An analysis of the Dutch residential (investment) market 2016
Preface

The developments in the Dutch residential (investment) market are unfolding rapidly. The introduction of the new Housing Act, increasing interest among international investors in Dutch rented housing and the recovery of the owner-occupied property market have led to a number of changes in recent years.

Each year, in cooperation with ABF Research, Capital Value examines the developments in the Dutch residential (investment) market. The first part of this report considers the developments in the Dutch housing market. Using various calculation models, ABF Research sketches an outlook for the rented and owner-occupied housing market over the coming 5-10 years.

The second part of the report sets out an image of the developments in the Dutch residential investment market. In preparing this report, Capital Value surveyed a large group of institutional, private and international investors concerning their vision of the residential investment market and their policy for the coming years. A substantial number of housing associations in the Netherlands were also surveyed about the impact of policy developments and their sale and investment policy. Discussions were also held with various interest organisations.

In an effort to further clarify the developments in the financing market for residential investments, cooperation was established this year with ING Real Estate Finance. They helped sketch the developments in the area of the financing of Dutch rental housing.

With the publication of 'An analysis of the Dutch residential (investment) market', Capital Value aims to advance the transparency and professionalisation of the market. We are also pleased to refer to other Capital Value reports, including the annual survey of international investors and a survey of housing associations concerning core regions and management measures in sales processes. For further information, please refer to our website or feel free to contact us anytime.

We appreciate your feedback.

On behalf of the Capital Value team,

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# Table of contents

**Preface**  
1

**Summary**  
4

**Part 1: An analysis of the Dutch housing market**  
7

**Chapter 1: Introduction to the housing market**  
7
  1.1 Main theme in the housing market  
  1.2 Structure of the Dutch housing market  
  1.3 Structure of the report  
9

**Chapter 2: The Dutch housing market**  
9
  2.1 Social developments  
  2.2 Housing market policy  
13

**Chapter 3: Expectations until 2021**  
15
  3.1 National trends  
  3.2 Regional differences  
20

**Chapter 4: Themes for the housing (investment) market**  
26
  4.1 Developments in the rented sector  
  4.2 The non-regulated rented sector  
  4.3 Student housing  
27

**Part 2: An analysis of the Dutch residential investment market**  
30

**Chapter 5: Introduction to the residential investment market**  
30

**Chapter 6: The residential investment market**  
31
  6.1 The residential investment market 2015  
  6.2 Institutional investors  
  6.3 Private investors  
  6.4 International investors  
35

**Chapter 7: Housing associations**  
41
  7.1 The new Housing Act  
  7.2 Housing associations’ housing stock  
  7.3 Sale of housing association stock: Sale of individual units vs. entire complexes  
  7.4 Housing association sales objectives  
  7.5 Investor interest in housing association stock  
44

**Chapter 8: The financing market for residential investments**  
52
  8.1 Developments in the financing market for residential investments in 2015  
  8.2 Demand from housing associations  
  8.3 Development issue  
53
Summary

Despite significant demand, the stock of rented housing will decrease if no further measures are taken. Construction levels remain insufficient and too many rental houses are being withdrawn from the market due to the sale of individual units by housing associations and investors, as well as due to demolitions. Even an increase in construction production and a record level of available capital has failed to make up for the consequences of the crisis.

Number of households growing faster than previously predicted
Research assumes that the number of households will grow by 70,000 annually, which is higher compared to recent years. This is due to the increase in the external migration balances. Possibly, the forecasts may have to be adjusted upwards over the coming years due to the increasing numbers of asylum seekers who have not yet been included in the figures. Excluding this adjustment, the number of households in the Netherlands is expected to grow from 7.7 million to 8.2 million by 2025 and 8.5 million by 2040. The largest growth is forecast for single person households. The expectation is that this group will expand from 2.9 million to 3.3 million by 2025.

Increased construction production is mainly focused on owner-occupied residential houses
After bottoming out in 2013, construction production of new-build houses is showing a strong upward trend. A good indicator of this trend is the number of building permits issued for new-build houses. In 2015, the number of permits totalled approximately 58,000. The sharp increase was mainly seen in the owner-occupied sector, while the number of permits issued for rental housing continues to fluctuate at the same low level. In the study it is assumed that there will be a robust recovery in construction production, increasing from 70,000 homes to 80,000 in 2018, the majority of which will be owner-occupied residential houses.

Rented housing stock will shrink without further measures, despite increase in new-build
The total housing stock is expected to grow by 316,000 homes over the coming years. This growth in stock will be entirely in the owner-occupied sector. There is a shortfall in construction in the rented sector. It is expected that housing associations and investors will construct approximately 27,000 to 32,000 new rental houses annually. Housing associations in particular face a major challenge due to the sustained demand for regulated rental housing and the rapid ageing of their own stock. In addition, housing associations sell around 15,000 houses annually as individual units. Investors also sell individual units each year. In the absence of further measures, it is expected that the total rented housing stock will shrink due to demolition, individual unit sales and the inadequate production of new-build rental housing.

Increasing shortages, regional differences
On balance, the number of residences being added nationwide is failing to keep pace with the increase in the number of households. This leads to the continued tightening of the housing market and bigger housing shortages. There will be regional divergences in these shortages, which are somewhat related to the differences in demographic growth. Each year in the vast majority of Dutch provinces there is a mismatch between the supply and demand for rental housing. In 2020, the biggest shortages are expected to be seen in the regions around Utrecht (7.3%) and Amsterdam (8.4%). Nationally, this shortage is estimated at 3.7%.

318,000 households live in suboptimal conditions
Due to limited construction production, the number of households that are living outside the regular housing market (in ‘Bewoonde Andere Ruimten’ BAR [Other occupied spaces]) has increased in recent years to approximately 318,000 households. The expectation is that this number will increase to 326,000 by 2018, after which it will decrease slightly to 305,000 by 2021. This group not only lacks the resources to buy a home, but there is also a lack of affordable rental housing for them. In previous forecasts, it was assumed that this number would be higher. On an annual basis, demand in the rented sector outstrips supply. Each year, around 104,000 house-
holds are unable to find suitable rental housing in the regulated rented sector. In contrast, supply and demand in the owner-occupied sector show a more parallel annual development. This is partly because the new-build programme is aimed at decreasing the existing mismatch (particularly in the owner-occupied sector).

