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THE REAL ESTATE INDUSTRY IN THE NETHERLANDS

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THE REAL ESTATE INDUSTRY IN THE NETHERLANDS

Abstract

The real estate industry in the Netherlands is one of the most sophisticated in Europe. In fact, some Dutch real estate companies are among the most active in the international arena, and are major players in the ongoing integration in European markets. The paper describes the sectors of the real estate industry, i.e. residential and commercial (offices, retail and industrial), social housing policies, and the characteristics of the major companies. Individualized descriptions of listed real estate firms and funds are included, in addition to information on the volume and functioning of the mortgage market. Also included is a detailed bibliography, which could be of interest to academics and practitioners wishing to study real estate industry topics in depth.

Keywords: real estate, mortgage, investment fund, housing.

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The residential housing sector in the Netherlands

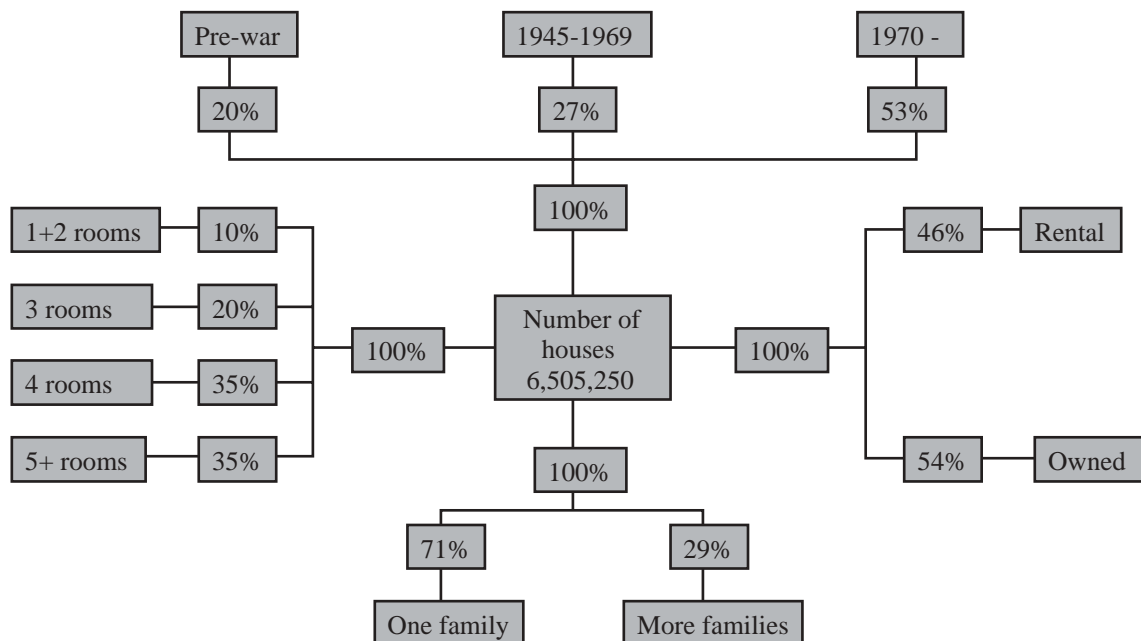
The Netherlands has a population of just over 16 million people. They make up almost 7 million households, who all have a roof over their heads (*Cijfers over wonen 2002*). Almost all households have their own house; very few still share a house. There are some very odd houses, such as the houseboats and the trailers. Most households, however, live in what are considered normal houses.

Housing stock in the residential sector

The stock of houses built before 1945 accounts for only 20% of the total, and is naturally decreasing (CBS). The province of Flevoland has the youngest housing stock, although some concentrations of old houses can still be found. In the densely populated provinces of North-Holland and South-Holland, the houses are relatively small, most often flats, and there is more rental property. Outside the cities, the houses tend to be larger. Generally, houses get bigger as the villages get smaller. The implication is that smaller villages have more luxurious and expensive houses, compared to large cities, where most of the cheap rental property is to be found. Due to scarcity, however, the price of an average house with a garden is higher in the city than in the countryside.

In January 2001, the stock of houses in the Netherlands stood at 6.649 million. The Netherlands has a population of 16 million, which gives an average of 2.4 residents per house. There has been a clear decrease in the average number of residents per house over time, consistent with the smaller average size of families. For example, the average number of residents per house in 1970 was still 3.5 (*Beter thuis in wonen*).

Figure 1. Characteristics of the housing stock in the Netherlands



Source: *Beter thuis in wonen*.

Nevertheless, newly built houses are more spacious. Whereas in 1985 the average volume of a house was 335 m³, in 2000 houses had an average of 488 m³. The volume is also reflected in the number of rooms per house. 70% of the houses in the Netherlands have four or more rooms (*Beter thuis in wonen*).

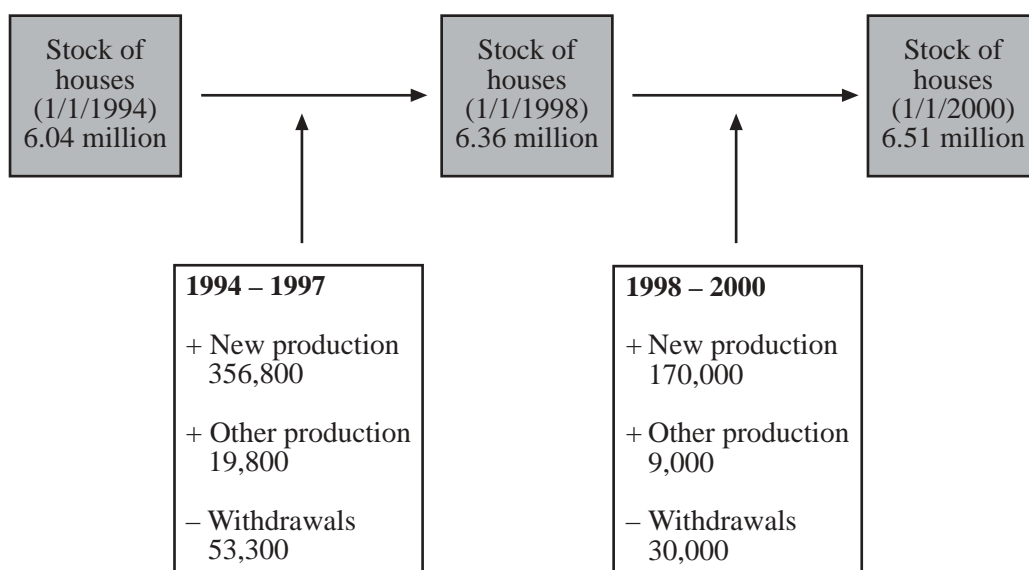
The percentage of rental property is declining. Most new houses are owner-occupied. Furthermore, there is a trend of selling rental property to tenants. At the end of 2001, 54% of houses were owned by their residents (*Beter thuis in wonen*).

Housing production

The stock of houses has grown from 6.04 million in 1994 to 6.51 million in 2000 (CBS). It is worth noting that more than twice as many houses were built in the first half of this period as in the latter half.

Between early 2000 and 2003, the production of houses decreased by 10%. The economic downturn and the lack of locations are the most important reasons. Other reasons include the complex regulations, and the decreased steering from the government in the production of houses. Figure 2 gives details of housing production.

Figure 2

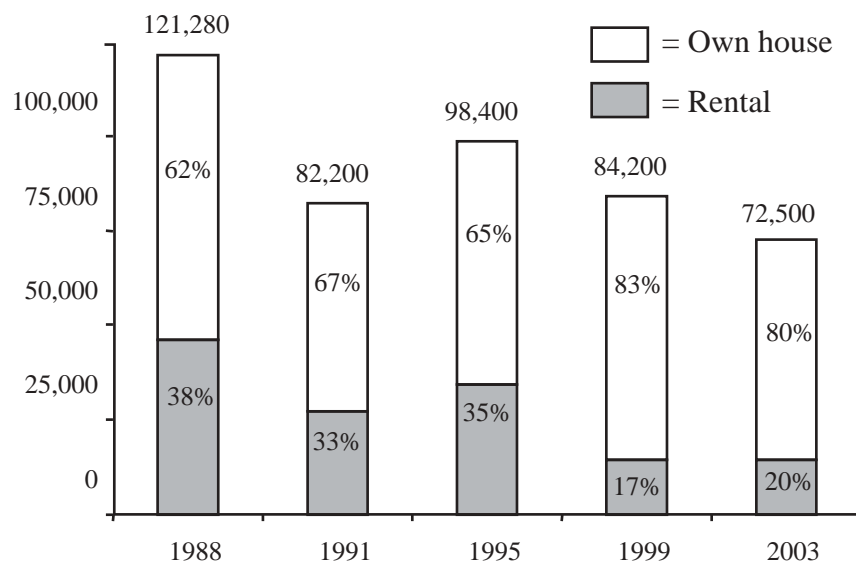


Source: Cijfer over wonen.

The outlook for the future is based on the number of construction permits issued. In 2004, production of houses is expected to rise by 3% to almost 10 billion euros. The outlook for housing production from 2005 to 2009 is significantly lower than it was in 2003. With an output of 54,200 houses a year, production is expected to decrease again after the rise in 2004.

Figure 3. Number of building permits granted

(Dutch statistical office CBS, 2004)



Source: CBS.

Rental or owned property

Production of rental property is decreasing compared to owned property. One of the main drivers has been the economic growth of the late '90s. The possibilities for financing house purchases by mortgage have been extended up to 5 times a person's gross income. The

feeling is that you can never lose on new property, as the scarcity in the west of the Netherlands will continue to grow.

Further on, we will discuss in greater detail the trends in demand for different types of housing, and take a closer look at the existing housing stock in the Netherlands.

Relocation

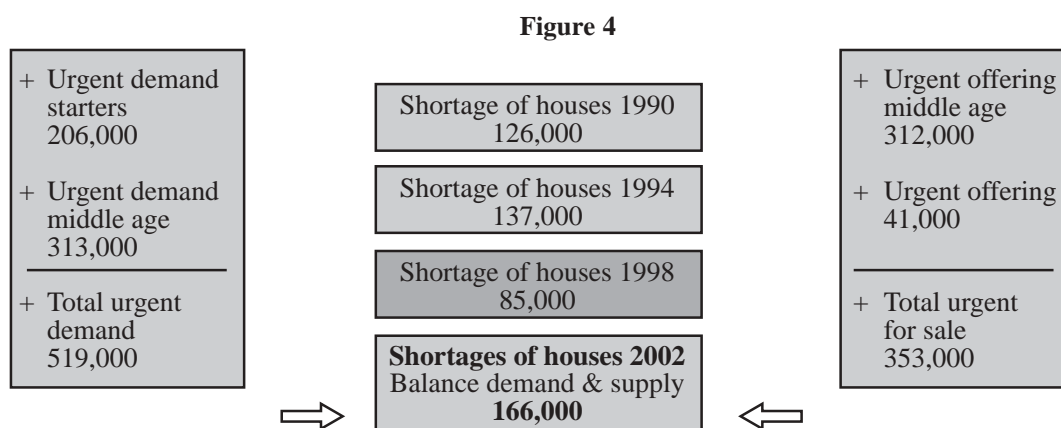
Many Dutch people are thinking of relocating. To be precise, 1.86 million plan to move house in the next two years. In practice, around 50% will actually do so. Those who really want to move are described as *urgent*, while the rest are *potential* (*Beter thuis in wonen*). Understanding the reasoning and aspirations of these two groups is important in planning future housing production.

In the 2002 survey “*Beter thuis in wonen*,” the total intention (“urgent” and “potential”) to move had decreased, compared to the 1998 survey, by 17%. This change of intent was most pronounced in the childless 25-44 age bracket. More than a third of families had decided not to look for a new house. The change in economic circumstances between 1998 and 2002 was the main driver of this change.

Motivation for relocation

The main motive for moving is the desire to live in a larger house. Size is the main characteristic determining the quality of a house; size is mentioned twice as often as neighborhood, for instance (*Beter thuis in wonen*). And although the most common transaction is a change from rented housing to owned property, the desire to own a house is hardly ever the main reason for moving. The quality of property available in the rental market (read: large houses) is lower than in the market of owned houses. Therefore, the change has been driven more by the search for better quality than by the desire to own a house.

