

# OUTLOOK

OFFICES 2023



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# BALANCING FUNDAMENTALS AND LIQUIDITY



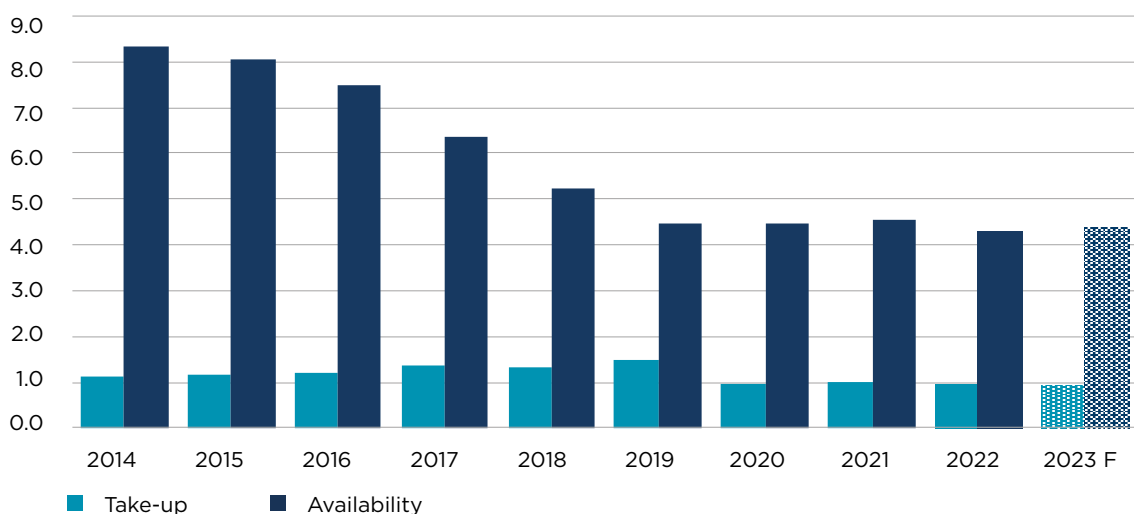
## OFFICES

There is clearly latent demand for especially high-quality office premises at central locations as soon as such properties come onto the market. Investors are encouraged by the so far limited impact of the Covid pandemic on demand for office space. They will be more selective in 2023, but if high quality supply comes onto the market that meets all the criteria, a good price will still be on offer. The investment market for offices will thus become polarized in 2023 on the basis of quality, between high quality and sustainable offices at prime locations and offices at secondary locations or in the value-add segment. For the best real estate, prices will be on average by 5% to 15% lower compared to 2022, while the price correction for investments with a higher risk profile will be between 20% and 30%.

Outside the prime locations, office buildings will have to meet the requirement of an energy label C from 1 January 2023. Half of all the office space in the Netherlands does not yet comply, with 11% having a label D or lower and 39% having no label registered as yet. Given the fact that a lot of new build has been realized at prime locations since 2010 and thus has at least a label C, most of the sustainability improvement has to be achieved in the value-add segment. Significant investment is needed here, while construction costs continue to rise and funding is becoming increasingly difficult to obtain. While local governments do not appear to be pressing real estate owners to meet their obligations with any great urgency, there will certainly be such pressure from social pressure groups from 2 January 2023. By initiating legal proceedings, they will demand legal enforcement to oblige real estate owners to make their properties sustainable. In view of the recent success of this approach, the value of office premises without an energy label C is under severe pressure. This could lead to an increase in the already existing selective demand for office space at prime locations.

### Dutch occupier market office space

Take-up and availability ( x1 v.v.o. sqm. lfa.)



Source: Cushman & Wakefield, 2022

The situation for office users is diverse. While commercial organizations are having difficulty with the premises issue with respect to technologically sustainable developments and the 'war for talent', government-related organizations, banks and insurers are facing issues with the space they have available. There is a different approach to office space in these two cases. Whereas commercial parties invest in order to change the current layout to meet the wishes of their employees, government-related organizations, banks and insurers mostly keep their space as is for fear of losing employees or to save cost.

This last point also applies to organizations with large or very large offices that have still not yet decided on a hybrid workspace strategy. These organizations will take more time to adequately understand the impact of this on their organization through analysis of occupancy rates and their employees. This situation will continue for as long as there are still economic risks hanging over the market, with a limited take-up dynamic and stable supply. Existing leases will – other than at prime locations on favourable terms – be extended, while only a small amount of office space will be reappearing on the market.

At the high-quality locations in the Netherlands, the dynamic in the office market will be driven by factors such as the 'war for talent'. A new generation of employees is keen to work in a vibrant and lively urban environment. Businesses thus have different requirements for their offices in today's still tight employment market. Other factors include rising energy costs and the minimum label C requirement. Office users will thus prefer sustainable office space. In combination, these factors mean there is keen competition for the best office space. In Amsterdam, the offices in the centre and at the Zuidas are preferred by intended users, while in the other G4 cities these offices are mainly at central locations close to railway stations. New supply that came onto the market during this year was mostly quickly filled at historically high rents. We expect rents at these specific locations to continue to rise.

### Dutch property investment market - Offices

Gross initial yield on core, core-plus and value add

