SPOTLIGHT
Savills Research

The Netherlands – Summer 2020

Spotlight Residential

savills

Question Is the Dutch housing market is at a turning point due to COVID-19?

Introduction The Netherlands is faced with a tightness on the housing market. The Dutch housing market is in need of approximately 300,000 homes and this housing shortage has not yet reached its peak. The housing shortage is even estimated to be around 400,000 houses in 2024. This results from an increase in one-person households, a positive migration balance and the increasing urbanisation. On the other hand, since the economic crisis, the construction of new-build homes has lagged far behind this trend in demand. Also, the integrated approach to nitrogen (PAS, Programmatische Aanpak Stikstof) has further slowed down residential production. The 2019 Savills spotlight Residential* further showed that housing development in the most sought-after locations is also the least financially feasible. The challenge to reduce the tightness on the housing market therefore remains unabated.

Although this tightness will determine the Dutch housing market for a long time to come, the COVID-19 outbreak and its economic aftermath will shuffle the cards again. It could change the underlying foundation, being the households that buy and rent. In the largest cities, for example, both the demand from expats and the demand for holiday rentals are already decreasing. In addition, the economic impact of the coronavirus crisis will also affect households financially.

The first signs on the housing market have already presented themselves: the supply of owner-occupied housing is increasing considerably. In Amsterdam, this has even as much as doubled. Does this mean that the Dutch housing market is at a turning point due to COVID-19?

*https://research.euro.savills.co.uk/netherlands-pdfs/spotlight-residential---autumn-2019.pdf

> "The supply of owner-occupied housing is increasing considerably. In Amsterdam, this has even as much as doubled"

Dutch government action cushions the impact for households

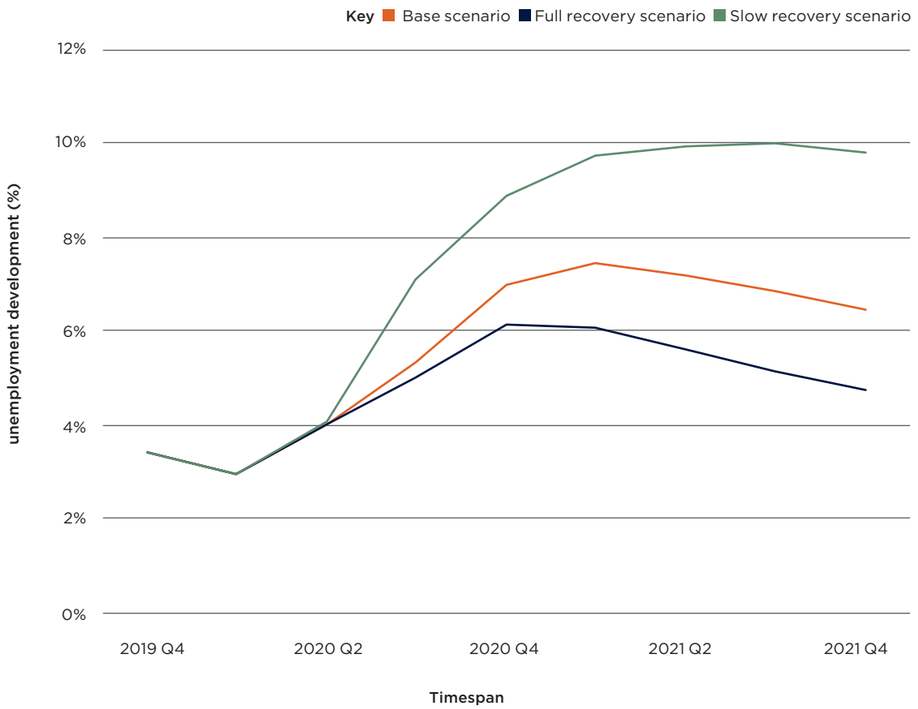
Compared to other real estate sectors, the housing market has the most direct link to the economic situation of Dutch households.

A decline in income or heightened uncertainty in relation to household income have a direct impact on the total demand for housing and its price. An increasing number of households are currently faced with the economic implications of the COVID-19 pandemic. An increasing number of unemployment benefits shows an increase in unemployment in the month of April, with the number of unemployment benefits rising by 17%. This number will increase further due to the economic downturn that is expected to exceed 6% in 2020.

Impact of government support

Extensive government support has thus far limited the damage for many businesses and households that would otherwise have run into immediate financial difficulties. The Temporary Emergency Measure for Bridging Employment (NOW, tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid) compensates entrepreneurs for wage costs in case of loss in turnover due to the COVID-19 pandemic. As a result, unemployment has only risen slightly as yet, from 2.9% from the start of the lockdown to 3.4% in April. In comparison, the unemployment rate in the US rose from 4.4% to 14.7%. An important foundation of the housing market, being the households themselves, is therefore on solid ground. However, to what extent this foundation is able to brave the bad weather will depend on the way in which the economy recovers. Thus, in the best-case scenario, unemployment will peak at 6% in early 2021 and fall rapidly thereafter, while in the worst-case scenario it will peak at 10% and remain at this level until the end of 2021.

Graph Unemployment development depends heavily on the extent of economic recovery



Source CPB

Overview

A sharp decline in both consumer confidence and producer confidence in two months' time

CONSUMER CONFIDENCE

March 2020: -2

May 2020: -31

PRODUCER CONFIDENCE

March 2020: 0.2

May 2020: -25.1

NUMBER OF UNEMPLOYMENT BENEFITS (WW)