Unprecedented amount of capital available but supply remains insufficient
Investors have indicated that they have over EUR 5.5 billion available to invest in Dutch rental housing in 2016. The banks surveyed confirmed that there is a significant amount of capital for financing rental houses. Dutch institutional investors are the main driver behind new-build rental housing in the non-regulated sector. In 2015, they invested EUR 1.6 billion in new rental houses, thereby doubling the amount spent in 2014. In 2015, their investments involved an estimated total of 6,500 new-build houses. The investors surveyed have indicated their intention to double this number over the coming years on an annual basis. However, there is insufficient supply because developers, municipalities and the construction sector are overly focused on owner-occupied houses. As a result, it appears that part of the capital cannot be accessed.

In 2015, private investors mainly invested in existing structures. Nevertheless, we can also see increasing activity among private investors in new-build and redevelopment projects. In addition, private investors are showing an increased interest in larger projects.

International investors were very active on the Dutch market in 2015. Due to developments in the Dutch residential market and the Dutch economy, property investments in the Netherlands continue to be very interesting to international investors. This group was mainly involved in the purchase of residential portfolios valued at EUR 20-70 million. Last year there was already the expectation that the availability of suitable residential portfolios on the Dutch market would remain limited in 2015. This proved to be true and, as a result, international investors increased their focus on the acquisition of new-build developments.

New Housing Act means new area of work for housing associations
The new Housing Act will severely restrict housing associations’ area of work, bringing about significant changes in their operations and their real estate investments. The primary focus of housing associations will be to perform services of general economic interest (SGEI [DAEB - Diensten van Algemeen Economisch Belang]). They will also be restricted in their geographical working area. Each housing association will be assigned a core area and will have to draw up performance agreements with municipalities. Approximately 60% of the associations surveyed have already made agreements and around 36% are in consultation with the municipality(ies) involved.

The impact of the new Housing Act on the operations and portfolio strategy of housing associations is significant. As a result, housing associations are working hard to align their current portfolios with their assigned core tasks as described in the Act. According to the study, 35% of the housing associations surveyed are planning to sell property complexes over the next two years. Around 16% are currently examining their options.

A large portion of these housing associations have indicated that the complexes to be sold off do not fit within the target group (non-SGEI) or are located outside their core area. In addition, the sale of complexes is an important tool with which housing associations can generate income for new investments (construction and renovation). In this way, the income generated from the sale of residences that are or will be deregulated, for example, can contribute to the realisation of new-build developments for the social sector which are better and more sustainably aligned with the long term task profile of the housing associations.

Corporations face a major (joint) challenge
Forecasts show that the construction brief for the regulated rented sector over the coming five years comprises approximately 110,000 homes. This is equivalent to approximately 22,000 homes every year. The clients behind the realisation of these rental homes are in the majority of cases the housing associations. However, the question remains whether the sector will be able to achieve this construction brief in the future, given the number of building permits issued to housing associations and their own construction plans. In 2015, only...
8,200 construction permits were issued to housing associations. In addition, the sector is facing an even bigger challenge in the medium term: that of replacing their outdated houses. The municipalities will therefore have to devote more attention in their planning to the construction of rental housing, even if it means lower revenues from land sales. When drafting the performance agreements with housing associations consideration can also be given to the possibility of cooperating with investors. For the effective functioning of the Dutch (rented) housing market, a good supply of rental property – in both quantitative and qualitative terms – that fits with the current housing needs of Dutch households continues to be important. Cooperation and alignment between municipalities, housing associations, the construction sector and investors therefore continues to be essential in order to achieve this for the future. If no effort is made in this area, the pressure on the housing market will only increase further.

The financing market for residential investments

There is considerable willingness among banks to finance Dutch residential investments. Currently, the financing conditions for these investments are good, due in part to their more favourable risk profile compared to other property segments. Financing institutions are also prepared to issue relatively long-term loans for housing. The structure of the long-term loans is also a good fit with the risk profile of residential investments. Foreign banks are also interested in financing Dutch houses. Given the supply and demand situation, the market faces a sizeable development challenge, most of which is concentrated in the downtown areas of major cities. This largely relates to the transformation and redevelopment of the existing supply. The availability of financing for this type of property may be more complex in light of its different risk profile. However, both commercial banks and the Dutch Municipal Bank (BNG [Bank Nederlandse Gemeenten]) are prepared to contribute to such financing. Furthermore, under the new Housing Act, housing associations must split their activities into those that are SGEI and non-SGEI, whereby non-SGEI activities must, in principle, be financed in line with market conditions. This means that in principle, a secured loan via the Social Housing Guarantee Fund (WSW [Waarborgfonds Sociale Woningbouw]) is generally no longer available for such activities. Housing associations have until the end of this year to either legally or administratively separate their non-SGEI property from their SGEI property. In practice, however, it appears that regular banks are not yet willing to provide financing for the non-SGEI part.
Part 1: An analysis of the Dutch housing market

Chapter 1: Introduction to the housing market

1.1 Main theme in the housing market
If we examine the reports published in the past five years, we see a main theme. As far back as 2012, the sharp decline in construction production and the associated increased tension in the housing market indicated the future expansion opportunities in the rented sector. In subsequent years, the forecasts for the non-regulated rented sector remained favourable. The policy changes aimed at lowering the housing subsidies contributed to expectations of substantial growth in the only sector in the Netherlands that always had to make do without subsidies. This report, too, sketches a positive outlook for the rented sector, but it is only fair to say that the current growth prospects are somewhat less favourable than presumed last year. This is mainly due to the economic recovery and the rebound in interest in the owner-occupied sector. Low prices and historically low interest rates are auspicious for potential buyers. Nonetheless, there continue to be substantial growth opportunities in the rented sector, as will become clear in the following chapters. However, in order to put these developments into perspective, it is important to first establish a clear picture of the current size and structure of the Dutch housing market.

