



savills

The attractiveness
of the **residential real
estate market**
extends to more
than price alone

spotlight

Introduction

Housing in the Netherlands has never been so expensive

The price of owner-occupied dwellings continues to rise (+7.6% over the past year), breaking record after record. Rental dwellings in urban areas are hard to find and rent levels are also rising sharply (+6.7% over the past year). None of this has escaped the attention of investors. So far in 2018, more has been invested in residential real estate than in the office market for the first time. This is all the more remarkable because, historically, investment in residential real estate has been seen as an alternative to the traditional sectors of offices, shops and business premises.

The Dutch economy is doing well. The country's economic prosperity is reflected in various economic indicators. Growth of 2.9% is expected in 2018, and this is forecast to be 2.7% in 2019 (source: CBS/OECD). In addition to the strong economic situation, the low and stable interest rate is also providing a 'boost' for house prices. Mortgage interest rates have fallen sharply in the Netherlands in recent years. The average mortgage interest rate in the Netherlands is now around 1.7%, while this was 3.1%

five years ago. This low mortgage rate is largely due to the ECB's bond-buying programme, which has made 'cheaper' money available. The ECB has now announced that this programme will come to end in December. Combined with the phased reduction of mortgage interest tax relief to 37% in 2023, it will most likely lead to steady rise in interest rates and the current exponential rise in house prices will slow to a more normal level in the medium term.

Due to the low interest rate, buyers are prepared to pay more for their homes, as their monthly mortgage costs are currently low. However, due to the huge price increases seen in recent years and the expectation of further rises, the question is whether this trend can be sustained.

Could Dutch housing become unaffordable in the future? Indeed, are they already unaffordable? What can we learn from an international comparison? And does this apply to the whole of the Netherlands, or only to the larger cities?



MONETARY POLICY IS PARTLY CAUSING THE BOOM IN THE HOUSING MARKET

	NL	EU	DE	UK	FR
GDP Growth	2.9%	2.4%	2.2%	1.7%	2.2%
Unemployment	3.5%			Outlook Stable	
Exports	2.9%			Outlook Rising	
Consumer Confidence	+24			Outlook Stable	
Business Confidence	+15			Outlook Stable	

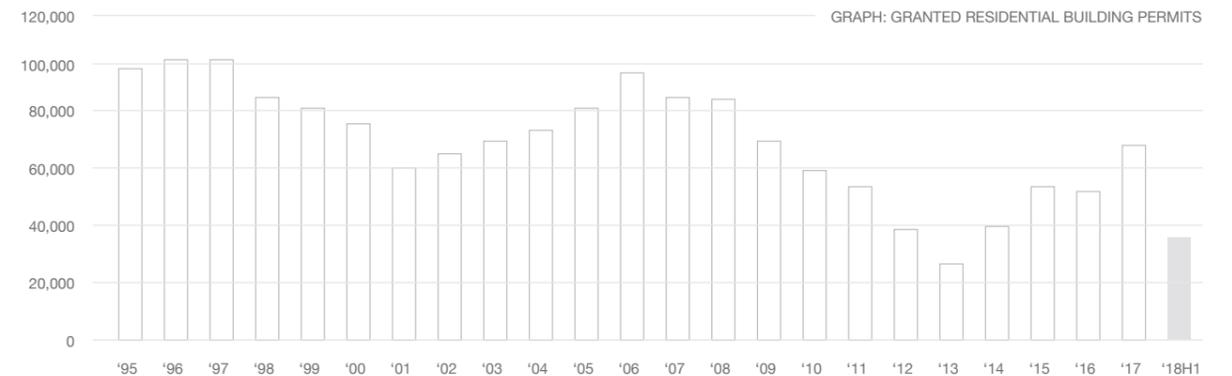
Policy

Budgetary policy on housing for the near to medium term

- The number of construction permits granted has increased in recent years, but is still not enough to meet the demand caused by the shortage of dwellings. The Cabinet of the Netherlands is aiming for 75,000 new dwellings per year, but it is unclear whether this target will be achieved;
- Mortgage interest tax relief is gradually being reduced, and will drop to 37% in 2023. The reduction of this tax benefit means that housing

costs will rise in absolute terms. This will slow the rate at which house prices are rising;

- To make up for the reduction in mortgage interest tax relief, the notional rental value for owner-occupiers will be reduced;
- Households can no longer take out a mortgage for more than 100% of the market value of the property, which means that they must contribute some of their own money when purchasing a house;
- In recent years, many offices in the Netherlands' larger cities have been converted into housing. Office buildings that can be repurposed in this way are now becoming increasingly scarce, which means that a sharp fall in the number of repurposing projects is to be expected.



