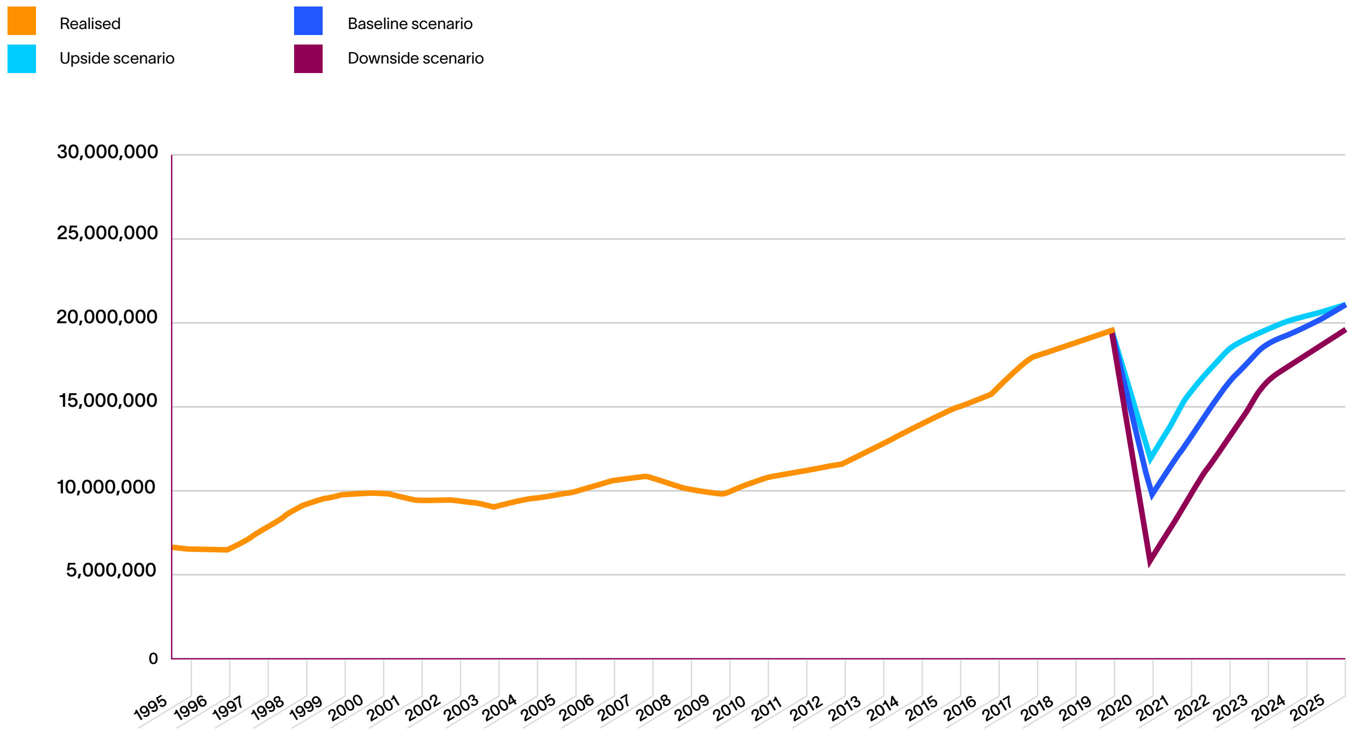
The leisure market is likely to recover sooner than the business segment. We expect the desire to travel to pick up after a period of partial or full lockdowns. We saw the first signs of this in the Netherlands in the summer of 2020, when Dutch hotels saw a surge in demand from domestic tourists. We expect to see a catch-up effect after the pandemic, with travellers prepared to spend more on upmarket accommodation.

Business travel has been deeply impacted by Covid-19, with industry fairs and events cancelled worldwide. We expect the recovery in this segment to be slower, as teleconferencing and video calls emerged as viable alternatives during the lockdowns. Business travel is expected to recover eventually, but at a slower pace than leisure tourism. Even then it is likely to be at a lower level than pre-Covid-19, as corporations roll out cost-cutting measures and translate concerns about the environmental impact of mobility into more stringent Environmental, Social and Governance (ESG) policies. The business world did not collapse following the pandemic, thanks to the possibilities of working remotely. Event organisers are also responding to that trend with hybrid models, mixing physical meeting places with online conferences.

Prior to Covid-19, hotels were an attractive asset class for real estate investors due to their stable income flows and the prevalence of long-term contracts with operators, which provided a safety net in terms of recurring cash flow. We believe the hotel market has the potential to recover and will remain an interesting investment for long-term returns.