1.2 Structure of the Dutch housing market
The Dutch housing market consists of approximately 7.6 million homes. Figure 1.1 shows the present structure of the Dutch housing market. The largest proportion of these homes, around 57%, are in the owner-occupied sector. The remaining 43% of the homes are in the rented sector, the majority of which are part of the regulated rented sector of the housing market. Only one in ten Dutch rental homes are part of the non-regulated rented sector. Housing associations own the largest share of rental homes (around 2.4 million), 94% of which are part of the regulated rented sector. Investors (institutional and private) own approximately 18% of all rental homes. Their portfolios include a relatively high number of rental homes in the non-regulated rental sector. Around 9% of rental homes fall into the category ‘other’. This category is very diverse. It includes, for example, households that temporarily let an unsold second home in order to pay two mortgages. This group also includes a great many so-called one-man shows, owners of just one or a few rental homes without a strong investment perspective. The number of rental homes in this group fluctuates considerably and is sensitive to the economic cycle.

1.3 Structure of the report
This report presents the research results into the trends and developments in the housing (investment) market for the coming years. There are two parts to the research. Part 1 of the report examines the expected developments in the housing market over the next five to ten years. These expectations are based on qualitative housing market surveys published by ABF Research. The latest survey assumes a further recovery of the market due to (1) a sustained increase in income, (2) growing interest in the owner-occupied sector, (3) increased construction production and (4) more attention among housing associations for the provision of affordable rental housing. Part two of this study is focused on the Dutch housing investment market, the housing association sector and the financing market for housing investments. In this section, attention is devoted to the most recent developments within these three different markets.

Part 1:
Chapter 2 examines the most important social and policy developments in the housing market and in the production of new-build. Chapter 3 outlines the key forecasts for the national and regional housing market. Chapter 4 elaborates on a few themes in the housing (investment) market. For example, there is extra attention for the regulated and non-regulated rented sector as well as for student housing.
Part 2:
Chapter 6 presents an overview of the past investment year as well as an outlook for 2016. An extensive look is also taken at the investment policy of institutional, private and international investors. In Chapter 7 a discussion follows on the position of the housing association sector within the housing (investment) market. The implementation of the new Housing Act has prompted a major shift in the role of housing associations. Chapter 8 concludes with a description of the most important developments in the financing market and banks’ willingness to fund (housing) investments.
Chapter 2: The Dutch housing market

In 2014, the Dutch housing market witnessed the first cautious signs of recovery, which continued vigorously in 2015. This finally marked the end to the housing market crisis that began in 2008. The number of home sales has increased considerably and prices are once again on the rise. This chapter will briefly describe the current state of the Dutch housing market and provide an insight into the primary developments that affect it.

2.1 Social developments

The Dutch housing market is a constellation that is affected by different social developments. The main social developments that are influencing the housing market are demographic developments, income development, housing consumer behaviour and the development in housing stock and prices.

Demographic developments

The growth in the number of households is little or unaffected by macroeconomic developments (see Figure 2.1). While housing production fell sharply during the crisis, household growth remained steady. Children continued to leave their parents’ homes and cohabiting partners split up, despite the crisis during the preceding years. The crisis did, however, make it more difficult for households to find adequate living space. The number of households is expected to grow further in the coming years, with an average increase of 70,000 households per year (73,000 in 2016, decreasing to 65,000 in 2018). This is higher compared to recent years due to the growth in external migration balances.

Figure 2.1: The number of households and the growth in the number of households, 1995-2030

Source: Statistics Netherlands and Primos 2015 (the extremely limited increase in the number of households in 2013 is the result of a one-off definition adjustment by Statistics Netherlands).

Since the summer of 2015, the number of refugees entering the Netherlands has increased sharply; particularly if the figures are compared with those from recent years. In 2015, 60,000 people applied for asylum. However, if we look a bit further back, it is clear that the Netherlands accommodated considerable numbers of asylum seekers at the turn of the century too. Figure 2.2 includes the figures for the period 1995-2015.

Around 70% of all requests for asylum last year were granted. In 2015, there were relatively large numbers of people from Syria and Eritrea requesting asylum. This aside, the composition of the group of asylum seekers remains extremely diverse. Around half are families; the other half is mainly men. Between 15% and 20% of asylum seekers are school-age children.
It is clear that as a result of this influx the demographic forecasts will likely have to be adjusted upwards in the coming years. The precise numbers involved will depend on (1) how the asylum flows further develop over the coming years and (2) how many asylum seekers stay on in the Netherlands for a longer period.

The current expectation is that the number of households in the Netherlands will grow from the current 7.7 million to 8.2 million by 2025 and 8.5 million households by 2040. As illustrated in Figure 2.3, the largest increase will be in the single-person household category. It is expected that this group will grow from 2.9 million to 3.3 million households by 2025. This group is mainly represented by people aged 65 and over. In addition, increasing numbers of (young) adults will live alone for longer.

**Figure 2.2: Asylum seekers and individuals in shelters, 1995-2015* (tentative)**

![Figure 2.2: Asylum seekers and individuals in shelters, 1995-2015* (tentative)](image)

Source: Statistics Netherlands and COA, 2016

**Figure 2.3: Growth in number of households per household category, 2016-2040**

![Figure 2.3: Growth in number of households per household category, 2016-2040](image)

Source: PBL and Statistics Netherlands, 2013

**Income development**

Figure 2.4 shows a decline in the average income per household following the 2008 crisis. This trend came to an end in 2014. For the years 2014-2016, the CPB (Netherlands Bureau for Economic Policy Analysis) expects a recovery in household incomes, with growth of around 1% annually. In the medium to long term, lasting income growth of 0.5% per year is expected. This income growth is in keeping with the long term income growth of 0.3% per year (above inflation) over the period 1970-2015.
Housing consumer behaviour

Consumers appear to express realistic housing preferences when asked in surveys, such as the WoON. With regards to both the kind of home and the price level, households that are considering a move indicated wishes that correspond to the homes occupied by (comparable) households that have recently moved. Preferences also appeared relatively stable over the long term. The (limited) fluctuations were partly influenced by price developments in both the rented and owner-occupied sectors (see Figure 2.5). On this basis, and in combination with the expected income development and policy relating to the housing market (including stricter mortgage requirements), there is an assumption that there will be a recovery in housing consumer’s willingness to buy.