March 2020: 250,000

May 2020: 301,000

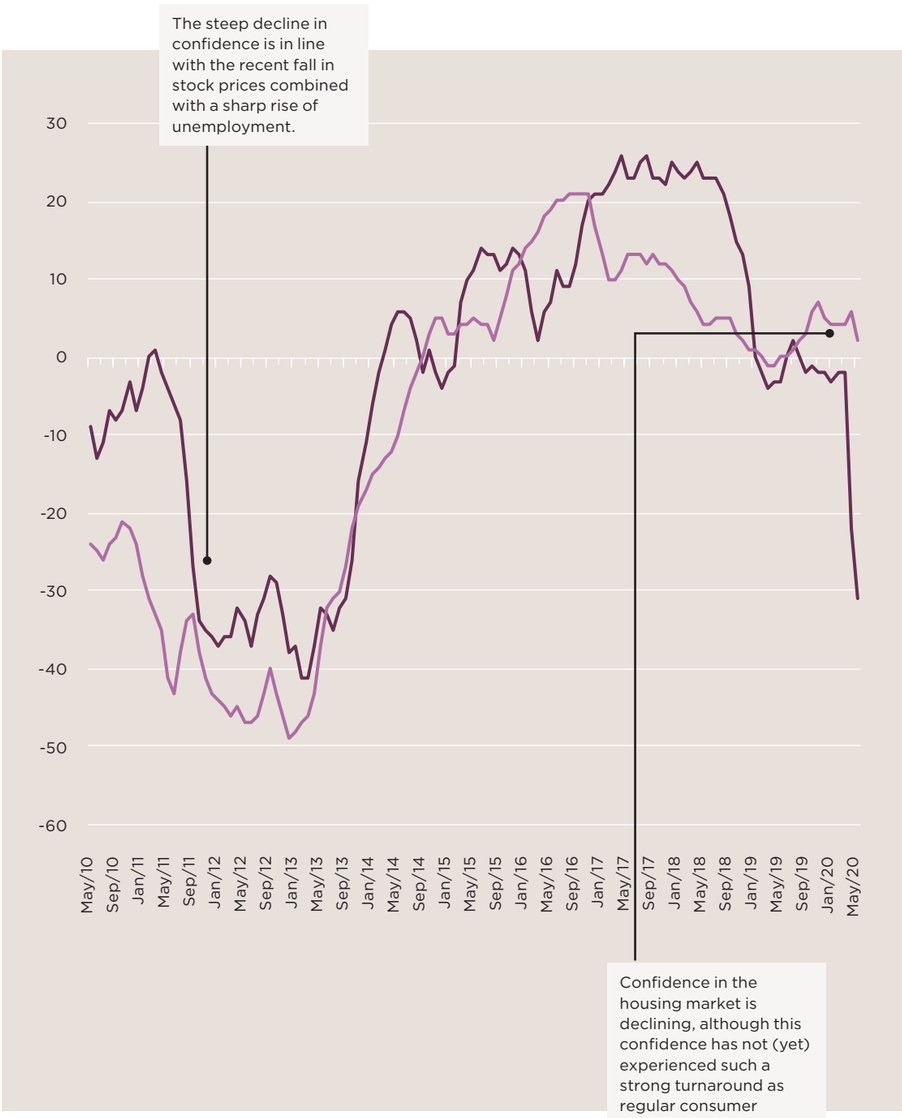
UNEMPLOYED PERSONS (ILO)

March 2020: 273,000

May 2020: 330,000

Source CBS

Graph Consumer confidence vs. confidence in the housing market
Confidence in housing market resilient while consumer confidence declines sharply



Key
Consumer confidence vs. confidence in the housing market

- Consumer confidence
- Neutralised housing market indicator

Source CBS; Vereniging Eigen Huis

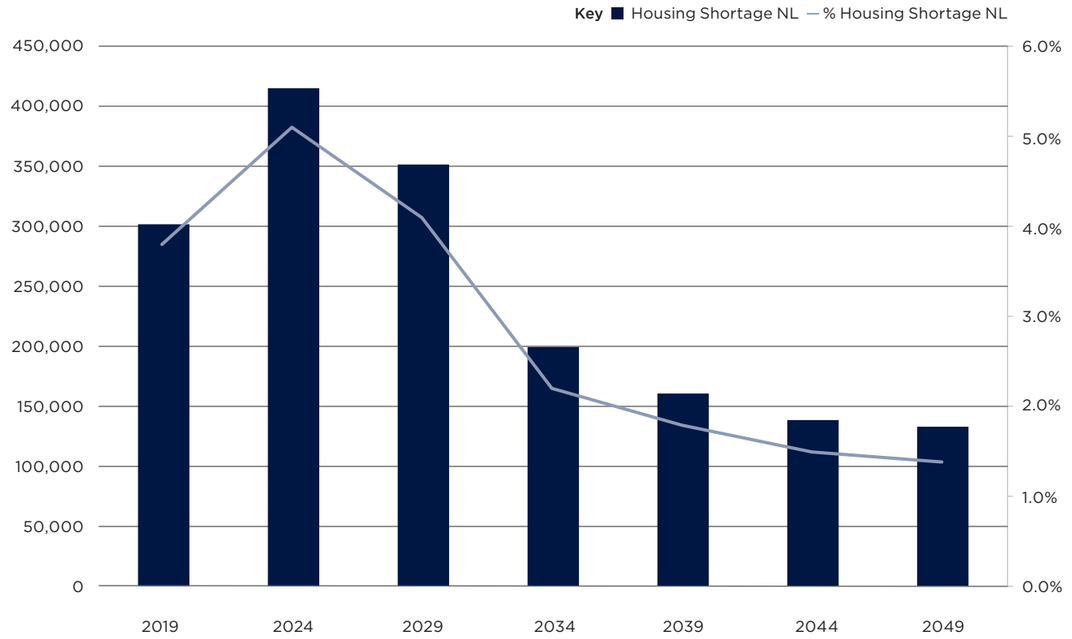
Despite the fact that the packages of support provided by the government have helped limit the problems faced by Dutch households in general, both the consumer confidence and the producer confidence have declined sharply. Confidence in the housing market is also declining, although this confidence has not (yet) experienced such a strong turnaround as regular consumer confidence has. The main reason for this lies in the fact that the purchase of a house has a long-term focus. As a result of rising housing prices in recent years, consumers are still confident about long-term value increase, despite a possible stabilisation or drop in purchase prices.

12%
The number of households in the cities of Amsterdam and Utrecht increased by 11.4% and 12% respectively between 2010 and 2019.

Reduced new development and demographical trends reinforce housing shortage in cities

The strong confidence in the housing market underlies the high demand, which demand has risen sharply in recent years.

