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Briefing Note
Residential investment volumes top €1.7 billion

Autumn 2014

Economic growth

The Dutch economy grew by 1.1% yoy in Q2 2014, mainly due to increased exports and private sector investments. Most noticeable key figure concerned the stabilisation of household consumption, after five years of consecutive decrease. This stabilisation is linked with the overall increase in consumer confidence over the past year, from -44 in February 2013 to -2 in July 2014, and is in accordance to the improvement of sold house prices.

In August and September however, consumer confidence, producers confidence and the Nevi Purchasing Managers Index all decreased. This signals that economic recovery is still feeble and the geopolitical instabilities in Eastern Europe and the Middle-East are cause for uncertainty within Europe. Reason for the ECB to support economic growth by cutting its interest rate to 0.05% and introducing new stimulus measures.

House prices up

Over the past years houses have become more affordable as house prices decreased, mortgage rates dropped, also due to Dutch pension funds entering this market, and as the temporary exemption gift tax, which provides parents with the possibility to pay off housing debts of their children, proved helpful. NVM data shows that the average price increased by 4.7% yoy to €215,100 in August. The total number of houses sold increased by 23.6%, from around 10,000 in August 2013 to over 12,300 in August 2014.

The drop in consumer confidence in August however, seems visible in the housing market too, as the figures August 2014 do remain well behind those of the month before. The coming months will show whether economic uncertainties will expand, or whether this is just a temporary setback.

Supply and demand

There are four major trends defining the future demographic landscape:
- the total number of households will grow by around 900,000 households to 8.5 million in 2040;
- the vast majority of this growth concerns single person households of 65 years and older;
- the increasing concentration of labour and people towards the major cities and the shrinkage in other areas;
- the overall ageing of the population, resulting in an increasing demand for neighbourhood amenities.

New residential developments should take these trends into consideration and thus focus on the housing of smaller households, on the largest cities and on dwellings and locations suitable to the needs of elderly people.

At the supply side an increase in new developments can be expected as the number of building permits started increasing this year. In H1 2014 a total of 15,300 permits were issued, a 27.5% yoy increase. This is however still a long way from the 37,400 new permits issued in H1 2007 and far less than needed to deal with the housing needs of the growing population.

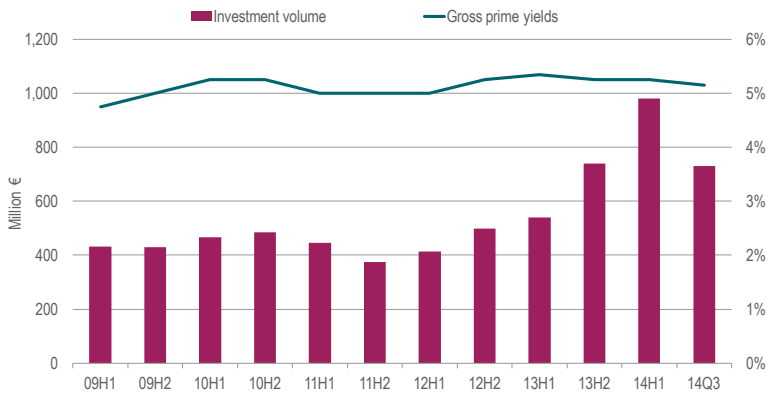
House prices and rent levels

NVM data regarding Q2 2014 shows that house prices in the Netherlands increased on average by 3.5% yoy, while in Amsterdam prices rose by almost 10.0%. Also the average period a residential unit is on the market dropped substantally and stands at just 58 days in Amsterdam, compared to a national average of 135.

Data from Pararius shows that average rents in the private sector remained stable over the past year and stand →

GRAPH 1

Residential investment volume Netherlands: Record investments in H2 2014 and more to come



Graph source: Savills

at €12.42 per sqm per year, while for Amsterdam rents increased by 5.6% yoy towards a record high €19.31 per sqm per year.

Rents within the social housing stock rose by 4.4% yoy, as it is now possible to increase the rent by inflation plus an income-related share. Remarkably, the housing associations increased their rents by 4.7%, while the rental increase by private owners reached 3.8%. The steep increase in rents over the past two years is partly a matter of catching up, as in previous years rental increases were capped at the inflation rate, and partly caused by the landlord tax, mandatory for all owners of regulated housing stock.

"Foreign investors need volume and are aiming at €500m plus investments."

Jan de Quay, Netherlands Investments

Minor changes in regulations

Traditionally the government puts forward their goals and budget at Prince's Day, the third Tuesday in September. While last year these included substantial changes for the housing market, this year the changes were less substantial and most of them were published earlier in the year. Two elements need mentioning however. First, the landlord tax will remain in place in 2018 onwards and will increase, although no percentages are listed yet. Secondly, the maximum rent level of social housing will be fixed at €699.48 for the upcoming three years. This will give private investors more room for investing in the non-regulated €700+ market segment.

Investment volumes surge

After some hesitation H1 2014 saw a large influx of (foreign) capital into Dutch residential portfolios. In the months following the German-based BNP Paribas REIM signing the first €40m deal in April 2014, portfolio purchases by Dutch Quadrigo (€95m), Aventicum (€100m) and UK based Round Hill Capital (€180m) drove the total investment volume up to €980m in H1 2014, a 81% yoy increase.

In Q3 2014 German investor Patrizia purchased* a 5,500 unit Vestia portfolio for €577m, the largest transaction so far, and the investment volume in this quarter reached €730m already. As a number of substantial portfolios (among others Vestia, Lips, WIF) are currently being marketed, this figure is likely to reach well over €1bln. Already the total 2014 figure is topping the record high €1.3bln of 2013. It has to be noted that the top 5 transactions totaled 59.3% of the total volume.

International investors in a highly regulated residential market

International investor have come to embrace the Dutch residential property market as the fundamentals are sound: limited supply, growing demand, low vacancy, increased room for rental increases and relatively low but increasing selling prices. The regulations, albeit strict, do provide for certainty and any loose regulatory ends are generally incorporated in the buying price.

More than a dozen international investors, not present yet, are eyeing the Dutch residential market. These investors are generally more interested in larger lot sizes (over €500m) than in smaller lots, as they need substance.

Outlook

Appetite from national and foreign investors remains high and financing is readily available. Coupled with low interest levels, potential vendors might consider bringing their residential property to the market shortly. Over the past months gross initial yields contracted by 10 bps to currently 5.15%. Savills expects yields to remain stable for the remainder of the year.

* The Minister for Housing formally still has to approve.

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