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Savills World Research
The Netherlands residential

Spotlight
Residential property market The Netherlands

Q4/2016

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INTRODUCTION

Not a day goes by without some sort of residential news showing up in the headlines. Since 2014 this news has generally been positive, with prices going up, new residental (re)developments popping up everywhere and even outcries that Amsterdam is becoming overheated.

This report starts with the economic fundamentals and the general demand and supply side characteristics. Next, regional differences as well as the major challenges of the residential market and differentiation at the supply side are handled, followed by a paragraph on new developments and conversions. We will conclude the report with an analysis of the investment market and a round-up of the key findings.

1.7%
GDP growth in 2016

7.0%
House price increase Q3 2016

+12
Consumer confidence at highest point in 9 years

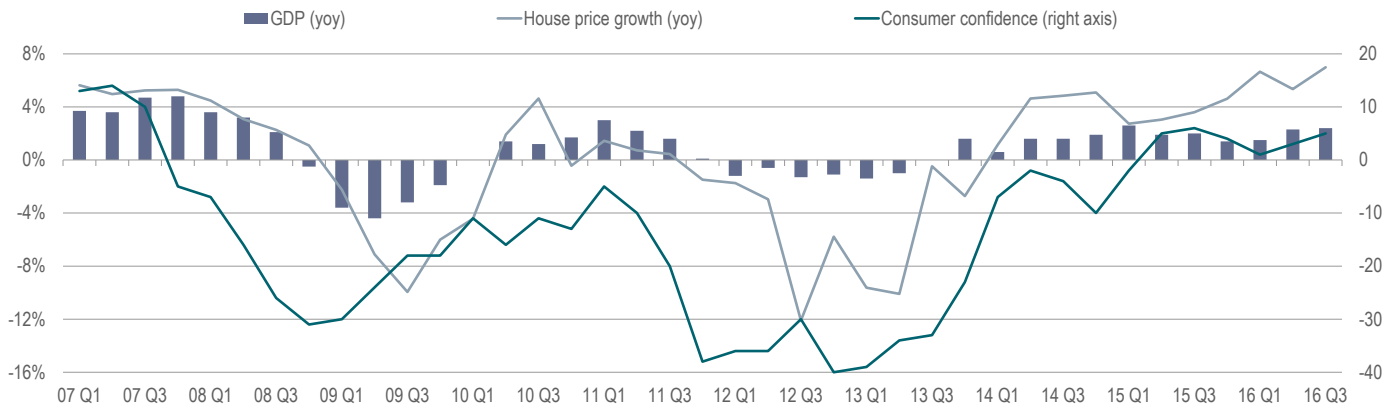
ECONOMY

Economic growth in the Netherlands continued in Q3 2016 by 2.4% yoy and was substantially higher than the EU average (1.8%) and surrounding countries (Germany 1.7%, Belgium 1.2%; UK 2.3% and France 1.1%).

Unemployment decreased at a higher rate than the European average and dropped to 5.6% in October 2016, while house prices increased 5.6% yoy in October. Consumer confidence grew to +12 in October 2016, the highest level in more than nine years. Coupled with increased consumer spending (+0.9%) and further growth in exports (+4.6%), this resulted in positive business and producer confidence. Business confidence stood at 9.2 in October 2016, well above the long term average of -2.0, while the producer confidence rose to 4.3 in October, also well above the 0.6 average.

GRAPH 1

Economic key factors Economic growth, house prices and consumer confidence (2007-2016)



Source: CBS

DEMAND FOR HOUSING OUTSTRIPS SUPPLY

According to the most recent PBL/CBS forecast the total number of inhabitants in the Netherlands is forecasted to grow by just over 1 million to a total of 18.1 million people (+6.0%) in the period 2017 - 2040.

The percentual growth in number of households is even larger: +9.2% in the same period. In actual numbers this relates to a growth of 720,000 households, or 30,000 households annually. Growth is substantially higher in the first period, up till 2030, when the number of households grows by 42,300 per year.

In order to cover the increase in number of households as well as the regeneration of the housing stock between 80,000 and 90,000 new dwellings have to be realised annually, excluding potential additional demand from refugees.

As can be seen in graph 2 the number of granted building permits reached 53,500 in 2015 and 28,700 in the first 8 months of 2016. Compared to the 80,000 to 90,000 new dwellings needed, this is by far not enough. As a result the gap between demand and supply will only increase further.