Graph Qualitative housing shortage, Netherlands, 2019-2049
Tightness on the housing market not yet reached its peak. A need of 400,000 houses expected in 2024

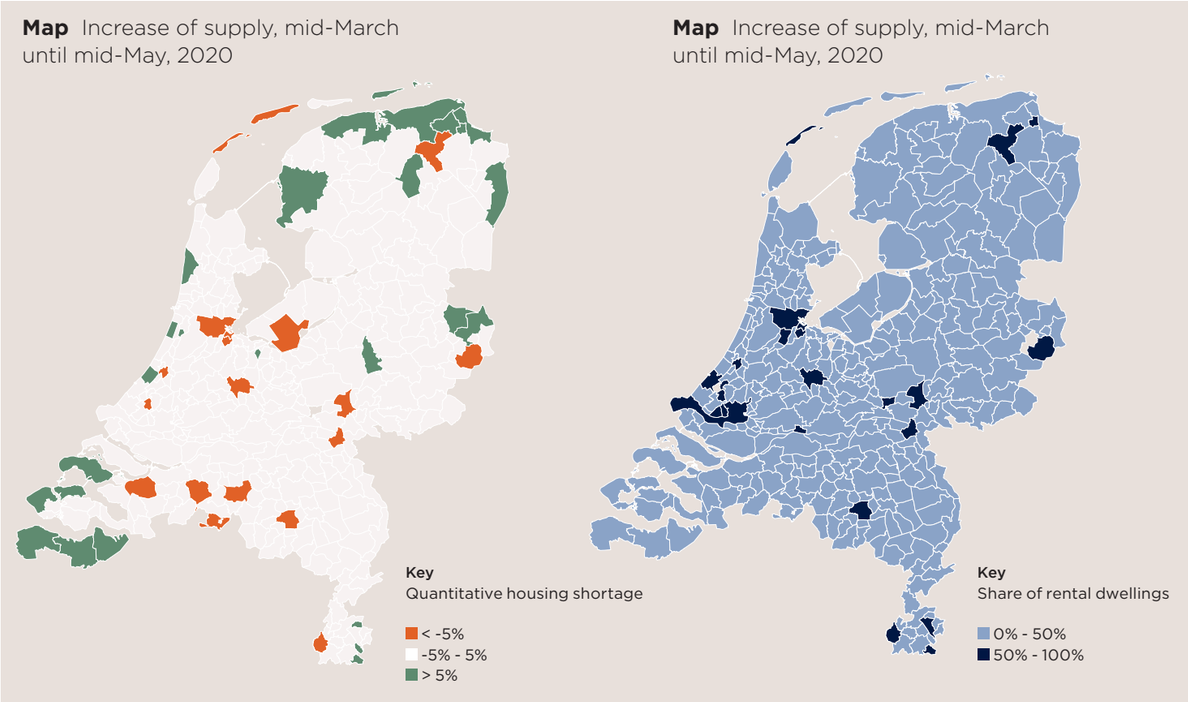


Source ABF Research

For example, ABF Research calculated that the housing shortage now amounts to approximately 300,000 houses, and that this will peak in 2024 with a need of over 400,000 houses. Urbanisation, too, is a reason why this demand has risen so sharply. The demand for housing in cities has risen considerably as a consequence. This growth can be seen in the growth of the number of households. The number of households in the cities of Amsterdam and Utrecht increased by 11.4% and 12% respectively between 2010 and 2019. The national average during this period was set at 7.3%.

One-person households
Individualisation also reduces the average household size. The one-person households increased from approximately 36% in 2010 to 38% in 2020. An additional consequence is that not only do the number of households increase, but the demand is also increasingly shifting to smaller-sized houses. These one-person households, which, in general, have less purchasing power and wish for more flexibility, are therefore mainly benefited by the rental sector. This creates additional demand, which is or which will be insufficiently available.

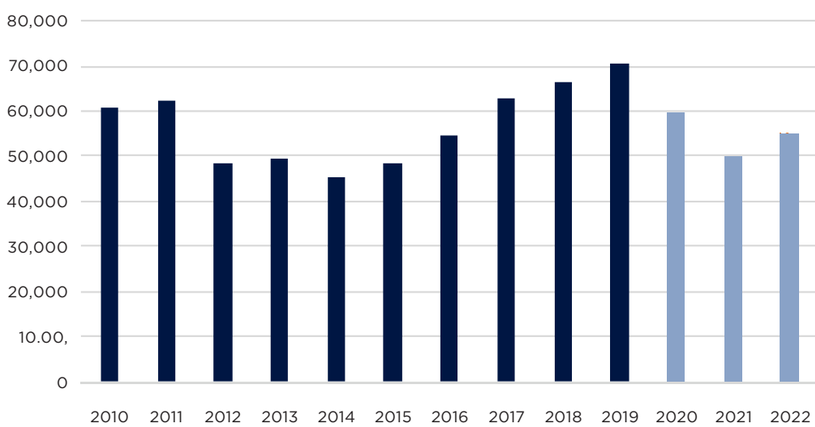
Quantitative tightness on the housing market vs share of rental properties
Huge urgency for areas with high-demand rental market



Source Savills Research

The fact that this demand is not being met is partly due to high development costs in the areas around cities. During the period following the crisis there was even less money available for new-build, and the number of new development projects had therefore been very limited. The low point was reached in 2014 with approximately 45,000 new homes. Despite the fact that 2019 had the highest number of new-build houses in ten years' time by a production of over 71,000 houses, this did not affect the shortage. Also, the coronavirus outbreak and the restrictions imposed by the PAS legislation, again cause a reduction of the number of new-build houses to lie in wait. The Economic Institute for Construction and Housing (EIB, Economisch Instituut voor de Bouw) estimates that the number of new-build homes will slow to 60,000 units in 2020. This will only further increase the shortfall, especially in the larger cities.

Graph New-build dwellings, 2010 - 2022
Despite increase in the number of new-build houses, a relapse is again expected in the coming years

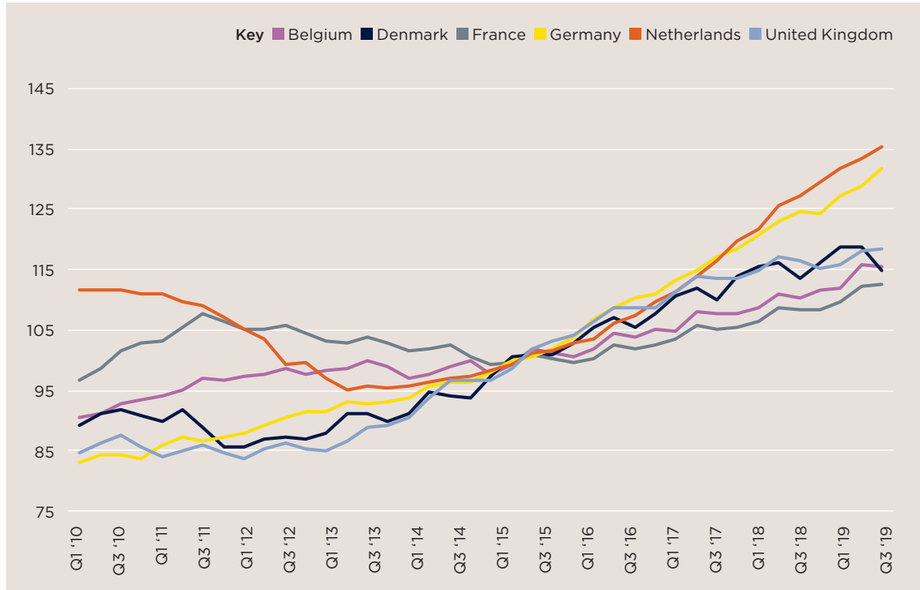


Source CBS; EIB

Owner-occupied housing sector in motion

The limited new-build projects led the supply-demand ratio to be out of sync even further.

