

savills

Spotlight Residential property market The Netherlands

Q4/2017

**HOUSING BOOM
CONTINUES: REGIONS
INTO OVERDRIVE**

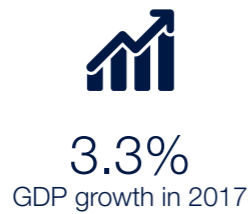


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INTRODUCTION

In 2016 we saw the outcries about the Amsterdam and Utrecht residential markets becoming overheated, which resulted in an increase of the average selling price of respectively 22% and 13% in only one year (compared to respectively 16% and 11% the year before). Now, a year later, we see the same developments going on in other parts of the country. Not only large cities within the Randstad area have shown high price increases, but smaller cities at the fringe of the Netherlands, like Weert in the province of Limburg or Waalwijk in Noord-Brabant, have also shown increases of more than 10%.

In this report we will further discuss the regional differences within the Netherlands, but first we start with the most important economic fundamentals and the general demand and supply side characteristics. We will conclude the report with an analysis of the investment market and a round-up of the key findings.



ECONOMY

The economic growth in the Netherlands continued in Q2 2017 by 3.3% yoy and was substantially higher than the EU average (2.3%) and surrounding countries (Germany 2.1%, Belgium 1.5%, UK 1.7% and France 1.8%; source: CBS/OECD).

According to Statistics Netherlands (CBS), unemployment dropped to 4.8% and consumer confidence grew to +26 in August 2017, the highest level in more than fifteen years. Coupled with increased consumer spending (+2.5%) and further growth in exports (+11.0%), this resulted in positive business and producer confidence. Business confidence stood at +15.5 in the third quarter of 2017, while the producer confidence rose to +5.4.

All these strong economic fundamentals have had a positive effect on the residential market in the Netherlands. House prices increased 9% yoy on average, and are expected to grow another 5% next year*.

* ABN AMRO, 2017, Woningmarktmonitor juli 2017

DEMAND FOR HOUSING OUTSTRIPS SUPPLY

The demand for housing has not changed much compared to last year. Until 2030, the number of households is expected to grow by 42,300 per year. A large part of this growth concerns one-person households. In order to cover this increase as well as the regeneration of the housing stock, between 80,000 and 90,000 new dwellings have to be realised annually.

In the first half of 2017 31,600 building permits have been issued, about 32% more than 2016 H1. However, compared to the demand as described above, this is not nearly enough. As a result the gap between demand and supply will only increase further. Forecasts by the national government* indicate that the total shortage will grow to around 202,000 dwellings in 2020 and then slightly drop to 186,000 in 2025 and 176,000 in 2030. Policies are expected to focus on improving the stock (volume and quality) by appointing a Minister of Housing, which indicated the importance of this task.

* Ministry of the Interior and Kingdom Relations, 2016, Cijfers over Wonen en Bouwen

REGIONAL DIFFERENCES

The population growth is largely concentrated in the Randstad area, especially in the cities Amsterdam, Rotterdam, The Hague and Utrecht (over 30% of the growth). The municipalities neighbouring these large cities will also expand.

Outside of the Randstad, growth is concentrated in Noord-Brabant, Gelderland and, to a lesser extent, in Overijssel. This is especially the case for larger cities with a research university, like Tilburg, Eindhoven and Nijmegen, but also in other large cities, like Breda, Den Bosch, Arnhem and Zwolle. In the other parts of the Netherlands some larger cities also show substantial forecasted growth, like Leeuwarden and Maastricht. Reasons for this are urbanization and the fact that people are looking for a cheaper alternative for cities like Amsterdam and Utrecht.