International tourism in the Netherlands, number of arrivals

Source: Worldbank, CBS & Bouwinvest R&SA (estimated scenarios)



Tourism and travel sector faces major sustainability challenges

In the hotel industry, sustainability initiatives largely revolve around reducing towel usage and disposable items and increasing the role of sustainable materials. This is a good start, but we expect many consumers to attach more importance to sustainability in a broader sense, including physical accommodation, driven by the rise in ecotourism. Aside from hotels, the tourism sector as a whole faces a huge challenge to become more sustainable. Travel is a key driver of the tourism (and hotel) sector, but attitudes towards mobility are expected to change fundamentally post-Covid-19. A growing group of consumers is already looking more critically at short flights and 'flight shame' is prompting more travellers to swap planes for trains, especially for short distances. Pre-Covid-19, train travel was growing slowly in Europe as an alternative to short flights. Change is afoot, but Europe can still learn a lot from countries such as China and Japan, where high-speed trains are more common. Train travel will have to become faster and less expensive if it is to compete with budget airlines, and that will require heavy investment from both the public and private sectors. On the other hand, people are creatures of habit, so there is still a chance they will simply pick up where they left off pre-Covid-19. A lot will depend on the political will to steer this sector in the right – sustainable – direction, possibly through tax breaks and subsidies.

Before Covid-19, the excesses of mass tourism were a source of frustration among residents in cities right across Europe, including Amsterdam, but also Rome, Florence, Venice, Barcelona, Paris and many more. Although tourist numbers have dropped since the outbreak of the pandemic, the movement to counteract over-tourism in the future has not disappeared. In the Netherlands, the national government is drawing up more stringent legislation aimed at giving local municipalities more instruments to combat excesses. For example, Amsterdam has now banned Airbnb in three districts in the city centre.

> "Europe can still learn a lot from countries such as China and Japan, where high-speed trains are more common."

Downside scenario the Netherlands - extended anti-contagion measures

Occupier market
Should tourism levels remain low for a more prolonged period, the hotel sector will be severely impacted and the expected recovery will be delayed for the time being. Hotels that largely depend on international tourists and business travellers will be hit hard, but those with attractive locations for domestic tourists will be less affected during peak periods and weekends, providing measures are not too strict. However, they too will struggle due to lower occupancy rates and revenues, and overall there will be more bankruptcies.

Investment market
In a downside scenario, further hotel vacancies and bankruptcies appear unavoidable. Some owners will be forced to explore alternative uses and opportunities for redevelopment, for example, into care real estate – which remains scarce – or homes and offices. Within the hotel sector, serviced apartments form an interesting subsegment, as room prices and occupancy rates in this subsegment have proven to be more robust than those of regular hotel rooms during the pandemic. Mixed-use buildings comprising hotel or extended stay rooms are other alternatives.

As a temporary measure, hotel operators could harness the remote working trend and adapt their spaces to deliver a 'hybrid hospitality' concept to generate an additional source of income. Synergies also exist between hotels, healthcare and residential. The hotel investment market could revert to an interesting niche segment for unleveraged investors with a longer term scope.

Hotel market
Covid-19 scenarios

Baseline scenario (2021-2023)

Occupier market

Domestic travel prevails
Locations that attract domestic tourism perform better than locations that are highly dependent on international and/or business travellers.

Slow but sure recovery expected
Fundamentals are good due to strong pre-Covid-19 growth; business travel may pick up more slowly due to alternative of digital meetings.

Investment market

New construction still attractive
Investors with long-term focus still have faith in the hotel sector. Particular focus on hotels that cater for a broad range of travellers; aparthotels and serviced apartments are an attractive niche.

Greening the leisure sector
Climate adaptation, circularity and reduction of business travel are important in reaching Paris-proof goals.

Downside scenario extended anti-contagion measures (2021-2023)

Occupier market

Lower occupancy rate
Continued slowdown of international and business travel leads to lower occupancy rates in hotels and more bankruptcies.

Absence of international tourism and domestic tourism more evenly spread
Typical 'city trip' locations are less crowded; positive impact on liveability in these cities.

Investment market

Lower investments
Pricing and other uncertainties will make investors more cautious; total investment volume will remain low for a prolonged period.

Focus on alternative use
The total number of hotels is likely to decline, potentially due to the conversion of hotels into (care) homes. Focus will be on niche utilisation, such as serviced apartments, will increase.