Graph Housing price index (2015=100)
Dutch housing market more volatile compared to neighbouring countries



Source Eurostat

For the owner-occupied housing sector this means more buyers for the same supply, causing the prices to increase. In addition, favourable interest rates, positive expectations on the housing market, and tax advantages on buying a house have resulted in prices being pushed upwards. Wage developments as a result of economic developments also contribute significantly to price movements on the Dutch owner-occupied housing market.

The Dutch economy being internationally intertwined and dependent on export, means that the housing market is therefore also more volatile than in neighbouring countries. This is because a favourable wage development for households as a result of favourable trading conditions generates more demand as well as people willing and able to spend more money on a house. Does this mean that fluctuations due to the COVID-19 crisis are now on the horizon?

Price fluctuations on the Dutch housing market were clearly visible during the previous crisis. Although the number of home sales increased considerably between 2010 and 2015 (+40%), the transaction price actually declined in the meantime. The relative increase in the number of sales grew more moderately between 2015 and 2019 (+22%), although the housing prices rose significantly in the meantime. Further price increases were mainly the result of the houses on the market drying up. Home sales peaked at 241,860 in 2017, while they fell back to 218,595 in 2019 due to limited houses on the market. This effect is particularly visible in the Randstad conurbation. The areas having the highest transaction prices are therefore, as a logical consequence, those areas in the Randstad conurbation. As an example, the average transaction price in 2019 for owner-occupied houses in Amsterdam was as high as €473,000, as opposed to €251,000 in the same quarter of 2010.

FROM PEAK TO TROUGH
sales and transaction prices have risen sharply over the past decades

NUMBER OF SALES

126,127
2010

178,293
2015

218,595
2019

AVERAGE TRANSACTION PRICE

239,530
2010

230,194
2015

307,978
2019

Source Savills Research

In recent months, COVID-19 has not yet brought about any price corrections. What is striking, however, is that since the start of the lockdown, the supply of existing development has increased significantly, while the number of transactions has not dropped. Compared to the same period last year, the increase is considerable. The increase in the number of houses put up for sale in Amsterdam is particularly striking. The capital is experiencing a doubling in houses being put up for sale between the start of the lockdown until mid-May. In spite of this, houses very often continue to be sold at more than the asking price, particularly in overstrained areas.

Map Highest transaction prices are most often realized in the Randstad conurbation in the first quarter of 2020