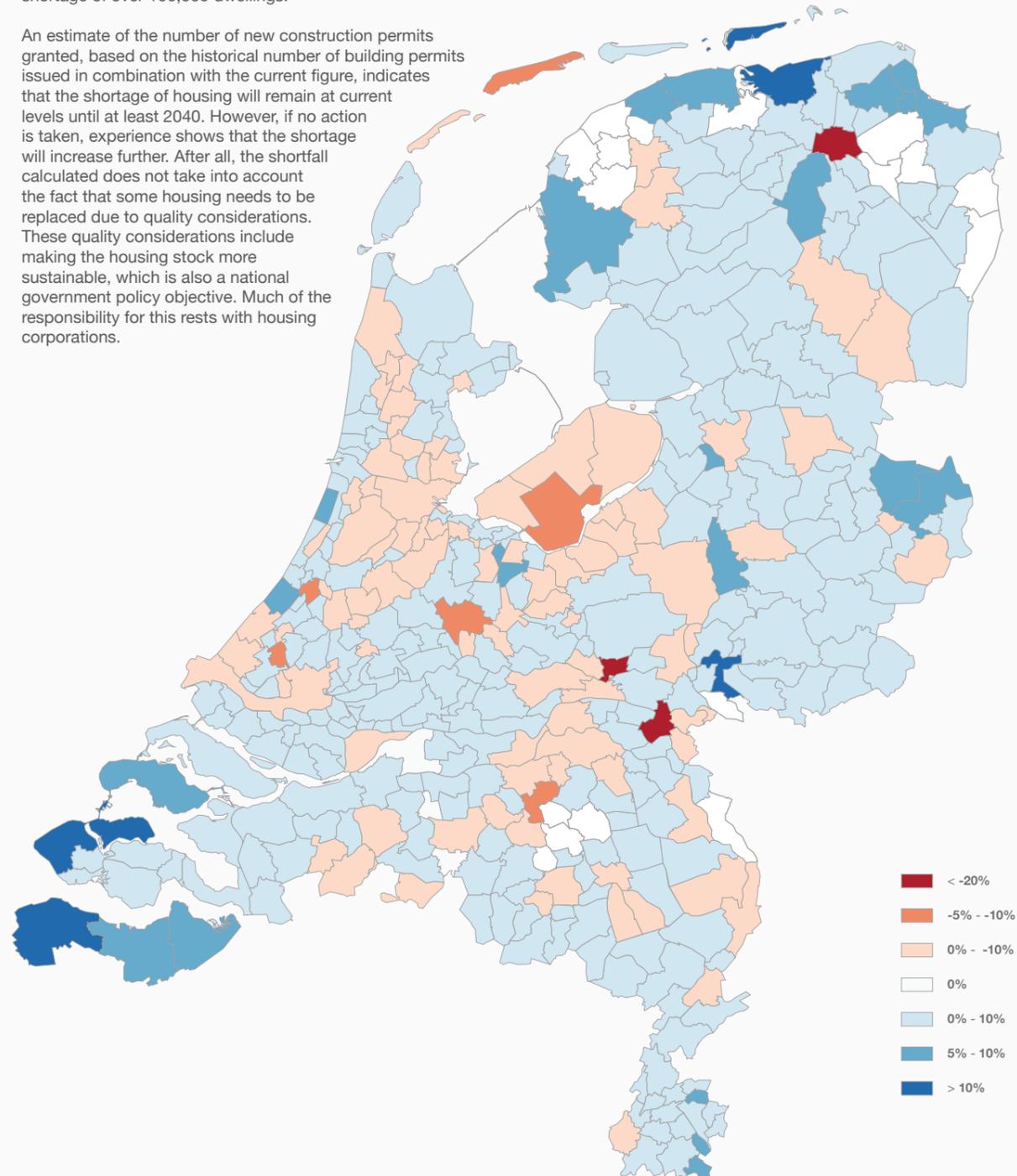
Supply and demand

The Dutch housing market has had a shortage of supply for many years

In total, there are 7,794,075 households in the Netherlands. Logically, there should be a house for every household. However, the existing housing stock currently consists of only 7,686,178 dwellings. This means a current quantitative shortage of over 100,000 dwellings.