Strong fundamentals bolster healthcare real estate amid ongoing professionalisation

Healthcare market 2021-2023

Healthcare institutions had their hands full fighting the Covid-19 pandemic in 2020 and operators continue to face financial headwinds as seniors postpone moving to assisted living facilities and care homes. Nevertheless, the long-term fundamentals of the healthcare real estate sector remain robust, thanks to favourable demographics and the rising demand for affordable, high-quality care homes and apartments. These same trends underpin the ongoing consolidation of healthcare operators, providing further impetus to new and more diverse types of private care homes and senior living developments. Furthermore, healthcare real estate is relatively immune to the vagaries of the economic pendulum.

De Gijsbrecht, Ouderkerk aan de Amstel, The Netherlands

Over the past few years, Dutch healthcare real estate has developed into a fully-fledged investment category in its own right. Steady investor interest is being underpinned by strong quantitative and qualitative market fundamentals. In the short term, however, healthcare institutions have shifted their focus to mitigating the impact of Covid-19, and this could translate into a weaker financial performance in 2020 due to additional costs and delays in medical procedures. The overall message therefore is to keep monitoring operators closely in the coming period. The uncertainty has also affected transaction volumes: in the first half of 2020, Dutch and foreign investors invested € 327 million in healthcare real estate, a 33% year-on-year decline. However, investments increased substantially again in the third quarter.

The Covid-19 pandemic has badly affected the Dutch economy and impacted all real estate markets to some degree, and even more so the clients of nursing homes. Fortunately, the Dutch government took a number of financial measures aimed at compensating healthcare institutions for revenue losses and the costs of confining the Covid-19 outbreak, but most operators have postponed investments and still expect to be hit financially. Nevertheless, the fundamentals of the healthcare market remain robust, as investor interest and limited supply continue to translate into strong competition for quality investment product.

“Dutch healthcare real estate has developed into a fully-fledged investment category in its own right.”

Zorgvilla Rosorum, Amersfoort, The Netherlands

Favourable demographics underpin growth and development of new care concepts

In the Netherlands, the number of residents aged over 65 will increase by an estimated 43% to 4.8 million by 2040. Average life expectancy has also continued to rise and was 82 years in 2019. Despite a likely short-term spike in the average mortality rate due to Covid-19, the ageing population and higher life expectancy will lead to more than one million additional households aged over 65 in the next 20 years. Since the majority of this group – or 2.8 million people – will be over 75 years old, a larger proportion of the population is expected to be suffering from dementia and other age-related illnesses by 2040.

In a break with the past, a significant number of current and future generations of the elderly are relatively wealthy, thanks partly to the equity in their homes. The disposable income of those aged over 65 is on average 30% higher than it was in 1997. Depending on their financial situation and care requirements, many older people will have the resources to actively choose their accommodation, or type of care facility. As a result, they are expected to be more demanding in terms of quality and services. However, the majority of seniors still depend largely on income from a state pension and their own private pensions. This means that future moves to lower the indexation levels of their benefits from private pension funds could restrict their freedom of choice.

Until a few years ago, privately developed care concepts mainly targeted the well-off, but in terms of client volumes, the greatest potential is in the mid-range and lower end of the market. There is huge demand for high-quality, affordable housing for elderly people who prefer to live independently and make use of optional care services when necessary. Online care services have been boosted by Covid-19, with a growing number of medical practitioners now offering consultations via teleconferencing. Such innovations will not only result in greater efficiency and help alleviate shortages of medical staff; they will also facilitate the further development of new forms of senior living and care homes, bringing together different generations and/or providing a range of functions including services such as physiotherapy, pharmacies and grocery stores.

By 2040,

43%

of residents in the Netherlands will be over 65 years old

Segmentation Dutch healthcare market

Source: Bouwinvest R&SA

	Intramural	Assisted Living Care residences	Assisted Living Care apartments	Primary care	Secondary care
Care financed by	Long-term care act (Wlz) allowance	Long-term act (Wlz) or social support act (Wmo)	Social support act (Wmo) and/or standard health insurance	Standard health insurance	Standard health insurance
Services financed by	Long-term care act (Wlz) allowance	Resident	Resident	n/a	n/a
Lease	Commercial lease, 20-30 years	Commercial lease, 15-25 years	Regular rental housing contract, 1 year	Commercial lease, 5-10 years	Commercial lease, 10-20 years
Type of rent	Relative to Wlz allowance	Market rent	Market rent	Market rent	Market rent