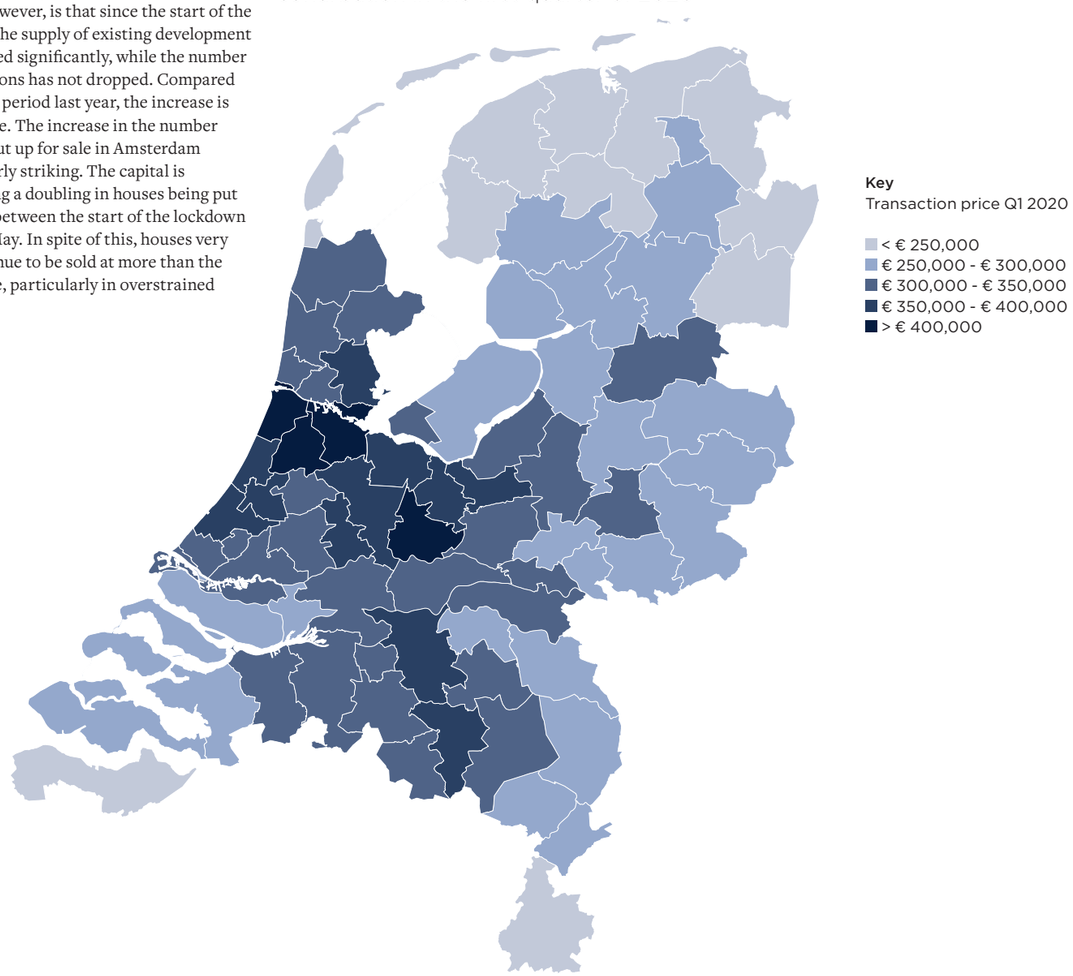


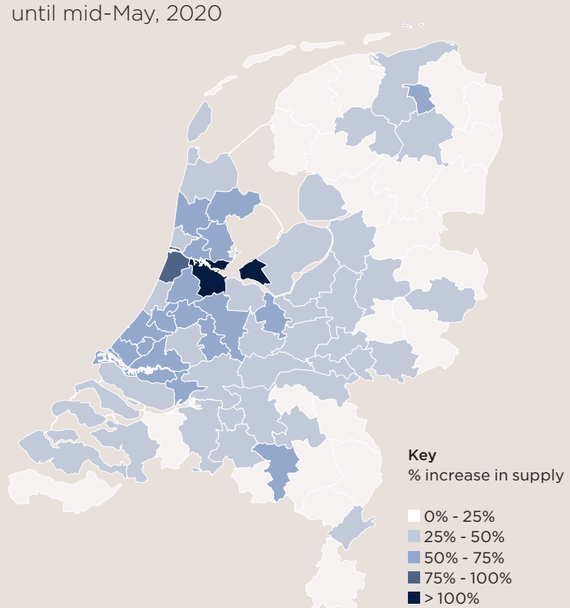
Table In May 2020, houses in overstrained areas were mainly bought at a price exceeding the asking price.

	Number of transactions	Median asking price	Median transation price
Amsterdam	853	450,000	466,780
The Hague	752	300,900	315,720
Rotterdam	1,009	283,222	287,333
Utrecht	638	345,200	358,300

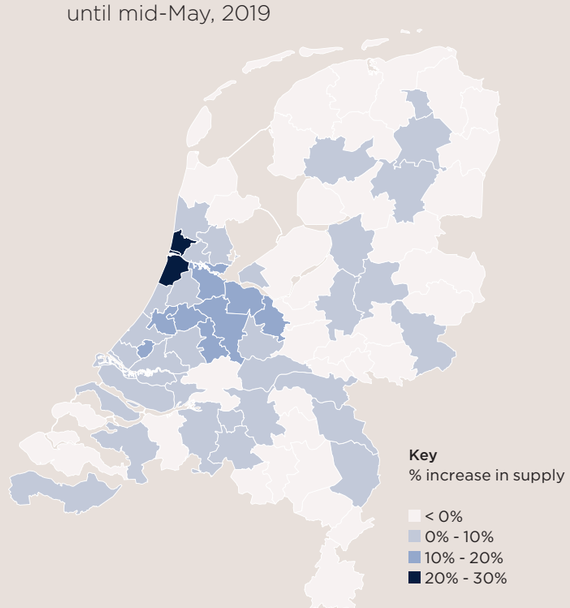
Source NVM

Existing houses on the market significantly increased in comparison with the same period last year

Map Increase of supply, mid-March until mid-May, 2020



Map Increase of supply, mid-March until mid-May, 2019



At present, COVID-19 is setting the housing sector into motion, but there is nothing indicating a price drop as yet, which is largely the result of the overstrained market combined with low interest rates. One example of the increased movement is a that a wider range of people have gained access to the housing market. De Hypotheker calculated that the number of homebuyers under the age of 35 increased by 40% compared to the same period last year. The large demand therefore remains undiminished, as a result of which the housing market is slightly less overstrained, though still overstrained.

As the economic effects of the coronavirus crisis become more trying, the confidence in the housing market is expected to decline. The extent to which the economy is able to recover after the coronavirus crisis will play a significant role in this confidence. The Dutch Central Bank (DNB, De Nederlandse Bank) expects housing prices to increase by 4.3% in 2020 in the baseline scenario of economic recovery, but to drop from 2021 onwards. Still, the tightness nevertheless continues to be paramount, which also means that an increase in the offer in even the most sought-after locations will not necessarily lead to a drop in prices for owner-occupied houses. If nothing else, the owner-occupied housing sector certainly is in motion. Can the same be said for the rental market, or has this market remained steady since the lockdown?

Table DNB expects a negative price development for Dutch owner-occupied houses (baseline scenario)

> It is striking that the offer of rental housing in the private rental market has increased in the five largest Dutch cities

Effects on the rental sector

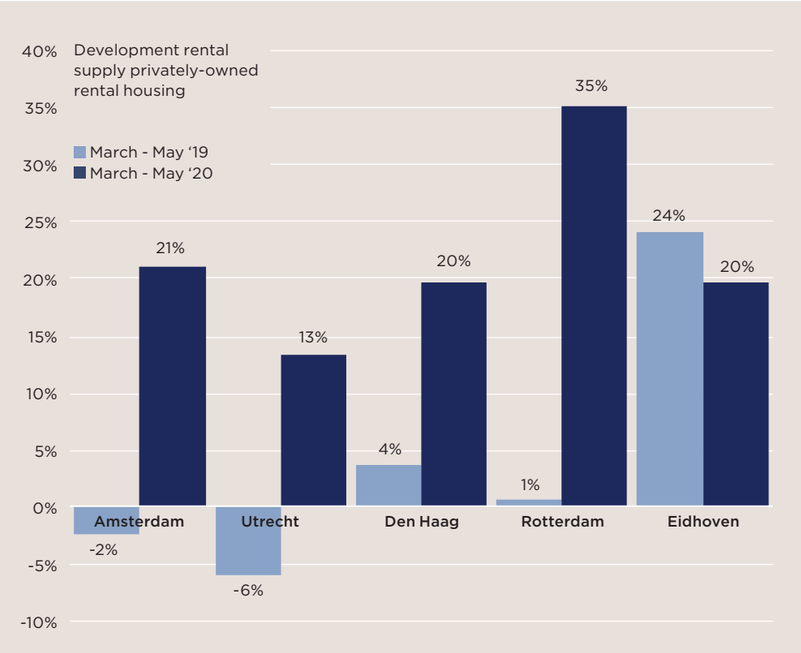
Rental market impervious to the coronavirus crisis because of large demand and stable growth in rental housing.

As previously mentioned, the housing shortage continues to particularly exist in the large cities. The advantage for the rental sector – for the investors – is that its demand is less affected by the confidence in the housing market in comparison with the owner-occupied housing sector. People always have to live somewhere and in the face of uncertain times they will sooner resort to the rental market as opposed to the owner-occupied housing market.

