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# Briefing Note
# Residential market: new regulations and more investments

Summer 2014

## Fundamentals

The Dutch housing market is clearly recovering. House prices have seen a 2.4% yoy increase in April and the number of sales increased by 34% in the first four months of 2014 compared to 2013. At the same time GDP is expected to grow this year with 0.8% and consumer confidence has improved to -2 in May 2014 from -19 in December 2013.

## Supply and demand

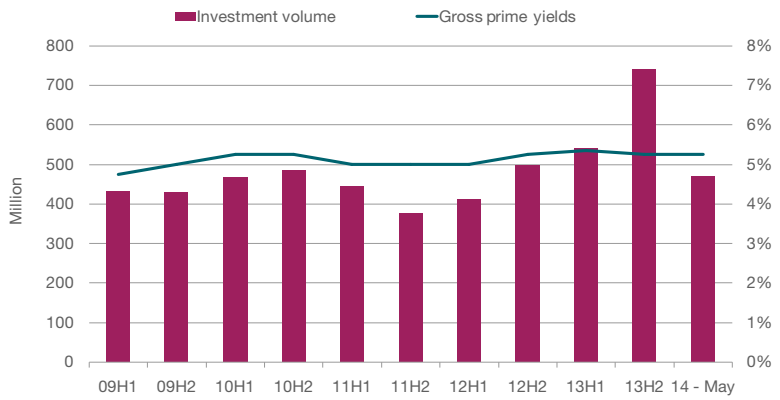
New demographic forecasts by the National Statistics office indicates a steady increase of the number of households (11.8% or 900,000 households) until 2040. Single person households will see the largest growth and will make up 44% of all households in 2040. Within this group the growth of elderly households, over 65 years of age, will be the dominant force and they will make up 49% of all single person households in 2040. The 30 largest cities will face the largest household growth and especially those situated within the Randstad conurbation.

As new residential completions have been limited since the start of the economic crisis, the housing shortage will increase substantially in the most favourable parts of the Netherlands, pushing house prices upwards. NVM data regarding Q1 2014 shows that house prices in the Netherlands have on average increased by 2.0% yoy, while in Amsterdam they rose 6.5%.

Data from Pararius shows that home-owners wanting to sell their homes during the recession increasingly moved towards the rental market, thus providing for a larger supply. Since prices in the home-owner market started to bottom out a year ago, they are putting their homes up for sale again and over the past year the total supply of private rental houses dropped by almost 24% and this had a positive effect on rents, which rose by 0.7% over the past year.

GRAPH 1

**Residential investment volume Netherlands:** Investors appetite peaked in H2 2013




Graph source: Savills

Demand is especially large for the non-regulated segment between €700 and €1,000 per month in the larger cities.

## New housing regulations

Recent changes in national housing regulations affect both housing associations and commercial investors on several aspects. Not only in the regulated housing segment but also the non-regulated.

First there is the landlord tax (Dutch: verhuurdersheffing), which will be charged to any entity leasing more than 10 dwellings within the regulated housing segment. The tax is calculated as a percentage of the WOZ-value and these percentages have been set for the coming four years. This landlord tax severely limits the investment capacity of housing associations as well as private and institutional investors and a number of new housing developments are postponed or cancelled. In order to compensate for these losses housing associations cut costs, increase rents when possible and sell of their non-core assets.

Next there are changes within the Dutch point system. This system is used to define whether a rental unit can be regarded regulated or non-regulated and it sets the maximum rent for units within the regulated sector.

The WOZ-value will be incorporated in the point system in order to have a stronger correlation between rents and actual market value. This will open up opportunities to increase rents in the popular markets, like Amsterdam. On the other hand it might have limiting effects on rents in areas with low WOZ-values. Recent calculations

indicate a potential shift of one million regulated houses towards the non-regulated segment as a result of this act. Mind that rental increases can only be implemented with new leases and mobility in the regulated segment is low.

International investors often view the point system as a hurdle for investing in the Netherlands, not so much the system as such, but especially the uncertainty of potential future changes within this system.

Since a significant share of social housing is occupied by higher-income families, a new regulation is set which enables both housing associations and investors to increase rents for these families up to 4% per annum on top of the CPI indexation. The aim is to enforce these higher income households to move to the non-regulated rental market or the owner-occupier market and thus free up space in the regulated market.

Due to these and other regulations housing associations are forced to focus once again on their core-business, providing affordable housing for lower income households. This will cause housing associations to reduce non-core activities and will likely further increase total investment volumes.

## Investment volumes up

The recent investment volumes are boosted as a result of increasing interest from investors in the residential market. The investment volume in 2013 totalled €1.3bln, a 41% increase compared to the year before and was again getting closer to the office investment volume (€1.9bln).

> "Sound fundamentals and portfolio disposals from housing associations will push investment volumes upwards."
> Jan de Quay, Netherlands Investments

Institutional investors make up for a large share: 27% in 2013 and even 38% in 2014. These are mainly pension funds and insurance companies looking for stable returns and a good hedge against inflation.

## International investors moving in

Savills witnesses increased interest from international investors as prices are relatively low and bottoming out and as regulations seem to open up more possibilities for investors. This provides for potential increases in indirect returns on their investments in the non-regulated segment. In both the regulated and the non-regulated segments rents in the most popular areas are likely to increase, pushing direct returns on investments upwards.

The first case of international investors entering the Dutch residential market concerned the recent purchase by German based BNP Paribas REIM of a 265 unit residential portfolio from Amvest for around € 40m. And since we know that a number of international investors are preparing bids for the well-known 6,595 unit Vestia portfolio, the second case might be soon and set a precedent for the coming years.

## Outlook

The market fundamentals of the Dutch residential market (growing demand and limited supply, relatively low price levels) makes it an interesting asset class, despite all regulations. And as housing associations will have to cope with new regulations they will consider selling part of their (non-core) assets. Savills therefore expects an increasing number of transactions between housing associations and (international) investors. Only when houseprices will rise substantially, the market will become less attractive for buyers with a more opportunistic approach.

Gross initial yields will remain stable at 5.25% for the coming year.

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