An estimate of the number of new construction permits granted, based on the historical number of building permits issued in combination with the current figure, indicates that the shortage of housing will remain at current levels until at least 2040. However, if no action is taken, experience shows that the shortage will increase further. After all, the shortfall calculated does not take into account the fact that some housing needs to be replaced due to quality considerations. These quality considerations include making the housing stock more sustainable, which is also a national government policy objective. Much of the responsibility for this rests with housing corporations.

MAP: THE QUANTITATIVE HOUSING SHORTAGE IS AT ITS MOST ACUTE, IN RELATIVE TERMS, IN GRONINGEN, NIJMEGEN AND WAGENINGEN



Sources: GeoNames, MSFT, Microsoft, Navteq, Wikipedia



The region

It is often believed that scarcity in the housing market is a particular issue in the 'Randstad' - the urban centres in the west of the Netherlands - and in Amsterdam in particular. However, this is only true up to a point. Looking at the shortfall of housing at the municipal level, it is striking that this is by no means limited to Amsterdam.

It is also clearly visible in the provinces of Noord-Brabant, Gelderland and Overijssel, for example. Cities such as Zwolle, Arnhem, Breda and Eindhoven attract many people from the surrounding villages, which is leading to a strong increase in demand. In Eindhoven, there are additional reasons for the high demand for housing. Here, the strong growth of the tech industry is generating additional housing demand from, for example, expats. Students are also increasingly continuing to live and work in Eindhoven after completing their studies. Fewer people are moving away from the city, and at the same time, people from the Randstad are moving to Eindhoven because of the employment opportunities and more affordable housing.

In addition to the general housing shortage in the provinces mentioned above, specific municipalities are also experiencing particular scarcity. Most notably, this applies to Groningen, Nijmegen and Wageningen, where the relatively high proportion of students means that there is a mismatch between supply and demand. On the other hand, some municipalities have a housing surplus. In addition to regions of falling population, such as Zeeland, north-east Groningen and southern Limburg, several other areas with an oversupply of housing are emerging. These areas are mainly to be found in the east of the country and in Friesland.



Regional differences

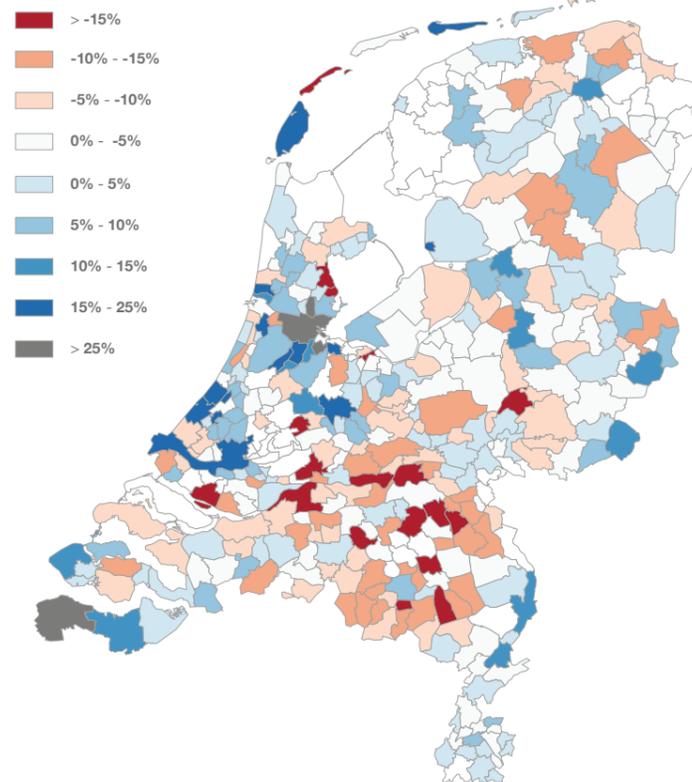
Is housing becoming unaffordable?

The shortage on the housing market has led to today's upward pressure on prices. Especially in the past two years prices have risen substantially, by an average of 6.0% in 2016 and 7.6% in 2017. In the second quarter of 2018, house prices had risen by 10.4% compared to the same quarter a year earlier. The average price for an owner-occupied dwelling in the Netherlands is now 14.6% higher than in 2008; the year that house prices last reached a record high. This figure is significantly influenced by the enormous price rises seen in Amsterdam.

With regard to price increases over 2008, there are substantial regional differences. Clearly, Amsterdam is leading the rise in house prices, but remarkably prices in Sluis (in Zeeland) are even higher. This has been driven purely by the revival of tourism in that area, rather than by a shortfall in the regular housing market. Also remarkable is that prices in especially the south of the country remain lower than the previous peak. However, due to the shortage of housing that we have described, house prices in those areas are expected to attain their 2008 level in short order.