Forecasts by the national government* indicate that this shortage will grow to around 202,000 dwellings in 2020 and then slightly drop to 186,000 in 2025 and 176,000 in 2030.

While house prices are very dependent on short term fluctuations, like the interest rates and consumer confidence, this long term development will have a price uplifting effect in all submarkets that see demand outstrip supply.

"As household growth is outstripping new developments, the housing shortage will only get larger."
Bas Wilberts, Savills Alternative Investments

REGIONAL DIFFERENCES

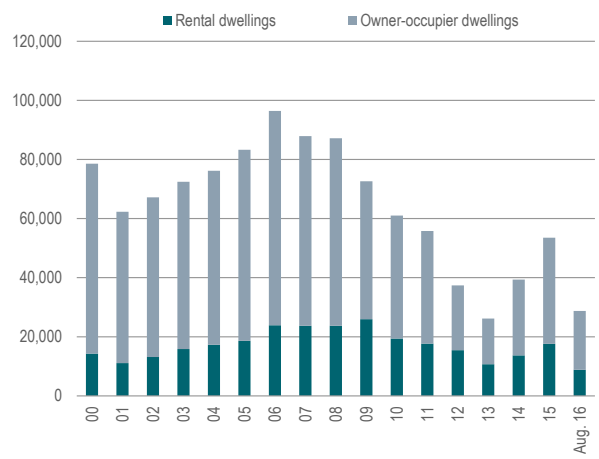
The above mentioned PBL/CBS forecast also shows that regional disparities are large as urban and rural areas continue to diverge. Cities are attracting most of the projected population growth and especially smaller, peripheral municipalities will see further decline in their population.

The population growth is largely concentrated in 100,000-plus municipalities and is strongest in Amsterdam, Rotterdam, The Hague and Utrecht. These four cities are collectively responsible for a third of the total population growth, bringing Amsterdam towards a million inhabitants. The municipalities neighbouring these large cities will also expand, as will Randstad cities like Almere, Haarlem, Hoofddorp and Amersfoort.

Outside of the Randstad, growth is concentrated in Noord-Brabant, especially in the larger cities, being Tilburg, Eindhoven, Den Bosch and Breda. In the other parts of the Netherlands larger cities, often university towns, show substantial forecasted growth (Zwolle, Arnhem, Nijmegen, Ede, Groningen and Leeuwarden).

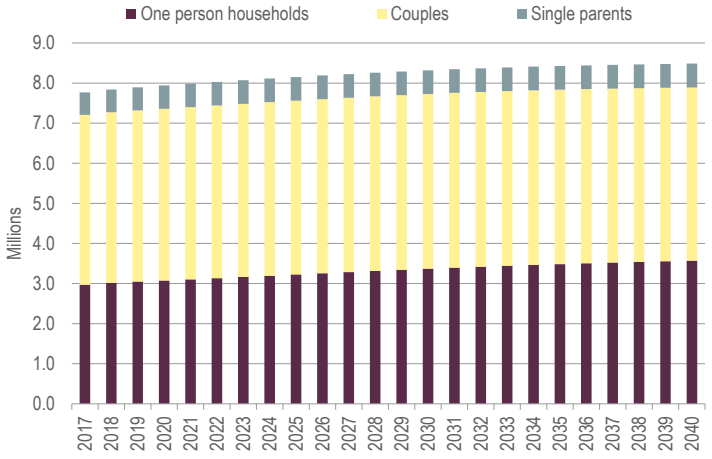
* Ministerie van BZK, 2016, Cijfers over Wonen en Bouwen

