OUTLOOK 2024-2026

STRONG FUNDAMENTALS OFFER PERSPECTIVE

achmea
Real Estate

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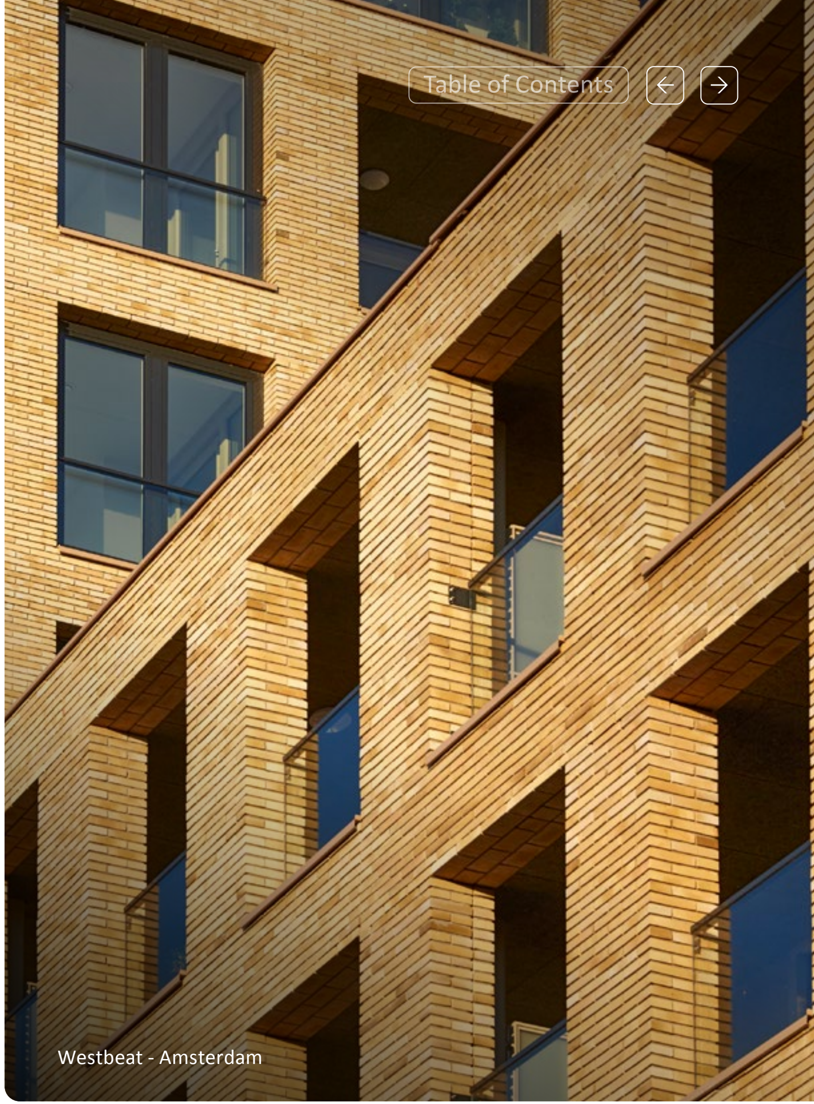


Westbeat - Amsterdam

INTRODUCTION

The real estate investment market has experienced a turbulent year with significantly negative returns. The contrast with the user market is considerable, given the high demand for quality and sustainable real estate. In this Outlook, we look ahead and provide our perspective on the key themes for institutional investors in the Dutch real estate markets.


1. GENERAL

The turbulent developments in the investment market contrast with the strong fundamentals of the user market. Among investors, there is a significant focus on impact and sustainability, and with the new pension law, real estate remains relevant as an investment.

Investment market

Impact

New pension law

Remisehof - Rotterdam

INVESTMENT MARKET

STRONG FUNDAMENTALS IN USER MARKET IN UNCERTAIN FINANCIAL MARKETS

The real estate markets have experienced a turbulent year. Due to the significantly increased inflation and the subsequently rapidly rising interest rates, liquid markets such as stocks and bonds were affected early on. From the fourth quarter of 2022, values in the Dutch real estate sector plummeted: approximately 13% of value dissipated between September 2022 and September 2023[1]. Such a depreciation in such a short period has seldom occurred. There are substantial differences between real estate sectors: the office sector experienced the most significant depreciation, with 20%, while the retail sector had the smallest at 6%. Due to the long period of stable value appreciation, the share of real estate in investment portfolios increased, leading many institutional investors to become over-allocated in this investment category. As a result, the demand for real estate is decreasing, as reflected in the realized investment volume of the sector. The investment volume has fallen from 21.9 billion euros to 6.4 billion[2] euros in 12 months, a decline of over 70%. This brings the volume back to the levels seen in the years following the financial crisis of 2008. The difference between bid and ask prices is currently high, leading to a lack of transactions and minimal growth in investment volumes.

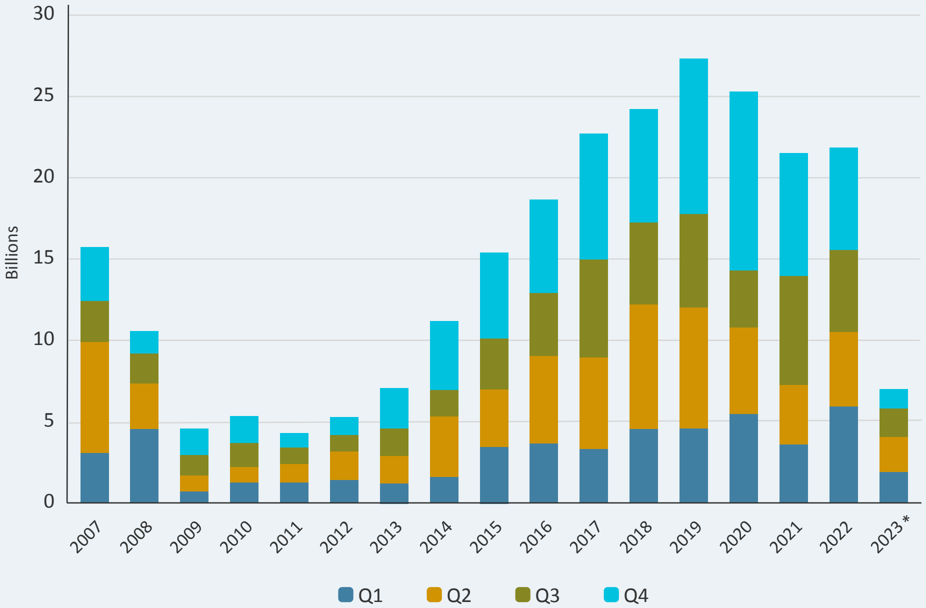
1. MSCI
2. Provisional volume of transactions in 2023 up to November

It remains uncertain whether real estate markets will show further depreciation. The average net yield spread relative to the long-term interest rate[3] is relatively low (0.6%). In the period from 2012 to 2021, it stood at 4%, driven by low, sometimes even negative interest rates. In the preceding 10 years, the average yield spread was 1.8%. For 2024-2025, we expect stabilization of the value development and subsequent slight growth. It is essential to keep an eye on several factors.

One crucial factor is the expected interest rate. The ECB announced at the end of October that it would not raise the base interest rate for deposits beyond 4% for the time being. Oxford Economics predicts that the interest rate has peaked and will decline to 2% over the next two years. If the value of real estate remains constant, the yield spread will increase again, reinforcing the relative position of real estate. However, if the interest rate remains high at 4% or increases further, it will exert downward pressure on the value of real estate.

A second factor is the development in the user market. Looking at the underlying fundamentals, they are extremely strong for almost all sectors. The CBS expects a population growth of 800,000 residents by 2030 (from 2023), with a particularly strong increase in major cities. This will stimulate demand for real estate by users. Given the current tightness in the housing market and this future demand, investors can expect a very stable direct return. Commercial real estate markets

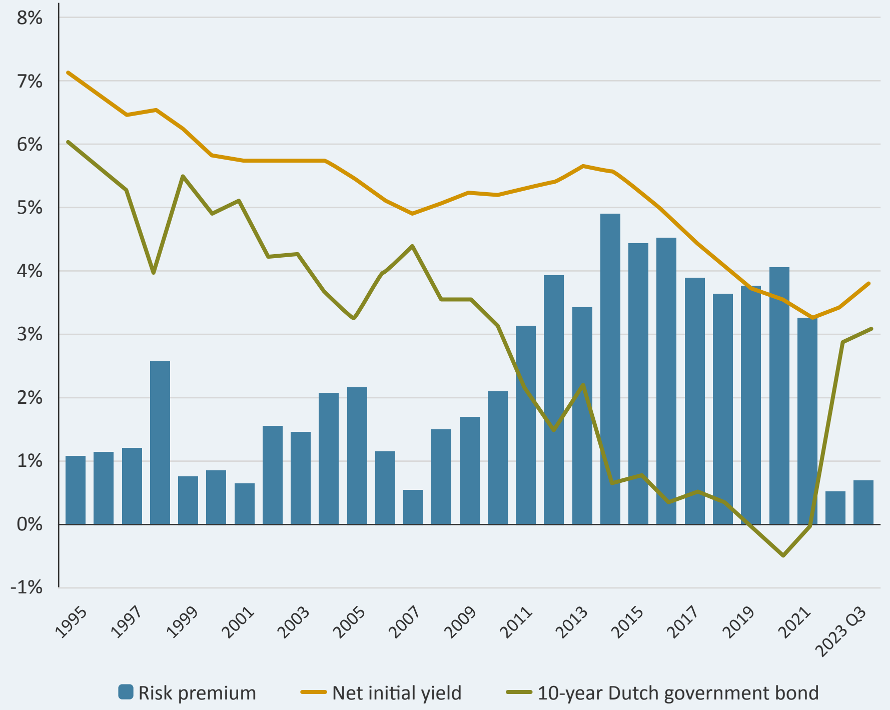
INVESTMENT VOLUME PER QUARTER (TRANSACTIONS > €5M)



*Source: MSCI, Real Capital Analytics (2023) * 2023 Q4 = preliminary*

3. Net operating income yield Dutch real estate (MSCI) – 10-year government bond interest rate (Bloomberg).

NET INITIAL YIELD VS LONG-TERM INTEREST RATE



Source: MSCI (2023), Oxford Economics (2023)

> "Investors are assured of a very stable direct return"

can also benefit from this. Currently, vacancy levels for retail and logistics real estate are already low, while population growth leads to additional demand. Due to aging, we observe an increase in the number of households and a high demand for age-appropriate homes and other healthcare-related real estate.