Healthcare real estate emerging as a safe haven in troubled times

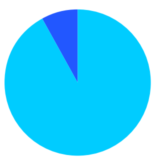
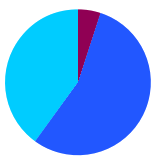
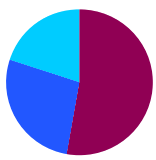
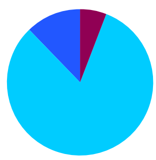
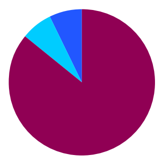
The Covid-19 pandemic and its impact on the economy have clearly demonstrated just how robust healthcare real estate is through economic cycles and disruptions. As a result, investors are increasingly viewing healthcare real estate as a safe haven for their capital and raising their portfolio allocations to this subsegment of the market. Consolidation is a key theme in the Dutch healthcare market, with an increasing number of highly professional domestic and foreign operators looking to build market share. While the number of bankruptcies among financially weaker operators could increase, there will be no shortage of operators keen to take their place.

The Dutch healthcare real estate sector has grown steadily since the privatisation of the elderly care market in 2006. This growth was compounded by additional government measures in 2015 to separate the housing and healthcare budgets, aimed at encouraging people to live at home for as long as possible. As initiatives to develop new forms of private home care took off, capital inflows followed and rose from just € 100 million in 2014 to a record € 1.125 billion in 2019. The Covid-19 pandemic initially made investors more cautious, but we expect investments to pick up again in H2 2020 to take full-year 2020 investments to over € 700 million.

The Dutch elderly care sector lags other countries in Europe, in particular France and Belgium. This explains the growing presence of international companies and investors who see opportunities here. Advisor CBRE expects investment volumes to grow steadily after the pandemic passes and the yield compression that has been a feature of the sector since 2015 to continue, at least in the medium term, as the market continues to mature, with an increasing number of investors, real estate service providers, banks and consultancy firms seeking opportunities.

Indicators European healthcare market

Source: Oxford Economics, Eurostat, Eurofound, C&W, BNP Paribas, CBRE, Bouwinvest R&SA

	The Netherlands	Germany	France	United Kingdom	Sweden
Total/cummulative population growth	34%	27%	27%	30%	22%
Growth population 65+ 2020-2035 (x 1 million)	1.2	4.9	3.7	3.8	0.4
Estimated # of multinational operators	2-3	4-5	3-4	1-2	3-4
Healthcare investments in 2019 (x € 1,000)	1,100	1,700	400	1,500	1,100
Share of intramural care home provision					
Public	0%	5%	53%	6%	86%
Private for profit	92%	40%	20%	82%	7%
Private non-profit	8%	55%	27%	12%	7%
Long-term care spending as % of GDP	2.9%	1.1%	1.4%	1.2%	2.1%

Craenenbroeck, Heiloo, The Netherlands

French players lead consolidation trend across Europe

French healthcare operators are the most active cross-border players in Europe, with a presence in the Netherlands, Belgium, Germany, Spain and Italy. Europe still has some way to go before its healthcare real estate sector reaches the sophistication and size of the US market, where healthcare real estate investments account for over € 800 billion in assets under management (2017). The Dutch market has significant potential for mergers and acquisitions, due to the multitude of small healthcare businesses, and Covid-19 may well accelerate that process of consolidation.

In the Netherlands, public care home beds are non-existent, as the whole sector has been privatised. In Germany and the UK, the supply of public care home beds stands at just 5% and 6% respectively. As a result, these countries offer more opportunities for healthcare companies and real estate investors than Scandinavia, for example, where public healthcare accounts for a far larger share of the total. The Netherlands also boasts the highest national budget for long-term care in Europe with an allocation of 2.9% of GDP. This compares to 0.6% for both Italy and Spain, and 1.1% for Germany.

Government policy plays a central role in creating opportunities for the development of national healthcare real estate sectors. Those countries that liberalise their care markets and allow competition will become interesting for major European care providers. These private players will, in turn, professionalise and open the market further, creating demand for specialists to manage care properties, support expansion and carry the financial risks.

Downside scenario the Netherlands - extended anti-contagion measures

Occupier market

The potential negative impact of Covid-19 on healthcare investments is substantial due to falling revenues and higher costs. Government support is expected to continue as the pandemic continues for longer than in the baseline scenario, but to a lesser extent. Investors are seen delaying investments in all sub-sectors due to ongoing uncertainties, resulting in a further shortage in healthcare real estate. Should the pandemic continue for a more prolonged period, the greater downside risk will lead to cutbacks and structural adjustments, including lower demand for nursing home places and greater interest in hybrid forms of care.