Higher prices have meant that in 2016, people in the Netherlands spent 31.3% of their disposable income on housing costs (this is known as the 'housing ratio'). One year earlier, the housing ratio was just 27%. In view of the strong rise in house prices, this figure has likely risen since then.

MAP: CHANGES IN HOUSE PRICES, 2008-2018YTD



Sources: GeoNames, MSFT, Microsoft, Navteq, Wikipedia

Rental sector

Average rental prices in the Netherlands are also rising, although less sharply than prices for owner-occupied dwellings

Rents have increased by 6.7% over the past year. This more limited increase is largely due to the regulation of the rental sector, which has put a brake on rent rises. However, rising rental prices mean that tenants, too, have been spending more on their housing costs in recent years. The rental ratio in 2016 was 23.3%, almost the same as one year earlier. There is expected to be a slight increase in the coming

years, similar to that in the owner-occupier market. All in all, tenants still spend around 33% less of their income on housing costs than owner-occupiers, on average. This is partly due to the social housing sector, which keeps rental costs lower for tenants through subsidies. Because it is becoming increasingly difficult for young people to buy their own home, it is expected that rent levels will continue to rise everywhere in the Netherlands. As a result, the difference in the amounts spent on housing costs by tenants and owner-occupiers will narrow.

The prices of rental and owner-occupied dwellings have been on the rise recently, and both homeowners and tenants are forecast to spend a larger share of their income on housing costs in the years to come. Does this mean that the housing market is slowly becoming less affordable?

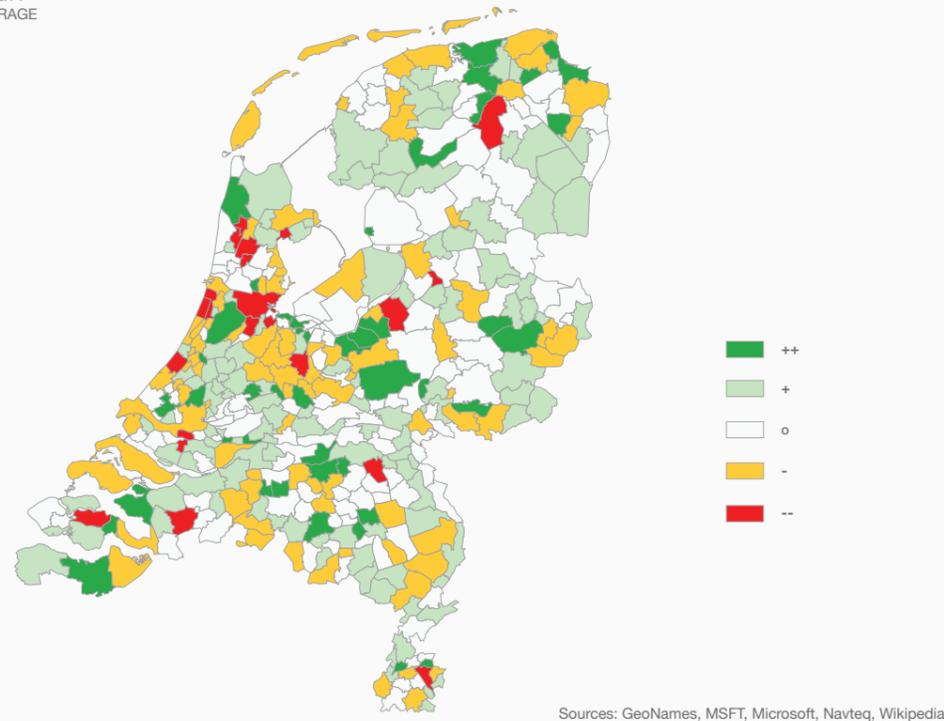
An international comparison on affordability

Internationally, the Netherlands experienced some of the largest house price rises in 2017. Only six countries saw higher price rises, including Hong Kong, Iceland and Portugal. In contrast to many other countries, disposable income has also risen strongly since 2010. This also applies to countries such as Spain, Italy, Poland and Greece. In Belgium, Germany and the United Kingdom, on the other hand, the price of a house has increased by more than average income (Source: IMF). So the Dutch housing market has remained relatively affordable in comparison with neighbouring countries.