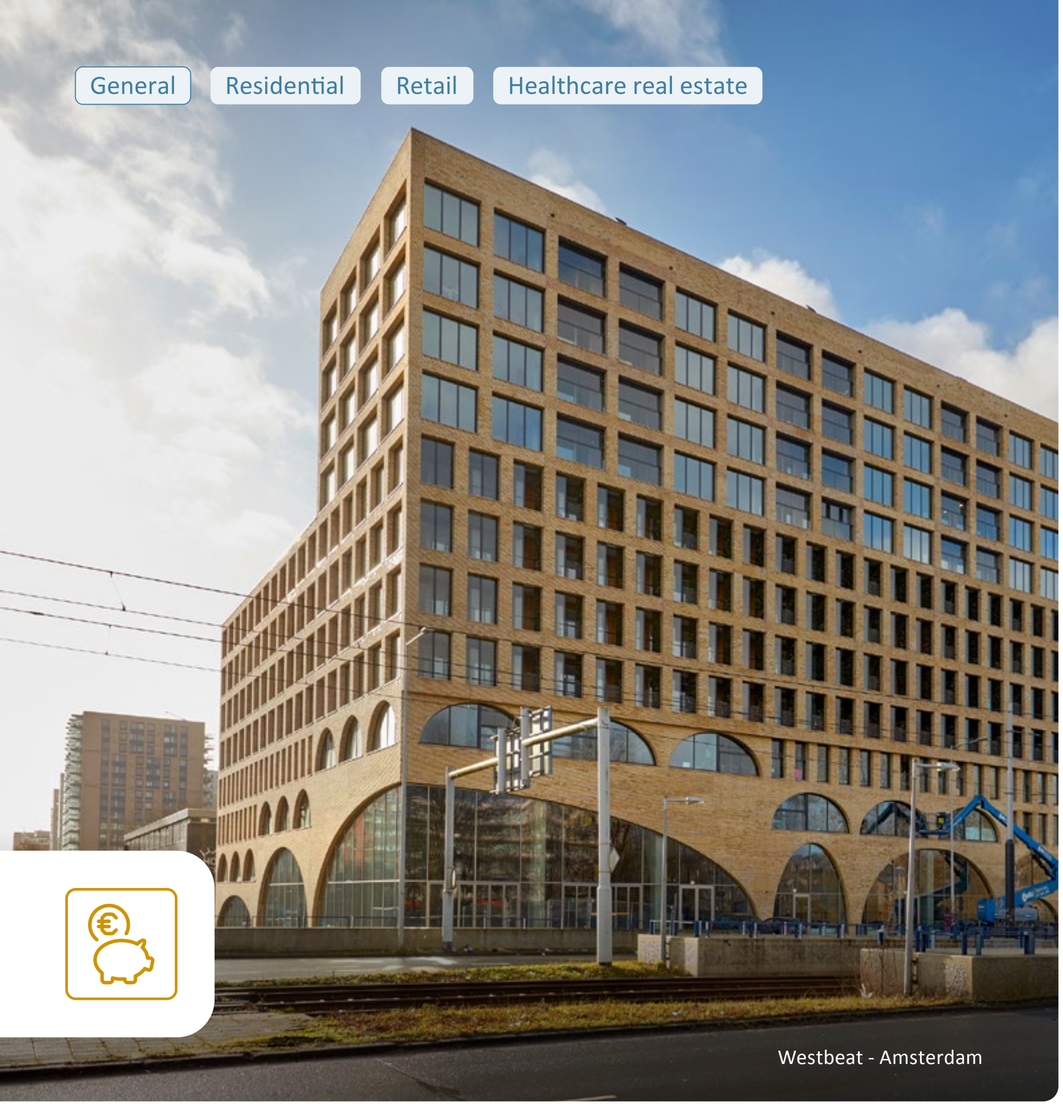
Additionally, sustainability is playing an increasingly significant role in the real estate sector. The difference in value between sustainable and non-sustainable real estate is increasing[4]. This trend will accelerate as legislation becomes more stringent, and more appraisers take sustainability into account. This is currently happening to a limited extent.

4. MSCI, London and Paris Offices: Green Premium Emerges / Brainbay, effect of better energy label on house value bigger than ever

Anticipating the possible impact of sustainability on valuations is essential for investors. However, differences between sectors also appear to be increasing. The retail sector has undergone significant changes over the past ten years, leading to the transformation of stores and the compaction and attractiveness of shopping areas. This sector is currently relatively well-positioned. In contrast, there is more uncertainty in the office sector, partly due to the unknown influence of remote work.

Finally, several other factors come into play, such as refinancing. The sharp rise in interest rates makes borrowing significantly more expensive. For some parties, refinancing is therefore not feasible. They must sell assets or encounter financial difficulties. This presents opportunities for investors who solely use equity for investments. Regulatory considerations also remain crucial, especially in the housing market. Uncertainty in this regard has a counterproductive effect, while institutional investors are crucial for addressing the housing shortage. A stable political climate is, therefore, desirable. Institutional investors should be encouraged to invest, potentially through lower transfer taxes and subsidies for the improvement of the sustainability of the housing stock.

Wijnbergen Buiten - Doetinchem



Westbeat - Amsterdam

NEW PENSION LAW

ATTENTION TO LIQUIDITY AND VALUATION

In May 2023, the Dutch Senate approved the Future Pensions Act (Wet toekomst pensioenen). The premise of this law is to replace defined benefit plans with defined contribution plans. These defined contribution plans include two pension arrangements: the solidarity-based defined contribution plan with a collective investment policy and the flexible defined contribution plan with strictly separated individual investment pots during the accumulation phase. This new system has implications for choices regarding illiquid investments such as real estate. The investment policy in the new arrangements is based on the lifecycle principle. At a young age, a participant takes relatively high investment risks, gradually reducing this risk over time. Such a lifecycle is composed of several multi-asset portfolios or modules with a risk exposure varying by age.

The collective investment policy within the solidarity-based defined contribution plan effectively absorbs any shocks in the investment portfolio. In this context, the illiquid nature of real estate does not necessarily pose an issue. This structure closely resembles the current investment portfolios of pension funds, where real estate has secured a prominent position. The fund benefits from the attractive risk-return profile and the illiquidity premium, offering partial protection against inflation and diversification advantages that real estate provides. Real estate also plays a role in the sustainable image of pension funds and the expectations of participants.

Within the flexible defined contribution plan, individual pension assets are present during the accumulation phase, with exposure to separate modules and building blocks. These building blocks involve a mix of investments. To maintain the desired lifecycle for each participant even during market shocks, each building block must have sufficient liquidity. For real estate and other illiquid investments, this means they must be combined with liquid investments within a module. It is not possible to offer private real estate as a standalone building block. Research by Achmea Investment Management[5] has demonstrated that in the case of market shocks, a normal weight of 30% is feasible for illiquid assets, of which real estate is a significant part. All of this pertains to the accumulation phase. In the distribution phase, there is a collective variable pension with a single collectively managed portfolio. Real estate also has a place in this, especially if the pension fund intends to index in the future and benefit from positive features of real estate such as diversification and the illiquidity premium.

> "Real estate remains important within both pension schemes"

5. Update on pension transition, illiquidity and the FPR

Both defined contribution plans also consider the composition of the participant group in the pension fund. Pension funds with predominantly young participants can allocate more to real estate, as the illiquid nature and the higher return profile, due to the longer investment horizon, pose a lower risk.

The illiquidity of real estate is inherently linked to the sector. It also brings important positive effects, such as relatively low volatility compared to other asset classes. The illiquidity premium generates additional returns for the long-term investor. However, within the new pension system, there will be additional attention to liquidity, including within the real estate sector. This is advantageous for real estate funds with an open-ended character, which provide liquidity through entrances and exits. Listed real estate can also benefit. Additionally, larger core real estate funds are attractive, as they offer more liquidity than smaller funds. Liquidity will, therefore, be a crucial factor that pension funds will consider when selecting real estate. The removal of the financial assessment framework from the old pension law also presents opportunities for pension funds. The framework demanded high equity before pension funds could invest in real estate.

Valuation plays a crucial role in the Future Pensions Act, especially within the flexible defined contribution plan, where participants in a pension fund can adjust their portfolio every month. Unlike stocks or fixed-income securities, real estate is appraised on a quarterly basis. This creates the risk that return allocation and value transfer are based on an older appraisal. This may not be a problem if the pension fund transparently communicates to its participants how the value transfer is

Lorentz - Leiden

determined. Additionally, it is important to ensure that participants cannot abuse this process, such as switching between modules if real estate valuations lag behind or lead ahead. A pension fund could prevent this by limiting the participants' ability to quickly switch between different modules.

Real estate remains important in both defined contribution plans. We expect limited consequences for the demand for real estate by institutional investors. Nevertheless, it is wise for the real estate sector to explore options for monthly valuations. In the United Kingdom, there are already funds that do so. Under the current Dutch rules, such monthly valuation is too costly. Another option involves model-based real estate valuation. It is a theme that needs to be addressed across the sector. The sector must reach a consensus on this to avoid discrepancies and uncertainty about real estate valuation.

This article is based on a publication by Achmea from Achmea Investment Management.


Reitdiep - Groningen

IMPACT

INVESTORS CAN REALLY MAKE STRIDES WITH REAL ESTATE

Financial security is a central theme in all election programs of Dutch political parties. Key aspects include access to affordable housing and healthcare. Additionally, the current climate issues compel us to accelerate sustainability efforts to reduce CO_2 emissions and prevent further global warming. However, at the current pace of sustainability initiatives, we risk falling short of the goals set in the Paris Agreement. Participants are urging pension funds to invest their money in a more sustainable and socially responsible manner. EU legislation in this regard is also becoming increasingly stringent. Real estate is an investment category through which pension funds can make a significant impact.

The built environment is responsible for 38% of the total CO_2 emissions in the Netherlands. Institutional investors in real estate can truly make a difference[6]. The European Union aims to put a price on CO_2 emissions, encouraging businesses and households to limit their emissions. Such a levy ensures that emissions are considered in decision-making, promotes energy efficiency, and stimulates innovation. Additionally, the use of circular or bio-based building materials is excellent for reducing CO_2 emissions. The ultimate goal: energy-neutral or even energy-positive buildings. While there is often a clear plan for new construction, the challenge lies in addressing sustainability issues in existing buildings. For offices, a minimum energy label C is now mandatory, representing

6. DGBC

an initial step towards the goals outlined in the climate agreement. In order to achieve the ambitions set in Paris, Achmea Real Estate has developed a roadmap for CO_2 reduction for all real estate portfolios. This includes planned measures outlined in Carbon Risk Real Estate Monitor pathways (CRREM).

Climate adaptation is also becoming increasingly important. In November 2023, the Financial Markets Authority stated that the housing market must consider risks associated with climate change, impacting the value – and consequently, the prices – of houses. Hence, it is essential for institutional investors to incorporate climate risks into their investment decisions. Key factors include heat stress in cities, drought, and flood risks.

The sustainability of investments is crucial from an investment perspective as well. In the current market, appraisers still inadequately consider sustainability in the valuation of real estate. This is evident in the market where the demand and supply prices for non-sustainable real estate still significantly differ. The expectation is that, due to stricter regulations, appraisers will increasingly factor sustainability into valuations, widening the value gap between sustainable and non-sustainable real estate. Research, including studies by MSCI, indicates that this is particularly evident in the office sector. By accelerating sustainability efforts, investors protect themselves against future depreciation and contribute to the climate transition.

The societal impact of investments is also gaining significance, such as addressing the housing shortage. According to data from research agency ABF, there is a shortage of around 400,000 homes. Affordable rental homes can be built with institutional capital. However, additional legislation and lengthy permit processes present challenges. Of the 3.4 million rental homes in the Netherlands, only 18% fall into the so-called middle segment, between social housing and €1,150[7]. The government now obliges housing associations to build more in this segment, but they already face significant challenges. Their investment capacity is crucial for the sustainability of existing homes. Collaboration between housing associations and institutional investors is essential to initiate area developments with a diverse range of homes. Shortening permit processes allows for faster construction.

Special attention is given to age-friendly homes. Due to aging, the demand for such homes, as well as other healthcare-related real estate, is growing. These homes are key to facilitating movement within the housing market. Seniors leaving a family home trigger a chain of relocations.