GRAPH 2
Building permits / constructions 2000 - 2016



Source: CBS

GRAPH 3
Growth in households 2017 - 2040



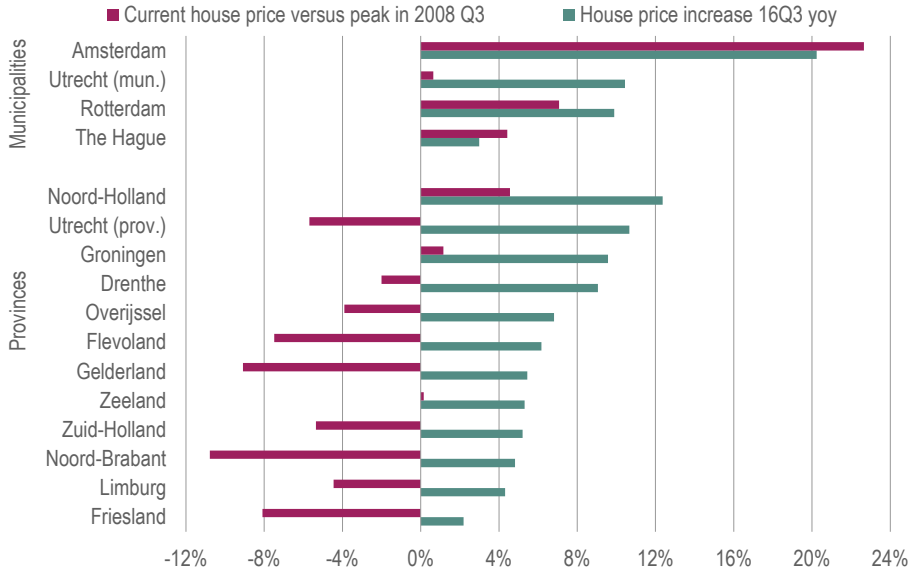
Source: PBL

Regional differences also show in the disparity in house prices. NVM data on house prices shows an average increase within the Netherlands of 7.4% yoy. Actual data on local level however fluctuates from 22.2% in Amsterdam and 10.4% in Utrecht to -1.6% in Zuidoost Groningen and 0.8% in Weert.

GRAPH 4

House prices

Within all four large cities house prices are now above the 2008 peak



Source: CBS, Savills Research

MAJOR CHALLENGES

The first challenge within the Netherlands is to house the aforementioned 720,000 new household in the period up till 2040. While the focus is on cities and intensifying land use, new greenfield developments are likely also needed.

The household increase mainly concerns one-person households. In 2030 around 40% of the population will be a one-person household and 40% of those households will be elderly people (> 65 yrs).
New housing developments should aim at this growing group, but a full understanding of the housing preferences of elderly people and their general reluctance of moving away from their home and their neighbourhood, is essential. And as many of the elderly wil only move at the latest possible stage in their lives, demand from other target groups also needs to be addressed.

A complicating factor in this is the fact that smaller towns, especially at the fringes of the Netherlands, are ageing faster than large cities. While this is a relative new trend, starting at the beginning of this century, the effects will be profound: in 2030 the average share of people over 65 living in cities will be 17%, compared to 26% for rural areas. As the older age groups will increase in these areas, it will be difficult to convince investors to invest here, as these are also the areas with decreasing population and thus a lack of (alternative) future use. The increase in house prices limits the affordablity of housing in the Netherlands. Within the Netherlands the social housing market is large, but has strict income thresholds. The owner-occupier market is supported via the mortgage deduction scheme, pushing prices upwards, especially in the current tight market. This leaves the (unsubsidised) private rental market as a third option for households with incomes too high to be eligible for social housing, but too low to afford an owner-occupier dwelling.

This private rental market is small however and consists of around 330,000 units in total, limiting the choice for residents and thus pushing rents upwards, resulting in residents in this sector having to pay a much larger share of their income on housing than residents in the social housing or in the owner-occupier sector. Enlarging the private rental market is therefore an essential part in improving the housing sector.

DIFFERENTIATION

As mentioned before, one of the major challenges is the large increase of one-person households. This is also reflected in the specific demand for certain types of dwellings, as is the case for good quality, yet affordable, student housing. In the period 2016-2020 around 20,000 new student units will be developed in the Netherlands, of which about a third in Amsterdam.

Young professionals also choose to live within the larger cities, as they prefer to stay within vibrant environments and as jobs are also increasingly concentrated in the larger cities. Housing prices in these cities therefore increased substantially in the past few years. Investors are now aiming at realising compact apartments, in order to keep accommodation affordable for these young professionals. Dwelling types such as micro-apartments (self-containing apartments of 20-35 sqm, often with shared additional facilities) can provide in this demand. Parties such as Change= plan to develop at least 10,000 houses of this type in the years to come.

These type of dwellings are also suited for short stay, a substantially growing group within the residential sector. While hotels also provide possibillities for these groups, take for instance the new to be developed 115 room extended stay hotel by Prem Group in the Hour Glass building at the Amsterdam South Axis, they are also an important target group for housing investors, such as Vesteda.