In 1990 the demand for houses was driven by urgent young people, as well as urgent families that already had a house. In 2002 the demand from families had dropped from 312,000 to 40,000, while that of urgent young people had increased from 206,000 to 312,000. The change in demand had put a strain on the market of smaller affordable rental houses. This is the type of housing that was most in demand at that time.



Source: Cijfer over wonen 2002.

In Figure 4 above, the theoretical shortage of houses is calculated. The market was 166,000 houses short. As historical data show, there has always been a shortage of houses in the Netherlands. The shortage is theoretical in the sense that if the middle age group that wanted to move put their houses on the market, and starters bought them, the shortage would end. In practice, supply and demand are never perfectly matched. The type of housing and the location add to the real shortage. Nevertheless, the theoretical shortage can be used as a good indicator of the situation in the market over time.

VINEX Locations

For the period 1995-2005, a new policy was adopted to develop “Vinex” locations. Vinex locations are areas outside the large cities with good communications. They are meant for young families, providing them with reasonably priced housing in a friendly environment. Vinex locations are predominantly in the densely inhabited western part of the Netherlands and will be the new suburbs of large cities such as Amsterdam, Den Haag, Rotterdam and Utrecht.

Social housing

In the Netherlands there is a long tradition of social housing. Social housing is subsidized by two methods. First, there are social housing cooperatives (Woningbouw cooperatives), which develop new houses for the lower end of the rental market. Second, individuals and families can receive a direct subsidy to lower the rent they pay. This subsidy is determined by the size of the house and the total income of the residents.

Trend

In the late '90s, with the economy booming, income was available to make the step from rental property to owned property. The cooperatives facilitated this process by offering part of their portfolio for sale to tenants. Since 2000, the market has changed. In the economic downturn everyone is more cautious about buying a house. As a result, young “starters,” who have just started their first job, have difficulty finding accommodation. Privately owned property is too expensive, and rental property lacks the turnover to provide houses at the lower end of the market.

Social housing cooperatives

Cooperatives were at first effectively government-run. The funding was supervised and backed by the state. The cooperatives were semi-governmental institutions used to stimulate and create a rental market for lower-end housing. In 1993 this situation changed and the cooperatives became independent of the government. Now, owning billions of social capital, they are expected to operate in a more competitive market environment. In 2000, the combined balance sheets of the cooperatives added up to almost 83 billion euros. The surplus of financial resources in the cooperatives is estimated at a total of 11 billion euros, rising to 15 billion euros in the near future (*Financieel Dagblad, Van wie is de corporatie?*).

The cooperatives have a central role in implementing the government’s housing policy. Providing housing for the most vulnerable groups in society and investing in urban

renewal can only be done with the help of the cooperatives. Since the “privatization” of the cooperatives there has been much discussion about how this participation can be achieved. The aim of privatization was to create a more competitive market, with more entrepreneurial behavior, instead of the (semi-)governmental attitude of the past. Over the past ten years this objective has, on the whole, not been achieved. The competitive attitude has resulted in a more risk-averse investment strategy, focused on attractive segments rather than on the social needs. In the current economic downturn, where the need for social capital is growing, the question is whether the government should demand participation of the rich cooperatives or not. The new policies seem to indicate a more binding participation. The cooperative lobby argues that this will destroy the entrepreneurship that has developed over the years. The debate continues.

Rental subsidies

In 2002 the total sum of all rent was 11% lower for tenants, due to subsidies. The group receiving such state aid had grown over the previous twelve years, from 25% to 31% in 2002. According to the definition, 2.2 million households were eligible for aid. The average monthly aid was 130 euros on the overall average rent of 365 euros per month. The Dutch government spent, in total, 1.5 billion euros on rental subsidies (*Cijfers over wonen, CBS*). Social housing in the Netherlands entails the option of assistance in paying the rent, depending on household income. Almost all social housing in the Netherlands is provided by cooperatives. Of the 46% of total residential property that is rented, 35% can be described as social housing.

Social housing will continue to play an important role in the Netherlands in the future. The well-funded cooperatives have the means to develop new projects. The system of rental subsidies meets such a basic need of the most vulnerable part of society that it is unlikely to disappear in the near future.

The foundations for future development lie in the policy adopted by the Dutch government. The policy gives an insight into what to expect in the years to come. The housing policy of the Dutch government is built around four themes:

1. Affordable housing for all in society
 - a) Affordable choice of rental property
 - b) Stimulate property ownership
 - c) Reinforce citizens’ rights
2. Sustainable housing and construction
 - a) Guarantee minimum quality of construction
 - b) Improve the quality of construction and stimulate innovation
 - c) Increase citizens’ influence on the quality of construction
 - d) Coordination of construction policy
3. An attractive living environment
 - a) Restructuring of new housing
4. Social quality of housing and environment
 - a) Improve innovation in housing and care
 - b) Improve social quality of the living environment

Market for rental houses

The housing cooperatives have made a significant effort to improve the situation on the rental market. Still, in 2002 the number of rental properties that became available decreased compared to 2001. In 2001, 221,000 houses became available. In 2002, the figure decreased to 204,000. And this while the demand for rental property was increasing, as it did again in 2002. The industry organization saw a way out for owned housing projects that had failed: these projects could be redefined to provide a quick source of new rental property (*Cijfers over wonen 2002*).

In 2002, for every rental house on the market there were 74 potential tenants. The number of potential tenants compared to 2001 had increased by 10. The lack of supply resulted in long waiting periods for rental property. The average in the Netherlands has reached 2.9 years. In the past, this average was distorted by the scarcity in the four major cities in the Netherlands. In 2002, for the first time, all the regions began to experience scarcity in the rental property market (*Cijfers over wonen 2002*).

The primary cause of the scarcity in the rental market is the price increase of owned property. The group in the more luxurious/larger rental houses should have left the rental market to buy their own houses, but they cannot afford to do so. They have decided to stay in houses that are easily affordable, and wait until the economic uncertainty recedes. This, of course, has a knock-on effect all the way down to the cheapest rental houses. The flow stops at the top, so there is hardly room at the bottom to enter.

At the same time, the demand from young starters has increased in recent years. And construction has lagged behind the strong increase in demand. The two groups most affected by this situation are young starters and older people. The young are affected because they cannot have their own house. The old are affected because they live in houses that do not fit with their life stage.

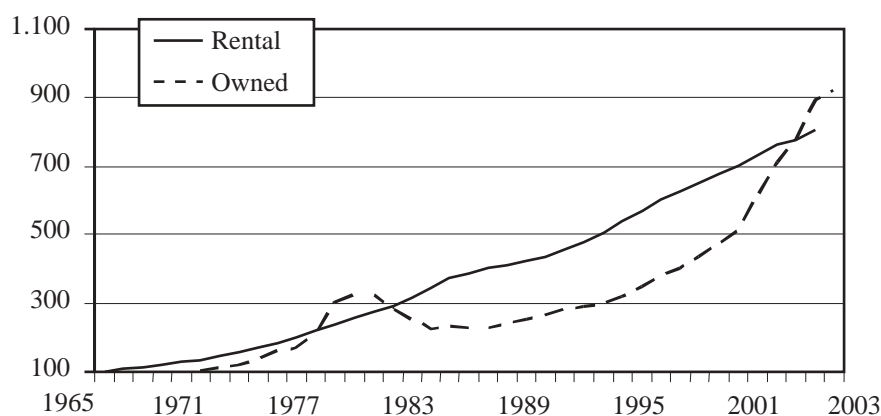
The social housing cooperatives are trying to solve the problem on the rental market. Especially young and old people have their full attention. For older people, adapted housing with a service concept is being developed. In a few years, 50,000 new houses will be built, and 30,000 existing houses will be adapted to old people's needs.

On the other side of the market, for young students, 7,000 rooms will become available in the next two years.

The rest of the market will be served as well. By the year 2007, 146,000 new rental houses will be constructed. In these new real estate developments, national and local law is the time-consuming factor that is holding back production. The land that is available does not fit the criteria. A lot of land is already owned by real estate developers, who prefer the higher-margin business of private houses. As commented before, funding is not the issue. The cooperatives have more than enough funds to invest in new projects if the criteria are met.

One could argue that the cooperatives should have been ready to take more risk. Constraints created by high investment standards have protected the cooperatives against financial failure. Risk-averseness has limited the number of projects, although the demand is clearly there. Some people feel that in the current market it should be possible to develop more projects at a reasonable risk.

Figure 5. Price index of property in the Netherlands, 1965-2003



Source: CBS.

The market for investment in residential real estate

The market for private houses in the Netherlands has gone through an impressive rally in recent years. 2003 was the first year that the market cooled down. The average house price increased in 2003 by 2.7% to 211,000 euros. The amount of days a house is on the market rose by 12% to 82. As a comparison, at the top of the market in 1999, the average was 40 days. Nevertheless, the price increase of 2.7% is still more than the inflation of 2.1%, so for owners it is worth waiting. The average price per m² in 2003 was 1,759 euros (*Financieel Dagblad, Cijfers over wonen*).

However, there are some regional differences. Amsterdam is the only city where prices have dropped by 2.5% over the last year. The cities of Utrecht and Den Haag have outperformed the market, while Rotterdam has lagged behind somewhat.

The future outlook is still positive due to two factors: the low interest rates, and the low production of new houses. The impact of the low interest rate is obvious. The production of new houses is less clear. In 2003, 60,000 houses were built and added to the market. In a more stabilized market, this should have meant lower prices.

And yet, every year the number of single person households has increased. At the same time, 20,000 to 30,000 houses have been taken off the market each year. In the opinion of all the parties involved (construction, government, real estate agents, and analysts), current production is insufficient. At least 80,000 to 100,000 new houses should be built each year to meet demand. In spite of the consensus on the number of houses that need to be built, the actual outlook for the period 2005 to 2008 is for an average of 54,200 houses per year.

At the same time, construction companies and developers are wondering whether they are building the right type of houses. The main production is in single-family houses on large Vinex locations near Den Haag or Utrecht. The question is whether there will be demand for these stereotyped houses in these (less than exciting) locations. Once these large projects are finished, the issue of available building land will become the bottleneck for new developments.

Total production in the construction sector is expected to decrease by 0.5% to 46.8 billion euros. The construction of all housing, rental and owned, is expected to reach nearly 10 billion euros in 2004, representing growth of 3%, as stated earlier. The increase in the number of building permits in 2003 is the main indicator behind the expected growth of production (*Financieel Dagblad*).

In the Netherlands, the sector of real estate agents selling houses deserves special mention. The industry organization NVM has a market share of 80%. All NVM real estate agents work via the same centralized network. For sellers or buyers, it is a clear advantage to be in that network. At the end of the '90s, when the market was overheated, especially in Amsterdam, it was very difficult to find property outside that network. In Amsterdam, houses were sold within days or even before being officially put on the market.

The NVM has its own website, funda.nl, where you can find all the houses offered by real estate agents. For quality reasons, this channel is open only to members of the NVM. Over the previous three years, funda.nl has become the dominant private real estate portal.

The government competition regulator and the NVM have had numerous disputes in the past over whether the network/database should be open to all real estate agents. So far, the NVM has always managed to avoid opening up by claiming that an 80% market share leaves enough room for competition. Quality of information is at stake, and major costs have been incurred in building the network.

In conclusion, the market for houses is expected to continue to rise in the next few years. Current homeowners are in the best position to profit. The lack of land and the delay in obtaining permits will limit the scope to meet future demand.

Commercial real estate

The commercial real estate sector in the Netherlands consists mainly of offices, retail and industrial. Investment is focused on these three types. Other small investments are made in land and parking, for instance. In this section we will focus on the three main areas of Dutch commercial real estate. (Retirement homes and recreational real estate are considered part of the housing market.)