7. Capital Value

2. RESIDENTIAL

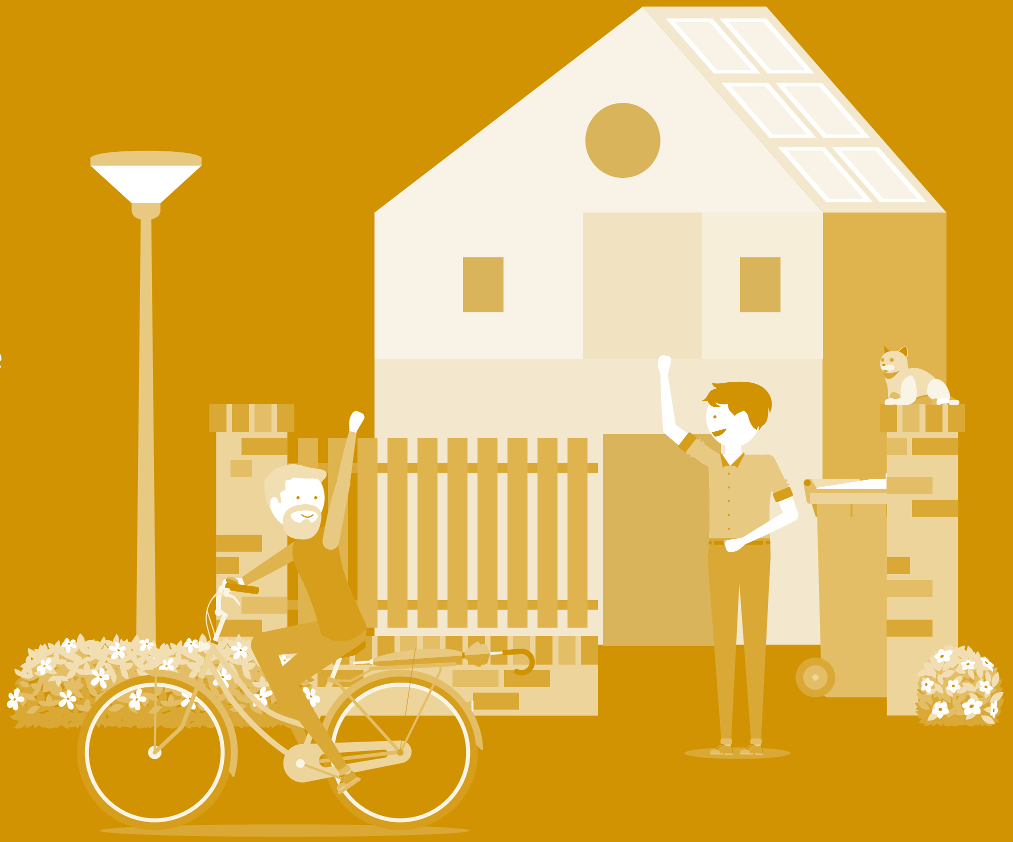
Despite current challenges with regulation and interest rates, the long-term prospects for investments in sustainable and affordable housing are good.

Affordability

Regulation

Sustainability

Investment view



Oostenburg - Amsterdam

AFFORDABILITY

MORE INVESTMENT NEEDED FROM INSTITUTIONAL INVESTORS

Demand for affordable rental housing in the Netherlands is high. This makes it an interesting low-risk investment category. Vacancy rates within institutional investors' portfolios are below 2% by mid-2023, a historically low level[8]. Due to population growth, high demand will continue in the coming years. The beckoning prospect of stable direct returns for investors has the downside of the social problem of a shortage of affordable rental housing. Low interest rates have caused housing rental and purchase prices to rise faster than average incomes. While buyers have benefited from low mortgage rates and tax breaks in recent years, renters in the freehold sector have seen their rents rising.

The subjective concept of affordability can be measured with the housing ratio. This is the share of disposable income that households spend on housing costs. Households in Dutch rental houses have a housing ratio of around 33%, while for households in owner-occupied houses it is 22%. Middle-income households[9] in particular have a high housing ratio. They earn too much for social rent, receive no rent allowance and earn in many regions too little to buy a house. Middle-income earners are a large group: roughly a

8. MSCI

9. Middle incomes have a gross annual income that, depending on household composition, ranges between around €45,000 and €80,000. This concerns about two million Dutch households.

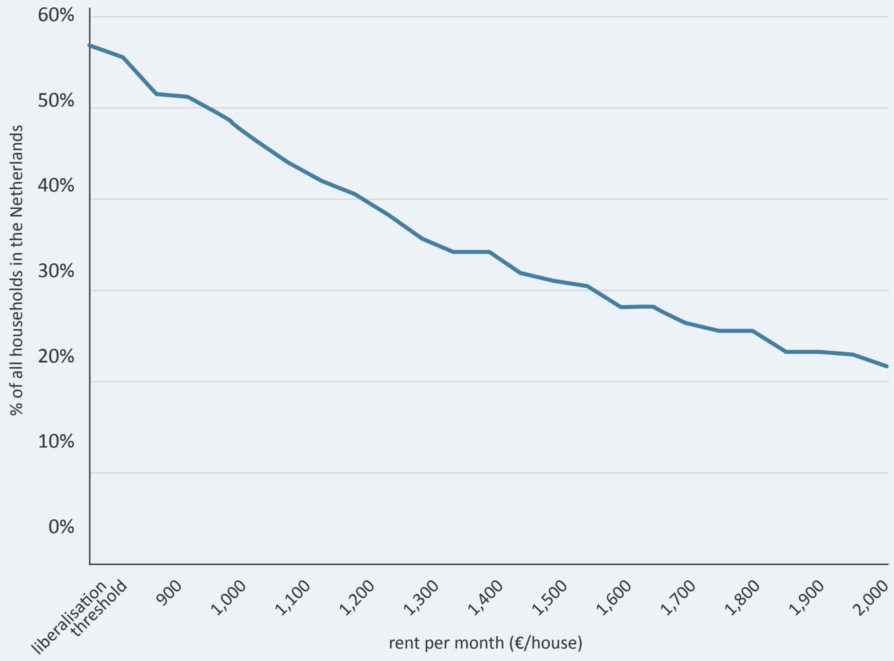
quarter of all households in the Netherlands[10]. Part of this group comprise key professions such as teachers, nurses staff and police officers. Due to a lack of affordable rental housing in cities, workers in these professions choose to live and work elsewhere. This leads to shortages of these workers in big cities.

Despite various government incentive programmes aimed at accelerating of housing construction, the shortage will persist over the next decade. The increased construction costs, a shortage of sites, capacity problems on the power grid and long land-use planning procedures are acting as delays. The introduction of the Environment Act (Omgevingswet), scheduled for 2024 after years of delay, delays all this possibly even further. Due to higher demographic forecasts, boosted by migration, higher life expectancy and growth in the number of single-person households, the housing shortage is only increasing. With this the shortage of affordable rental housing is also growing. In addition, the energy crisis in 2022 showed that housing costs in unsustainable homes rose sharply with high energy bills.

To help everyone get sustainable affordable housing, investment is needed. There should be more social housing for lower incomes, a task of the housing corporations. In the middle segment, housing should be built by housing corporations and market players such as institutional investors together. Using figures from Nibud, Achmea Real Estate has mapped the affordability of rental

10. CBS

INCOME-BASED TARGET GROUP



Source: Nibud, CBS (2023)

One Space - Delft

housing. Based on the disposable incomes of households and the affordable rent bill, rental categories were defined. We consider the middle segment to be housing from the liberalisation threshold up to a monthly rent of 1,300 euros. This also includes homes up to 1,150 euros, which may be regulated according to the Affordable Rent Bill.

Houses in the middle rental segment provide institutional investors with a better risk-return ratio in the long term than houses in the higher rental segments. This is mainly due to the larger target group for this segment. Even in economic downturns, demand for these homes remains high, unlike the demand for more expensive rental properties. During the credit crisis and the Covid-19 pandemic, vacancy rates in higher rental categories rose rapidly, while vacancy rates in affordable rental segments increased slightly or remained stable. Besides better financial returns, affordable rental properties also make social returns, for instance by allocating them to people in key occupations. Also, affordable rental housing, especially if they are lifecycle-proof, create flow in the housing market. By the combination of the good risk-return ratio and the social impact, affordable rental housing fits ideally into an institutional investment policy.

Wijnbergen - Doetinchem

SUSTAINABILITY

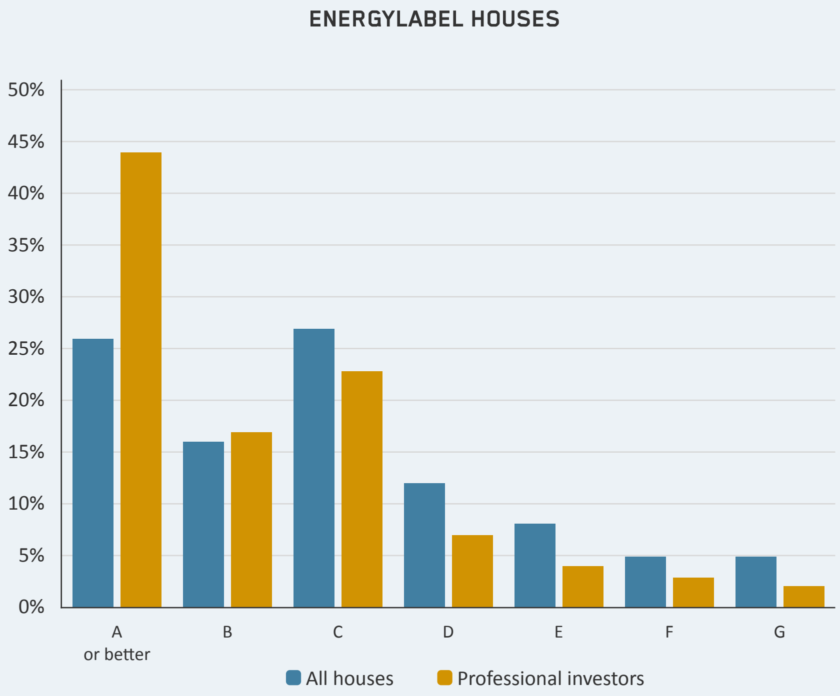
ACCELERATION IS NECESSARY

Almost one in three homes in the Netherlands currently has a brown energy label (label D or lower). Institutional investors are leading the way in sustainability, but have with 15% brown labels in their portfolios still a considerable way to go. By making homes more sustainable, institutional investors are lowering the risk in their portfolios. In addition, they contribute to meeting climate targets.

Making homes more sustainable is a financial challenge. A better energy label, and thus lower CO_2 emissions, costs tens of thousands of euros per house. In recent years, there were already subsidies to encourage sustainability of rental properties, but these covered only a small part of the costs. The government could accelerate sustainability by making investments fiscally attractive, for instance with a lower transfer tax for sustainable properties. Another challenge is the split-incentive between tenants and landlords. Tenants benefit from sustainability from lower energy costs and greater living comfort, but usually do not want to pay a higher rent. The landlord bears the costs. They see little of their investments in sustainability reflected in valuations. Valuations for housing complexes with a low energy label already include a so-called “brown discount because of the expected necessary investments.