Increase in the private rental market
It is nevertheless striking that the offer of rental housing in the private rental market has increased in the five largest Dutch cities. Whereas the offer of rental housing remained stable in 2019, 2020 showed an increase during this period. The increase in the offer of rental housing is considerably less than the number of houses being additionally offered for sale. For example, the rental houses owned by private persons in Amsterdam that were put on the market increased by 21% as opposed to the owner-occupied houses on the market which number more than doubled. The offer of rental housing owned by institutional investors even remained stable, according to Vastgoedmanagement Nederland, the sector association for property managers.*

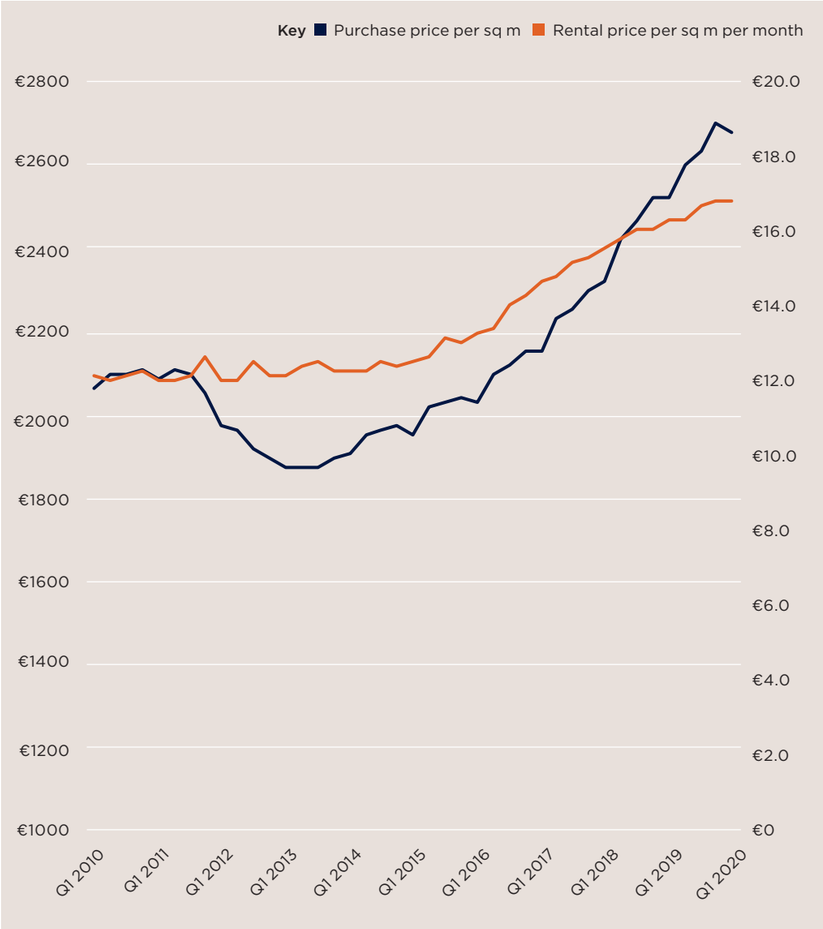
*https://www.vastgoedmarkt.nl/beleggingen/nieuws/2020/05/aanbod-huurwoningen-ondanks-coronacrisis-stabiel-101154070

Graph Supply of rental housing owned by private landlords increased since the lockdown



Source NVM

Graph Strong development in rental prices as from 2015
Price development, owner-occupied dwellings vs. rental dwellings non-regulated, 2010-2020 Q1



Source NVM; Pararius

Does this then mean that the rental market is not at risk at all? The rental sector may face one possible risk, similar to the owner-occupied housing market, which is the risk of Dutch households increasingly ending up in financial difficulties by the economic consequences of COVID-19.

A rise in unemployment is immediately imminent. However, the proportion of tenants having run into payment problems due to a deteriorating employment situation is still very small. The IVBN, which represents the interests of institutional investors in real estate, reports that 1% of the tenants have contacted the landlord due to payment problems relating to the COVID-19 crisis. Vastgoed Belang Nederland, which represents the interests of private investors in real estate, reports that approximately 2% of the tenants have contacted the landlord. This is a major difference compared with other sectors such as the retail sector, where for most tenants' rent payments have been deferred or partially waived.

POLICIES TO CAP RENT INCREASES

Investors may be affected by policies to cap rent increases for medium-rents and purchase protection for owner-occupied housing and to cap the value under the Valuation of Immovable Property Act (WOZ).

The Minister of the Interior announced policies as of 15 May. The main issue of these policies involve the measure to cap the annual rent increase in the private sector. Up until then, annual rent increases were not restricted by a maximum in the private sector, as was already the case for the social rental sector. The maximum limit will be a rent increase in inflation + 2.5%. This maximum limit will be effective from the upcoming rent increase. After three years, the maximum limit will be assessed and decided accordingly as to whether or not to extend this measure. To keep owner-occupied dwellings available, the minister proposes a buy-up prohibition for buy-to-let purposes, to keep dwellings available in neighbourhoods where housing is very scarce.

Also, the share in the WOZ value in calculating the WWS points (system by which the rental value of residential property is assessed) will be reduced. The aim here is to limit rent increases after changes, particularly in cities where the value of residential property has risen rapidly as a result of the WOZ value. As a result, considerably more houses will become part of the regulated segment, which may have a detrimental effect on investors.

COVID-19

Only 1% of tenants have contacted the landlord due to payment problems relating to the COVID-19 crisis

Residential investment market: a 'safe haven' for real estate investors?

People will always need to live somewhere. Times of uncertainty particularly show that investors are looking for investment products with a low risk profile.

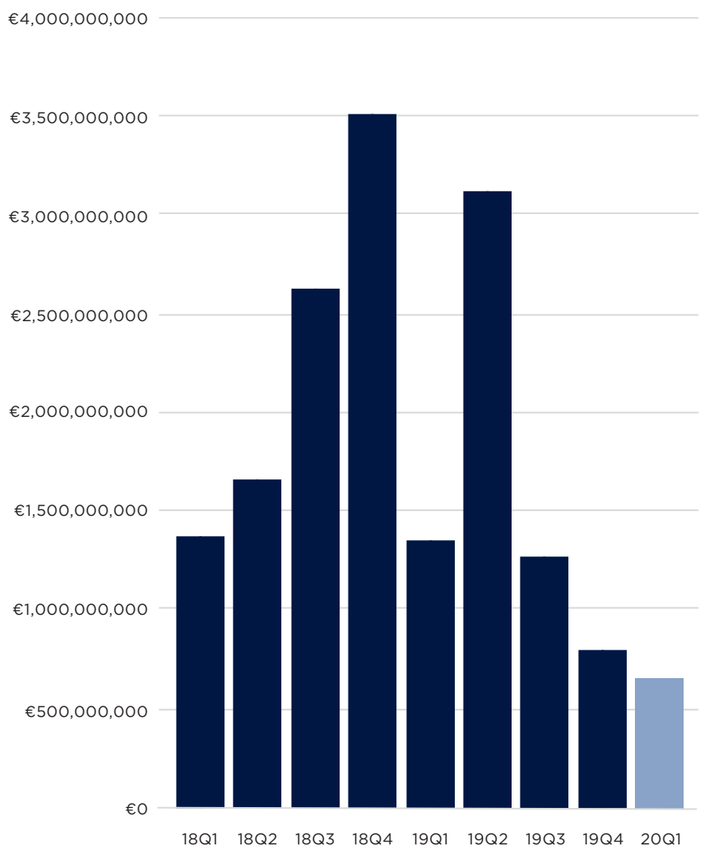
Up to now, the housing market certainly appears to fit this criterion. In addition to the limited number of tenants facing payment problems in the housing market, the demand for rental housing remains unabated. This is one of the main reasons why the investment volume in properties has substantially increased in recent years. This is reflected in the increased number of large-scale residential portfolios sold in recent years, such as the Vermeer Portfolio of €1.4 billion in 2019.