Development of housing stock and prices in the owner-occupied sector

In the years preceding the crisis, around 80,000 homes were built each year. After the 2008 crisis, construction production fell sharply (see Figure 2.6). From 2010, construction production declined to less than 60,000 homes annually. The lowest point was reached in 2012 and 2013, when approximately 50,000 new homes were constructed. A robust recovery is foreseen in the coming years, with 70,000 homes expected to be built in 2016, increasing to 80,000 in 2018. It is also anticipated that renovation and transformation activities will mean the addition of another 7,000 housing units each year.

Figure 2.5: Development in the percentage of house seekers who wish to buy when they move house

Major administrative corrections have been made to the figures for 2012 and 2013 following the decision by the CBS to switch to the Basisregistratie Adressen en Gebouwen (BAG [Register of Addresses and Buildings]) database for housing statistics. The quality of the BAG database is expected to improve over the coming years.

Figure 2.7 illustrates the number of newly issued building permits for housing. This figure clearly indicates that the production of new-build homes will increase in the near future. An absolute low-point was reached in 2013, when only 26,000 permits were issued. In 2015, this number is expected to be around 58,000 permits. It can also be derived from the figure that, in particular, the number of permits issued for the owner-occupied sector has increased sharply while the number of permits for rental homes continues to fluctuate at the same low level.

The number of home sales is rising fairly steadily (see Figure 2.8). More than 170,000 homes were sold in 2015, and this number will increase in 2016. Prices are also starting to climb again. There are clear regional differences in this market recovery, with sales up sharply in Utrecht, Noord-Holland and Noord-Brabant between 2009 and 2015 (see Figure 2.9).

Compared to the market peak at the end of 2008, the average price of an owner-occupied home declined by approximately 20% during the crisis years from 2008-2013 (without accounting for inflation). In comparison, prices fell by 30% between 1978 and 1985. In 2013, both the number of sales and the average sales price hit their lowest points. Since then, the number of homes sold and the prices for which they sell at have been on
the rise, albeit to a limited extent. It is anticipated that over the coming years, home prices on average will rise slightly throughout the whole of the Netherlands.

### 2.2 Housing market policy

Following the Housing Agreement, rents rose sharply, particularly in 2013 and 2014, increasing by an average of approximately 4% due to annual rent increases. The 2% hike from 1 July 2015 showed a much less pronounced increase. This downward adjustment in annual rent increases reflected the response of landlords to signals from society concerning a strong increase in housing expenses. This was due to an unfortunate combination of above-inflation rent rises and declining incomes. This change of course among landlords is part of a broader societal perspective, whereby housing associations in particular (mindful of their social mission) are not solely determining rent prices based on the quality of the space but also on the financial capacity of their tenants. However, choosing to lower rent increases means resources must be made available through other means, such as lowering costs (for maintenance and management) and/or selling property.

The parliamentary committee on housing associations made recommendations that were widely embraced by the House of Representatives and the Minister. These recommendations led to a clearer delineation of the tasks housing associations should fulfil. For instance, the new Housing Act includes an allocation requirement whereby from 2016, associations must assign housing to 95% of households who qualify for housing benefit.

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**Figure 2.8: Development of average purchase price per quarter and number of sales per year, 2000-2015**

- Avg. sales price in EUR (x 1,000)
- No. of homes sold per year (x 1,000)

Source: Kadaster, 2015

**Figure 2.9: Development in the number of house sales (in percentages) per province, 2009-2015**

- Groningen
- Friesland
- Drenthe
- Overijssel
- Flevoland
- Gelderland
- Utrecht
- Noord-Holland
- Zuid-Holland
- Zeeland
- Noord-Brabant
- Limburg
- The Netherlands

Source: Kadaster, 2016
and charge rent under the cap limit. The Act also designates the anticipated separation in 2016 of housing associations’ service of general economic interest (SGEI) and non-SGEI houses. Chapter 7 provides a more in-depth analysis of the impact of the new Housing Act on housing associations and their portfolio strategy.

The allocation requirement is expected to have a major impact on the price and allocation policy in the rented sector. In light of the significant increase in rents, it will not be easy for associations to fulfil the 95% allocation requirement. A decrease in rent levels is therefore likely to be needed in order to provide enough housing with a price under the cap limit to the primary target group. This allocation requirement implies a new rent ceiling for the rented housing sector. Where the deregulation threshold traditionally marked a watershed in the rented sector with regards to annual rent increases and the qualification for housing benefit, due in part to EC regulations, a cap limit has now been added. This could have the effect of releasing the stock between the cap limit and the deregulation threshold for households who do not qualify for housing benefit but who are part of the EC target group.

The decision not to adjust the deregulated threshold in line with inflation for three years is also important. Freezing the deregulation threshold will reduce the price difference between the cap limit and the deregulation threshold. Currently, the second cap limit is EUR 618 a month and the deregulation threshold is EUR 710. Given current inflation forecasts, this cap limit could end up at over EUR 640. If so, there would only be a range of approximately EUR 70 between the two limits. However, given the allocation requirement, there will of course be a substantial difference in the housing market positions of homes below and above the cap limit. Regardless of how narrow the sector between the cap limit and deregulation threshold will be, including in terms of pricing, we can expect substantial demand for this type of housing from households just above the housing benefit limit.
Chapter 3: Expectations until 2021

3.1 National trends

Development of housing stock
The housing market is a typical supply market, in which shifts, certainly on a national level, are limited within a five-year period. Figure 3.1 illustrates the forecasts for the national development of the housing stock for the period 2016-2021. On the one hand, the growth and decline of the housing stock are the result of added stock from new-build and transformation and, on the other, by houses removed from the stock due to demolition. In addition, sales of rental homes to owner-occupiers create additions to the owner-occupied sector but represent exits from the rented sector. However, these sales have no effect on the total housing stock. The figure illustrates growth in the total housing stock of approximately 316,000 homes.