The need for sustainability will increase in the coming years for a number of reasons increasing. The European Emissions Trading Scheme will also apply to the built environment. This means a levy on CO_2 emissions from buildings. This increases the energy costs for homes heated with gas. The 2022 energy crisis showed what rising energy costs means for households. The difference in monthly costs between energy-efficient and inefficient homes then rises rapidly. Increasing sustainability improves affordability. Tenants are aware of this and will want to pay a higher rent if they save on energy costs. This is already visible in the owner-occupied market, leading to higher valuations of sustainable homes. Stricter regulations will further increase the focus on sustainability. One example is the minimum energy label D that rental houses must meet from 2030.

> “Sustainability improves affordability”



Source: RVO (2022)

Hendric - Breda

Building sustainable new homes also saves CO_2 emissions. Due to the strict requirements of the building code, new homes are already very energy efficient. The emissions during construction can be reduced by using bio-based and circular materials such as wood and recycled concrete. By tightening the environmental performance standard for buildings (MPG) to 0.5 in 2025 creates a legal necessity to reduce the CO_2 emissions from building materials. Building with bio-based and circular building materials is currently still more expensive, but growing demand creates economies of scale that will eventually eliminate this price difference.

For the coming years, we expect an increasing focus on sustainability from both tenants and policymakers. It is therefore important for institutional investors, in addition to investing in sustainable new builds, to make the existing portfolios to become more sustainable. Doing nothing is not an option. Sustainability reduces the risks of stricter regulation, rising energy costs and social inequality. In this way, investors prevent properties from becoming stranded assets that can no longer be rented or sold and contribute to contribute to the climate goals.


New Brooklyn - Almere

REGULATION

INVESTMENT READINESS MUST NOT DECREASE

In recent government periods, the focus in national politics on the housing market increased sharply. In particular, new policies on taxation and rent regulations hit institutional investors. With a 10% share of new-build production in recent years, the role in the housing market of institutional investors is substantial. Regulatory uncertainty should not lead to a sharp decline in institutional investment in new construction.

Several new laws and bills have been announced. Most notable is the proposal for the Law on affordable rent. Its aim is to extend regulation, as it currently applies in the social sector, to extend it to housing with up to 186 points within the housing rating system. This bill affects an estimated 300,000 rental properties in Netherlands that are currently in the free sector. This will create a new rental segment with rents from the liberalisation threshold up to a monthly rent of around 1,150 euros.

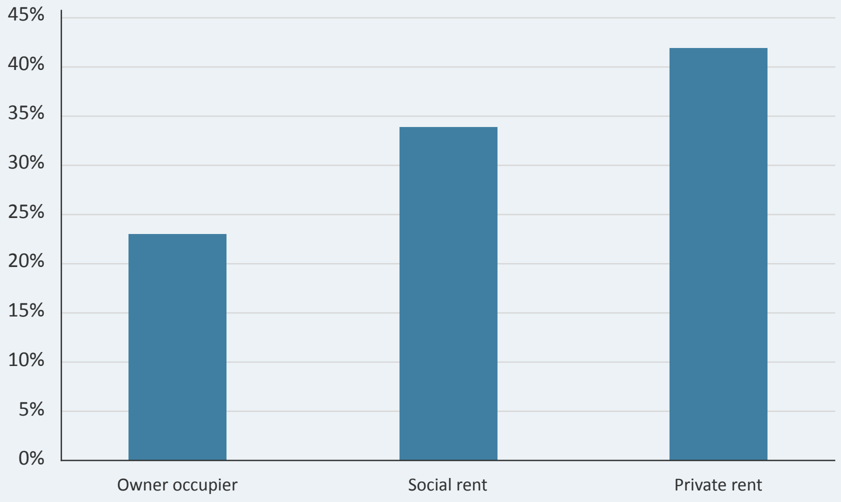
In addition to the proposal for the Affordable Rent Act, legislation has been passed in recent years passed that temporarily limits rent increases to 1 percentage point above inflation or the development of collective wages. Previously, there was no cap on rent growth in the free sector. These national regulations come on top of local rules that limit the level of the initial rent and rental growth in the middle segment. Dozens of municipalities introduced such provisions in recent years. These should prevent excesses and improve middle-income access to the rental market.

Based on their socially responsible investment goals, institutional investors invest in affordable rental housing for years. To prevent vacancy, many institutional investors already have a relatively conservative rent policy. As a result, the direct impact of rent regulation seems relatively limited, but it does affect operations. This makes the sustainability of housing more difficult.

The most important tax measure for institutional investors is the increase of the transfer tax. This has been increased in two steps from 2 per cent in 2020 to 10.4 per cent in 2023. Because this increase depresses the valuation of investments in rental properties, investors have had to write down about 5 per cent of their residential portfolios. Moreover, the higher transfer tax makes new construction more expensive, causing institutional investors invest less in them.

Besides this direct financial impact, government intervention creates uncertainty. Institutional and other investors value stable policies because investment decisions are made for the long term. When rules change frequently, the investment climate deteriorates. As a result, institutional investors find it more difficult to sell their complexes or portfolios to other investors, such as foreign parties. If the Affordable Rent Act comes to pass, it will also create a stacking of national and local rent rules.

AVERAGE HOUSING RATIO BY HOUSING TYPE



Source: CBS (2021)

West Plaza - Haarlem

Investing in new buildings will become more difficult because the minimum return needed for paying pensions, for example, will no longer be met due to regulation. On top of this comes the limited investment capacity that many pension funds have, as they already invest relatively heavily in real estate. Rental properties are a key driver in larger housing projects and area developments, making them harder to get off the ground. Also, rental housing flexibility in the housing market for households that need unexpected or need a home temporarily. Given the hundreds of billions needed to realise additional housing, institutional money is indispensable. Stringent regulations lead to a decline in the rental stock and significant increases in market rents. On top of local and national regulation comes the uncertainty over the rent increase clause in existing leases. According to some local judges, the rent increase clause common in the liberalised rental market violate European regulations. These rulings may have implications for housing investors. Appeals against the ruling have been filed, on which no clarity is expected until 2024 at the earliest.

The elections in late 2023 will not resolve the uncertainty over regulation in the short term. In the long term, the role of institutional investors in the housing market of great importance, something that is recognised by current policymakers recognised. It is therefore in the interest of both policymakers and institutional investors to pay attention in current and future regulatory proposals to maintain a focus on the willingness to invest in sustainable and affordable rental housing.


Rijnvliet - Utrecht

INVESTMENT VIEW

Despite the changed interest rate climate and increased regulation, Dutch rental properties remain an attractive investment for institutional investors. Due to the rising interest rates, the indirect return has decreased, similar to other real estate categories. However, the fundamentals for rental properties are robust. Scarcity in the housing market leads to a structural demand from users. For the upcoming period, we anticipate a sustained high demand for investor-owned rental properties by households and a persistently low vacancy rate in housing portfolios.

Rental properties provide a long-term stable direct yield with very low vacancy risk, especially in the relatively affordable rental categories. Investors also benefit from value growth that will outpace inflation for an extended period. Additionally, investors in rental properties make a societal impact by focusing on sustainability and affordability. However, institutional investors should expect uncertainty in the coming years regarding the regulation of initial rents and rent growth.

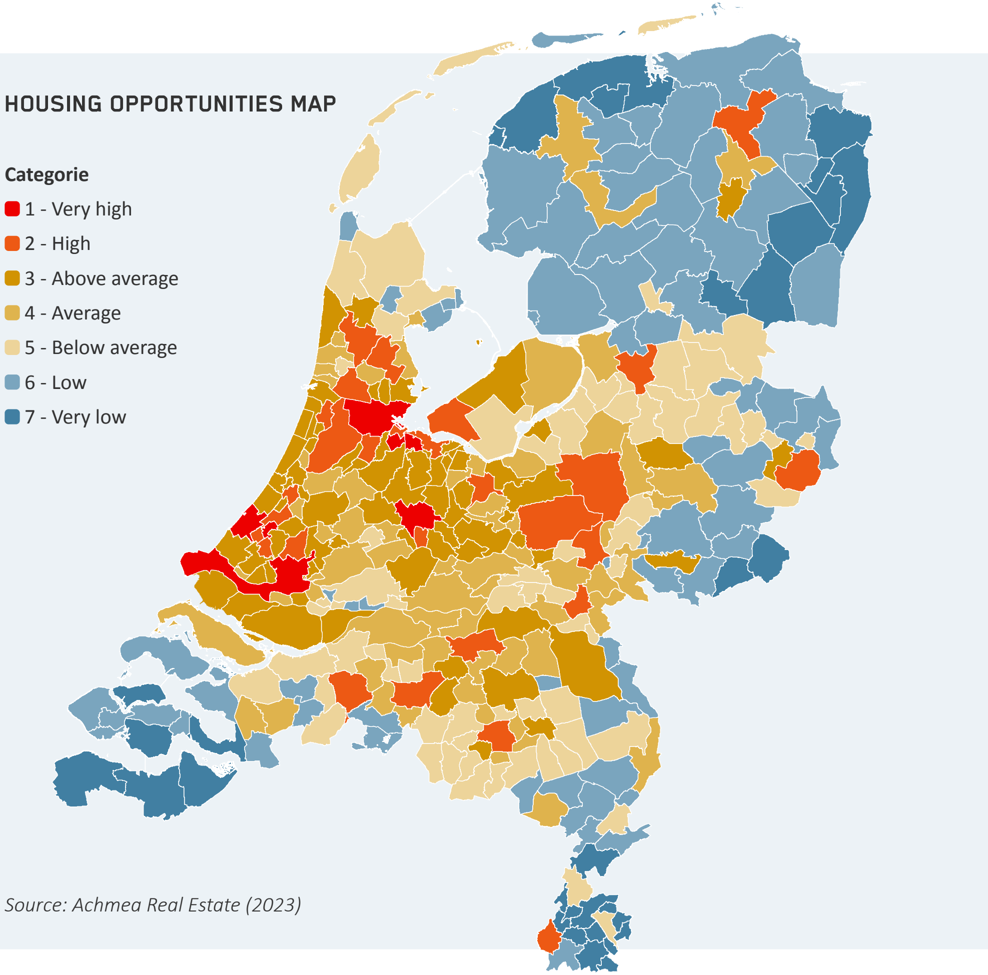
Institutional investors should primarily focus on sustainable properties in rental price segments above the liberalization threshold. Limited opportunities exist within the social rental sector due to the relatively low rent levels, but possibilities exist for, for example, independent student housing in this price range.

For homes in the low mid-range segment (from the liberalization threshold to 1,150 euros), we see opportunities in opportunity maps 1 through 5. This category includes homes that, according to the proposal for the Affordable Rent Act and/or municipal mid-range rental provisions, receive a regulated rental price, as well as homes in lower opportunity map categories where this is the market rent. Due to the relatively low rental price, the vacancy risk is limited, offering an excellent risk-return ratio in this segment.

This also applies to relatively affordable homes in the high mid-range segment (from 1,150 to 1,300 euros) where no regulation applies. Investment opportunities lie particularly in opportunity maps 1 through 3, where market rents are generally higher. The higher segment (from 1,300 euros) also includes homes in the highest opportunity map categories. These are often larger apartments and single-family homes in prime locations within cities. The proposition must align with local market conditions. To minimize the vacancy risk, the upper end of the rental market should not be sought here.

The opportunity map provides an overview of the current and future demand for liberalized rental homes and the attractiveness of municipalities. Especially in opportunity maps 1 through 3, there are many opportunities in virtually all segments; in 4 and 5, these depend more on product and location. Although the housing shortage has increased almost everywhere in recent years, investments are not equally attractive everywhere. In smaller municipalities, the absolute demand for rental homes is low, allowing only room for small-scale housing complexes. Aditionally, an aging population will lead to a local decline in housing demand. This is particularly the case in opportunity maps 6 and 7, although there is still demand for age-appropriate rental homes for seniors.