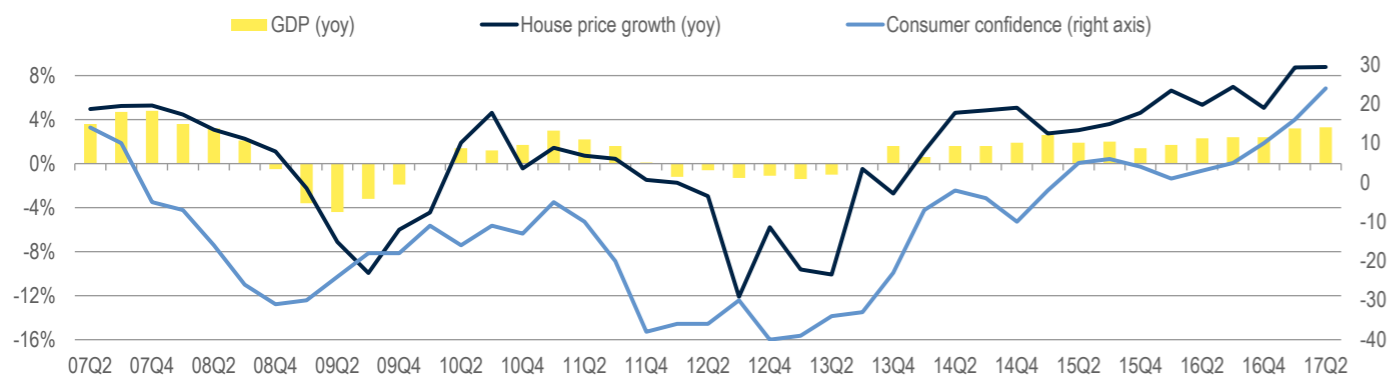
This partially is reflected in the growth of building permits. The provinces of Noord-Holland, Zuid-Holland and Noord-Brabant are responsible for more than half of all building permits issued. Large new developments are for example Hyde Park in Hoofddorp (Noord-Holland), with 3,000 to 4,000 dwellings, and Sluisbuurt in Amsterdam (5,500 dwellings). In the provinces of Noord-Holland and Flevoland, the number of building permits is even lower than

the forecasted average growth of households. This also goes for cities like Arnhem (Gelderland) and Helmond, Roosendaal, Den Bosch and Breda (Noord-Brabant). Considering the fact that a part of the stock also has to be regenerated, the gap between supply and demand in those provinces will grow significantly.

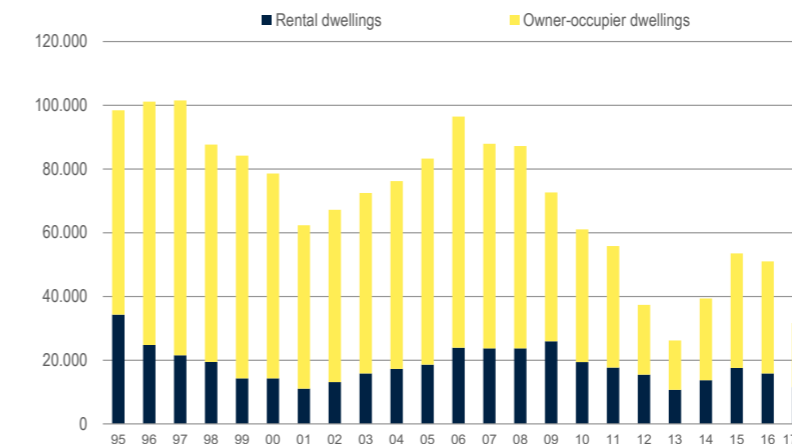
While it is positive that the overall number of permits in the first half year of 2017 was higher than the previous year (+32%), it is striking that especially the provinces of Noord-Holland and Utrecht show a relatively low growth (+19% and +18% respectively) since demand here is highest.

These regional differences also show in the disparity in house prices. NVM data on house prices shows an average increase within the Netherlands of 9.0% yoy, but actual data on local level fluctuates from 21.6% in Amsterdam and 13.0% in Utrecht to about 2%. There are a few small municipalities where prices decreased, but those are exceptions. Looking at provinces, all show an average growth of at least 5.0%, with Utrecht having the largest growth (more than 15%). Compared to Q3 in 2008, the previous peak in average selling prices nationwide, the prices in Noord-Brabant and Gelderland are about 5% lower. Considering the relatively low number of building permits issued in some large cities in those provinces, Savills forecasts a catch-up in those areas for the next period.