The price limits stated in this report for the rented and owner-occupied sectors relate to 2014: the labels for the price bands therefore refer to 2014 price levels. At that time, for example, the deregulation threshold was EUR 681 per month, while at the end of 2015 it was EUR 710 per month.

The figure also shows that the growth in the housing stock is entirely in the owner-occupied sector. While this sector shows growth of approximately 331,000 homes, the rented sector will shrink by around 15,000 homes. In relative terms, the largest stock increase can be expected in the rented sector, just above the deregulation threshold (EUR 681-850 per month). This price band is expected to grow by over 25%. The most pronounced decline is expected to be in the lowest price band of the rented sector (<EUR 374 per month), where stocks will decline by 20%. As illustrated in Figure 3.2, this decline is mainly due to rent adjustments. The growth is expected to be the most pronounced in the owner-occupied sector and in particular in the more expensive price bands. The following sections go into the underlying figures in more detail.

Housing stock changes 2016-2021
Figure 3.2 shows the construction, demolition and sales programme for the coming five years per housing stock type and price segment, 2016-2021.
These figures correspond fairly closely with those released by the housing associations. In 2013, the associations built 30,000 rental homes and an additional 18,000 in 2014; the expectation is that 20,000-25,000 new rental homes will be built over the coming years. However, in Chapter 7 of this report it is shown that the number of building permits issued to housing associations is at a much lower figure at the moment. In addition, the associations demolished 10,000 homes in 2013, over 9,000 in 2014, and expect to demolish a further 13,000-16,000 over the next few years. On top of this, the associations also sell around 15,000 rental homes annually (see: ABF, public housing plans of housing associations, 2015-2019; Delft 2015; research commissioned by the Ministry of the Interior and Kingdom Relations). Of course investors can also sell homes if they become vacant.

Figure 3.2 includes the figures, broken down into ownership and price band, whereby the effect of above-inflation rent adjustments is also illustrated. The lowest price band (rent up to EUR 374 per month) consists of approximately 570,000 homes, of which on balance 127,000 will be removed in the next five years. It is expected that 19,000 of these homes will be demolished, 19,000 will be sold and 89,000 will shift in price level above the quality discount threshold. Moreover, no new-build is expected to be added to this sector. The low price level excludes the possibility of realising new-build in a financially responsible way.

The above-inflation rent rises mean the rented sectors under the cap limit (up to EUR 574 per month), under the deregulation threshold (up to EUR 681 per month) and indeed above the deregulation threshold will in fact increase in size. The sector under the cap limit is expected to grow by approximately 90,000 homes, the sector just under the liberalisation limit by approximately 31,000 homes, and the proportion of homes above the deregulation threshold growing by 66,000 homes. Although the quality of many rental homes is sufficient
(according to the woningwaarderingsstelsel WWS [Property Valuation System]) to exceed the liberalisation limit, this is only expected to happen to a limited degree over the coming years. An important reason for this is related to the allocation requirement in the new Housing Act. As a result of this, housing associations will lower rent prices compared to the WWS-value for new rentals, which will increase the supply of affordable rental housing below the cap limit.

The new-build in the rented sector is expected to largely focus on rents under the cap limit (20,000 per year), with a small portion between the cap limit and the deregulation threshold (2,500 per year) and another substantial portion above the deregulation threshold (6,500 per year).

Most of the growth in the non-regulated rented sector will be in the price band between the deregulation threshold and approximately EUR 850 per month. This will partly be in the form of new-build but an even larger portion will result from the fact that part of the rental housing that becomes vacant (in light of the quality and number of WWS points) will be shifted above the deregulation threshold.

Households, homes: supply and demand in the housing market
At the beginning of 2016, there were around 7.7 million households in the Netherlands. Figure 3.3 illustrates where these households live. The figure shows that the majority (55%) live in an owner-occupied home. Approximately 2.8 million households live in a regulated rental home and around 395,000 in a non-regulated rental home. In addition, 318,000 households live in suboptimal living conditions outside the regular housing market (in ‘Bewoonde Andere Ruimten’ BAR [Other occupied spaces OOS]; for example, in a rented room or anti-squat).

Figure 3.4 illustrates the annual supply and demand for housing per housing sector for the period 2016-2021. This figure reveals that, given the demographic growth and the dynamics of the housing market, an estimated 1.2 million households annually will be looking for housing over the next five years. These include existing households that are seeking other accommodation, starters who are looking for their first home and migrants from outside the Netherlands. Around 45% of this group has their eye on owner-occupied housing, 47% are looking for a regulated rental home and some 8% are seeking a rental home in the non-regulated sector.

Figure 3.4 also reveals that an expected 1.1 million homes are available for the 1.2 million seekers. The vast majority of these homes will be part of the existing housing stock (approximately 1 million homes). In addition, over 80,000 homes are added to the housing stock each year from new-build (including 7,000 additions from renovation and transformation). Finally, around 19,000 homes are extracted from the supply due to demolition.
These figures – 1.2 million seekers and 1.1 million available homes – appear to indicate that most seekers are able to find a home. However, Figure 3.5 illustrates that while home seekers in the owner-occupied sector are finding homes (residual supply of approximately 15,000) there is a greater mismatch in the rented sector. The annual demand for homes in this sector outstrips supply. As illustrated by Figure 3.5, each year approximately 100,000 households in the regulated sector and around 12,000 households in the non-regulated sector are unable to find suitable rental housing. In practice, the search process is made even more difficult by regional differences but also because of specific wishes (such as ownership relationship, price, structural design, location, etc.) that do not match the supply. As a result, approximately 300,000 households are estimated to have to make do with a home that is less suited to their needs (residual demand; households that must look for alternative choices), while 150,000 homes will be rented because people failed to find a better alternative (residual supply; less valued supply). Section 3.2 of this chapter will take a closer look at the regional mismatch between the supply and demand of rental and owner-occupied housing.