Offices

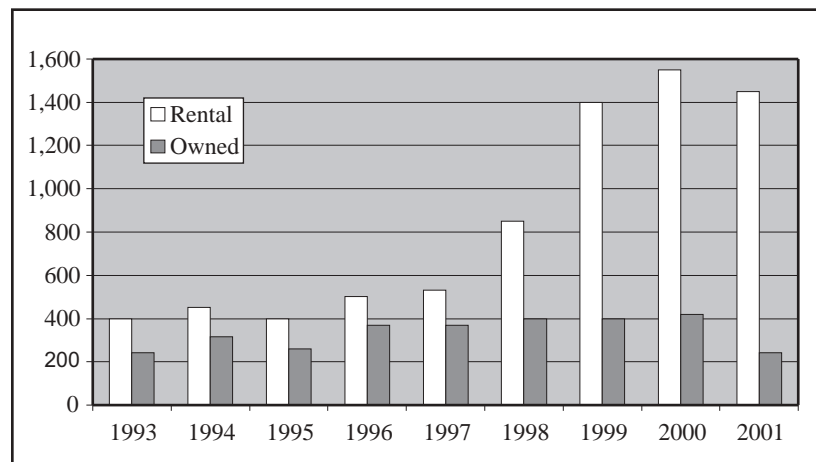
The Dutch economy was one of the miracles of late '90s Europe. Government, companies and workers worked together to improve the Netherlands' competitive position. After the Internet boom, the situation was reversed, and the Netherlands became one of the worst performing economies of the euro zone.

The growth during the '90s was primarily in service industries, which were office-space intensive. As a result, the market for office real estate slumped with the rest of the economy. The result is an overall negative picture. Taking a closer look, not all sectors are negative, and there are still some bright spots.

Production

Production in 2003 was still governed by the plans made in better years. The production of 1.7 million m² was far more than could be absorbed. Plans for the years to come are based on the current economic situation and the more reserved attitude of investors and real estate developers. The forecast is that 1 million m² and 0.6 million m² will be completed in 2004 and 2005, respectively. It is possible that this still might be more than the market can absorb (*DTZ Zadelhoff*).

Figure 6. Production of rental and owned offices
(x 1000 m²)



Source: DTZ Zadelhoff, *Vastgoedmarkt*.

Until recently, the Dutch economy was doing exceptionally well. High profits and high employment created a tension with the slower-reacting real estate market. In the period from 1995 to 2000, over 530,000 new office jobs were created. In total, 2.9 million people were working in offices in 2000. The growth of over half a million desk jobs meant a demand for 15 million m² of office space. Taking into account the need for replacement, the demand was enormous. The vacancy from the beginning of the '90s was quickly resolved and prices rose (*Financieel Dagblad*).

In 2001 the situation changed. The IT sector and the financial services industry were not growing and were even cutting back the number of employees. In 2002, 16,000 office jobs were rationalized, followed by over 20,000 in 2003, with expectations of a further 60,000 job losses in 2004. The result is a surplus in current locations and no demand for new locations. Nevertheless, production has not stopped.

The sector will need to restructure quite radically to resolve the crisis in office real estate. The following paragraphs indicate where restructuring is needed.

Influences on office production for 2004 are:

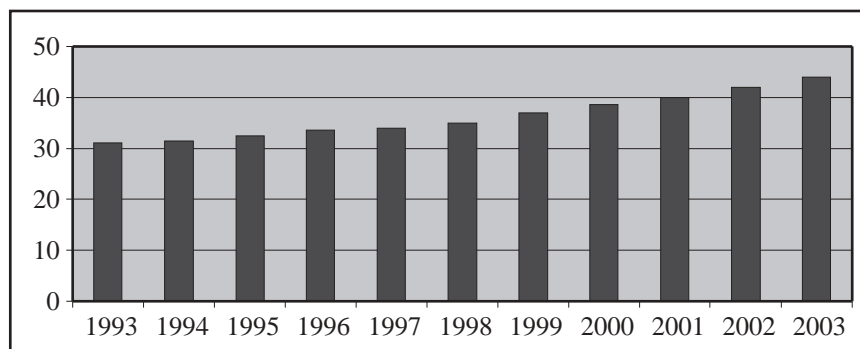
- Positive
 1. Low interest
 2. Quality of new offices

- Negative
 1. Decrease in office jobs
 2. Low incentive of companies to relocate due to weak economy and current surplus from past contracts
 3. Increasing vacancy rate
 4. Weak prices (rental and owned)
 5. Limited expected economic growth for 2004 and 2005 in the Netherlands

Stock

The office market has grown significantly in recent years. The boom in the IT-sector created a large demand for new offices. In the Netherlands there are almost 45 million m² of office space. Most of it is located in the west of the Netherlands, around the four cities of Amsterdam, Den Haag, Rotterdam and Utrecht (64%).

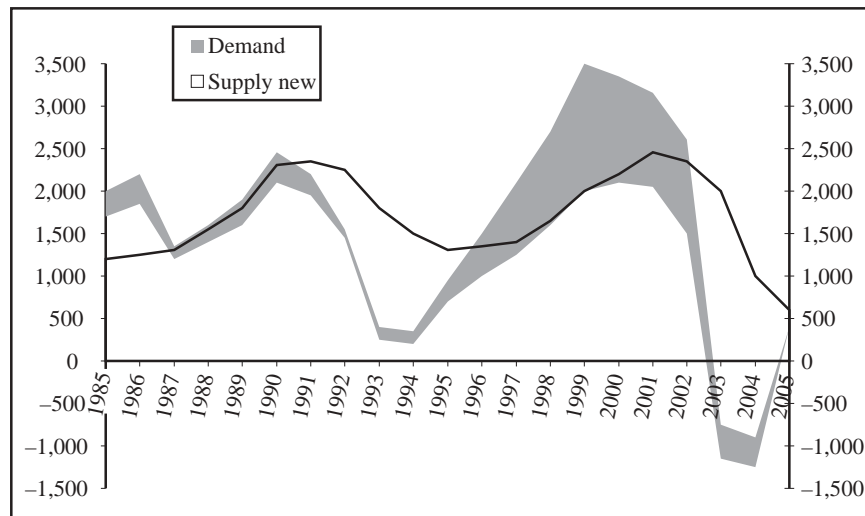
Figure 7. Office space in stock
(m² x 1 million)



Source: DTZ Zadelhoff, *Vastgoedmarkt*.

Until 2003 the effect of the growing IT sector was visible in production. All the planned projects from before 2000 have been finished. From 2004 onwards, production is more adapted to the new market situation. The decrease in demand, as shown in the graph below, has driven a rationalization of the market. Expectations are that old office locations will be redeveloped into, for instance, residential real estate. Taking into account this redevelopment of old office locations, the stock of office space is likely to remain at the same level for the next two years.

Figure 8. Demand vs newly built office space
(office space x 1000 m²)



Source: DTZ Zadelhoff.

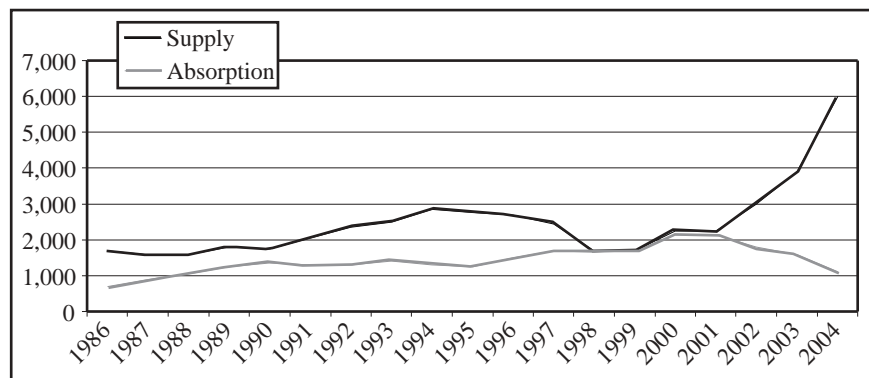
Investment market rental property

The market for office space has switched from a shortage to a surplus. The chances of a recovery before 2005 are slim, as all indicators signal further imbalances in the market.

The changed market situation is best demonstrated in the development of the supply and absorption of the market. The total supply (new and existing) has risen very fast to levels not reached in the previous fifteen years. At the beginning of 2003, 4 million m² of office space was on the market, either for sale or for rent. In the summer of 2003, the level of available office space rose to 5 million m², twice as high as in 2001 at the end of the boom (*Vastgoedmarkt*).

At the same time, the demand has dropped to almost half over the same period. In this type of market it is clear that the existing office space will take the hardest hit. Companies are in the perfect situation to upgrade their location.

Figure 9. Supply vs absorption office space
(surface x 1000 m²)

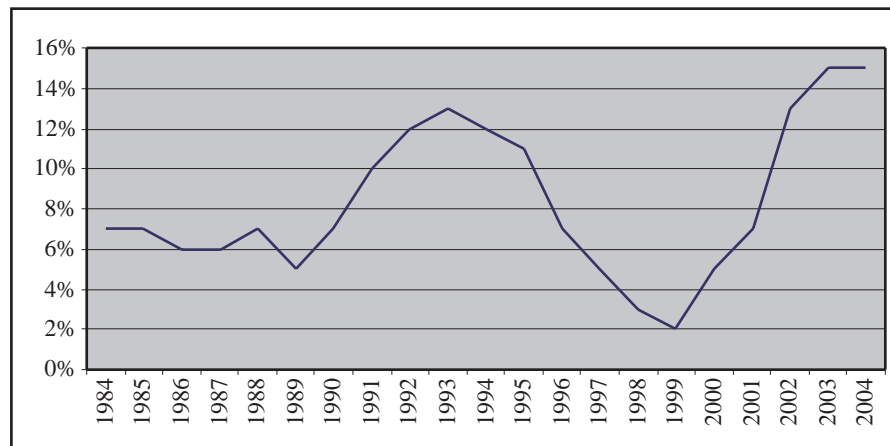


Source: NVB, *Vastgoedmarkt*.

An indicator used to describe the market is the “average offered office space/new contracts of the year before.” In the years from 1997 to 2001, the indicator fluctuated between 1 and 1.5. This is considered to be a seller’s market. In 2003 the indicator rose to 3.4. The current market is clearly a buyer’s market. A healthy market situation is considered to be a level of around 1.5 (NVB).

The association of real estate developers is very pessimistic about future developments. Their models indicate that the indicator could reach levels of almost 6 in 2005/2006. If the Netherlands economy recovers, the market for office space will recover at the end of 2005, at the earliest. The question is whether the Dutch economy will recover sufficiently to achieve this (NVB).

Figure 10. Vacancy rate in the Amsterdam area
(percentage)



Source: ROZ/IPD.

The vacancy rate at the end of 2003 reached 15% in Amsterdam, one of the main markets in the Netherlands. Companies looking for a large surface area with a contract of at least 10 years are reported to have negotiated discounts of up to 20%. The discounts are not offered in the form of lower monthly rents but in the form of a rent-free period. In the most prestigious areas of Amsterdam, tenants are offered three to six months rent-free. In the less popular areas, the discount can add up to eighteen months. The high discounts are offered when the tenant is in need of a large surface area and a long-term contract, and the location is not A1.

Investors prefer not to lower the rent because it is directly related to the value of the property. Instead, the rent-free period is offered to lower the rent of the total contract. The design costs of a new location are also considerable for a new tenant. That is another element where discounts can be negotiated. Both types of discounts explain why rent has not behaved in the dynamic way that might be expected in a surplus market situation. In 2001 and 2002, the average rent stayed virtually at the same level of 150 euros. In the Amsterdam area the rent decreased by 9% to 176 euros in 2002. The prices of A1 locations have not changed significantly, whereas the prices of other segments have dropped even further.

In the whole of the Netherlands the actual vacancy rate has reached 9%. According to DTZ Zadelhoff, the 9% represents 70% to 80% of the property that is really on the market. Only not all the property is already vacant. The opportunities for tenants in this market are causing an increasing difference between high and low quality property. High quality property is still considered to be scarce. The rent and, therefore, the returns for investors are still acceptable. At the lower end of the market the vacancy rate will rise in the next few years.

Investment market owned property

It is surprising to see that, even in the current market situation, investors show such a strong interest. The number of transactions has not decreased compared to 2002. Large investment groups, often German, are under pressure to invest their capital. German investors still raise considerable amounts of money, and the return in Germany is still below the level of the Netherlands, which explains the inflow of German capital.