HOUSING OPPORTUNITIES MAP



Source: Achmea Real Estate (2023)

3. RETAIL

The retail market is changing, driven by consumer behaviour and digitalisation. Major cities remain resilient, while neighbourhood shopping centres offer stability. Sustainability and specialisation are key for investors; retail property values can rise again.

The consumer

Investment in retail

Dynamics

Investment view

Forum - Rotterdam

THE CONSUMER

THE PHYSICAL STORE REMAINS ESSENTIAL IN RETAIL SALES MODELS

Consumers play a crucial role in the performance of retail property. This has been challenged recently. Purchasing power is under pressure from rising prices, but will gradually recover from 2024. This improvement is mainly driven by rising wages and stimulating government policies. There are large regional differences, with larger cities generally showing more resilience. The biggest shocks caused by unusual market conditions are behind us. Consumer confidence is historically low, but is slowly stabilising as the outlook improves.

Digital and physical channels are increasingly integrated in the omnichannel sales model. Consumers need a good reason to visit a store, such as a product trial, personal advice or the immediate availability of the product. Consumers often start their research online and are well informed before entering a store. It also works the other way round: when a retailer opens a physical store, it often boosts online sales in the immediate area. This is known as the halo effect.

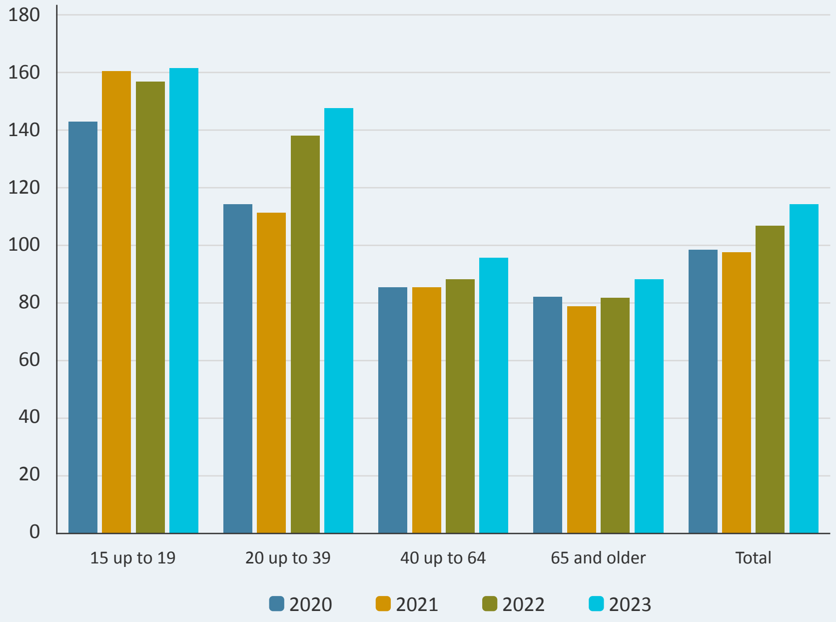
Consumer behaviour is constantly changing. Research[11] by ABN Amro and Q&A shows that fun shopping is losing popularity. Purpose and convenience shopping is on the rise.

11. ABN Amro

Consumers, however, are becoming increasingly selective. Easily accessible shopping areas with a strong catchment area and a diverse range of shops are better suited to this development. As a result, the strongest city centres will continue to perform well. The results of the study also show that changes in consumer preferences vary by sector. For example, convenience is very important to consumers in supermarkets, DIY stores and shoe shops, while they value expertise more in sports shops and home furnishing stores, where personal advice is more important. Fun shopping is less important to consumers in almost all sectors. E-commerce is also under pressure as delivery costs are increasingly passed on to consumers. As a result, more purchases that were previously done online, are now purchased again in the physical store.

The use of social media is revolutionising the retail market. Social media channels play an important role in reaching consumers. Young people, in particular, are watching less and less TV, instead spending hours scrolling through Snapchat, TikTok, Instagram or X. Not only is it possible to advertise in an increasingly targeted way, but it is also possible to better identify consumers' needs. With advanced generative AI applications, retailers can quickly expand their reach and analyse consumer data more accurately. It even helps determine location strategy by giving retailers greater visibility into the location of their target audience, available store inventory and reach of online platforms.

SOCIAL MEDIA USAGE IN MINUTES PER DAY



Source: Newcom Research & Consultancy (2023)

Technological developments are helping to solve labour shortages. Administrative tasks, stock management and tills are now largely handled by computers and software. This frees up store staff to focus on things that are important to consumers. For example, giving advice, helping with purchases and returning to provide a smooth sales experience, and repairing or recycling products. Therefore, the physical store remains an essential part of the retail landscape, but consumers expect a broader service. For investors, this means that there is certainly a future for their retail property, provided that it meets the needs of consumers in the location in question.

Rituals - Haarlem

Barteljorisstraat - Haarlem

DYNAMICS

NEW EQUILIBRIUM IN THE RETAILMARKET

The retail market had started to recover strongly after the Corona period, but rising prices became quickly a drag. Several retailers faced problems due to rising operating costs, increased competition, staff shortages, higher financing costs and deferred taxes due to Covid-19. In addition, the volume of retail sales is declining in most sectors due to higher prices. As a result, margins are under pressure for many retailers. Retailers that cannot adapt quickly enough and have no clear prospect of a healthy future are the losers. Other retailers are actually making record profits and expanding during this period. This dynamic is making shopping areas more responsive to current consumer and retailer demand and is boosting the demand in many shopping areas. The gap between successful and lagging areas is widening, with larger cities performing better. They are attracting more investment, accelerating the desired change.

The number of shops in city centres has declined in recent years, but the number has remained stable in recent quarters. However, there are significant differences between sectors. The number of fashion and luxury shops is declining, while the number of everyday shops is increasing. This development is in line with the dynamics in the city centres, where more and more apartments are being built. In The Hague and Rotterdam, for example, the number of apartments in the city centre is growing faster than in the suburbs. This undoubtedly has an impact on the positioning of the high streets, where the demand for daily groceries and restaurants is increasing. These facilities are mainly located on the approach roads to shopping areas, while the core of the shopping areas is still dominated by fashion and luxury shops.

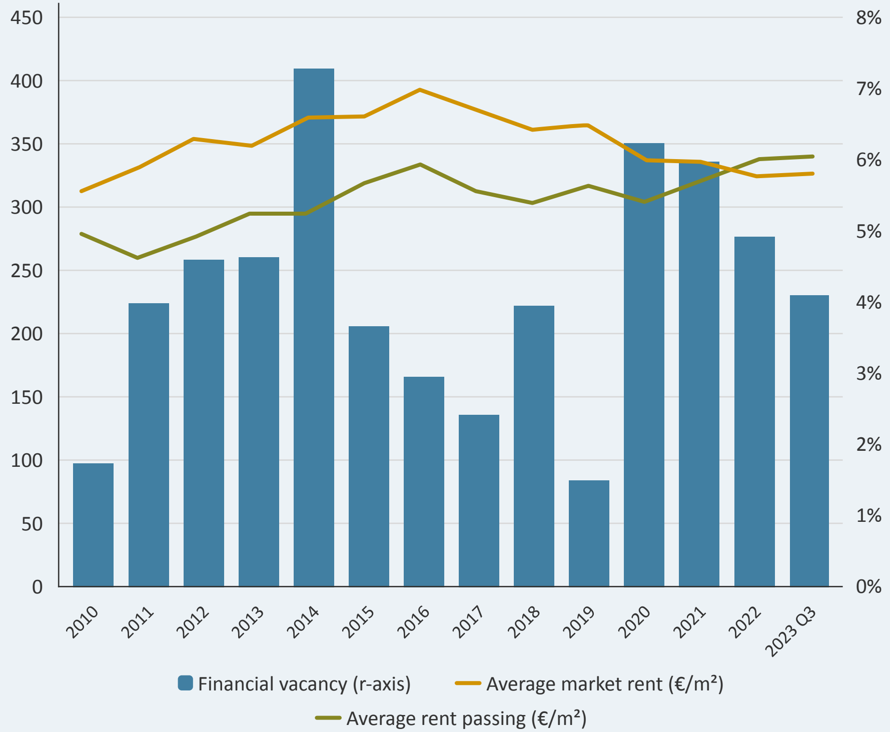
Neighbourhood shopping centres focus on daily shopping and play an indispensable role in the social cohesion of neighbourhoods and districts. The number of neighbourhood shopping centres is growing steadily, mainly as a result of the expansion of built-up areas due to population growth. Retail policy in most municipalities is restrictive, with new sites only becoming available if there is sufficient planning capacity. The functional character of a district shopping centre is at its best when it meets the specific needs of the catchment area.

In the short term, average market rents in city centres are under pressure, but room for growth is slowly emerging. The average market rent experiences a sharp correction in 2020, but is now stable. Contractual rents, on the other hand, increase due to strong indexation in 2023. As a result, the market rent and the contractual rent are now closer together. Most leases are currently being renewed at market rates and demand from expanding and new retailers is increasing, while vacancy rates in city centres are falling. As a result, rent levels will rise slightly in the short term. This will have a positive impact on retail property values. In district shopping centres, market rents and contractual rents have always been well balanced.

> **"... while the core of shopping areas are still dominated by fashion and luxury shops."**

However, high inflation led to significant indexation of current contracts. Although agreements have sometimes been made to mitigate the increase, contractual rents have also risen faster than market rents in this segment, giving the impression that the market is over-occupied. In fact, market developments give the impression that contract rents are ahead of market rents, which are increasingly being increased on the basis of new rental references. Inflation is currently falling, which will lead to lower indexation from 2024. This will restore a healthy balance between market rent and contractual rent.

DEVELOPMENT OF AVERAGE RENT LEVELS AND FINANCIAL VACANCY RATES



Source: MSCI (2023)

In response to social developments and climate change, retailers are placing a strong emphasis on sustainable business practices aimed at reducing CO_2 emissions. This is reflected not only in their product offering, but also in the sustainability of their retail space. Institutional investors also want to reduce CO_2 emissions and have a growing number of tools to measure them. One example is the Carbon Risk Real Estate Monitor, which allows owners to monitor the impact of the measures they take. As a result, retail properties are being made as sustainable as possible, with measures ranging from the installation of LED lighting to green roofs and solar panels. Retailers and owners are increasingly working together to achieve sustainability goals. This joint effort will lead to stronger and longer-lasting collaborations.

Lange Voort - Oegstgeest

INVESTING IN RETAIL REAL ESTATE

FOCUS ON THE LARGEST CITIES AND NEIGHBOURHOOD SHOPPING CENTERS

The retail sector is not immune to developments in the capital markets. In particular, higher interest rates are pushing up initial yields. In addition, the transfer tax has been raised, which has increased transaction costs. However, the gap between initial yields on retail property and long-term interest rates is wider than in other sectors. Retail property has already depreciated significantly during the corona period. As a result, they are priced in line with the market and in some cases even undervalued. This is the case, for example, with high street properties in the best locations in larger cities, where rent levels are undervalued. Meanwhile, average rents in the MSCI index are rising due to increasing demand and strong inflation. A lack of benchmark transactions has made it difficult to value retail properties for a long time. Investment volumes are picking up towards the end of 2023, but are still historically low on a year-on-year basis. With a wide spread between bid and ask prices, the market lacked liquidity. Meanwhile, there are now a number of examples of properties holding their value if they meet all the requirements.