**Discrepancies between supply and demand**

In the period 2016-2021, the number of households will increase by 326,000. According to production forecasts used in this report, only 316,000 homes will be added. This means there will be a shortfall which will affect 10,000 households. Space is expected to become available for these households due to a steady decline in the (frictional) vacancy rate (see Figure 3.6). The percentage of vacant rental homes is declining in both the rented and owner-occupied sector (2.0% rented and 1.4% owner-occupied). Due to limited production in recent years, the number of households living outside the regular housing market (in so-called OOS or other occupied spaces) has increased to approximately 318,000 households. The expectation is that this number will increase to 326,000 by 2018, after which it will decline to 305,000 by 2021.
This means that the percentage of households in an OOS will fall slightly from 4.1% in 2016 to 3.8% by 2021. Previous forecasts assumed higher figures.

In Figure 3.7, the key figures for the expected developments relating to supply, demand and the resulting discrepancies are grouped together. The current and desired housing situations for the 7.7 million households in 2016 are included at the top of the table. On balance, most households want to leave their temporary housing situation in an OOS (other occupied space) and move to a suitable rental or owner-occupied home that fits with their income level.

On an annual basis, demand in the rented sector exceeds supply. The table illustrates that annually approximately 104,000 households are unable to find a suitable rental home in the regulated rented sector. In the
non-regulated sector, there is an annual shortfall (according to current supply expectations) of 12,000 homes (supply/demand). This sector is also affected by a poorly aligned supply and demand situation due to qualitative aspects (such as location), which means each year 25,000 households are unable to have their needs met (residual demand).

In the owner-occupied sector, supply and demand show a more parallel annual development. In this sector there is even an annual surplus of approximately 15,000 owner-occupied homes. This is partly due to the fact that the new-build programme is aimed at decreasing the existing mismatch (primarily in the owner-occupied sector).

3.2 Regional differences
The national picture sketched in the previous section provides a good cross-section of the general developments to come on the Dutch housing market. However, there are major regional differences in the Netherlands when considering the development of supply and demand within the regional housing markets. This section will provide insight into these regional differences per COROP (Coördinatiecommissie Regionaal Onderzoeksprogramma, [Coordination Commission Regional Research Programme]) region and province.

Demographic growth differences
There are significant differences in expected demographic growth in the Netherlands. Figure 3.8 shows these regional differences. Substantial growth is expected in the number of households, particularly in the regions around Utrecht (5.9%) and Amsterdam (7.1%), while at the edges of the country demographic growth will clearly be smaller. A decline in the number of households is expected in only two of the 41 COROP regions in the period up to and including 2021 (Delfzijl -0.2% and Oost-Groningen -0.6%).

Differences in the growth of housing stock and the housing shortage
At national level, it was previously forecast that on balance the number of homes added would fall short of the increase in the number of households. That will lead to increased tension in the housing market and a larger housing shortage. There will be regional differences in this development, which somewhat ties in with the previously demonstrated differences in demographic growth. In 2021, the shortage will be most significant in the regions around Utrecht (7.3%) and Amsterdam (8.4%). Nationally, this shortage will be 3.7%. This shortage is illustrated in percentages in the map in Figure 3.9. Figure 3.10 shows the ten COROP regions with the largest housing shortages by 2020. It appears from the figure that the shortage in the greater Amsterdam region is expected to increase to 8.4%. The national average will increase to 3.7% by 2020.
Figure 3.8: Increase or decrease of the number of households per COROP region (2016-2021)

Source: Primos, 2015

Figure 3.9: Housing shortage per COROP region in percentage of the stock (2020)

Source: Primos, 2015
Differences in stock development

Figure 3.2 shows the national construction, demolition and sales programme for the coming five years per housing market sector. In Figures 3.11 and 3.12, this is broken down per province to provide insight into the implications per province. Figure 3.11 shows that there will be a decline in the number of rental homes, particularly in the province of Noord-Holland where the number will fall by approximately 12,000. In this province, a total of 28,000 new rental homes are expected to be built over the next five years. In contrast, around 19,000 rental homes will be demolished and some 22,000 rental homes will be sold to owner-occupiers.

In the owner-occupied sector, an increase in the number of owner-occupied homes is expected in all provinces in the coming five years (see Figure 3.12). The largest increases will be seen in the provinces of Noord-Holland (83,000 homes) and Zuid-Holland (79,000 homes). This growth will be the result of both new-build and the sale of rental homes to owner-occupiers.

This results in the development of the rented and owner-occupied sectors as illustrated in Figure 3.13. In absolute numbers, Noord-Holland and Zuid-Holland stand out with an increase in the total stock of 70,000 and 77,000 homes, respectively, in the coming five years.

**Figure 3.10: Top 10 COROP regions with the largest housing shortage, 2015-2020**

Source: Primos, 2015

**Figure 3.11: Construction, demolition and sales programme for the rental sector, 2016-2021**

Source: Primos, 2015
Figure 3.12: Construction, demolition and sales programme for the owner-occupied sector, 2016-2021

Source: Primos, 2015

Figure 3.13: Existing housing stock and absolute increase/decrease per province in terms of ownership

Source: Socrates, 2015
Differences in current housing situation and housing need

The previous section sketched the current and desired housing situations at national level. The numbers presented show that in the rented sector, supply and demand (of existing households) are broadly balanced and that overall, it is mainly households (from an OOS) that would like to move to an owner-occupied home. This mismatch is also observable at regional level (see Figure 3.14). However, in absolute numbers, this mismatch is the biggest in the provinces of Noord-Holland and Zuid-Holland.

Differences in supply and demand ratios

As stated in the previous section the annual demand for rental housing will be structurally larger than the supply and that in the owner-occupied sector, supply and demand will be more balanced on an annual basis. That is partly because the new-build programme is aimed at decreasing the existing mismatch (primarily in the owner-occupied sector). Figures 3.15, 3.16 and 3.17 provide transparency on the annual supply and demand situation per province for the regulated and non-regulated rented sectors as well as the owner-occupied sector. It is clear from these figures that in the vast majority of Dutch provinces there is an annual mismatch between the supply and demand for non-regulated rented homes. In absolute terms, this mismatch is the greatest in the provinces of Noord-Holland (3,700 homes) and Zuid-Holland (2,900 homes).
Figure 3.15: Annual demand and supply per province for the regulated rental sector, 2016-2021

Source: Socrates, 2015

Figure 3.16: Annual demand and supply per province for the non-regulated rental sector, 2016-2021

Source: Socrates, 2015

Figure 3.17: Annual demand and supply per province for the owner-occupied sector, 2016-2021

Source: Socrates, 2015
Chapter 4: Themes for the housing (investment) market

4.1 Developments in the rented sector

Within the rented sector, there is a major difference between the regulated (rent < EUR 710 per month) and non-regulated (rent > EUR 710 per month) parts of the rented sector. The regulated sector is also referred to as the social housing sector and is primarily meant for lower-income households. Housing associations are the key players within the regulated sector. Currently, around 76% of all regulated rental homes are rented out by housing associations. Their core task is to maintain a healthy and suitable housing stock of regulated rental homes.