Investors are becoming more critical of the property they are interested in. A1 locations are still in demand, and prices in that segment have not gone down, if anything they have risen slightly. Property with long-term rental contracts is also still in demand. In the rest of the market, prices have been decreasing.

The activity in the sector is also caused by the change of structure of the investors. Ten years ago the market was dominated by large Dutch pension funds. Since then, German investors have entered the market. The strong economic ties between the two countries and the similar business culture make the Netherlands a logical first step. The Euro is the next factor for the further international expansion of German investors.

A second group is the private investors who have entered the market in recent years. These investors are responsible for the high prices of local real estate. Their strong, very local knowledge allows them to invest in high quality real estate before the large investors are aware of the opportunity.

Retail

The structure of the retail market is changing. In the past, the hierarchy in retail went from local shops, local centers, to the city shopping center. This hierarchy will cease to exist. The location of shops will be driven by the places where people regularly meet. This may be a very large supermarket or a small store, so long as there is traffic. Examples include railway stations, highway exits, or large office locations.

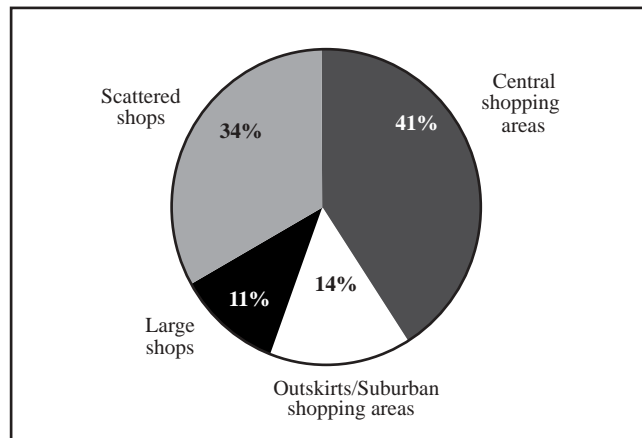
The trend is in line with developments elsewhere in Europe. Government policy is now to offer more space for stores other than DIY and garden stores to locate on the outskirts. Sports, fashion, shoes, toys, electronics and leisure are the sectors that are entering the large projects in the suburbs and outskirts.

The supermarkets are following a similar trend. Average size supermarkets are giving way to mega-supermarkets. The process of enlarging allows supermarkets to sell more products and offer a better one-stop-shop solution. On the other hand, smaller supermarkets are opening, such as Ahold's AH-to-go. These supermarkets focus on consumers' immediate needs and can be found in high traffic locations, such as railway stations and even hospitals. These developments have had a great influence on the retail real estate market.

Production

The retail real estate market as a whole is sensitive to changes in the economic climate. Low consumer confidence results in lower spending by final consumers. At the same time, the market for new developments of store space show a remarkably stable pattern. The reason for the stability in comparison to the office and industrial market is the structure of the market in the Netherlands. This stability makes retail a welcome addition to the investor's portfolio. However, the market requires a very specific knowledge to operate successfully.

Figure 11. Type of shopping area
(Total surface 24 million m²)



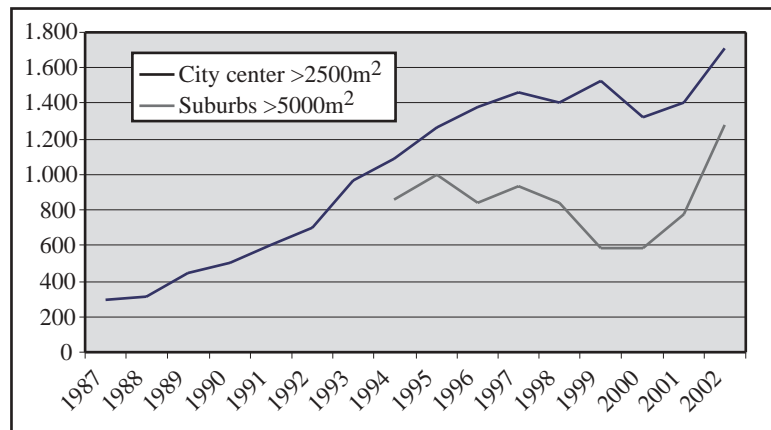
Source: *Vastgoedmarkt*.

In the near future, the retail real estate segment in the Netherlands will undergo further changes. A large number of new locations will be developed, both in the city centers and in the suburbs. Permits have been granted for a total of 3 million m² of new locations. Of that total, 1.7 million m² will be in city centers, and the remainder in the suburbs. The portfolio of retail real estate on offer in the Netherlands has never been so high (*DTZ Zadelhoff*).

The new production is not meant for further expansion, as in the office and industrial segments, but mainly for re-allocation. As a consequence, the new m² need to disappear at the old locations. The demand from retailers in current markets is for large, modern locations with good connections and parking facilities. Real estate development has reacted to this demand by redeveloping city centers and adding new locations in the suburbs.

The increase in production in previous years has led to the Dutch having 1.5 m² of store space per person. The ratio is, even by European standards, on the high end. In the mid '70s, the ratio was 0.8 m² per person. Further rises were not expected in the current economic climate.

Figure 12. Projects in preparation
(surface x 1000m²)



Source: NVB.

The trend towards larger average surface area per location was a matter of concern to several local governments. The new shopping centers in the suburbs might lead to high vacancy rates in traditional city centers. The large average size of the stores would reduce the diversity of shops in the cities. Several cities, such as Groningen en Almere, have taken action to prevent this from happening by canceling projects in the suburbs. The question is whether the trend to larger retailers can be stopped.

Local governments prefer a fine maze of shops throughout the city. The decreasing number of residents per house and the increase in mobility are the reasons why retailers continue to need a larger catchment area to remain competitive. A small neighborhood shopping center needs a minimum of 4000 houses, whereas a supermarket needs at least 8000 houses to be profitable.

Influences on retail production in 2004 are:

- Positive
 1. Changing dynamic of the retail business
 2. Restructuring of retail locations
 3. Low interest rates
 4. Less sensitive than office and industrial space to economic downturn
- Negative
 1. Decreasing turnover and lower profits of retail industry
 2. Weak consumer confidence
 3. Surplus existing stores
 4. Rents have been declining since 2001 (except in A1 locations)

Stock

The total floor area of the Dutch retail market has reached 24 million m². The 3 million m² additional surface that will become available in the next few years will push old property into redevelopment. Redevelopment into other uses will, as in the office market, maintain the stock at the current level (*Vastgoedmarkt*).

An average store in the Netherlands exists for 6 to 8 years. This means that 15% of all stores change owner/tenant every year. All are looking for a specific image, new decoration, and more important new contracts. The churn rate in the industry creates a huge dynamic. There are a lot of relocations and therefore a lot of competition for the best location and the best price. 3.6 million m² of retail space changes color every year, putting pressure on existing retailers to innovate as well. Real estate developers use this dynamic of the market to produce new locations.

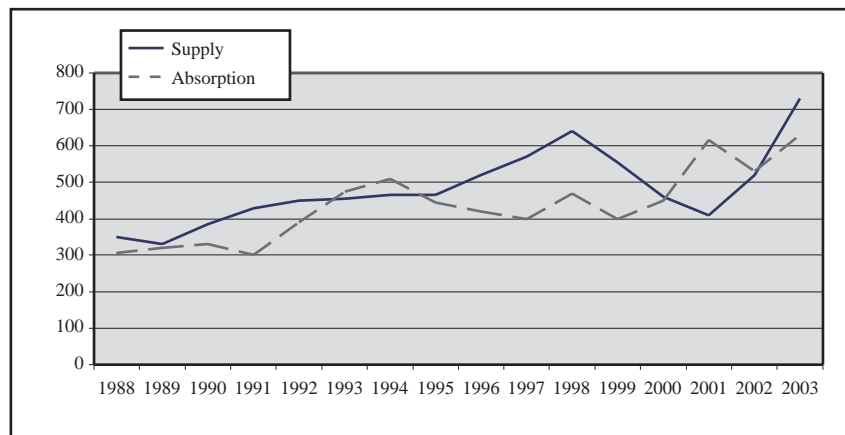
The economic downturn is not expected to influence this process. Declining sales push retailers to reorganize and adapt their concept to a new market. The success of new developments is very dependent on other real estate developments in the vicinity. If there is a delay in the construction of the residential real estate due to the economy, the retail development will not be successful either. The influence on the stock of retail space will be minimal. Only the modernizing of the stock will be delayed.

Investment market rental property

Over the last year, the supply of retail space has risen quickly to a high level. The amount of new leases signed in 2003 showed a significant increase. The one-off effect of the sale of retail space by Laurus caused the increase. The supermarket chain had to sell part of its stores to survive. The competition was happy to take up these locations. Without this effect the equilibrium is very fragile.

Vacancy is no incident anymore. The increase is especially noticeable in the B-type shopping areas, the solitaire properties, and the shopping centers on the outskirts. By April 2003, vacancy had risen to 1.6 million m² or 6.7%. This is a high percentage for the Dutch market. The A1 locations were still going strong in 2003. The enormous amount of new locations that were being produced will put further pressure on the whole market. The problem locations will be those with lower connectivity, lack of parking facilities, and a small average size of store (*Vastgoedmarkt*).

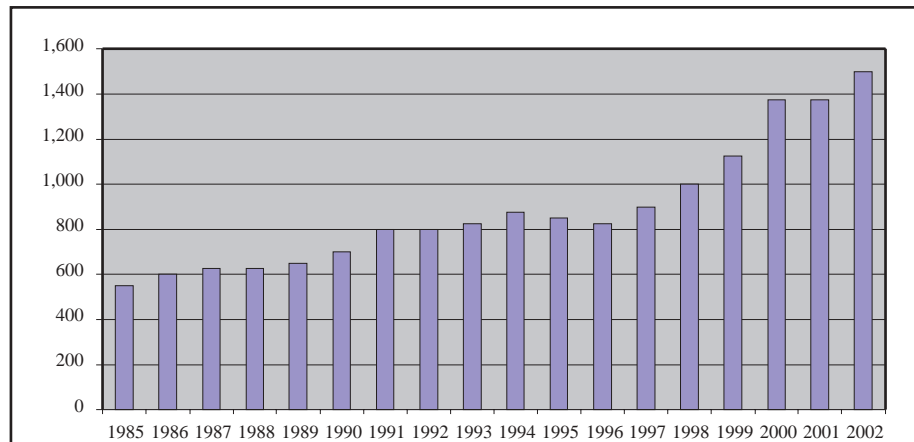
Figure 13. Supply and absorption of shops
(gross surface area x 1000 m²)



Source: ROZ/IPD.

The international retail chains compete with Dutch stores for the best locations. The demand for stores in A1 locations is still strong. Over the previous five years of economic growth, rent increased between 20% and 50% (without indexing), depending on the location. Nevertheless, at some point even the top locations will feel the influence of the recession. As in B and C locations, longer rent-free periods will be offered, and favorable arrangements with respect to decoration (*Finacieel Dagblad*).

Figure 14. Rent at top locations
(price per m² per year)



Source: NVB.

Article 7:303 of the Dutch law may also influence the price level of rental property. The article allows both the tenant and the landlord to ask the court to adjust the level of rent to the market average. In the past, landlords have been the ones using this instrument. In the next few years, it may well be the tenants who exercise their right.

Investment market owned property

The retail real estate market is in a period of change. The old Dutch “ABC” stores in every shopping center –Albert Heijn, Blokker and C&A– seem to have disappeared. The supermarket chain Albert Heijn has seen its market share decrease from 27.4% in 2001 to 22.4% at the end of 2003. The clothes store C&A is being overtaken by international chains such as Zara and H&M. Only the home appliances store Blokker still increased sales by 7% in 2003 (*Vastgoedmarkt*).

The department store V&D is another question mark. The other two department stores, Hema and Bijenkorf, of the Vendex group, and other fashion, toy and perfumery chains are attracting V&D’s clientele. Analysts speculate and suggest that the group should adopt the market formula. If it does, a considerable amount of new store space on mostly A1 locations will come onto the market.

The large projects in the suburbs and outskirts have passed their period of growth. The lack of rental agreements has already led to the re-qualification of projects by local governments. Still, over the next two years a large quantity of projects in progress will enter the market. In the current market, only DIY stores and garden centers still have any interest in large projects. Investors have become more cautious and only enter projects once the rental agreements have been signed.