In the coming years, investments in high street shops will focus even more on the largest cities. In recent decades, institutional investors have chosen to focus on the 14 or 15 largest cities. By the end of 2022, 70 per cent of the MSCI High Street Index consisted of retail properties in the top five cities. Institutional capital tends to go to larger properties in the best locations. This is where it is possible not only to generate a financial return, but also to influence the quality of the shopping area. In the smaller cities, private local investors, who know the local market well, are particularly active.

Achmea Real Estate analyses 47 core high street areas in city centres, with a focus on the most robust cities. It is important to differentiate between the retail market as a whole and the institutional segment of the market.

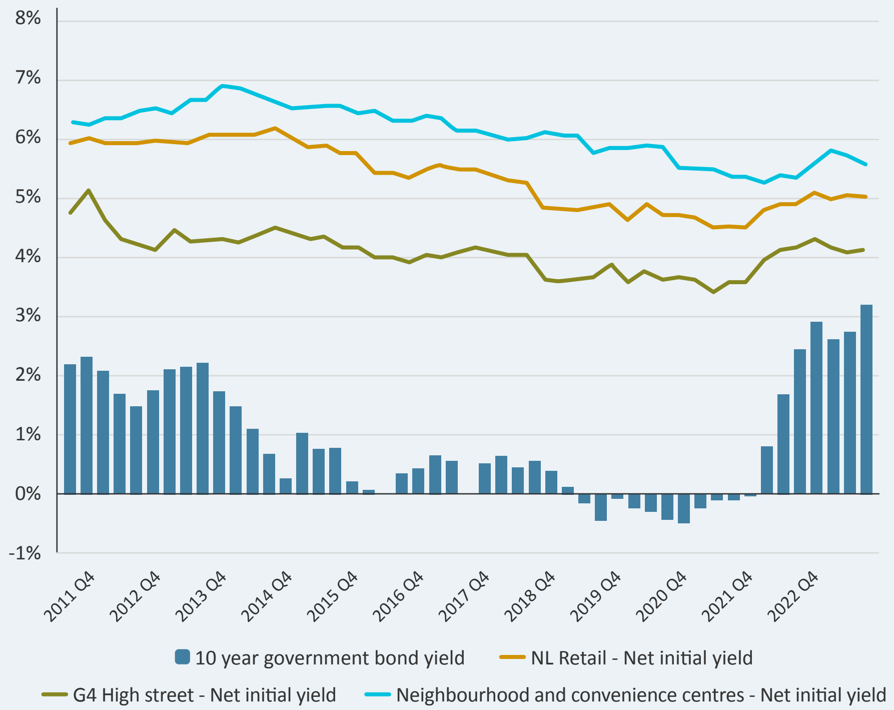
The largest cities will remain an attractive investment market for retail property in the coming period. The outlook is mainly driven by urbanisation, combined with strong population growth. According to ABF Research, the largest cities will grow faster than the rest of the Netherlands in the coming years. Growth is strongest in the 30-44 age group, and the 15-29 age group is also relatively well represented. Ageing is less of a factor in the largest cities. This has a positive effect on the retail market, as young people and young adults tend to spend most on shopping streets, and this group is strongly represented in the largest cities. In addition, larger cities attract more tourists than smaller cities. The number of tourists is expected to increase. They represent additional spending potential. However, functional shifts such as more daytime tenants, restaurants and cultural facilities should be taken into account.

Neighbourhood shopping centres will remain a stable investment in the coming period. The shops in the neighbourhood shopping centres are focused on daily necessities. This segment is generally very stable, although many retailers in these shopping areas are experiencing short-term pressure on the margins due to increased operating costs and falling volumes. Falling volumes are particularly painful for supermarkets, which have low margins. District centres can also contribute to the quality of life in the neighbourhood. A strong neighbourhood centre has a connective role, serving not only as a retail outlet but also as a meeting place for local residents. The growing built environment provides space for more neighbourhood shopping centres. In addition, many existing catchment areas are facing a rapidly ageing population in the coming period. The positioning of neighbourhood shopping centres will have to be adjusted accordingly. There is a stronger growth in online shopping is taken into account in this segment, but overall the outlook is stable.

The supermarket is an important element in the performance of a neighbourhood shopping centre. The vast majority of Dutch neighbourhood shopping centres therefore have one or more supermarkets. These supermarkets are distributed in a fine-meshed shopping network. This goes back to the spatial planning in the old days, when every house had a supermarket within a radius of about 500 metres. In addition, supermarkets are generally not allowed in peripheral retail locations such as furniture centres. When space does become available for a new supermarket, it is almost always absorbed by the market. The restrictive policy means that there is little risk of oversupply. The rental stream of a well-functioning supermarket contributes to the stability of the district shopping centre. The prospect of a stable cash flow ensures that district shopping centres remain an attractive segment for institutional investors.

Achmea Real Estate analyses 561 neighbourhood shopping centres in the Netherlands. A distinction is made between large and small neighbourhood shopping centres. The primary drivers for the functioning of a neighbourhood shopping centre are the catchment area and competing neighbourhood shopping centres.

THE DEVELOPMENT OF NET INITIAL YIELDS AND INTEREST RATES ON 10-YEAR GOVERNMENT BONDS



Source: MSCI (2023)

House Modernes - Utrecht

INVESTMENT VIEW

Retail will remain one of the best performing property sectors in the coming years. This is because retail property values have already experienced an earlier correction, while values in other sectors are now falling more sharply. From 2024 onwards, consumers will have more spending power, the uncertainty in the retail market will decrease and the capital market will stabilise. This will increase demand for retail property. However, the institutional retail market is becoming increasingly specialised. The polarisation of the already fragmented market will continue in the coming period, with a favourable outlook for the premium segment of the market. This will be accompanied by an increased focus on sustainable business and impact.

There are several developments that investors need to take into account. Firstly, the financial results of some retailers are under pressure due to rising operating costs, financing costs, deferred taxes, and declining retail sales volumes. This dynamic affects both large established retailers and smaller players, causing uncertainty in the market, and impacting both high street and neighbourhood shopping centres. It is therefore important to diversify the tenants in the portfolio to limit the risks of these uncertainties. Secondly, online sales in the food sector are growing. A parallel can be drawn with previous developments in the non-food market, where an omni-channel strategy is now the standard. This may eventually have an impact on the demand for supermarkets, where online sales are still in full development. An example is Ahold Delhaize, which, in addition to the supermarket chain Albert Heijn, also has the online platform Bol in its portfolio. The company is building the online sales channel while physical stores also play an essential role. As it is an ongoing process, it is difficult to determine the long-term impact, but it is unquestionable that in this segment, the online and physical sales channels are increasingly integrated. Thirdly, changes in consumer behaviour are important. Goal-oriented and efficient shopping is becoming more popular, while recreational shopping is becoming less popular. Sustainable business practices remain important, which may require short-term investments to adapt buildings. Legal regulations may be tightened. An energy label is already mandatory when signing new lease agreements. Monumental objects probably do not have to comply with that obligation. However, the impact on the institutional market is minimal. Almost all objects already have a green energy label. After all, this is also an important pillar for institutional investors.

Oostpoort - Amsterdam

Neighbourhood Shopping Centres

The demand for quality neighbourhood shopping centres is high, with relatively little supply. These shopping centres focus primarily on daily necessities, providing a long-term stable return. For investors, neighbourhood shopping centres are particularly attractive if they have two or more supermarkets with a limited number of additional units that meet local needs. Neighbourhood shopping centres play a central role in the community and contribute to social cohesion. These centres serve not only as shopping places but also as meeting points for residents in the neighbourhood, a place where they go to the hairdresser or receive medical services. It is important that the functional use aligns with the specific demand from the catchment area. Neighbourhood shopping centres with a strong catchment area, an attractive offering, growth potential, and many tenants in the daily segment will continue to perform well. Even as the online share of revenue grows, these shopping centres will continue to play a crucial role.

SELECTION OF NEIGHBOURHOOD SHOPPING CENTERS IN THE NETHERLANDS

CATCHMENT AREA
- Demand for neighbourhood shopping centres is stronger in larger catchment areas.
- Population growth increases future demand.

RETAIL OFFER
- The retail offer must be in balance with the size of the catchment area.

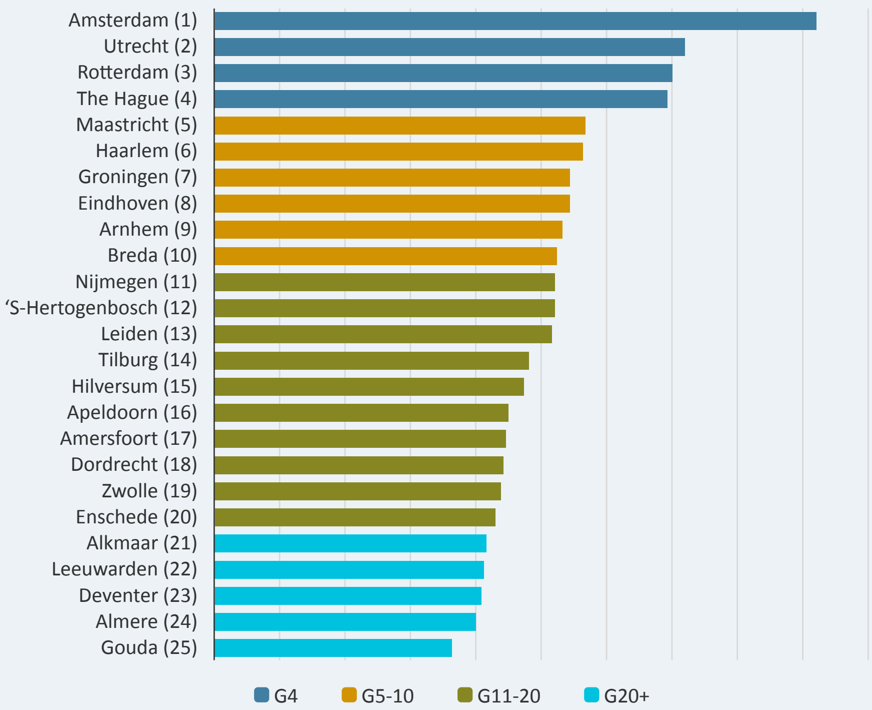
SPENDING
- The spending potential of a catchment area must be in balance with the catchment area's production capacity.

SHARE OF DAILY EXPENDITURE
- The neighbourhood shopping centre should focus primarily on daily spending.
- Additional functions can strengthen the centre.

RANKING
- A high score indicates that a neighbourhood shopping centre can perform well in a catchment area.

Source: Achmea Real Estate (2023)

TOP 25 OF 47 HIGH STREET CITIES IN THE NETHERLANDS



Source: Achmea Real Estate (2023)

High Street

Regarding high street in the Netherlands, rental levels and valuations have significantly declined in recent years. As a result, this segment is currently attractively priced. Demand is rising, and vacancy rates are stable or even decreasing in some city centres, providing room for value growth. It is important to be selective in choosing cities. The city centre of Amsterdam has its own dynamics with a strong catchment area and many domestic and international tourists. Both A and B locations offer investment possibilities. This applies to a lesser extent to the centres of Utrecht, Rotterdam, and The Hague. For other cities, only A locations are in demand among institutional investors. Although there is a lot of dynamic in the user market, the demand for retail space in the best locations will remain strong. This consideration takes into account functional shifts that align with the current demands of the consumer market.