Investor market

We believe strong fundamental demand for healthcare real estate will persist for the long term, regardless of which scenario plays out in the year ahead. In a worst case scenario, investor demand for more regulated healthcare real estate (intramural, primary care) could decline, however, as investors focus on the safe path of lower-risk sub-segments: affordable care apartments and care concepts. The shortfall in supply is expected to increase even further at this end of the sector spectrum.

Healthcare market
Covid-19 scenarios

Baseline scenario (2021-2023)

Occupier market

Cautious spending healthcare institutions
Extra Covid-19 expenses might impact financial results of healthcare institutions; however, governments are expected to compensate.

(Double) ageing drives demand
More elderly need care home solutions; long-term demand for high-quality and affordable concepts.

Investment market

Interest in healthcare real estate remains high
Robust government compensation for impact of Covid-19 limits risks for healthcare institutions; investors remain keen to invest.

Growth of investments in healthcare real estate
Ageing drives demand, transparent investment market and attractive yield gap stimulates investor appetite.

Downside scenario extended anti-contagion measures (2021-2023)

Occupier market

Healthcare institutions financially weakened
Government support may not alleviate decline in revenues and higher costs of Covid-19.

Cutbacks and structural changes
Government reduces support for healthcare, demand for nursing homes declines and demand for hybrid solutions increases for the coming years.

Investment market

Delayed investments
Pricing and other uncertainties will make investors more cautious; total investment volume will remain low for a prolonged period.

Focus on low risk
Investment demand for affordable care apartments increases, while demand for more regulated healthcare real estate (intramural, primary care) declines.

Accelerated growth of e-commerce underpins long-term fundamentals amid global trade volatility

Logistics market 2021-2023

Logistics real estate looks likely to emerge from the Covid-19 crisis as one of the most resilient and best-performing property investment sectors. The strong long-term boost to demand from growing e-commerce volumes and the restructuring of just-in-time global supply chains will outweigh shorter-term concerns over corporate sectors struggling in the Covid-19-triggered global recession.

Logos, Singapore

On the eve of the crisis, occupancy levels were at historic highs worldwide, also in the Netherlands, and that situation has remained broadly unchanged since the lockdowns. Covid-19, the resultant recession, declining international trade volumes, a potential 'no-deal' Brexit and escalating trade tensions between the US and China have all clearly increased risks among occupiers of warehouses and other logistics real estate. However, the negative short-term impact on demand is being offset by the rising share of e-commerce, which is now growing at an accelerated pace. Worldwide demand is being bolstered further by increased stockpiling by many occupiers and growth in the distribution of food and fresh produce. Thanks to these demand factors, a moderate level of new supply and low vacancy rates, rental levels are likely to increase above inflation in the years ahead.

The recent lockdowns in 2020 have boosted e-commerce penetration in many markets, with the expected five-year period growth achieved in a single year. For the Eurozone as a whole, e-commerce penetration is currently (October 2020) around 14% and set to grow to around 20% in 2025. However, the share of e-commerce as a percentage of total retail sales varies significantly across Europe. E-commerce penetration is currently around 26% for the UK and 15-17% for the Nordics and Germany, while Southern Europe is lagging with a share of 8%-10% for Spain and Italy. The current e-commerce penetration rate in the Netherlands is around 20%, which is set to increase to 23% in 2023.