GRAPH 1 **Economic key factors** Economic growth, house prices and consumer confidence (2007 - 2017Q2)
Source: Statistics Netherlands (CBS)



GRAPH 2 **Building permits / constructions** 2000 - 2017
Source: Savills Research



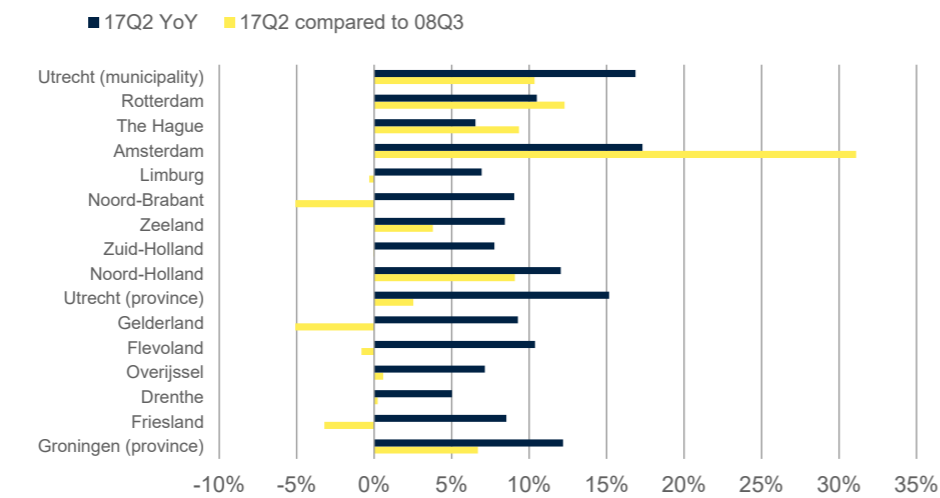
"Rents have been increasing more in fringe areas across the Netherlands than in the Randstad."
Bas Wilberts, Savills Alternative Investments

The scarcity is also reflected in rents. As opposed to selling prices, rental prices have been increasing in the whole country. Average rents in Amsterdam even reached € 22 per sq m per month, almost 40% higher than rent prices in 2010. Other big cities also saw an increase, ranging from +6% in Eindhoven to +17% in Utrecht in the same period. Of the largest cities, the largest increase yoy was Utrecht, with an increase of 7%. While rents in the big cities are highest, the largest yoy increase comes from provinces at the fringe of the Netherlands. Rents in Friesland, Overijssel and Limburg increased almost 10% and in Groningen even 17%. Rents in Noord-Brabant (+5.4%) and Gelderland (+4.3%) also increased considerably*.

GRAPH 3

House prices

Source: CBS



TYPE DIFFERENCES

In addition to regional differences, the demand for types of dwellings is also differentiated. As mentioned before, a large part of the demand concerns one-person households. While a growing share of those one-person households concerns the elderly, a large part of the demand also concerns students and starters / young professionals. This is reflected in the specific demand for certain types of dwellings such as care houses, micro-apartments, as is the case for good quality, yet affordable, student housing. In the period 2017-2020 around 22,000 new student units will be developed in the Netherlands, of which about a third in Amsterdam.

Developments for starters (including young professionals) are often also suitable for short stay, a substantially growing group within the residential sector. In order to distinguish themselves from the competition, branded living is becoming more and more important for these kind of developments, as we recently have seen in the student housing sector.

* Pararius, 2017, *Huurprijs vrije sector stijgt buiten de Randstad veel harder*

** RIGO (commissioned by the Ministry of the Interior and Kingdom Relations), 2016, *Wachten, zoeken en vinden - Hoe lang duurt het zoeken naar een sociale huurwoning?*

FUTURE CHALLENGES

In order to restrain the growing gap between supply and demand, a first step would be to house the aforementioned 42,300 households a year in the period until 2030. Especially in cities where the number of issued building permits is much lower than the average growth of households, new developments have to be initiated. At this moment the focus is still on cities and intensifying land use, but in addition new greenfield developments are likely to be needed.

Another challenge is the high demand for affordable housing in the non-regulated sector. This market is small and consists of around 469,400 units in total (about 6% of the total stock), limiting the choice for residents and thus pushing rents upwards. Enlarging the private rental market is therefore an essential part in improving the housing sector, as is enlarging the amount of affordable housing (rents of roughly € 700 to € 1,000 per month).

In the social housing sector (rents below € 710.68 per month) there is shortage of dwellings as well, especially in the larger cities. In Amsterdam for example the shortages in both categories resulted in a new policy which states that new residential developments have to consist of 40% social housing, 40% affordable dwellings (rental and purchase) and 20% for the free market. But the shortage in cities outside the Randstad region is also large. In cities like Arnhem, Nijmegen, Den Bosch and

Maastricht, the average waiting time for a dwelling in the social housing sector is about 6 years**.