4. HEALTHCARE REAL ESTATE

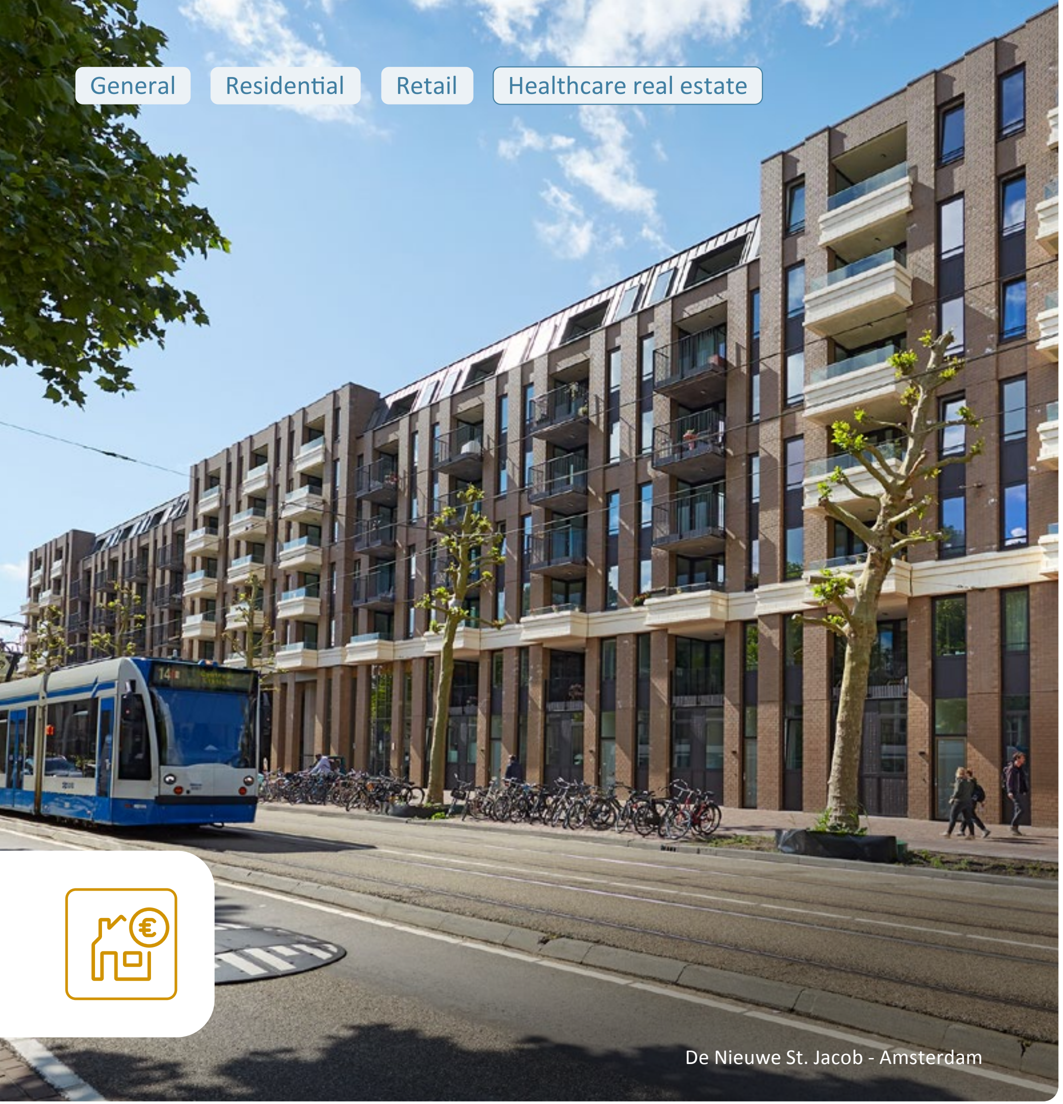
The growing demand for affordable care housing presents opportunities for institutional investors in healthcare real estate. Health centres are essential to prevent fragmentation of care and maintain accessibility, while sustainability also offers opportunities for impact.

Affordable and suitable care housing

Sustainability

Local health centres

Investment view


De Nieuwe St. Jacob - Amsterdam

AFFORDABLE AND SUITABLE CARE HOUSING

THE NEED IS GREATER THAN EVER

The challenge of providing good housing for everyone in The Netherlands is greater than many people realise. There is already a housing shortage equivalent to the total housing stock of the cities of Utrecht, Groningen and Eindhoven combined. By 2040, there will be an additional 1 million people over the age of 75, many of whom will have physical complaints and mobility problems. The loss of partners increases loneliness and the network of available informal carers shrinks. The need for suitable housing to enable people to live independently at home for longer is not only quantitative but also qualitative.
Among the over-85s, demand for more intensive forms of care is rising sharply. This group will grow by 420,000 over the next few years and will need intramural nursing homes and extramural residential care forms of housing with the possibility of 24-hour care.

Availability and affordability are major challenges. The realisation of new residential care homes in the lower and middle segments of the market is difficult due to the scarcity of new building sites and high construction and financing costs. The realisation of suitable, affordable housing requires active local housing market policies with a clear vision that prioritises and stimulates. Care homes meet a need and stimulate relocation movements that benefit starters and families. This not only helps the housing market as a whole, but also reduces the cost of care.

Healthcare institutions face financial challenges due to rising inflationary costs, especially for human capital. High staff absenteeism forces them to use expensive freelancers or it leads to under-utilisation of care facilities. Lower housing allowances from 2024 put additional pressure on the budget. For example, the normative housing component will fall by 4.2%. This also jeopardises the necessary sustainability measures. Care institutions with limited own resources could face problems, although the health insurers have promised that no Wlz institution will go bankrupt.

After the elections and the formation of the new government, the overall problem of healthcare has led to calls for the return of the traditional care home. Although this is often financially unfeasible, it highlights the need for solutions that combine housing and care. New forms of clustered housing support longer living at home. Support services and care in the neighbourhood can meet the growing demand for care, including more intensive care needs.

According to political plans, the ‘full package at home’ form of financing will predominantly accommodate the growing demand for nursing homes on an extramural basis. This means that people with higher care needs will finance their own housing while receiving care as a ‘full package at home’. This is in line with the growing private residential care segment, where the care institution is the main tenant and residents pay a contribution towards room and board. We expect a significant segment to emerge alongside the existing residential care segment, where people with higher care needs rent directly from a care home landlord. This

“Inpatient demand must be met extramurally”

is particularly true in situations where someone with a low level of care needs lives in a group home and later requires more intensive care, such as 24-hour care.

The goal of creating a sufficient number of high-quality, affordable living environments suitable for lifelong care is a challenging one. Institutional investors and care providers should therefore join forces to expand, improve and make more sustainable the existing stock of care properties. In addition to their investment power, institutional investors can bring their expertise in the professional management of care properties to the table, thus creating additional impact. Despite the efforts of various stakeholders, the short-term reality is that the supply of new residential care developments is limited and supply and demand are not yet balanced at the price level in these turbulent macroeconomic times.

Zorgpark Scharn - Maastricht

LOCAL HEALTH CENTRES

BUNDLING FRAGMENTED CARE AND ENSURING ACCESSIBILITY

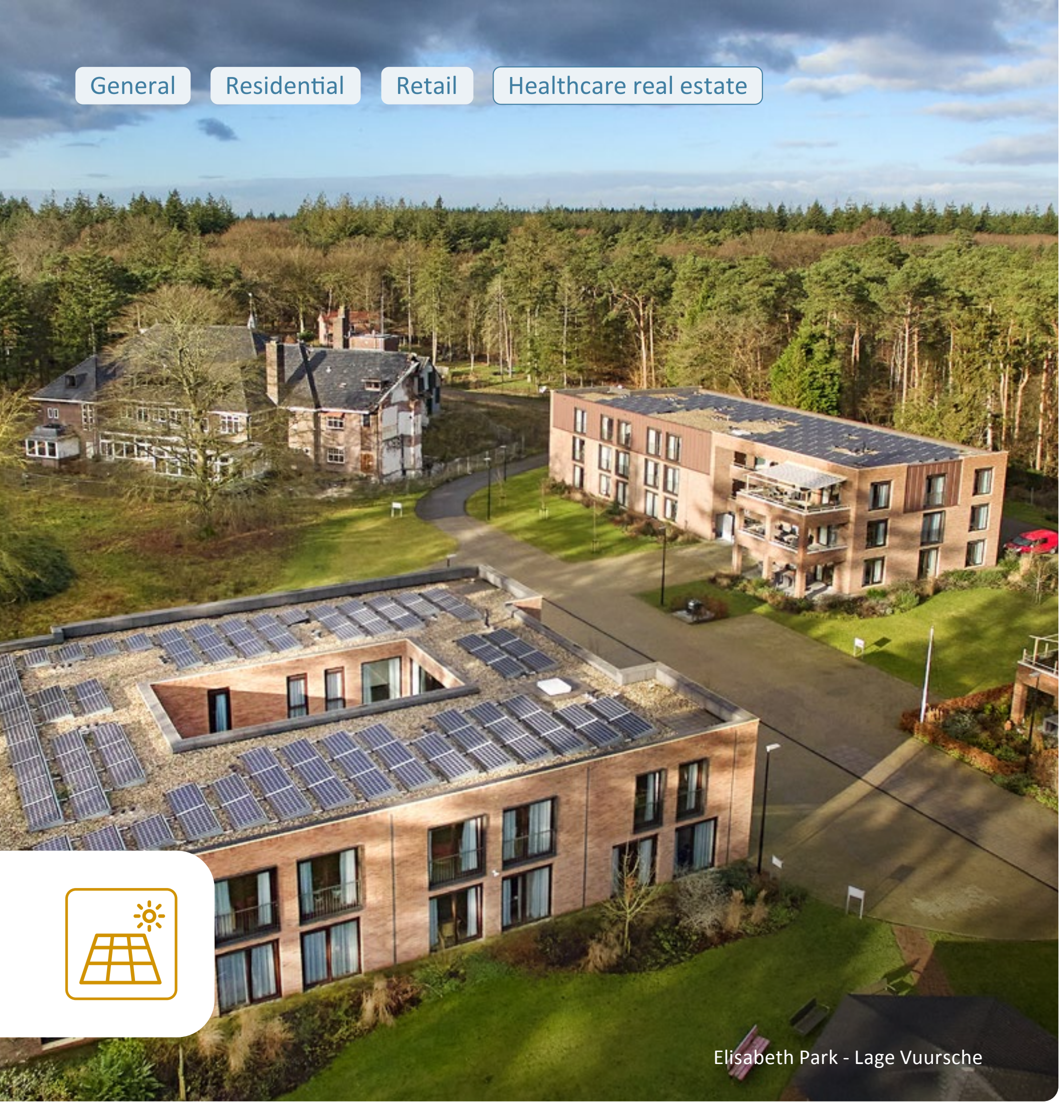
We are living longer on average: more years in good health, but also with longer periods of needing care. This, combined with the growth of an older population, is leading to double ageing. As a result, there are fewer people of working age relative to the number of older people needing care. As older people's social networks shrink and informal care becomes more difficult to organise, more older people end up at the GP or hospital post. This increases the pressure on curative care. In addition to staff shortages, healthcare costs are rising by billions of euros every year. In four years, for example, the cost of GP care has risen by 30% and that of specialist care by 19%. Both on a per capita basis and as a percentage of GDP, healthcare costs are substantial and will continue to rise for the foreseeable future. The healthcare system as we know it therefore needs to be improved to ensure accessibility and affordability. Healthcare real estate plays a direct role in this by providing good accommodation for curative care in the right place. But it also plays an indirect role, as care close to home enables people to live independently at home for longer.