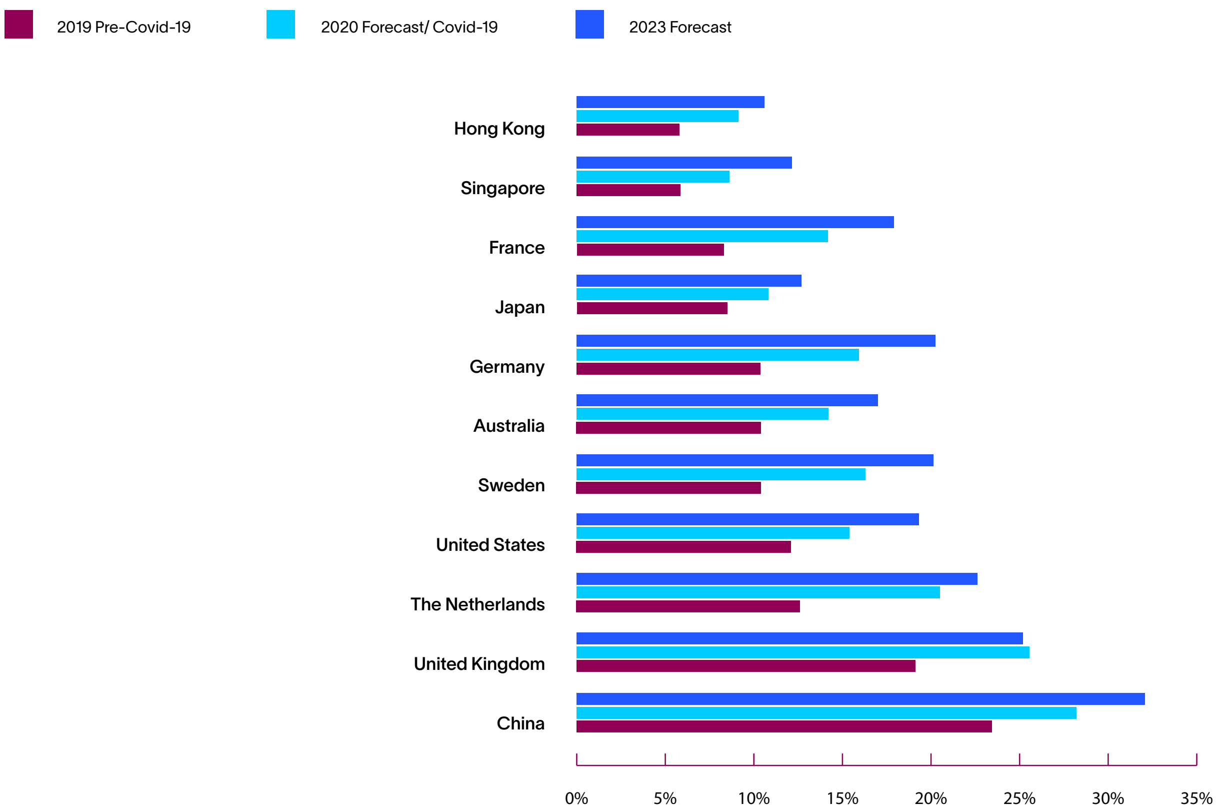
By 2023,

18%

expected e-commerce penetration for Eurozone

E-commerce share of total retail sales

Source: PMA & Bouwinvest R&SA (estimated scenarios)



Reconfiguration of global supply chains gains pace as pandemic exposes vulnerabilities of off-shoring

The Covid-19 crisis has made companies more aware of the vulnerability of their global logistics chains and in some cases dependence on single countries for key components of their supply chain. Over time, this is expected to translate into more nearshoring or onshoring - a shift of production and storage facilities from Asia to Europe. A growing number of corporations now view storage facilities as strategic assets, further fuelling demand for logistics real estate closer to home.

Development is expected to lag demand

The total construction volume of new logistics properties in Europe is expected to decline this year to around 70% of the level recorded in 2019. This is due to the fact that most speculative developments have been put on hold due to financing difficulties and investors temporarily postponing decisions due to pricing uncertainty. Developments already under way are expected to proceed as scheduled, including build-to-suit (BTS) schemes.

Two types of logistics real estate are likely to be the main focus of future development schemes to meet growing demand: large-scale modern facilities near transport hubs for bulk storage and smaller warehouses in or near large cities for fast deliveries. Demand is rapidly increasing, in particular for smaller last-mile or same-day-delivery units of 2,000 to 10,000 m² constructed to high sustainability standards, with these formats at the core of many new logistics developments. Brownfield business parks close to inner-city locations will, we believe, be a key source of sites for urban regeneration logistics developments.

In the Netherlands, land is scarce for the greenfield development of both large and smaller logistics 'boxes' and values remain high for both types of warehouses. National regulation governing new builds is becoming increasingly restrictive and the debate about the presence of PFAS – perfluoroalkyl and polyfluoroalkyl substances – in the soil has also held up new developments in both the housing and logistics sectors. There is a slight chance that investors may turn to the acquisition of properties in the secondary market, but this supply is often outdated, especially in the small warehouse segment, and additional capital expenditure is required to make them fit-for-purpose. With many retailers forced to cut costs, we expect opportunities to arise from the sale and leaseback of existing storage facilities.

Transaction volumes stable in 2020 but set for growth in the future

European logistics real estate transaction volumes fell by 9% in Q3 2020 compared with the same period last year, according to RCA. This was a smaller decline than in the other core sectors of offices and retail. In the Netherlands, logistics investment volume totalled € 2.25 billion to end-September, unchanged year-on-year. Logistics assets accounted for 20% of total real estate investment volume in the Netherlands in the first nine months of 2020, which came in at € 11.7 billion.

