An analysis of the Dutch residential (investment) market 2018
Summary

Never before has so much capital been invested in Dutch rented housing. In 2017, a total of 5.5 billion euros was invested by institutional, private and international investors. And once again in 2018, a record amount of capital is available for investments. The challenge for 2018 is to create sufficient supply to actually use the capital and to build sufficient rental dwellings to meet the growing demand.

The housing shortage is reaching alarming proportions
In 2017, the housing market quickly developed into a recognised problem area. Each day there is an increase in the number of media reports about rising sales prices, a lack of supply and young people who have to share dwellings out of sheer necessity. The predicted housing shortage is materialising and will increase even further. For 2018, the housing shortage in the Netherlands is estimated at 2.7% (205,000 dwellings). Where it was previously assumed that the shortage would stabilise in 2018/2019 and then slowly decline, it is now expected that the low point will be reached only in 2020 or 2021, and will exceed 3% (235,000 dwellings). This is due to the high population growth and the fact that the housing production continues to be coming on stream at a slow pace.

Population and number of households are growing fast
In 2016 and 2017, the Netherlands experienced the highest population growth in 15 years with the number of inhabitants increasing by over 100,000 in 2017. The growth is mainly due to immigration whereby the number of labour and student migrants increased more in 2017 year-on-year than asylum migrants. In addition, the birth rate exceeded the death rate by around 19,000. According to Statistics Netherlands, the number of inhabitants of the Netherlands will increase by an average of 69,000 per year in the period 2018-2022. In addition to growth in the number of inhabitants, the number of households will also increase substantially. From 2018-2022, the number of households is expected to rise by 290,500. The number of single people in particular will increase sharply by 229,000 in the coming years. And a relatively large increase is expected in the number of couples without children (+60,000). In addition, the average household size in the Netherlands continues to fall. In 2010, the average private household consisted of 2.22 people while in 2017 that number fell to 2.16.

Most growth in the (northern) Randstad conurbation
The highest household growth is expected in the Zaanstreek region, Flevoland, Greater Amsterdam, Utrecht and the Haaglanden region (11% to 14%). In the rest of the Randstad and large parts of North Brabant, Gelderland and Overijssel, an increase of approximately 7% is forecast.

Housing production increasing (too) slowly
Since the height of the crisis, housing production has been slowly coming on stream. In 2016, 54,000 new homes were added to the stock. Provisional figures from the Basisadministratie Adressen en Gebouwen (BAG) [Register of Addresses and Buildings] for 2017 indicate that the expansion of the housing stock is lagging behind the forecast for this year. At the end of November, the expansion amounted to 47,500 dwellings, while an expansion of 61,000 was taken into account. The housing shortage therefore increased more sharply in 2017. A deficit of 198,000 (2.5%) was expected in 2018, but this will probably have to be adjusted to around 205,000 (2.7%). To reduce the housing shortage to normal proportions (1.75%) in five years’ time, the number of new dwellings will have to reach an average of 87,000 per year over the next five years.

Awareness of the problem is increasing in The Hague
The new Rutte-III Cabinet has a minister responsible for both housing and spatial planning. She has announced that the government will take a more active and directing role in the coming years to support regions in the complex challenge surrounding the fulfilment of regional housing needs. However, while other policy areas may be given financial impulses, the message from the new minister did not go hand in hand with budgetary scope to
accelerate housing projects. This means that market players are facing a major challenge in quickly increasing housing production under these circumstances.

**Limited rise in number of building permits and increasing construction shortages**

Based on the current data, it is estimated that the number of permits issued for rental and owner-occupied homes will be approximately 65,000 in 2017. That is a sharp increase compared with the 26,000 issued in 2013. The number of permits issued in 2018 may increase to around 75,000. A further increase is needed given that the building output has lagged behind household growth in recent years. The question is whether there are sufficient locations to add dwellings to the stock in the short term. In addition, contractors are facing a large shortage of materials and personnel, and it will be practically impossible to significantly increase production. It also appears that long-term spatial planning procedures cause delays and the Association of Dutch Municipalities (VNG) advocates an improvement of the legal framework to speed up housing production by shortening procedures.

**Sharp rise in number of building permits for non-regulated rented homes**

In recent years, the number of permits for the construction of non-regulated rented homes has increased significantly. The growth potential of the non-regulated rental market makes it an interesting market for housing developers. In 2009, 10% of the total number of the permits issued related to this market, and in the first three quarters of 2017 this share increased to 25%. Meanwhile, however, the share of building permits issued to housing associations fell sharply from 24% in 2009 to 9% in the first three quarters of 2017. The production increase announced by the sector last year is not yet visible, which is not surprising considering the required preparation time for a building permit.

**Expectations for the next five years**

For the next five years, it is estimated that 365,000 dwellings will be added to the stock. The number of properties that will be demolished is forecast at 62,000. This puts the expected expansion in the housing stock at 303,000 dwellings. In the rental sector, a decrease of 59,000 dwellings is anticipated in the regulated sector. This amounts to a decrease of approximately 12,000 dwellings per year; the balance of new-build output (14,500 per year), demolition (10,000), shifts to the non-regulated sector (5,500) and sales (11,000). The non-regulated rental sector will increase by around 65,000 dwellings, thanks to the shifts to the non-regulated sector and a relatively high new-build production for this sector (10,000-15,000 per year). Owner-occupied dwellings are in high demand. Confidence in the market has been fully regained and mortgage interest rates are still very low. More owner-occupied dwellings are becoming available from the rental sector (individual unit sales). Over the next five years, the number of owner-occupied dwellings is expected to increase by nearly 300,000.