INVESTMENT MARKET

In the first half of 2017 € 1.3 billion was invested in this sector, compared to around € 1.9 billion in the first half of 2016. This has more to do with a lack of product than a lack of investor appetite. Investment volumes increased much in Noord-Brabant (€ 100 million; +55%) and Zuid-Holland (€ 258 million; +87%). Taking the recent market activity and the objects on the market into account, Savills expects that the total residential investment volume in 2017 will be on a comparable substantial level as last year.

Supporting this is 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. Examples are the aforementioned Hyde Park in Hoofddorp, and The Valley at the South Axis in Amsterdam. The latter concerns a development by OVG and comprises 196 residential units, next to 25,000 sq m of offices. Investors opt for these developments as it remains hard to find enough product in the existing residential market. This results in strong competition between investors.



At the selling side Savills witnessed a lower activity of housing associations. Most of their objects that were considered non-core have been sold and therefore their financial positions have improved considerably, which decreases the need to sell. The activity of private investors, like Van der Vorm, Grouwels and Daelmans however has increased at the selling side. They are choosing to optimize their portfolios.

Significant residential sales in the first half of 2017 concerned, among others, the purchase of 849 residential units by CAPREIT for € 170 million, the purchase of Oranjekwartier (a.o. 164 residential units) in Amsterdam by Patrizia for € 66 million and the purchase for € 51 million of 342 apartments at Boompjes 60-68 in Rotterdam by Amvest and a joint venture between APF International and Ares Management. In the third quarter so far the largest transaction concerned the purchase of aforementioned development The Valley in Amsterdam. RJB Group of Companies purchased the object for € 300 million.

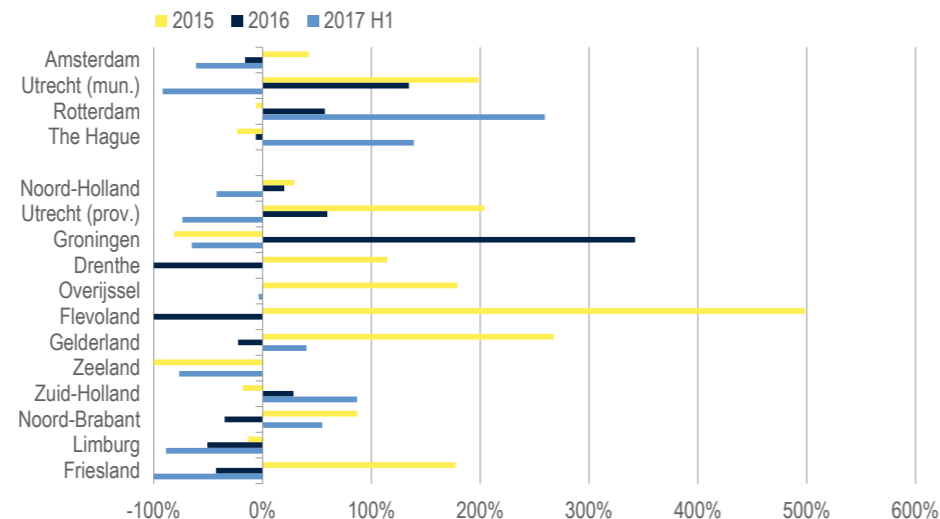
Institutional investors remain important buyers in the first half of 2017. They are seeking to buy a solid cash flow and focus for a large part on cities in the Randstad area. Privatised complexes are favoured, since they are more efficient to exploit. Opportunistic investors are also looking outside the Randstad region, since higher yields can be achieved there. If fundamentals are positive, investors are willing to pay 100% (and above) of the vacant possession value in those areas as well. Furthermore, there are also possible new entrants expected. They are waiting for large volumes to come on the market to purchase.

YIELDS

Prime yields have strongly contracted over the past years and currently stand at 4.0% gross. Premiums are being paid however for large portfolios. As investor interest remains large and fundamentals in both the rental and owner-occupier market are strong, Savills expects a further contraction of residential yields.