The forecast for 2021-2023 remains uncertain, as it is unclear how the pandemic will play out in the three-year period ahead. Overall logistics transaction volumes are projected to soften in 2020, but the signals for the logistics sector are set to switch to green from next year. Local and international investors continue to compete for the best locations and logistics centres, resulting in ongoing downward pressure on net initial yields (NIY).

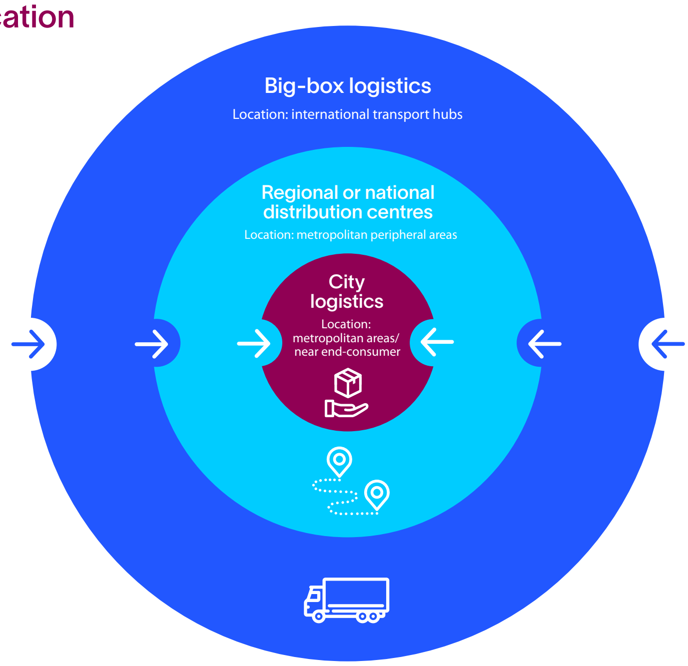
Building type per logistics location

Source: Colliers, JLL, Bouwinvest R&SA

Focus: international
Location: near (air)sports/corridors
Size: > 40,000 m²
Distance: > 2-hours drive

Focus: national
Location: corridors
Size: 20,000-40,000 m²
Distance: between 1-2 hours drive

Focus: city
Location: edge of city center
Size: < 10,000 m²
Distance: less than 1-hour drive



Multimodal sites and focus on sustainable future-proof assets

Sustainability measures are becoming commonplace in the logistics sector and most investors now require new developments to incorporate renewable energy sources, the principles of circularity and multifunctionality. The biggest challenges facing the industry are negative public opinion regarding the 'boxification' of the landscape and tightening government regulation. Developers need to step up the pace of innovation to achieve sustainability targets and create designs that are both future-proof and innovation-proof.

As greenfield developments are curtailed, we believe there will be a stronger focus on clustering developments and in-fill locations. Occupiers are expected to give greater priority to smart buildings located at multimodal sites in their efforts to reduce carbon emissions, gain proximity to well-qualified workers and improve employee well-being.

Downside scenario the Netherlands - extended anti-contagion measures

Occupier market

In a downside scenario, a worsening global economic recession could lead to a weakening in logistics demand and the negative impact could outweigh the positive effects of the accelerating growth of e-commerce. The risk of tenant failures could increase further if international trade barriers increase, for example in the case of a no-deal Brexit, and international trade tensions were to escalate, for example in the case of US-China trade relations. The best locations are likely to be affected too in this scenario, but they remain the most resilient.

In the longer term, demand should return as supply chain reconfiguration and e-commerce growth remain strong drivers of demand. Some industries with a significant logistics footprint may take longer to rebound (i.e. international tourism, airlines, automotive and hospitality), but global trade in most other sectors would most likely normalise.

Investor market

A sharper decline in global and domestic trade would most likely lead to higher vacancy levels and more rental incentives, resulting in falling rents, values and transaction volumes. Investors are expected to increase their focus on core logistics assets at top locations and assets focusing on e-commerce.

Europe Logistics, Barcelona, Spain

Logistics market
Covid-19 scenarios

Baseline scenario (2021-2023)

Occupier market

Accelerated e-commerce growth offsets negative effects of economic recession
In 2020, e-commerce growth significantly exceeded expectations; big-box and last-mile logistics highly sought after.

Supply chain reconfiguration
Rebound of global trade and continued growth of e-commerce expected; production and storage facilities regarded as strategic assets, leading to onshoring.