At the opposite side of the housing spectrum the high-end housing developments are taking place, aiming at the high net worth individuals. Just this year first a new to build 1,440 sqm apartment at the Pontsteiger in Amsterdam was sold for over € 15 million, while later in the year this record was broken by Justin Bieber purchasing a 1,225 sqm apartment at the Dam square in Amsterdam for € 24.5 million.

Photo: Sybolt Voeten - Foto Architectenbureau Alberts & Van Huut Archief

DEVELOPMENTS & CONVERSIONS

While not nearly enough, there are a large number of residential developments taking place. West of Utrecht the largest development in the Netherlands (Leidsche Rijn, 31,000 new dwellings) is still underway. And due to the increasing population, Amsterdam recently (re)launched and/or accelerated plans such as the new island IJburg 2 (6,500 dwellings) and the further development of Zeeburgereiland with the Sluisbuurt (5,500 dwellings). Also at the South Axis still about 7,000 dwellings are planned to be built.

TABLE 1

Transformations All sizes, everywhere

City	Address / project name	Former use	New use	No of units
The Hague	Maanplein	Office	Apartments	250
Nieuwegein	Wattbaan 27	Office	Apartments	77
Amsterdam	Wibaut 80	Education	Apartments	162
Haarlem	Verspronckweg	Education	Apartments	TBD
Amsterdam	Zandkasteel	Office	Apartments	500
Hoorn	Tax office	Office	Apartments	49
Helmond	Stationsplein	Office	Apartments	80

Source: Savills

Conversions contribute significantly to the growing residential stock. National Statistics stated that in the period 2011-2015 a total of 26,000 dwellings were created due to conversions, mostly of empty offices. This trend will continue for the years to come, as this year again a fair share of (office) buildings have been bought with the aim to convert them into residential stock. This is not restricted to the large cities anymore, but is happening all over the Netherlands.

Next to the individual transformations complete areas are being transformed and residential (re)developments play a crucial role in these projects. Examples are the industrial Binckhorst area in The Hague, where 5,000 dwellings will be added, Holland Park (former office location Bergwijkpark) in Diemen with 3,000 dwellings and Teleport/Sloterdijk in Amsterdam, where 2,500 dwellings will be added.

Other major redevelopment projects in Amsterdam are the Bijlmerbajes (former prison planned to be converted to around 1,000 apartments) and Amstelkwartier, a former industrial site where a total of 2,200 dwellings are in the process of being realised.

INVESTMENT MARKET

The sharp increase in residential investments in 2014 continued in 2015 and 2016. In the first three quarters of 2016 already close to € 1.9 billion was invested in this sector, compared to around € 1.6 billion in the first three quarters of 2015. Taking the fourth quarter market activity into account it seems likely that the final investment volume will top that of last year.

Supporting these investment levels are the growing number of new developments. While many of them are aimed at the owner-occupier market the share of rental developments is increasing substantially. Investors opt for these developments as it remains hard to find enough product in the existing residential market, as these developments provide for high quality stock and as in the high-pressure markets fully let residential complexes have a higher return as an investment product than when sold to owner-occupiers. The latter is unprecedented and results in strong competition between investors, now all open for forward funding.

Note that in areas with lower pressure on the residential market this is not the case. Here new projects are very much aimed at the owner-occupier market, as the mortgage deduction policy interferes with a level playing field. At the selling side Savills witnessed a slight increase in housing associations selling assets, especially when located outside their core area, in order to limit management expenses and concentrate future investments. The favourable market conditions support selling assets and restructuring the portfolios.

Significant residential sales concerned among others the Sloterdam portfolio, sold to private investors, 612 units in the Rotterdam Blaak development sold to Greystar, an 832 unit portfolio sold to Woonhave, two portfolios sold to Round Hill Capital (980 and 954 units respectively), a 1,275 unit portfolio sold to Patrizia and 1,100 units sold to QSP ESS in two portfolios.

International investors remain important buyers in the first three quarters of 2016, but the largest share has been taken up by Dutch investors themselves. The likes of Bouwfonds, Amvest, Altera, Syntrus Achmea, ASR, Woonhave and Vesteda are optimising their portfolios by adding new residential stock, mainly consisting of new developments.