Figure 4.1 illustrates the development of the regulated rented sector per province. This figure reveals that the regulated sector is expected to shrink by approximately 80,000 homes nationally. The expectation is that around 110,000 new-build homes will be added to this sector. In contrast, approximately 62,000 homes will be demolished, 61,000 homes will be sold to owner-occupiers (as individual units) and approximately 67,000 homes will shift to the non-regulated sector due to rent adjustments. The expectation is that the change in absolute terms will be the biggest in the provinces of Noord-Holland (a decrease of approximately 22,000 homes) and Zuid-Holland (a decline of approximately 16,000 homes).

Figure 4.1: Construction, demolition and sales programme for the regulated rental segment, 2016-2021

Source: Socrates, 2015

4.2 The non-regulated rented sector

Other rules apply to the non-regulated rented sector than to the regulated rented sector. Landlords have more scope to determine the rent price. After all, the points system, maximum rent price and maximum annual rent increase do not apply to non-regulated rental homes, which are commonly referred to as liberalised homes.

At the beginning of 2016, there were 415,000 rental homes in the non-regulated rented sector. This represents 5.4% of all (7.6 million) homes. While these homes are spread throughout the Netherlands, substantial numbers are concentrated in the provinces with more urban regions, such as Zuid-Holland (110,000), Noord-Holland (90,000), Noord-Brabant (55,000), Utrecht (40,000) and Gelderland (35,000).

The non-regulated sector is expected to grow by approximately 66,000 homes. The increase in this sector is
due to the fact that approximately 32,000 new homes will be built, 5,000 homes will be demolished, 29,000 will be sold to owner-occupiers and around 67,000 homes will shift from the regulated rented sector to the non-regulated rented sector due to rent adjustments. Most of the new-build non-regulated rental homes will be constructed in the provinces of North and Zuid-Holland (7,000 homes each) and, to a lesser extent, in Noord-Brabant (5,000 homes) (see Figure 4.2). Figure 4.3 illustrates that the absolute growth in these provinces is also forecast to be the greatest.

4.3 Student housing

At present, approximately 650,000 young people in the Netherlands are studying (full-time) for a higher professional or academic degree. That number is expected to increase by 32,000 over the coming eight years.
The most important group in the student housing market is students living away from home. These young people, who live in the city where they are studying, form the so-called primary target group for providers of student housing. Figure 4.4 illustrates the size of the population of this primary target group for the biggest college and university cities. The top three cities with the most students living away from home are Amsterdam (41,000), Groningen (31,000) and Utrecht (24,000).

Whether this primary target group will increase in size over the coming years is very unpredictable. If the trends seen in the past few decades were to continue, we can expect the number of students living away from home to increase by approximately 14,000 during the period 2015-2023. However, due to the loan system that has
come into force for higher education, new students no longer receive grants and will therefore have to borrow to pay their fees. This will leave students with less money in their pockets and make them more critical about their decision concerning whether or not to live at home. The effect of this is estimated in the National Monitor (SV = studie voorschot [study advance]) to be a decrease in the primary target group of approximately 14,000 students. Recent figures from CBS (Statistics Netherlands) also point towards this transition. Figure 4.5 shows both variants for the same student cities. These figures show that of the top three cities, only Amsterdam shows an increase in the population of students living away from home in both scenarios. In addition, the smaller student cities of The Hague and Wageningen also show positive growth in both scenarios.
Part 2: An analysis of the Dutch residential investment market

Chapter 5: Introduction to the residential investment market

Part 2 of this report focuses on the developments within the Dutch residential investment market, including consideration of the recent past, the present and the future. The investment year 2015 will be briefly discussed, as will the outlook for 2016. This section of the report also paints a picture of the current investment profiles and strategies of residential investors, as well as their investment ambitions for the year ahead. Over 100 of the largest (international) residential investors have contributed to this effort by participating in surveys and interviews in which they were asked to share their vision of the residential investment market.

This report also makes use of the research among international residential investors that was presented by Capital Value in January 2016. For a more comprehensive picture of the interest among international housing investors, please refer to ‘The investment policy of international residential investors 2016’.

This year, special attention was paid to the role of housing associations in the residential (investment) market. The role of the housing associations is shifting due to the implementation of the new Housing Act. Surveys were carried out to clarify the consequences of the new Act. This survey was completed by 80 housing associations.

Part 2 of this report ends with a brief analysis of the financing market for residential investments. This chapter describes the key developments within the past year in the financing market and banks’ willingness to fund residential investments. For this part, a few of the most important players were asked to share their vision of the developments in the financing market for residential investments during a roundtable meeting. The participants included: Bank Nederlandse Gemeenten, Deutsche Hypothekenbank, FGH Bank, ING Real Estate Finance and ABN AMRO.
Chapter 6: The residential investment market

6.1 The residential investment market 2015

For the third consecutive year, the total volume invested in Dutch commercial real estate was higher than the previous year. This clearly supports signals from the real estate sector of a robust market recovery. In 2015, approximately EUR 12 billion was invested in shops, homes, offices and commercial premises, etc. (see Figure 6.1). In 2014, this total investment volume was approximately EUR 10 billion. At approximately 25%, residential investments in 2015 once again accounted for a substantial share of the total volume of commercial real estate investments. In addition, the total volume, worth approximately EUR 3 billion, equalled the record set in 2014 for residential investments in the Dutch market.