GRAPH 4 Residential investment volume changes

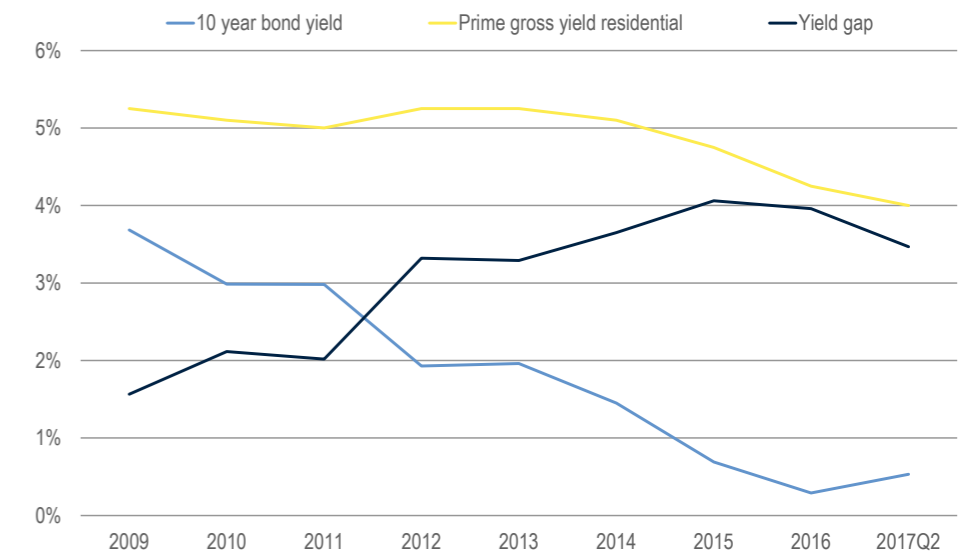
Source: Savills Research



"Savills anticipates new entrants into the Dutch residential market, as a result of large scale investment opportunities expected in Q4."
Jasper Leydes, Savills Alternative Investments

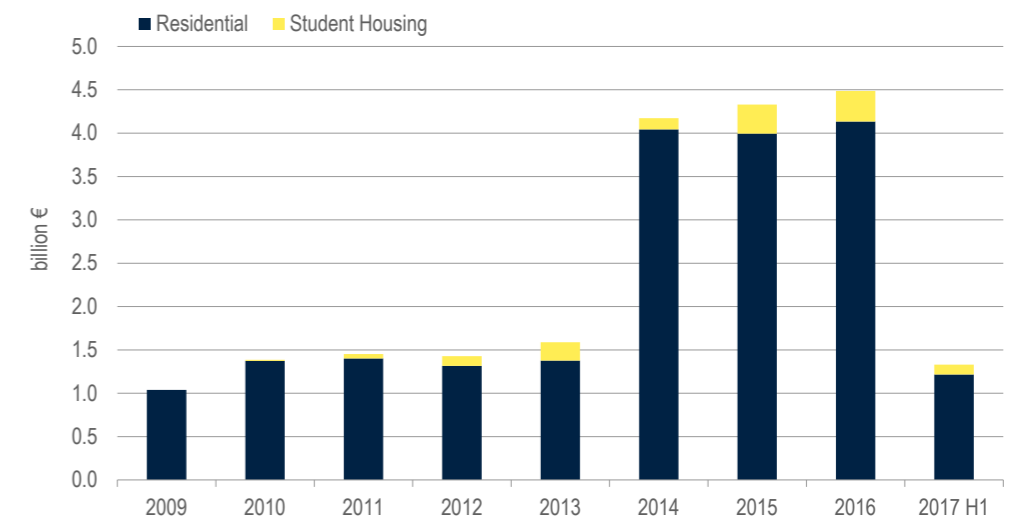
GRAPH 5 Prime residential yields versus bonds

Source: Savills Research



GRAPH 6 Residential investment volumes

Source: Savills Research



"Following massive price jumps in urban areas, investors are now willing to pay 100% or more of the vacant possession value outside of these areas."
Martijn Onderstal, Savills Valuations

KEY FINDINGS

“Housing boom continues: regions into overdrive”



The Dutch economy continued to grow, the fundamentals are strong and forecasts are also positive. Therefore, the Netherlands remains an attractive destination for (international) capital.



Savills expects that the total residential investment volume in 2017 will be on a comparable substantial level as last year.



There is a shortage of dwellings. In order to cover household growth as well as the regeneration of the housing stock, between 80,000 and 90,000 new dwellings have to be realised annually. Although the number of building permits issued is growing, it's not nearly enough.



Privatised complexes are favoured, and premiums are being paid for large portfolios.



Investors are increasingly looking to invest outside the Randstad area, since selling prices and rents are showing a higher growth in these more peripheral areas of the Netherlands. In those areas, higher yields can be achieved at the moment.



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



New entrants are expected on the residential market. They are waiting for large volumes to come on the market and we expect that this will be the case in the second half of the year.

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