YIELDS

Yields have strongly contracted over the past 12-18 months and currently stand at 4.25% gross kk. As investor interest remains large and fundamentals in both the rental and owner-occupier market strong, Savills expects a further contraction of residential yields.

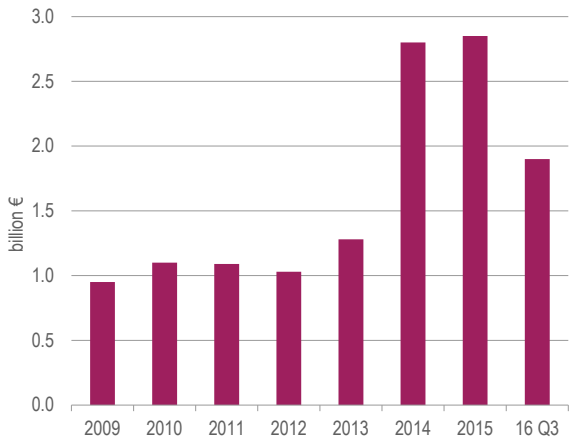
"In high-pressure markets returns on residential investments are now high enough to outcompete the owner-occupier market."

Jasper Leydes, Savills Alternative Investments

GRAPH 5

Residential investment volumes

Lack of large portfolios limiting factor

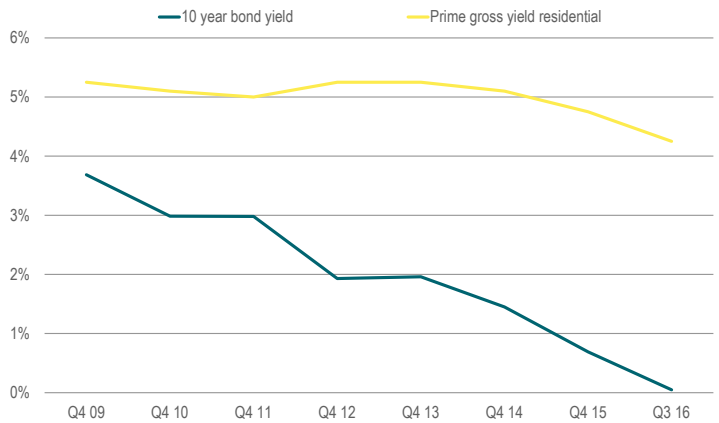


Source: Savills Research

GRAPH 6

Prime residential yields versus bonds

Gap increased from 150 bps to 400 bps



Source: Savills Research

KEY FINDINGS

As new developments fall far below what's needed to fulfill the housing need in the Netherlands, the gap between supply and demand is only getting larger

■ The Dutch economy is growing faster than the surrounding countries and expectations are also positive. This increases the attractiveness of the Netherlands as a destination country for (international) capital.

■ Up till 2040 another 720,000 new households have to be housed in the Netherlands. Growth is mainly found in the elderly single person households.

■ In order to facilitate this growth between 80,000 and 90,000 new residential units have to be constructed annually. As new developments have not reached half of this amount in the past years, demand shortage has been building up further.

■ Household growth is very much aimed at the largest municipalities, enlarging the regional disparity within the Netherlands. House prices in all four large cities are now above the previous 2008 peak, but are still behind in most other parts of the country.

■ In a number of cities, like Amsterdam and Utrecht, housing demand far outstrips supply, rapidly driving up house prices. As a result Amsterdam scaled up new developments and aims to deliver 50,000 residential units in the period 2015-2025.

■ Major challenges in the residential market include the growth of one-person households, the ageing of the population, the decrease of population at the fringes of the country and the affordability, especially within the private rental market.

■ The residential investment volume already reached close to € 1.9 billion and is likely to outperform last year's total of € 2.85 billion.

■ Unprecedented is the fact that in tense markets residential complexes have a higher return as an investment product than when sold to owner-occupiers.

■ At the sell side Savills witnesses a slight increase in housing associations dispositioning non-core assets (i.e. located outside their core areas and/or part of the non-regulated assets), also due to the favourable market conditions.

■ The largest investment share has been taken up by Dutch investors, as the likes of Bouwfonds, Amvest, Altera, Syntrus Achmea, ASR, Woonhave and Vesteda actively optimised their portfolios.

■ As investor interest remains large and fundamentals in both the rental and owner-occupier market strong, Savills expects a further contraction of residential yields.

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