Furniture shopping malls are also going through a difficult period. Mid and low segment consumer spending on furniture has decreased. Purchases are being postponed to a period when economic prospects are better. As a result, the demand for locations in the malls has disappeared, while the production of new locations has continued.

To conclude, the market has passed its peak. There are still opportunities. Knowledge of the local market, combined with an overall grasp of which retail formulas are still growing, is necessary in order to be successful. Media Markt, Mexx and Esprit are three examples of formulas that are still expanding rapidly.

Industrial

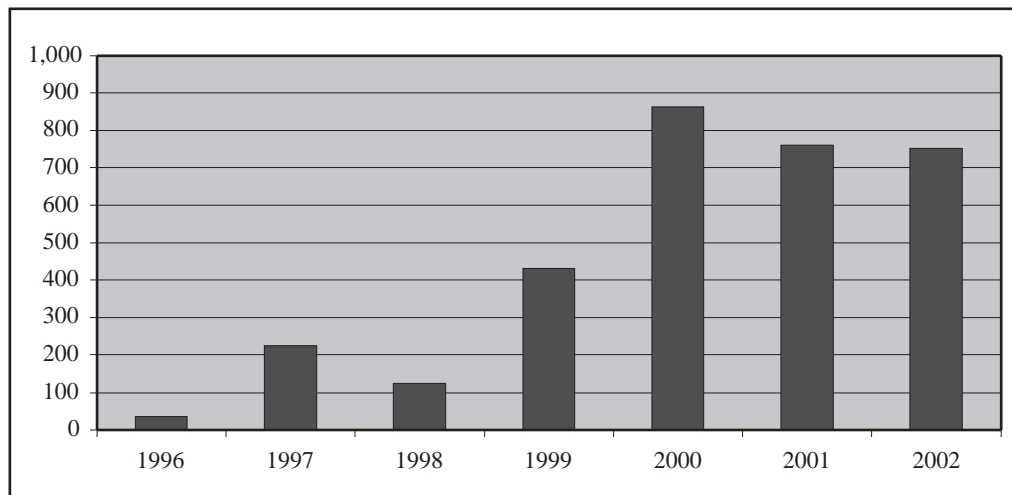
The market for industrial real estate is performing relatively well, considering the economic circumstances. The demand for industrial real estate is still there, and translated into a higher absorption in 2003 compared to 2002. In the first half of 2003, a large number of transactions took place, mainly in the logistical sector. Other analyses show continuing demand from small and medium-sized companies, based on replacement. Companies are looking for better locations. As a result, the demand for modern locations remains strong, and the supply of old locations is greater than ever.

A new trend in the Netherlands is park management. Cooperation between owners, local government and tenants offers the possibility to reduce costs and make the location more attractive. In the Netherlands, the development of industrial real estate has primarily been a task of local government. The scarcity of quality locations has prompted a drive to make better use of available resources and at the same time reduce costs. The first examples have yielded impressive results, with low vacancy rates.

Production

The rate of absorption of newly produced industrial real estate as a part of total absorption is, at 11%, at its lowest level since 1995. Industrial real estate differs in one important respect from the office and retail markets. Production has adapted to the change in climate and has similarly decreased. In 2002, 750,000m² were developed. This consisted of a combination of renovation and completely new locations (*Vastgoedmarkt*).

Figure 15. New or renovated industrial real estate
(x 1000 m²)



Source: *Vastgoedmarkt*.

The shortage on the office market in 2000 created an attractive opportunity for developers to produce very high quality industrial real estate. The concepts were 50% office and 50% industrial areas. The development of office space allowed the developers to gain additional margin, compared to basic industrial real estate. The development was very demand-driven. The low demand finally disappeared in 2002, and so did the development of these locations.

The Netherlands, as a distribution center, still scores highly in Europe. In particular, the provinces of Limburg and North-Brabant signed contracts with some large companies in 2003. Tommy Hilfiger (25,000m²), Flextronics (25,000m²), and Ricoh (46,700m²) have decided to centralize their European distribution in these provinces (*Financieel Dagblad*).

The industry association Distribution Nederland has published the results of research into the consequences for the distribution industry of the entry of the new Eastern European partners in the EU. The conclusion is that Western Europe will remain the preferred location for distribution centers. Higher transportation costs and quality issues do not, at present, outweigh lower labor costs. At the same time, the purchasing power was still mainly in Western Europe.

There will be a trend to move distribution eastwards, with the shifting geographical center of Europe. The Netherlands will have to compete more fiercely with Germany and Belgium. Production from Asia, and supply by container ship, will give Western Europe a long-term advantage as a distribution center for the whole of Europe.

Stock

In 2003, the Netherlands had 920 million m² of industrial real estate. The trade sector is the largest consumer, followed by industry & construction, and transportation & distribution. Since 1997, the government, too, has been increasing its market share of locations. In 2002 the government accounted for 13% of all new contracts (*Vastgoedmarkt*).

Redevelopment will take a more important place in production in the future. The current stock of locations will be sufficient to satisfy demand for only eight more years. The Netherlands is a small and crowded country. There is competition from other destinations for any land that becomes available. Redevelopment also fits with the government's policy for intensive use of locations and the prevention of fragmentation of the outskirts. Now, former industrial areas are often redesignated for residential real estate. The possible future shortage of industrial land is beginning to appear on the political agenda. More and more industrial qualifications stay intact, and redevelopment is planned. The need for redevelopment is confirmed by the Ministry of Economic Affairs, who estimate that 20% of industrial real estate is in need of redevelopment.

The stock of industrial real estate is not expected to show much growth in the future, due to the lack of permits and new locations. There will be a lot of activity in this segment of the real estate market. Redevelopment and the new park management approach will drive this activity.

Investment market rental property

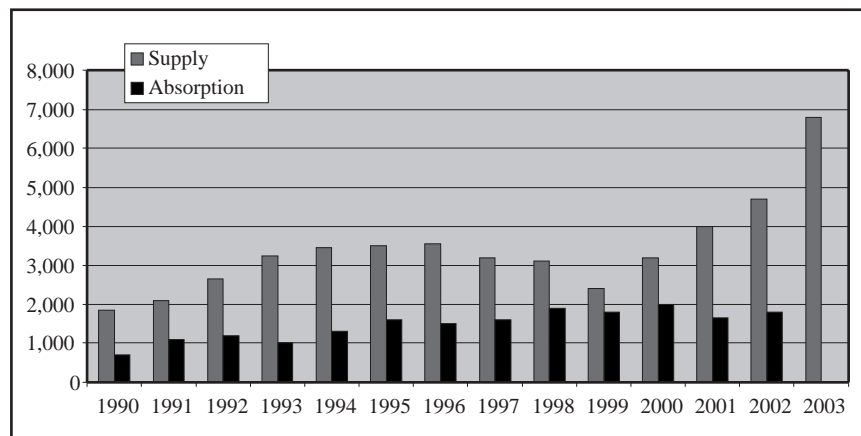
In the office and retail markets, two movements have caused the market to deteriorate: increase in supply, and decrease in demand. In the industrial real estate market,

the increase in supply is the main factor behind the pressure in the market. By the end of 2002, the supply was already 2.6 times the absorption. By 2003, this number had reached well above three (*Financieel Dagblad*).

Newly developed, high quality real estate is the exception in the market. The demand for this product is still high, and prices in 2002 rose to 58 euros per m². In the 50% office 50% industrial locations, prices have stabilized. The less current property will continue to feel the price pressure caused by the oversupplied market.

In supply, there is a great variety of sizes. Over half of the locations have a surface area of 1,000 to 5,000m². Locations smaller than 1,000m² and larger than 10,000m² are also well represented in the locations on offer (more than 10%). In spite of this variety in surface area, part of the supply does not comply with the current demands of new users.

Figure 16. Market for industrial real estate
(x 1000 m²)



Source: *Vastgoedmarkt*.

One of the problems is the height of the buildings. Often, 10 to 11 meters of free height is required, while older structures have an average of only 6 meters.

Also, local government policy can be an obstacle. In some cases, new locations are destined exclusively for one type of industry. The theme park approach limits the number of possible users, slowing the achievement of high occupation.

In the logistics sector, the older buildings cannot serve a useful function in modern distribution. In reorganizations and restructuring, old locations are abandoned for modern facilities. It is often difficult to find new users for these old locations. Cities have grown around part of these locations. Regulations within city limits are stricter, limiting the type of use. Redevelopment for the residential sector is one of the remaining options.

Investment market owned property

The users of industrial real estate are also the owners of 70% of the market. In the market there is still demand for high quality industrial real estate. The limited number of new locations has pushed expansion to the redevelopment of old locations. This still offers a lot of opportunities (*Financieel Dagblad*).

Investors distinguish two types of use for industrial real estate: logistical and multi-let.

Logistical real estate usually is leased to a single company. With only one user, the location will need little management. On the other hand, the investor /owner needs to have faith and trust in that one company and be willing to make higher investment to prepare the location. In this sector, the Netherlands and France are the focus for investors.

Multi-let locations allow investor/owners to spread the risk among several users from different industries. A multi-let location requires more management than a logistics center.

High quality real estate has attracted the interest of investors from the US and the UK. Citigroup bought their first industrial real estate in 2003, thus entering the Dutch market. According to Jones Lang LaSalle, investment groups such as Pricoa, IO group, La Salle Investment Management and AMB are further examples of investors becoming more active on the Dutch market. German investors have been active for years in the whole Dutch real estate market. Lately, investment products for consumers have been created to meet the demand for investment in real estate, creating another source of funds.

The risk-return ratio seemed to be at the core of the increased national and international interest. The more professional approach of the sector over the previous five years has increased the transparency. The risks and characteristics have been analyzed more carefully, leading to the conclusion that the sector is less sensitive to the economic cycle than was assumed in the past. The supply is very high at this stage. At the same time, there is hardly any vacancy in the high segment. This is the segment that investors are interested in.

Investors in Dutch real estate

Real estate developers and construction companies

In this section we discuss the most important real estate developers in the Netherlands. A ranking published yearly by the magazine Property NL offers a good insight into the market. The measure used for the ranking is the investment value of ongoing projects (in million euros).

ING Real Estate management is the largest real estate developer of commercial real estate, with positions in the main commercial real estate development areas in the Netherlands. ING has 2.2 million m² in development at a total value of 5,805 million euros. The combination of asset management and financing backed by the parent company is the key to ING's success. Their strength is commercial real estate, and compared to the other developers, ING is weaker in fundamental positions and residential. In recent years ING has become a more international player, with strong positions in the Central European market and Spain.

Its 3,193 million euros of developments earns AM (Amstelland MDC) the number two position in the Netherlands. Almost one million m² are in development at AM. In 2001 AM was created through the merger of MDC and Amstelland Ontwikkeling. MDC was the strongest in the Netherlands in developing city centers, combined with a very strong international position. Amstelland Ontwikkeling had a strong portfolio in the residential sector and fundamental positions, combined with a more diverse portfolio of commercial real

estate. The merger has yet to deliver. The stock price is under-performing and there is speculation about a change of some of the directors on the board.

The number three in the Netherlands is the first real construction company that is not a subsidiary of a financial conglomerate or a sole real estate developer. BAM was created in 2002 after the takeover of HBG by BAM. Last year's number eight and number nine have risen to third position. The value of the portfolio is 3,157 million euros, with 1.2 million m² in development. One of the reasons for the high ranking in 2003 can be found in the type of company. As a construction company, production needs to be achieved also when the economy is not thriving. In contrast, the (financial) developers have smaller organizations and the option to wait for better weather.

In the number four position there is another developer backed by a financial conglomerate: Bouwfonds. The company is part of the ABN AMRO bank and has 2,656 million euros in development, spread over 1.2 million m². Bouwfonds is the largest residential real estate developer in the Netherlands. Its ambition is to become the leading developer of commercial real estate in the Netherlands. The current economic climate, however, forces Bouwfonds to rely heavily on developments for its parent company ABN AMRO Bank.