The sale of the Amber portfolio in April 2020 is another example of investors having a high level of confidence in the housing market in 2020. This is thus far the largest transaction in 2020 property in 2020 in the Netherlands. Heimstaden bought this portfolio from Patrizia, comprising over 2,000 houses amounting to a total of €375 million. This transaction took place at the time of the coronavirus crisis.

The continuing demand for residential investment means that even in 2020 initial yields remain at a very low level, sometimes even just below 4%. This applies not only to Amsterdam, but also to other cities in the Netherlands, such as Den Bosch, where such yields are also paid. Although the investment volume for 2020 will be lower than 2019, Savills expects this decline to be relatively limited. Demand from the investment market is still high. This can also be illustrated by the fact that the furnished apartments within the niche market continue to attract interest from investors, according to the 'Spotlight European Serviced Apartment Market'.* However, there is a general sense of caution on the market in this period, resulting as yet in lower investment volumes and smaller investment deals.

*https://pdf.euro.savills.co.uk/european/european-commercial-markets/european-serviced-apartment-spotlight-2020.pdf

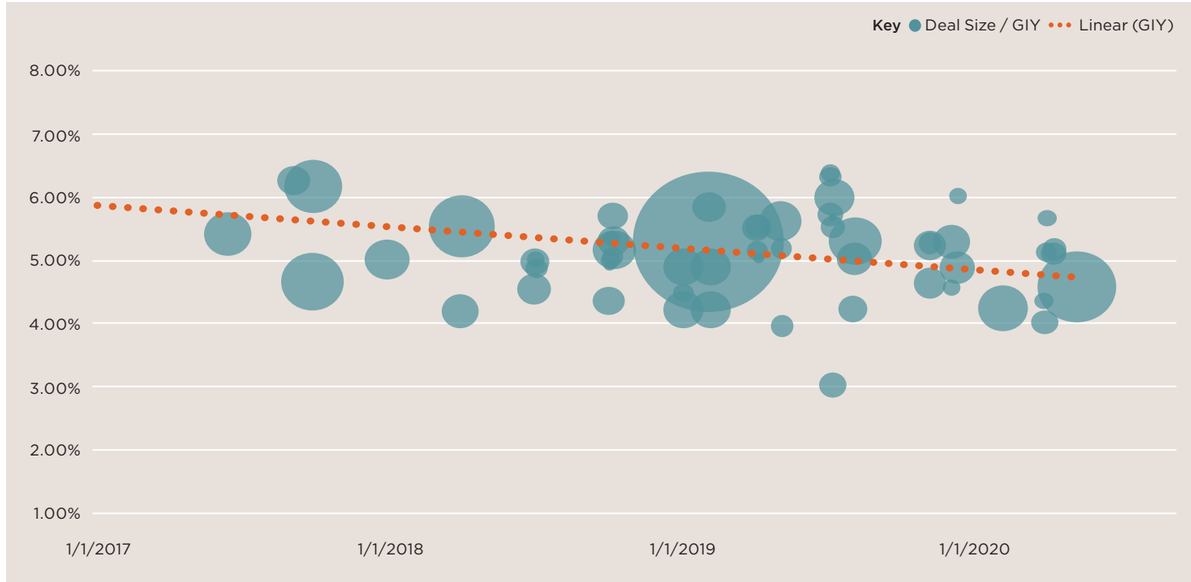
Graph Investment volume in Euro. Total investment volume remains high, however peaks mainly in recent years



Source Savills Research

> "Times of uncertainty particularly show that investors are looking for investment products with a low risk profile"

Graph Residential portfolio deals, 2017-2020 YTD. The level of low yields also continued in 2020.



Source Savills Research

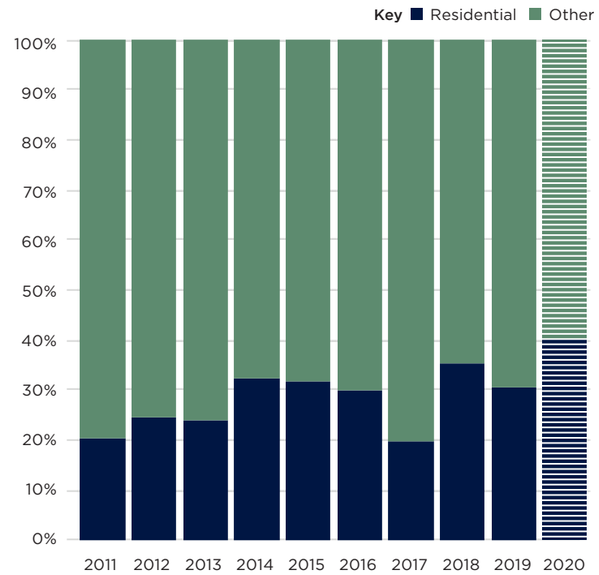
So far so good. Does this mean that the residential investment market is not at risk at all? As with all investment categories, there are always risks involved. One of the possible risks involves the price decreases on the owner-occupied housing market. As a result, investors will produce less high returns when housing complexes are let, making 'uitpond' financing (sale of rented property) less attractive. This may affect the initial yields which the investors are prepared to pay. With the demand in the rental market continuing to be so high, this serves as a good alternative to continue to let the rental property. It is expected that the initial yields will soon stabilise, rather than significantly increase.

Perceived risks

In addition to the risks of declining prices, increasing government regulation also poses a risk for investors (refer to the explanation of policy measures). This particularly refers to the restrictions in the field of indexation of rent prices that have recently been imposed. This has a direct financial impact on investors, but it also shows that the government can change the 'rules of the game' halfway through the 'game'. This also applies to the reduction of the share in the WOZ value in calculating the WWS points to 33%. Particularly in large cities where the WOZ value is high on average, houses may therefore end up within the regulated segment after a change. This can discourage investors into making new acquisitions.