**Record residential investment volume in 2017**

The year 2017 set a record for the residential investment market. During the year, the total transaction volume amounted to 5.5 billion euros (an increase of 20% compared to 2016). Of this amount, 5.2 billion euros was invested by institutional, private and international investors. The other purchases mainly concerned existing property acquired by housing associations. Once again, Dutch institutional investors made the largest contribution, investing approximately 3.1 billion euros in Dutch rented homes. They invested mainly in new-build homes in the mid-priced segment. Because at this moment the demand for dwellings far outstrips the supply, institutional investors have not been able to invest 1.5 billion euros over the past year. In 2017, private investors invested around 1.15 billion euros in Dutch rental dwellings. It is striking that private investors have also become increasingly interested in new-build homes. International investors became much more active on the Dutch residential investment market in 2017 as well. They have invested approximately 950 million euros in Dutch rental dwellings.

Due to low interest rates, the growth in the number of households and the attractive risk-return profile, investing in Dutch dwellings continues to be of interest to international investors. In the past year, several new international investors entered the Dutch residential investment market. Approximately 88% of international investors
invest on behalf of pension funds. The investors are primarily from North America, Germany and the United Kingdom. In addition, over the past year international investors sold large Dutch residential portfolios for the first time.

**In 2018, demand may far outstrip supply**
The institutional, private and international investors surveyed said they had more than 7.5 billion euros available for the purchase of rental dwellings in 2018. This amount is once again higher than the investment volume available one year ago (6 billion euros). Investor demand for rented homes continues to grow. One of the biggest challenges for the coming year will be increasing the supply. At the moment, the supply of rented homes is lagging behind the rapidly growing demand. Nor does the new-build production appear to be large enough to be able to meet the large and growing demand for (new-build) dwellings among investors. In 2018, new international funds will probably also enter the Dutch residential investment market, which can further increase demand.

**Housing associations actively engaged in sustainability and increase of new-build output**
In 2016, the new-build production of housing associations reached a historic low. Housing associations built only around 13,500 dwellings in 2016. It is expected that housing associations’ new-build production will be slightly higher in 2017 than in 2016. In 2018, housing associations’ new-build production is expected to rise to 14,500 dwellings. Because housing associations will continue to demolish (around 10,000) dwellings and sell (11,000) in the coming years, housing association property is likely to decline in the coming year.

Housing associations were actively engaged in rejuvenating and increasing sustainability of their residential portfolio in 2017. Through demolition and renovation of the least sustainable property and developing and purchasing new-build output, housing association property is becoming increasingly sustainable. Before 2018 as well, all housing associations surveyed indicated that they would make their portfolio more sustainable, in particular by increasing the sustainability of their current property. Housing associations indicate that they have more funds available for investments.

**Substantial growth in the number of building permits and a sustainability task for housing developers**
The number of building permits issued to housing developers has increased substantially over the past year, from 35,000 in 2016 to 50,000 in 2017. Of these 50,000 permits, some 17,000 were intended for rental dwellings, compared to 11,000 in 2016. In addition to strong growth in the number of building permits granted, the housing developers will face a sustainability task in the coming years. It is expected that around 2020, new homes in the Netherlands will have to be constructed as zero-energy structures. Many developers are already realising more sustainable dwellings than required due to their own policies or because this is an additional requirement from the municipality.

**Population of older people increasing**
The number of households occupied by those age 75 and older will increase by 500,000 in the period to 2030. A portion of this group will need a suitable home due to mobility restrictions. The coming five years will see an increase of some 100,000 households occupied by people aged 75 and over with a mild to severe mobility restriction. Construction has fallen short for this target group in recent years and a specific building programme is necessary to realise sufficient numbers of suitable homes for the longer term.

**High demand for care property among investors**
Due to demographic developments and older people who continue to live at home longer due to the extramuralisation of healthcare, the demand for healthcare real estate from users will increase in the coming years. This means that investor interest in healthcare real estate will continue to rise in the coming years. For 2018, the institutional, private and international investors surveyed have a total of over 1 to 1.5 billion euros available to invest in healthcare real estate. This represents a substantial increase compared to recent years.
Housing associations will construct more healthcare real estate

There is an increasing need for care dwellings and senior housing in the regulated segment. Ninety-five percent of housing associations with healthcare real estate in their portfolio believe they should play a role in this segment in the coming years. Of the housing associations surveyed, 70% intend to acquire or develop healthcare real estate.

First-time buyers on the housing market

Every year, more than 90,000 students graduate from a higher vocational education institution or a university and around 100,000 mid-level vocational students complete their full-time study programme with a diploma. Starting salaries vary widely, depending on the specialisation and the number of hours worked. On average, a starting higher vocational education alumnus earns 2,050 euros gross, a starting academic 2,550 euros. Approximately one-third have a permanent contract after eighteen months to two years. As a result, buying a house or an apartment is generally difficult for this group. Some of the graduates are eligible for regulated rental housing, but a considerable number are dependent on the mid-priced rental sector. Over the last five years, initiatives have begun involving new living concepts for this growing target group. These concern mainly smaller apartments and studios in the large cities.

This trend will continue over the coming years, partly due to the growth in the number of single-person households and migration to the cities. It is important that construction is market-oriented and that policy is developed at local level to provide an idea of the housing needs for the longer term, also in connection with the large growth in the number of households occupied by residents between 25-34 years. Adding too many small dwellings to the stock without getting an accurate picture of the long-term needs must be avoided.
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