Investment market

Strong competition for prime assets in core markets
Demand outstrips supply, leading to high prices for core assets in core markets.

Sustainability high on agenda
Sustainability of logistics space is daily business, broadly accepted and seen as a necessity by the investment community; public opinion on 'boxification' is increasingly a challenge.

Downside scenario extended anti-contagion measures (2021-2023)

Occupier market

Global recession dampens logistics demand
E-commerce growth may no longer counterbalance economic recession, risk of failing tenants and continued international trade uncertainties or tensions.

Slower recovery
Supply chain reconfiguration and e-commerce growth remain strong demand drivers in a slower than expected recovering global economy.

Investment market

Higher vacancy rates
Slower global and domestic trade will lead to higher vacancy levels and increased incentives.

Focus on modern core
Investors will focus on core logistics real estate in the best locations with highest sustainability standards.

Increased regulation
Increased regulation on cluster development and in-fill locations.

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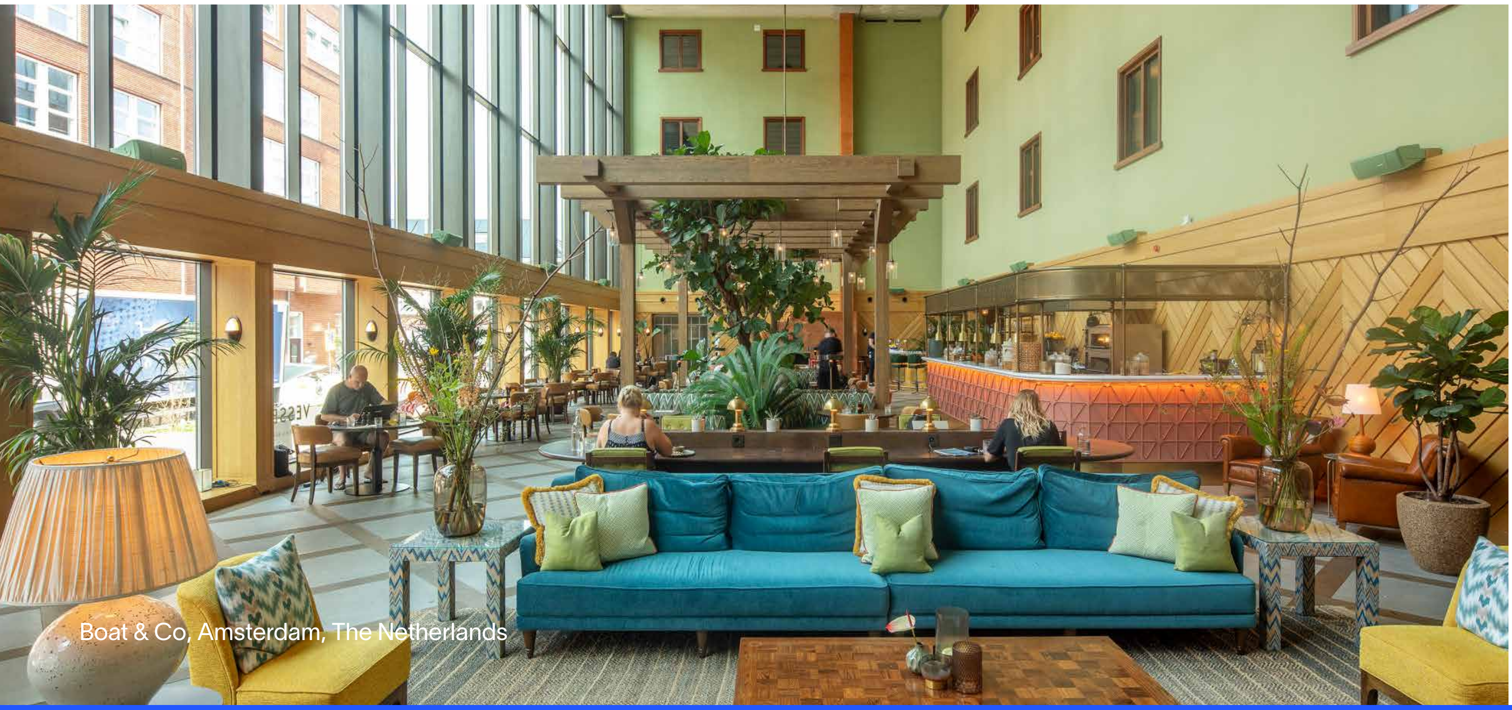

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