VolkerWessels is the number five real estate developer, with 1.1 million m² and 2,200 million euros in development. The company has proven to be capable of achieving results in tougher times. The company has become family-owned again when the Wessels family took it off the stock exchange a couple of years ago. Difficult years are expected for VolkerWessels, with a distrusting government and an over-supplied commercial real estate market.

In the category of development values between 1,000 and 2,000 million euros there are three more companies in the Netherlands. MAB is a city developer with a large portfolio of development on paper in the Netherlands and some large foreign projects. IMCA Vastgoed is one of the most entrepreneurial developers in the Netherlands. IMCA is part of the conglomerate owned by Erik de Vlieger, consisting of real estate, industrial textile machines, nautical investments, Dutch magazines and an aviation investment fund. The third company is Heijmans/IBC. After years of strong growth, partly through takeovers, it is now time for Heijmans/IBC to prove their ambition.

Other developers worth mentioning are Schiphol Real Estate, NS Vastgoed (Dutch railway) and Philips Vastgoed. All three are owner-users of their real estate and have successfully entered the real estate development business from that starting point. Schiphol Real Estate is the best example, creating new concepts to fit with their location and traffic.

Two other well known names in the sector are Fortis Vastgoed Ontwikkeling, a fully owned subsidiary of the financial conglomerate Fortis. The ambition of Fortis is to sustain the growth of the past few years. The other company is Ballast Nedam. The company as a whole is going through a difficult period, but the real estate development part is performing well.

Market share of private and institutional investors

The Dutch real estate market continues to receive a healthy interest from several different sources of funds. Private investors are the most important group. For the past three years they have been the largest investors on the Dutch market, accounting for 27.4%. In reality, the participation of private investors is even higher. According to Mr. de Clercq Zubli,

director of Jones Lang LaSalle, private investors fund half of the investments.

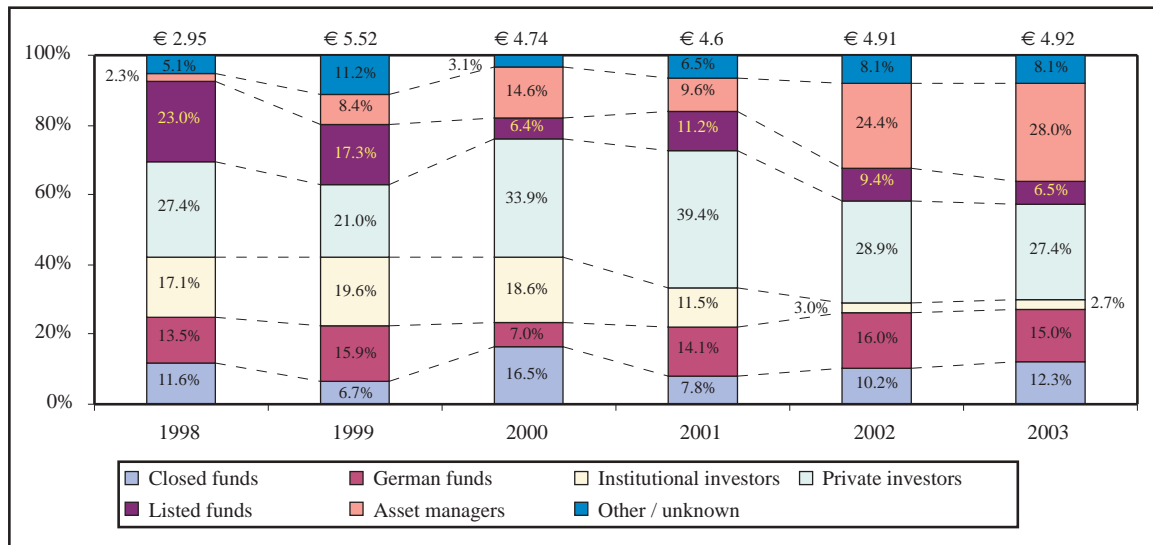


Figure 17. Real estate investments in the Netherlands, 1998-2003
(€ x billion)

Source: Property NL, Vastgoedmarkt.

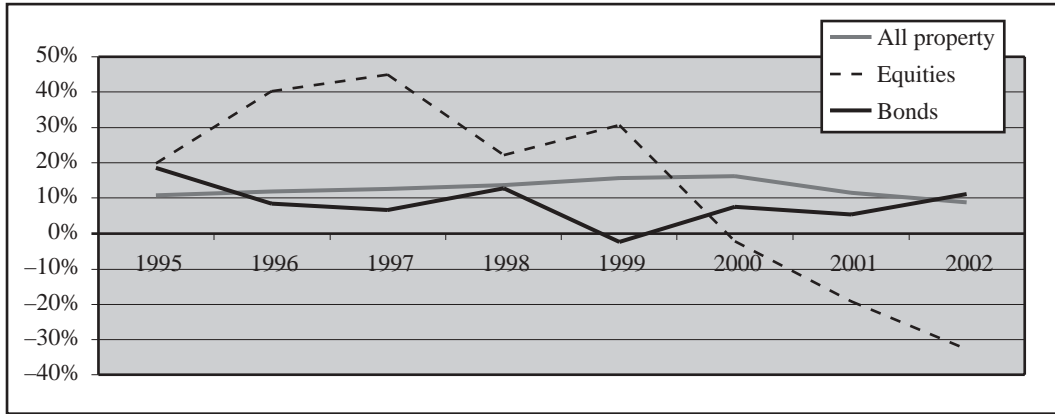
Definitions:

- Closed funds:** After the capital is raised the fund is closed. The raised capital is used for investments in real estate. During this time the fund cannot raise more capital, and returns are used to pay back investors until the fund is empty.
- Listed funds:** Real estate investment funds listed on the Dutch stock exchange. The fund has an open character and can increase and return capital as needed.
- German funds:** Closed or open funds from both institutional and private investors in Germany that are investing in Dutch real estate.
- Asset managers:** In general, financial institutions that manage investment portfolios for institutional investors. These portfolios can be either strictly real estate or a mix between fixed income, shares, and real estate.
- Institutional investors:** In the Netherlands this category consists mainly of pension funds. The numbers can provide a distorted view since part of the institutional investors also use asset managers.
- Private investors:** Private individuals that invest in real estate through several different legal forms.

Two family investment groups have taken listed investment funds off the stock exchange and into their private portfolio. Another group of private investors bought the residential real estate portfolio of the Shell pension fund. These are three examples of large transactions by very wealthy private investors.

The number of limited partnerships founded with the sole purpose of investing in real estate increased over the past years. Companies like Ibus Company, Global State Investments, MPC Capital, Bakkenist & Emmens, EuroAmerican Investors Group, Annexum and Zom are all focused on the market of Dutch private investors. After several adventures on the stock exchange the private investors are looking for a safe haven in the real estate sector.

Figure 18. Total return on property and other assets
(percentage)



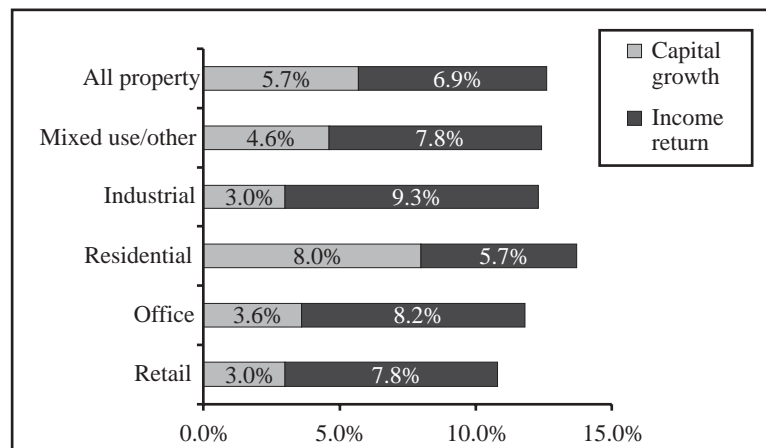
Source: Property NL.

The low interest rate is the second factor driving private investments, especially in real estate investment, where high leverage can be achieved. The eight-year annualized return on property is 12.6%. That average is well above the return that was achieved over the past eight years on the stock exchange. Even taking into account the Internet boom, the annualized return on equities is 9.5% (*Property NL*).

Foreign investors have become a constant factor in the Dutch market. German funds are by far the largest foreign investors, accounting for 90% of the foreign investors. The other 10% is bought by English, Israeli, Scandinavian, and American investors (*Financieel Dagblad*).

The total return in the past eight years in all the sectors is 12.6%. This high percentage is part of the reason for the interest from private and foreign investors. Even in 2002 the total return was still at 8.8%, with no sector performing below 8.3%. These returns are well above the rates currently available in Germany.

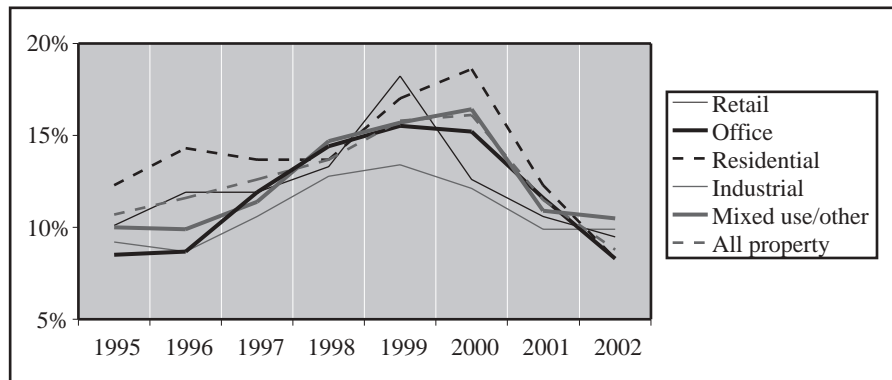
Figure 19. Total return on Dutch real estate
(8 years annualized, %)



Source: Property NL.

Transactions on the real estate market show no signs of a recession. In 2003 a level of 4.9 billion euros was achieved. The high dynamics of the market is due to the pressure on institutional investors to sell real estate in their total portfolio. The stock market has dropped so dramatically that the weights in their whole portfolio need to be readjusted. In their investment mandate, real estate is allowed to be up to a certain fixed percentage of the total portfolio. With the stock market down, the real estate needs to be adjusted as well. Private investors are the ones who are buying up these properties.

Figure 20. Total return by sectors
(percentage)



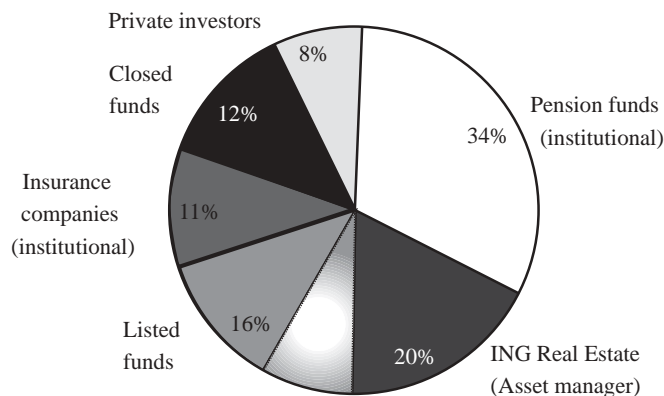
Source: Property NL.

Of all the sectors the residential sector is the most volatile, offering the highest return with the right timing. The retail sector is the worst performing, but at the same time offers the most stable return.

Institutional investors and investment funds

The magazine *Vastgoedmarkt* ranks institutional investors every year. This ranking offers a good insight into the main players in the Netherlands. The minimum value of real estate investment to appear in the ranking is 250 million euros.

Figure 21. Dutch Real estate investors
(Balance sheet value investments 2002, € x million)
100% = € 111 billion



Source: *Vastgoedmarkt*.

The only problem is that the some private investors are missing. Information on the value of the investment is not publicly available and therefore they are not in the list. For some of the limited partnerships an educated guess is made to make the list more complete. Figure 21 presents the value of the portfolios of the different types of investors. The fact that some of the data are missing and the difference between investment and balance sheet make any comparison with Figure 17 more complicated.

Institutional investors are for a large part pension funds, 20 in total. Accordingly, pension funds provide 34% of the total value of investments. ING Real Estate will even push the pension funds above 34%. ING does not offer a split between insurance and pension fund investments and is presented separately, also because of the size of the investments. It will be no surprise that ING Real Estate is the number one real estate investor in the Netherlands.