“In international terms, Dutch housing remains affordable”

Bas Wilberts

MAP: AFFORDABILITY PER MUNICIPALITY COMPARED WITH THE NATIONAL AVERAGE



Savills Attractiveness Scan

Large differences between municipalities

Within the Netherlands, there are major differences in the ratio between disposable income and house prices: relative affordability varies significantly between municipalities. For example, this ratio is 12.5 in Amsterdam, while it is just 4.4 in a municipality like Ede. This ratio is higher in housing market hotspots such as in the Randstad and in the other major cities. However, because incomes in other parts of the Netherlands are lower, it remains relatively expensive to live in municipalities such as Heerlen and Goes.

It is striking that this ratio is by no means high across the whole of the Randstad. This is mainly due to the relatively high incomes earned in the Randstad. Particularly in areas around major cities such as Amsterdam, earnings are higher and housing is still reasonably affordable when compared to disposable incomes.

This includes municipalities such as Almere, but also the 'Green Heart' - the largely rural area which lies between the four major cities that make up the Randstad. As the major cities expand, house prices are expected to increase further in this area. This is not necessarily a positive development for house buyers, but does create opportunities for investors and developers.

TABLE: SAVILLS ATTRACTIVENESS SCAN RANKING

2	De Ronde Venen	3	Amstelveen	4	Bunnik	1	Waterland
5	Landsmeer	7	Haaren	6	Eemnes	8	Aalsmeer
9	Zeist	10	Buren				

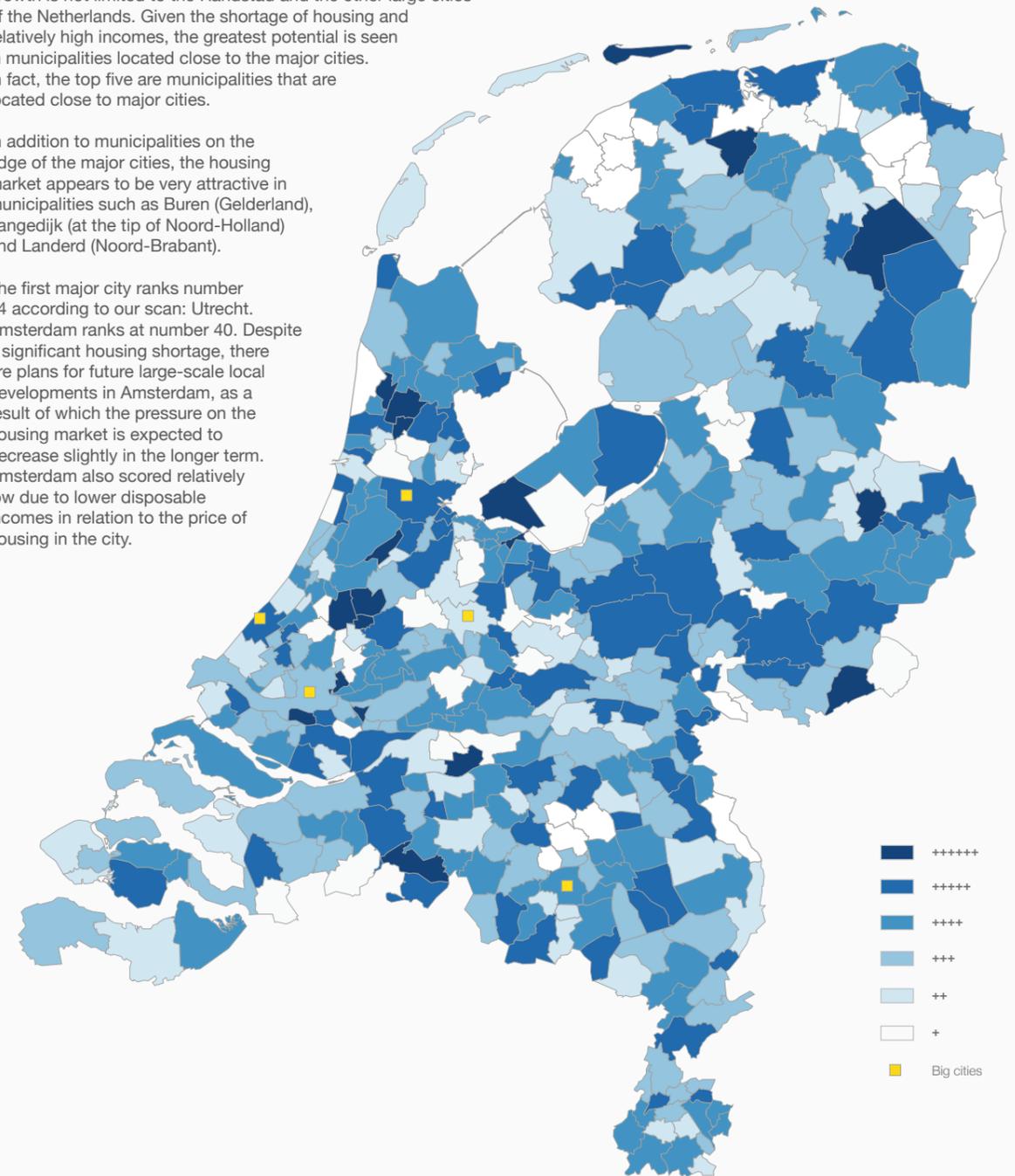
Market opportunities are concentrated particularly in the municipalities located around the major cities