The healthcare sector aims to provide the right care in the right place. The aim is to prevent as much demand for care as possible through prevention. Another goal is to limit the need for more expensive secondary care, especially in the case of planned and less complex care. The growth of clinics and independent treatment centres is leading to efficiency and quality improvements that are being used by more and more health care consumers. The two city clinics in Maastricht are an example of better organisation of care. Increasingly, medical specialists are settling in health centres to work with primary care providers. Providing the right care in the right place also reduces the need for transport, which contributes to sustainability goals.

As GPs increasingly act as gatekeepers for care and the primary care network becomes more important, the importance of high quality health centres increases. They bring together fragmented primary care in one place, while ensuring access to care at a local level. Strengthening primary care is necessary due to staff shortages, workloads and increasing administrative tasks. The Integral Care Agreement aims to improve the organisation of primary care. Health centres improve the quality of care by linking practice support workers, practice managers and nurses, but also offer the benefit of better practice follow-up.

> "E-health enables people to live at home for longer"

New ways of organising GP care offer more opportunities for digitalisation and centralised back-office operations. Several new players are now emerging in GP care, but the formation of chains and commercial initiatives are being watched critically. Accessibility, the availability of a permanent doctor and the profit motive are concerns. GP care needs to innovate towards a form where scale brings benefits in terms of quality, accessibility and cost, without being a pure revenue model. We see the potential of e-health as a catalyst for greater efficiency, quality and availability of care. E-health enables people to live longer at home, as part of primary care, and monitoring can be done remotely. Investors can use their investment power to contribute to the growth of modern health centres and bring expertise in management and integration with housing, care homes and commercial functions.


Elisabeth Park - Lage Vuursche

SUSTAINABILITY

THE CHALLENGE IS AN OPPORTUNITY FOR HEALTHCARE REAL ESTATE

The healthcare sector accounts for around 7% of total CO_2 emissions in the Netherlands. The goal is to achieve a reduction of 55% by 2030 and 100% by 2050. Buildings play an important role in these emissions. In the coming years, laws and regulations will be tightened to meet these targets, including CO_2 pricing. Fossil energy will be taxed extra. In particular, new buildings will be required to use low-carbon materials.

The cost of making care facilities more sustainable is closely linked to taking advantage of natural conversion and renovation opportunities. Sustainability should therefore be an integral part of the real estate and care strategy. With the challenge of double ageing, there is a need not only for new care homes, but also for sustainability and transformation of existing care homes. A significant proportion of the existing stock is technically obsolete, making it costly in terms of both energy consumption and functionality. Renewal is needed to meet the future demand for care with clustered housing concepts that can provide both light and heavy forms of care.

Read more here about our vision on CO_2 pricing. (in Dutch)

Real estate development is costly and has a long-term perspective. In financially challenging times, healthcare providers focus on operational issues. The demand for affordable housing must mostly be met through densification and transformation within the existing environment. This requires an integrated approach that brings together multiple spatial, economic and social domains. Healthcare is an integral part of this. The involvement of institutional investors as partners is essential in this complex issue, which must be tackled together with care providers, municipalities and housing companies. In this way, the societal challenge of achieving not only sustainability but also social impact can be met.

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Molenstraat - Zevenaar

Campagne - Maastricht

INVESTMENT VIEW

Healthcare real estate is attractive to institutional investors because of its relatively low risk and attractive returns. It also offers opportunities for ESG objectives in terms of sustainability and social structures due to an ageing population. Rental income is stable, with limited sensitivity to economic fluctuations and low vacancy risk. The political focus on staying at home longer and decentralised primary care ensures this long-term stability. In addition, care properties are less susceptible to fluctuations in the value of the housing market, so diversification within the care real estate segment makes value growth more stable.

However, there are some concerns. The regulation of the housing market limits the maximum rent and rent increases for rental properties. However, there is an exception for residential care homes, which receive extra points in the housing valuation system. Political uncertainty over this regulation is likely to continue in the short term during the formation of the government. At the same time, there is a political consensus to address the housing shortage, with an increasing focus on housing for the elderly. Many care institutions face financial challenges in the coming years, which calls for caution in out-of-market lettings. For the moment, investors should expect limited transaction volumes as supply and demand are not yet aligned due to high construction costs and higher yield requirements.

Residential care housing and nursing homes (Care)

There is a significant demand for residential care homes with care facilities. An ageing population is widespread, creating opportunities in several Opportunity Map regions, including Regions 5 and 6. For these homes, nearby facilities such as primary care, daily shopping and public transport are essential. Densely clustered housing has an important role to play in enabling people to stay at home for longer and provide more intensive care with a full package at home. A service approach provides added value by keeping residents in their own homes for longer. Care facilities provide extra points in the housing valuation system for residences with a life-long care concept, which brings them more quickly into the unaffordable rental segment (> 1,150 euros). Affordable rents remain important. In the private and institutional care segment, the target group of those in need of care will have an increasingly intensive need for care, which will place additional demands on real estate. In institutional care, there is a high replacement demand due to the major sustainability challenge, while the extramural private residential care segment is growing.

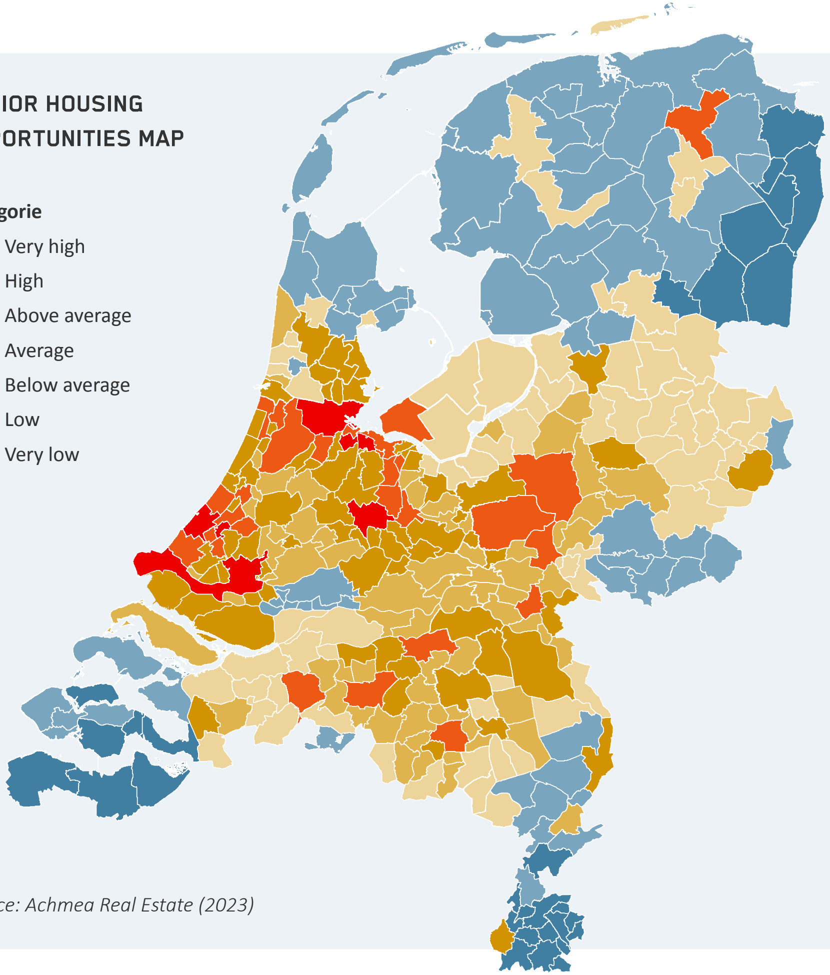
Health Centres and Second Line Care (Cure)

We see great opportunities for health centres to play a linking role in the neighbourhood, district or community. At the heart of a health centre are GPs who provide a full range of primary care services in collaboration with practice support, a pharmacy and paramedical services. The concept is strengthened if home care, neighbourhood care or secondary care functions are also located in the centre. However, investors should bear in mind the relatively high management costs of running successful facilities. Specialist clinics and independent treatment centres are less dependent on location and benefit mainly from good accessibility.

SENIOR HOUSING OPPORTUNITIES MAP

Categorie

- 1 - Very high
- 2 - High
- 3 - Above average
- 4 - Average
- 5 - Below average
- 6 - Low
- 7 - Very low

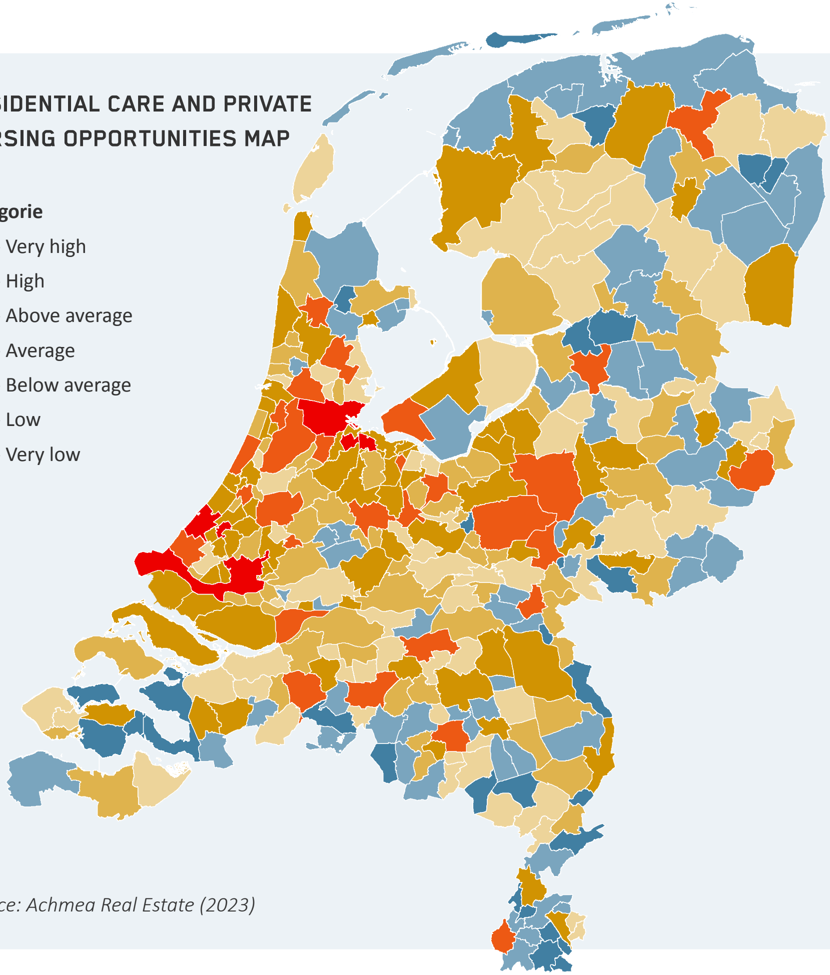


Source: Achmea Real Estate (2023)

RESIDENTIAL CARE AND PRIVATE NURSING OPPORTUNITIES MAP

Categorie

- 1 - Very high
- 2 - High
- 3 - Above average
- 4 - Average
- 5 - Below average
- 6 - Low
- 7 - Very low



Source: Achmea Real Estate (2023)

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