Despite these increased risks, investors can still find their way into the Dutch housing market because the risks are compensated by strong fundamentals. Savills therefore expects that, thanks to these strong fundamentals of the Dutch housing market, confidence will remain high and investors will continue to seek out the Dutch housing market. It is therefore expected that the share in residential investments within the total investment volume will further increase in 2020, by reason of this submarket having a very solid basis to withstand the COVID-19 crisis.

Graph Residential investment share within total volume expected to be higher than ever. % Share in total investment volume, 2011-2020



Source Savills Research

> Despite a significant drop in consumer confidence, the confidence in the housing market remains reasonably sustained

DOES THIS MEAN THAT THE DUTCH HOUSING MARKET IS AT A TURNING POINT DUE TO COVID-19?

Outlook To which degree COVID-19 will affect the housing market still strongly depends on the extent to which the Dutch economy is able to recover. There is a risk of the economy being affected in a second wave, but also a slow economic recovery can disrupt the functioning of the housing market, as this would result in more Dutch households running into financial difficulties.

Nevertheless, it is already clearly visible on the owner-occupied housing market that supply is increasing and will continue to do so. It is expected that this will cause a downward pressure on prices towards the end of 2020. That being said, the demand for owner-occupied properties remains unabated and will only increase in view of the peak in 2024. It is therefore far from certain that housing prices will level off or fall sharply. The same applies to the rental market, where the demand for housing remains unabated. However, it is expected that the rent prices in the prime end of the rental market will level off for now, partly due to the declined demand from expats. A 'turning point' therefore seems a long way off.

COVID-19 does not change the high demand for housing, nor will it in the foreseeable future. On the contrary, the standstill of construction projects as a result of COVID-19 will only further contribute to an increasing housing shortage. Further regulation of the rental sector, as referred to in Box policy, poses an additional threat. There is a risk that the desired yields cannot be achieved, as a result of which investing in new-build houses becomes less interesting for investors. This could further rise the housing shortage.

Key Findings

1 Despite a significant drop in consumer confidence, the confidence in the housing market remains reasonably sustained. Partly as a result of this, the number of transactions have been resilient, nor are there any signs as yet of a decline in transaction prices.

2 COVID-19 or no COVID-19, the tightness on the housing market will continue to increase, peaking in 2024 and mainly driven by trends such as urbanisation and individualisation.

3 COVID-19 may induce an even further increase of the housing shortage due to the standstill of building projects.

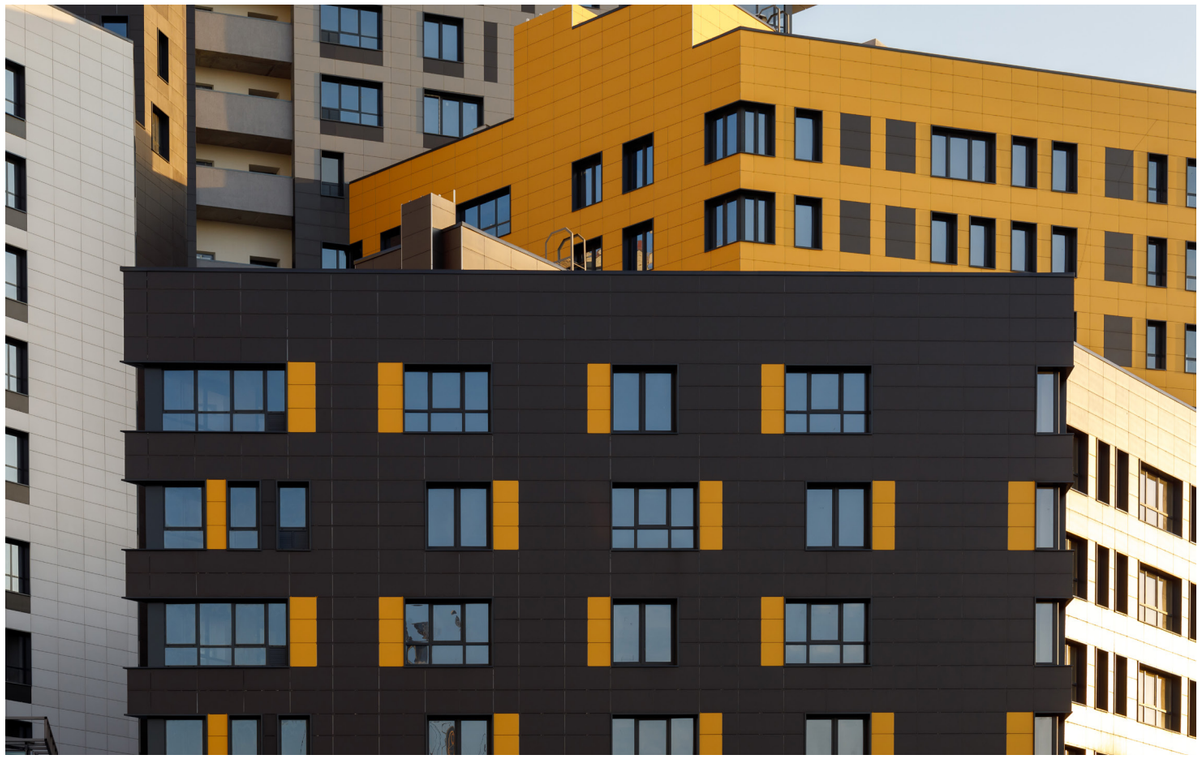
4 The supply in existing owner-occupied housing has increased significantly since the start of the lockdown. Some areas, such as Amsterdam, even show a doubling.

5 The offer of rental housing has also increased, although the increase is considerably less than the number of owner-occupied houses being additionally put up for sale.

6 The solid foundation on the rental market ensures the continued interest of investors. Despite the COVID-19 virus, the residential investors have an appetite for residential investments, which can be seen in the number of transactions that continue to take place.

7 Yields for residential investments remain at a very low level; prime residential complexes are still traded for returns of around 4%.

2024 COVID-19 or no COVID-19, the tightness on the housing market will continue to increase, peaking in 2024



Sources CBS, CPB, ABF Primos, NVM, Pararius, Eurostat, Vereniging Eigen Huis, De Hypotheker, IVBN, VBN, Savills Research, DNB, EIB

Savills World Research
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