In the past few years, interest from investors has by no means been confined to the Randstad. There has been broad interest in the Dutch housing market among investors. This is expected to continue over the next few years. This is reflected in the attractiveness scan that Savills has conducted of the housing market. The scan gauges the attractiveness of the housing market for investors and developers, based on scarcity, price, price trends and the disposable income of the residents in each municipality. It reveals that the investment potential and scope for value growth is not limited to the Randstad and the other large cities of the Netherlands. Given the shortage of housing and relatively high incomes, the greatest potential is seen in municipalities located close to the major cities. In fact, the top five are municipalities that are located close to major cities.

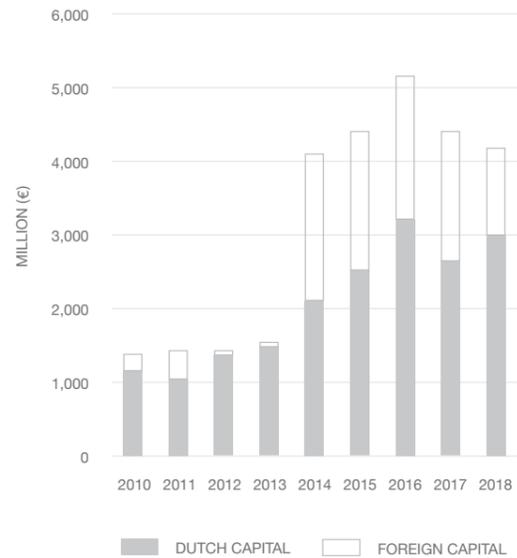
In addition to municipalities on the edge of the major cities, the housing market appears to be very attractive in municipalities such as Buren (Gelderland), Langedijk (at the tip of Noord-Holland) and Landerd (Noord-Brabant).

The first major city ranks number 24 according to our scan: Utrecht. Amsterdam ranks at number 40. Despite a significant housing shortage, there are plans for future large-scale local developments in Amsterdam, as a result of which the pressure on the housing market is expected to decrease slightly in the longer term. Amsterdam also scored relatively low due to lower disposable incomes in relation to the price of housing in the city.

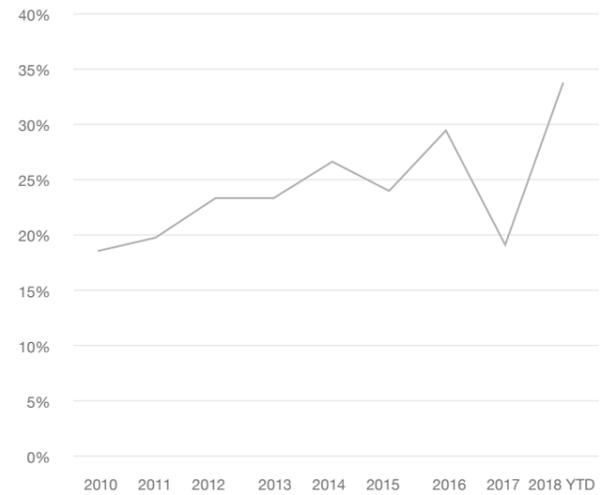
MAP: SAVILLS ATTRACTIVENESS SCAN OF THE HOUSING MARKET BASED ON SCARCITY, DISPOSABLE INCOME AND (PRICE) TRENDS



GRAPH: MORE INTERNATIONAL INVESTORS ARE BEING DRAWN TO THE RESIDENTIAL REAL ESTATE MARKET, BUT DESPITE THIS, DUTCH INVESTORS REMAIN DOMINANT



GRAPH: VOLUME OF INVESTMENT IN THE HOUSING MARKET AS A SHARE OF THE TOTAL



Investment Market

The investment market for residential real estate is changing rapidly

The relative affordability of the Dutch housing market, combined with the high level of interest in the Netherlands among investors, has meant that total investment volumes have increased continuously over the past ten years. This took the housing market's share in the total investment volume from 18.5% in 2010 to 26.5% in 2014. Currently, in 2018, the housing market accounts for no less than 33.6% of total investment volume - a new record.