Figure 22. Real Estate investors in the Netherlands

Balance sheet value 2002 (€ x million)

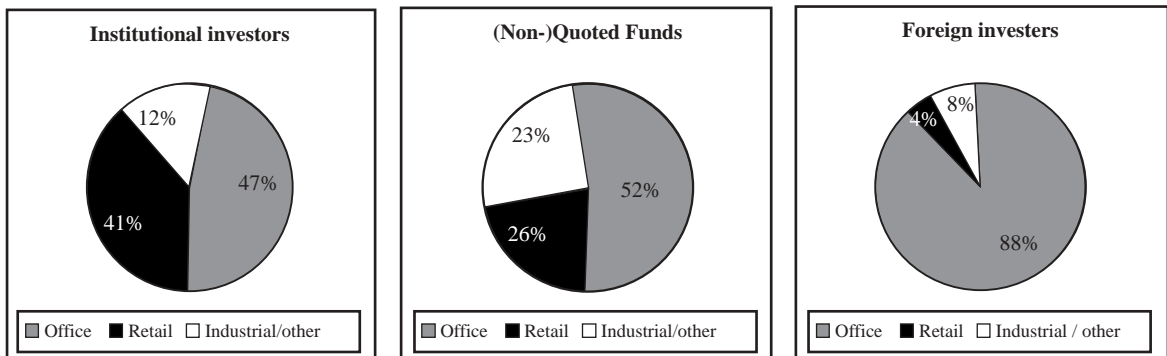
#	Company	Total	#	Company	Total	#	Company	Total
1	ING Real estate	23,933	18	Delta Loyd	1,860	35	Unilever	628
2	ABP	14,782	19	Amvest	1,663	36	KPN/TPG	615
3	PGGM	6,868	20	Hanze Vast / MPC	1,600	37	Global State	600
4	Fortis	6,558	21	Spoorwegen	1,325	38	Staalbankiers Real Estate	500
5	Rodamco Europe	6,445	22	AZL groep	1,220	38	Zom groep	500
6	Redevco	5,550	23	Kantoren Fonds Nederland	1,239	38	Ibus	500
7	Bouwnijverheid	4,497	24	Eurocommercial Properties	1,061	39	VHS	470
8	Vesteda	4,067	25	Bouwfonds Asset Management	1,000	40	Hoogovens	436
9	Achmea Real Estate	3,843	26	ABN AMRO Property Funds	984	41	Schildersbedrijf	425
10	Corio	3,627	27	Kroonenberg Groep	970	42	Newomij	390
11	Interpolis Real Estate	3,094	28	Nieuwe Steen Investments	930	43	Grafische bedrijven	360
12	VastNedgroep	2,912	29	KLM	907	44	Stork	356
13	Metaalnijverheid	2,222	30	Breevast	873	45	Akzo-Nobel	329
14	Aegon	2,211	31	Altera	775	46	SNS Reaal	328
15	Wereldhave	1,955	32	Q-Park	704	47	Media PNO	320
16	Uni-Invest	1,911	33	Rodamco Asia	701	48	Westersuyker	268
17	Philips	1,910	34	Dela	651	49	Zorgverzekeraars	258
						50	Euro American Investors	250

Source: *Vastgoedmarkt*.

Private investors are, as mentioned in the previous paragraph, not only represented in their own category. The non-quoted funds are mainly limited partnerships set up as investment vehicles for private investors.

The balance sheet value of institutional investors at the end of 2002 was 111 billion euros. For the past three years, around 85% of the total has been invested by Dutch investors. Of all the foreign investment, 90% has come from the easterly neighbor, Germany.

Figure 23

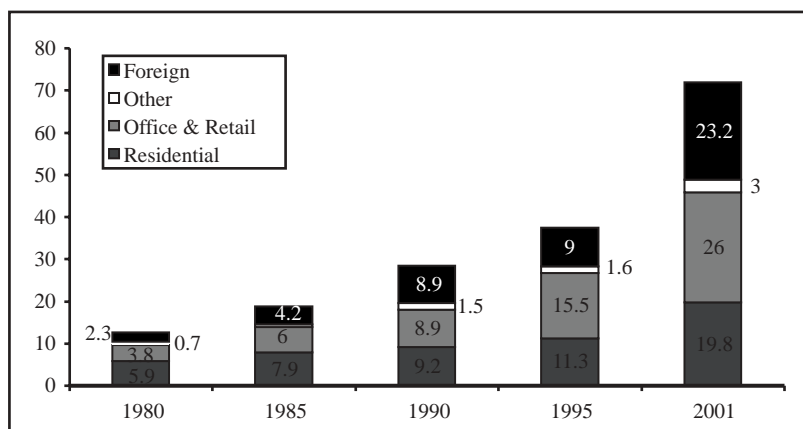


Source: *Vastgoedmarkt*.

The large pension funds have a clear split in their investments in commercial real estate. Office and retail are the bases, with a limited amount of industrial real estate. The (non-)quoted funds have more of a preference for the industrial sector. One explanation is that the limited partnerships are in this category. They are smaller and more locally oriented, hence better positioned to “cherry-pick” in the industrial sector. Foreign investors are focused on the office market. This market is the easiest to understand and the most transparent for foreigners. The retail sector is changing. This change depends partly on cultural changes, which are much more difficult for a foreign investor to understand.

All the direct investments by professional investors in the Netherlands confirm the strong position in the office and retail sectors. The two sectors account for 36% of all direct investments. Another clear trend is the investments abroad by Dutch professional investors. In 1980 only 18.5% was invested abroad, whereas in 2001 32% of all direct investments were made outside of the Netherlands.

Figure 24. Direct real estate investments by professional investors (€ x billion)



Source: *Vastgoedmarkt*.

Total direct investments over the past twenty-one years have increased by 8.7%. Foreign investments have increased by 17% over the last six years. It can be concluded that Dutch real estate investors are entering the international playing field. ING has been building a portfolio in Eastern Europe and Spain. Fortis announced the investment of 2.5 billion euros in five Spanish real estate projects.

Legal and tax environment of real estate investment companies

The Netherlands offers a fiscal advantage to investment vehicles (FBI). Returns are not taxed at the level of the investment vehicle but only at the level of the shareholder. One of the most important conditions is that the company is only allowed to invest. No business activities are allowed.

This tax shield is also often used in real estate in the Netherlands. An example is the quoted fund Rodamco, which has this FBI fiscal status. Currently, there is discussion about the definition of investment in the real estate sector. Other investment vehicles that invest in shares can have the same status. The companies in which they own shares will themselves try to create ongoing future value. In real estate, an investment needs to be made to maintain the quality of the real estate. The current point of view is that maintenance, development or re-development in the real estate sector is a business activity and therefore is not allowed. The obvious argument is that the investment vehicles want to be able to maintain the value of the property by “investing”, not through a business activity.

Other countries have a similar status: The Belgian Bevak's, the French SIIC's, the US Reits (real estate investment trust), Jreits, Sreits in Singapore and the Australian Trusts. The increasing cross-border investments and possible mergers in Europe would be less complex if at least Europe could have one status.

Listed real estate funds

Corio

After the merger between VIB and the retail fund of the ABP, pension fund Corio originated in 2000. In 2001 the Trema portfolio was acquired. At the end of 2002, Corio had an investment portfolio of 3.6 billion euros, of which 70% was in retail and 24%, in office real estate. The ten largest projects accounted for 30% of the portfolio.

Corio is conservatively financed, leaving it with at least 1 billion euros for further investments. When the market picks up, the office portfolio will be further decreased to focus only on retail. Corio's shares have behaved in line with the GPR 250 Europe index, with a positive rally at the beginning of 2003.

VastNed Offices/Industrial

The portfolio of VastNed O/I had 11% vacancy in 2003, slightly above the market average. The former management claimed that the portfolio was very resistant to an economic downturn. The reality proves different. The properties of VastNed O/I are not A1 locations. A large part of the portfolio is in Belgium, where it owns property on the outskirts of Brussels with vacancy rates of up to 20%. Management intends to reduce the portfolio from 1.29 to 1 billion euros. The proceeds of the sales will be used to lower the level of debt. The shares are worth half their value five years ago, and the end is not yet clear/in sight.

Nieuwe Steen Investments (NSI)

The portfolio of NSI has increased to 938 million euros, an increase of 94% compared to 2000. The portfolio is very diverse: office 50%, retail 30%, residential 9%, industrial 5%, and 5% in super size retail property. The objective is to reduce the weight of the office portfolio in favor of the retail sector.

The share price of NSI has developed in line with the GPR 250 Europe.

Wereldhave

Wereldhave originated in 1930, and in 1946 it gained a stock market listing. Wereldhave's strategy runs counter to that of most funds. Instead of specializing in a particular sector, a diverse portfolio is offered, with 51% office, 37% retail, and 12% each of residential and industrial. Furthermore, 20% of the investments are in the US, which is where Wereldhave sees the best opportunities. Wereldhave's strategy is based on renewal instead of specialization. The cheapest way to achieve that is by developing properties. The disadvantage is that the risk profile is different.

Wereldhave has been successful with its strategy. Since 1998 the profit growth has been 10%. On the other hand, the consistent discount of 20% on the share price in relation to the intrinsic value of the portfolio is not a good sign. Wereldhave's cashflow is strong and the portfolio consists of high quality property.

Eurocommercial Properties

The portfolio of Eurocommercial consists 85% of shopping centers in Italy, France and Sweden. At the moment there are difficulties in finding new opportunities in the retail sector. Last book year, a center in France and Sweden was acquired with the 50 million euros from the sale of new shares in May 2002.

Eurocommercial distinguishes itself with its strong vision of the market. Over the past five years this has been reflected in the 21% annual total return. This vision still creates a positive attitude towards the fund.

AM (Amstelland-MDC)

The focus of AM is changing towards European retail real estate. Development of new property is an important part of the strategy, accounting for 23% of turnover. The European retail sector yielded a return of 22% last year. The high return compensated for the 5% achieved on office property, which accounted for 24% of turnover. The merger with MDC still needs to be fully absorbed in the accounts. Some of the accounting practices, such as capitalizing upfront investment when bidding contests are won, need to be taken into account when looking at the results.

VastNed Retail

The portfolio of 1.6 billion euros of retail real estate is spread out over Europe. 34% is in the Netherlands, 21% in Spain, 15% in Belgium, 12% in France, 15% in Germany, 2%

in Italy and 1% in Portugal. The German properties are the problem in the portfolio. A significant write-off was made last year to achieve a more realistic book value. Still VastNed has not been able to sell the properties in Germany. The vacancy rate is low at 3.3%. Most of the property is in the middle segment of the market. The value of the portfolio is not expected to rise in the near future. In the future, VastNed has its eye on the South of Europe, where it expects more opportunities than in the North of Europe.

Rodamco Europe

Rodamco Europe originated from the split of the Rodamco fund into the Europe and Asia funds. Rodamco Europe has grown to an invested value of 6.5 billion euros. The growth has been achieved mainly through the acquisitions of Piren from Sweden, and Amvest and Rodamco Retail Netherlands in the Netherlands. In the past, Rodamco has focused on the retail sector. As a consequence, 80% of the portfolio is invested in that sector. The investments are in eleven European countries. Four of those Rodamco Europe considers as home markets: the Netherlands, France, Spain and Sweden.

After converting bonds last year, the leverage has decreased to only 30%. This makes Rodamco Europe one of the most defensive financed funds. There are 1.6 billion euros in projects in development that will eventually lead to a leverage around the “target leverage” of 45%.

Rodamco Asia

The investments of Rodamco Asia in Asia are opportunistic and without a clear strategy. The focus has shifted from Southeast-Asia to North-Asia. South Korea and China already make up 60% of the portfolio. Rodamco Asia invests in all sectors, office, retail, and residential. The question is what an Asian fund is doing on the Euronext stock exchange, with of course a quotation in euros. Considering that the exchange rate risk is discounted in the share price, it can be an interesting investment. With some knowledge of the real estate cycle in Asia, decent returns can be made with a slightly higher risk profile.