Investment in housing has historically been the domain of Dutch investors. However, here too there has been a clear shift in recent years. In the period between 2010 and 2013, the share of international investors in the housing market averaged less than 15%. In the period since 2014, this share has risen to almost 40%. This does not mean that Dutch investors are no longer active. The attractiveness of the residential real estate market means that interest has grown among both domestic and international investors.

The influence of international players can clearly be seen in the statistics. The average transaction size in the period up to 2014 was between €10 and €15 million. In 2018, the average transaction size rose to just under €30 million. The main reason for this is that international investors are looking mainly for large volumes in order to enter the Dutch market in a more efficient way. In addition, investors who were already active, such as Patrizia and Roundhill, have been looking to expand their portfolios. In recent years, the number of portfolios sold has risen sharply, unlike in the office market, for instance. Due to a shortage of available investment product, the number of office portfolios sold has actually declined recently. So far in 2018, the most notable (and largest) transactions have been

the purchase of 6,777 dwellings by Vesteda for €1.50 billion (through a share transaction), the purchase of 1,872 dwellings by Deutsche Bank for €266 million and the purchase of 1,100 dwellings for €180 million by DM Equity Partners.

“Investors are by no means only interested in the Randstad. 60% of the volume invested in housing over the past ten years was outside the Randstad”

Jordy Kleemans

But the changes have not been limited to the numbers and volumes alone. The type of investments made is also changing. In addition to investment in apartments and family dwellings, other sectors within the housing market are also gaining in popularity. In 2018 so far, over €750 million (18% of the total investment volume) has been invested in alternative sectors of the housing market. This includes, in particular, care homes, student accommodation and 'branded living'.

Despite the previously mentioned shifts in investment characteristics, geographical spread among investors remains stable. Housing investment is taking place all over the Netherlands, with the share invested in the Randstad over the past ten years (around 40%) lower than the share invested in other regions (60%). This indicates broad interest in residential investments across all regions.



Savills Outlook

Even though housing is becoming more expensive not only in an absolute sense, but also in a relative sense, Dutch housing remains affordable in international terms. This is partly due to rising disposable incomes in the Netherlands in recent years.

There has been considerable interest in the Dutch housing market among investors, and this situation is likely to continue in the years to come. This is confirmed by the attractiveness scan that Savills has conducted in relation to the housing market. The scan shows that particularly in municipalities located close to the major cities, there is significant potential for investors and developers. The five top-ranking municipalities in the scan, such

as Waterland and De Ronde Venen, all fall into this category. While major cities such as Utrecht and Amsterdam rank only in places 24 and 40 respectively, other regional municipalities are also doing well.

The investment market in residential real estate has caught up quickly in recent years compared to neighbouring countries. The bottom seems to be in sight for initial yields on the prime product, certainly in comparison with neighbouring countries and other sectors. Partly as a result of this, investors are looking for alternatives within the housing market, such as student housing and care homes.

Investment volumes in these types of sub-markets will begin to rise and they will become increasingly mature. As a result, further yield compression can be expected.



Yields

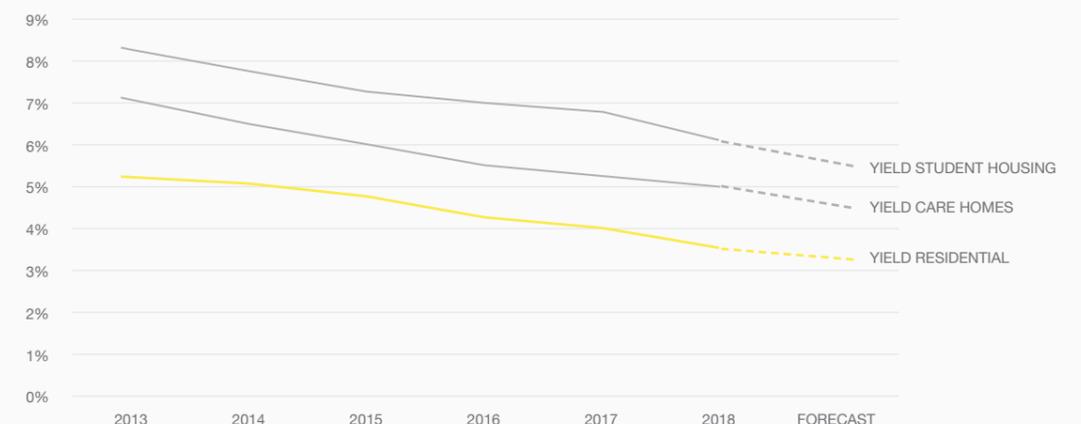
Initial yields have fallen again over the past few quarters.

Currently, the lowest gross initial yields are at a historic low: approximately 3.5%. This represents a further decrease of over 10% compared to one year ago. Initial yields for alternative categories within the residential investment market, such as student housing, have seen an even sharper decline of up to 15% over the past year.

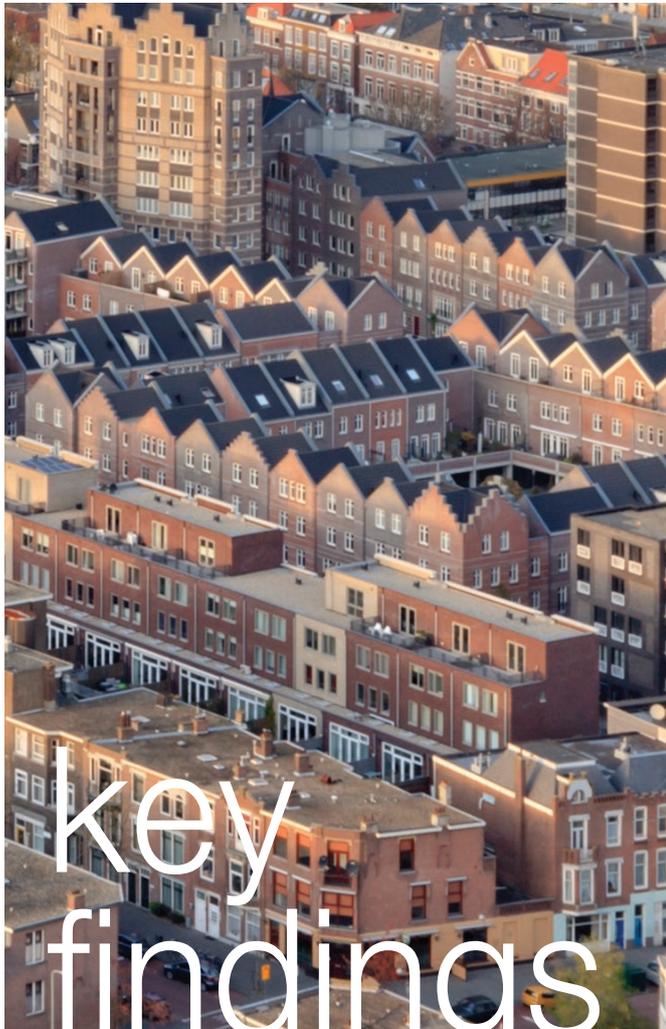
“Alternative asset classes in particular will become more popular, with further yield compression as a result.”

Martijn Onderstal

TRENDS IN GROSS INITIAL YIELDS FOR (STUDENT) HOUSING AND CARE HOMES + FORECAST



Sources: Statistics Netherlands (CBS), OECD, NVM, IMF, Savills Research, PropertyNL, VGM



Economy and policy

The economy is doing well in all respects. This is having a positive effect on the housing market. The reduction of tax relief on mortgage interest means that housing costs will rise in absolute terms. This will slow the rate at which house prices are rising.

Supply and demand

The Netherlands currently has a quantitative shortage of over 100,000 dwellings. Current plans for new-build will not resolve this shortage.

Housing affordability in the Netherlands

Despite a (slight) increase in the housing costs of tenants and owner-occupiers, Dutch housing remains affordable in international terms.

Regional differences

The 380 municipalities of the Netherlands demonstrate significant variation, such as in the area of relative affordability.

Savills' Attractiveness Scan

Municipalities located on the edges of major cities score well on this scan, which gauges opportunities for investors and developers, based on scarcity, price, price trends and the disposable income of the residents of each municipality.

Investment market

Investing in housing is more popular than ever before. So far in 2018, for the first time more has been invested in residential real estate than in the office market, which in historical terms had always been the most important category.

Savills Outlook

Interest among investors is not confined to the major cities and their peripheral municipalities; there are also opportunities for investment and development in regional municipalities. Alternative investment categories such as student housing and care homes will also gain in popularity.

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