Mortgage market

The Dutch mortgage market can be characterized as mature. The types of mortgages are highly varied, and mortgages can be “tailor-made” if requested. The distribution channels are well developed, as margins for intermediaries on mortgages are decreasing.

Characteristics of the market

The providers of debt in the Netherlands have traditionally allowed high percentages of the real estate value to be taken up as mortgages. Dutch tax laws allow deduction of the interest on a mortgage from gross income. The tax laws have changed over the past years but still are very favorable towards ownership of real estate.

Privately held debt related to own houses in the Netherlands was 363 billion euros in the second quarter of 2003. The 3.2 million mortgages had an average value of 113,000 euros. In 2003, new mortgages represented an average of 85% of the price of the house.

Before the boom years of the late '90s, the general rule for a mortgage was a maximum of three times gross income. During the boom years, banks allowed up to five times gross income as the maximum mortgage value, and up to 120% of the value of the property. As a result, young home owners under 25 spend 39% of their disposable income on their mortgage and interest payments. More recent, older buyers, since 2000, are at 29% of their disposable income, and the overall average is 24.7%. The figures show that in the past few years the attitude toward personal debt has become more risk-seeking (*Cijfers over wonen*).

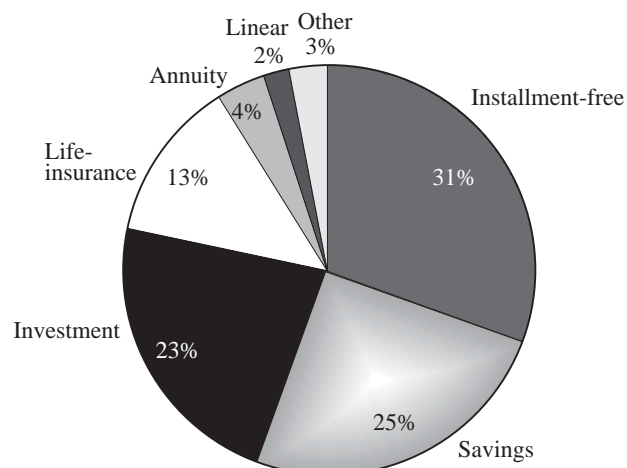
Total debt of private individuals in the Netherlands was 438 billion euros in 2003. Mortgages account for 83% of that total (66.3% in 2000). An additional 11.4% is consumption-related debt. This is a very high percentage compared to 58% in Spain in 2003. The total debt of Dutch households as a percentage of their gross disposable income reached 97% in the second quarter of 2003, compared to 82% in 2000 (*CBS, Het jaar in cijfers*).

The average percentage of disposable income spent on housing by all Dutch households is 34%. The percentage spent on mortgages mentioned above, with the exception of the young generation, is not disproportional. Over the past years, the percentage of income spent on housing even declined from 37.4% in 1996 to 34%. Furthermore, over 95% of the mortgages have a fixed interest rate, which decreases the risk of a crisis if the interest rates rise. The conclusion seems to be that maybe except for housing the Dutch are very cautious when it comes to borrowing for consumption. In a historical perspective this behavior is in line with the (in the past) very popular Calvinistic belief in leading a sober, devout life. The spending of money before it is earned cannot coexist with the Calvinistic way of life (*CBS, Cijfers over wonen*).

Types of mortgages

The market for mortgages has developed considerably over the past 15 years. The number of different products and the fact that the most basic ones, such as linear and annuity mortgages, are a small percentage of the market are indicators of the maturity of the market in consumers' minds. The purchase of a house is generally the largest purchase any private individual will make. The openness to different forms of financing shows the mature state of mind of consumers concerning financial products. Only 13% of houses in the Netherlands are free of any mortgage. Around 73% of houses have one, and 13% have two mortgages. The tax benefit of being able to deduct the interest from income tax is one of the drivers of this high percentage.

Figure 25. Market share of different types of mortgages among new mortgages

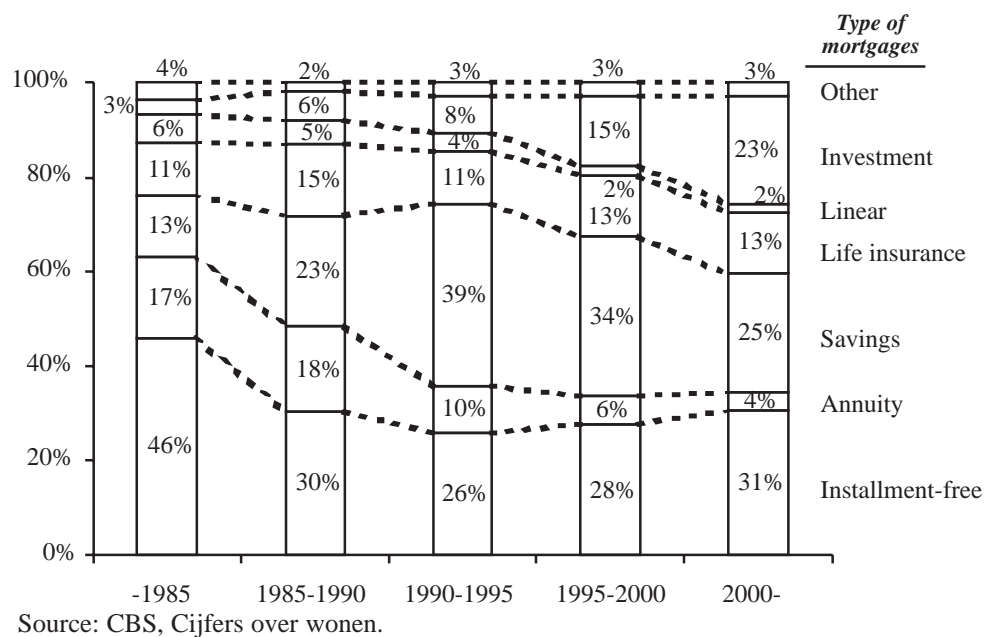


Source: *Cijfers over wonen*.

Preferences for particular types of mortgages are very much linked to the age of the house owner. In the over 55 age group, more than 50% are installment-free. This is a logical choice, bearing in mind the lesser pressure on disposable income and the lesser need to accumulate more capital. In the up to 44 age group, the savings type is the most popular. The younger the homeowners, the more diverse their preferences in type of mortgages. The explanation is probably that investment, saving and life mortgages (73% of market) are all reasonable choices over a period of 30 years. The difference is in the risk profile.

In this respect, it is worth noting that investment mortgages were very popular in the late '90s, but often they had to be restructured in the past two years due to the crash of the markets.

Figure 26. Demand for type of mortgages



Most of the mortgages that have been signed in the past years are for a term of 20 to 30 years. The average mortgage in the Netherlands still has a term of 18 years left.

To reduce the risk for homeowners, it is possible to buy a guarantee on your mortgage. The guarantee costs 0.5% of the total amount and is paid to a government foundation. The purpose is to create a guarantee that the mortgage will be repaid in case of divorce, illness, loss of job, etc. The guarantee can only be used on houses with a maximum value of 230,000 euros. The Dutch state and local authorities back the foundation in case of need. The interest on a mortgage can decrease by up to 0.5% when a guarantee is bought.

Mortgage providers

In the Netherlands there are a large number of national and international institutions offering mortgages.

A similar process has taken place in the Netherlands as in Germany and the United Kingdom. Initially, the banks offered only their own mortgage to their customers. Then, intermediaries started to offer products from different banks and other financial institutions.

The intermediaries sector grew quickly. They only offer products from financial institutions and are not allowed to offer investment advice. Consequently, there is no regulation concerning the quality of the personnel and the advice offered. This has resulted in a very developed market of intermediaries.

Two large franchise chains have grown from this development, both with over 200 offices: Hypotheker and Hypotheekshop. The Hypotheekshop is a franchise started by the real estate agents association (NVM). Common practice was to have a real estate office and a mortgage shop a few blocks away. Conditional sales were not allowed neither practiced, though the preferred supplier for a mortgage was clear.

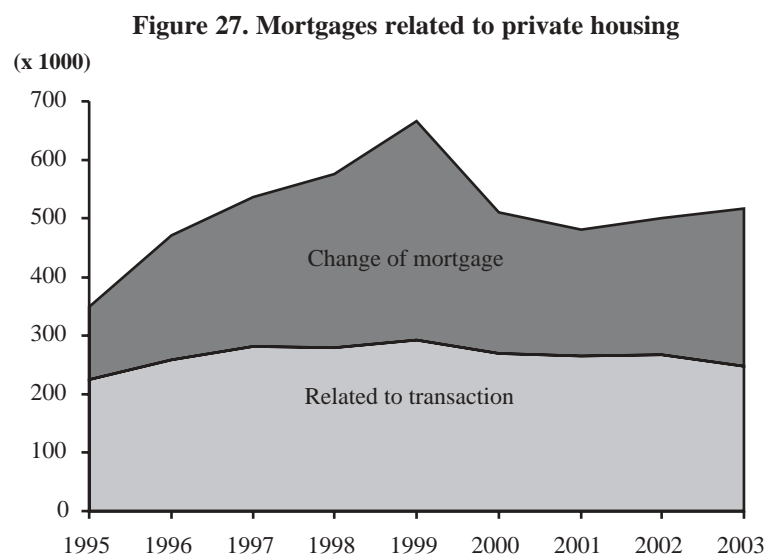
As the market matured, mortgage stores started to offer insurance products, while insurance intermediaries started to offer mortgages. During the stock exchange boom in the '90s, financial management and investment management were added. The same rule applies for investment products: offering investment advice is prohibited. Investment advice is under the control of the Dutch National Bank.

The reason for success was the same as with mortgages. The banks offered only their own products, whereas the intermediaries offered products from up to 1000 different financial institutions. The number of institutions offered creates the image of independent advice. The business model, though, is still commission-based, where the financial institutions pay instead of the client, undermining the intermediaries' independence.

Due to the lack of regulation, there is no trusted market data available. Income of most intermediaries is not reported, and when it is, it is not split into the different products. Over the last five years, several industry organizations have arisen to develop a quality control system. In the mature market, certification will allow segmentation.

Secondary market

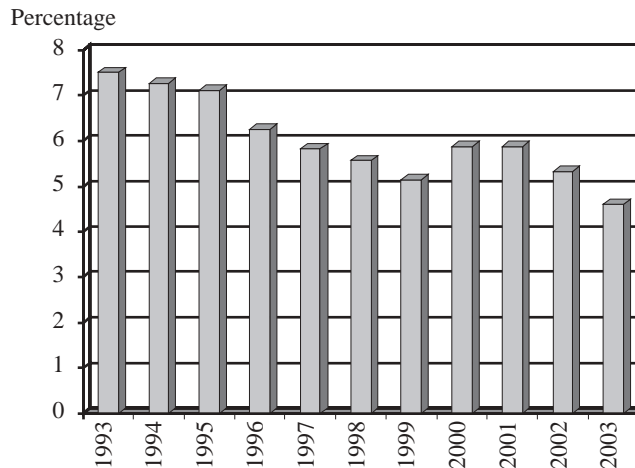
The decline in the interest rate has had the same effect in the Netherlands as in other countries: change of mortgage. In 2003 the number of mortgages for newly purchased property decreased by 6.8%, while the total number of mortgages grew by 3.6% to 518,000. The graph below shows the total number of mortgages negotiated since 1995 (*Cijfers over wonen*).



Source: Cijfers over wonen.

The relationship between the mortgages that are not transaction-related and the interest rate is clear, with 1999 as a high point. The current low interest rate does not appear to provide a significant enough difference with 1999 to provoke a similar rally in new mortgages. The fees charged for closing the old mortgage and opening the new one are probably the reason.

Figure 28. Average mortgage interest rate



Source: CBS.

The rally in new mortgages and the lack of structure in the intermediaries industry eventually led to the bankruptcy of a lot of intermediaries. The commission offered to the intermediaries is conditional on the fact that the mortgages are not cancelled within the first three to five years. The very aggressive sales tactics of some intermediaries resulted in a claim for repayment of commission to other intermediaries. Since the sales persons worked on variable salaries, the commissions were a significant part of income. Hence the commissions were assumed income at the moment of signing the contract. The claim for repayment often resulted in insolvency for the intermediary. □

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