Figure 6.1: Total volume invested in real estate versus residential investments, 2006-2015

![Figure 6.1: Total volume invested in real estate versus residential investments, 2006-2015](source: Capital Value, 2016)

In 2015, Dutch institutional investors were extremely active in the Dutch residential investment market. In 2014 they invested a total of approximately EUR 850 million. In 2015, this volume increased sharply to approximately EUR 1.6 billion (see Figure 6.2). Institutional investors mainly invested in new-build projects but also remained interested in existing portfolios. Meanwhile, private investors invested approximately EUR 600 million in Dutch rental housing in 2015, which represents 20% of the total volume. The interest of these investors in existing structures continued this year too. Private investors also continue to be important to the mid-priced rented sector in small and medium-sized cities. They also see the Dutch housing market as an interesting sector and continue to seek investment opportunities to further expand their residential portfolio.

With approximately EUR 800 million in direct investments in 2015, international investors were responsible for approximately 26% of the total investment volume. This is lower than the volume in 2014 (EUR 1.5 billion), which is in part due to the purchase of major portfolios such as the Vestia (EUR 577 million) and WIF portfolios (EUR 356 million). International investors continue to be extremely interested in such large portfolios. Although this type of portfolio was not on the market in 2015, international investors remained nevertheless very active on the Dutch residential investment market. They were particularly focused on smaller transactions of EUR 20-70 million. A few of the international investors involved in such acquisitions included Round Hill Capital, LaSalle Investments, Greystar and Heitman. They also made approximately EUR 600 million in indirect investments.

The demographic and economic developments in the Netherlands continue to stimulate investor interest in the Dutch rented housing sector. Investors still regard the risk-return profile of residential investments to be very attractive compared to other sectors. The majority of investors indicate a desire to invest more in the Dutch rented housing sector. The same applies to banks and other financial institutions that issue loans. Interest in Dutch housing investments has been growing since 2013. This has resulted in increased activity and competi-
tion on the housing investment market. This increased competition has also led to a decline in the gross initial yields over the past year. A slight decline is also expected in 2016, primarily in shortage areas.

### 6.2 Institutional investors

There is also a small group of institutional investors active on the Dutch residential investment market who invest in rental housing on behalf of pension funds and insurance companies. Institutional investors, like housing associations, are the key drivers in the development of new-build homes for the rented sector. While housing associations primarily focus on the social housing sector, institutional investors are mainly interested in the non-regulated rented sector. Institutional investors are chiefly in search of low-risk investment opportunities that generate a long term stable (direct) return.

Institutional investors jointly hold approximately 140,000 homes, approximately 55% of which are in the non-regulated rented sector. Institutional investors are constantly looking to rejuvenate their portfolios and strengthen their market position, primarily by investing in new-build developments for the non-regulated rented sector. They also rejuvenate their holdings by selling the older portion of their portfolio. On the disposition side, institutional investors mainly focus on the sale of regulated houses due to the landlord levy.

### Developments in 2015

Dutch institutional investors invested approximately EUR 1.6 billion in Dutch rental homes in 2015. This is a substantial increase compared to 2014, when they purchased rental homes to the total value of approximately EUR 850 million. As illustrated in Figure 6.3, institutional investors were primarily involved in the acquisition of new-build developments. An example of this is the purchase agreement signed by Vesteda and developer Provast for the development of the Amsteltower, a residential tower with 192 apartments next to Amsterdam’s Amstel train station. Institutional investors also continued to show interest in the acquisition of existing portfolios. For instance, Delta Lloyd Vastgoed purchased a residential portfolio from GREEN Real Estate comprising 183 homes spread across various complexes in the Netherlands.

Institutional investors also continued to be active in the area of dispositions, primarily selling outdated property in both the regulated and non-regulated rented sectors. One example of this is the sale by Syntrus Achmea Real Estate & Finance (on behalf of the Dutch pension fund for architects [Stichting pensioenfonds voor de Architektenbureaus]) of a large residential portfolio of 9 complexes comprising 227 homes to a Dutch private investor.

Last year, various institutional investors indicated they had sufficient capital available for investments in rental housing, but expressed their concern that there would not be enough product available that met the desired investment profile. As a result, the IVBN (Vereniging van Institutionele Beleggers in Vastgoed [Association of...
institutional property investors]) has presented a reverse bid book, in which the institutional investors provide an outline of their investment profile. In doing so, the bid book serves as a communication tool that enables developers and municipalities to better align their projects with the demand from institutional investors.

**Outlook 2016**

As was the case in 2015, institutional investors are highly interested in investing in rental homes. Due to its favourable risk-return profile, the Dutch rented housing sector continues to be an interesting investment market that fits well with the profile of institutional investors. As a result, they have earmarked approximately EUR 1.5 billion for new investments in 2016. As was the case in 2015, the question still remains whether sufficient (new-build) portfolios will come onto the market to make use of this capital.

According to the findings of ABF Research, as presented in Chapter 3, the construction brief for the non-regulated rented sector in the coming five years comprises approximately 32,000 homes. This is equivalent to approximately 6,400 homes per year. The main contractors for the construction of these rental homes will continue to be the institutional investors. However, institutional investors are still having difficulties finding suitable new-build projects in which to invest their capital. As a result, the threat of a discrepancy between supply and demand as well as a further increase in shortages in the non-regulated rented sector remains a live issue. To effectively address this situation, a better alignment between municipalities, housing associations, developers and institutional investors is essential. Discussions with institutional investors reveal that they see opportunities to build an additional 10,000 to 15,000 new rental homes per year. However, an important precondition for this is that municipalities are willing to increase the scope in their programming for mid-priced rents.

**Investment policy and product preference among institutional investors**

Last year’s study indicated that institutional investors are continuing to steer their investment policy more towards the demand (development) of their target groups, which primarily consist of middle and upper income households. This target group is primarily seeking rental homes in the mid-price sector (EUR 700-1,000 per month). Unfortunately, the supply of such homes is extremely limited compared to demand. Another important consideration for institutional investors is the fact that in this rented sector they are not liable for the landlord levy.

Practice has already shown that institutional investors have a very strong preference for investments in new-build developments. This image is reconfirmed in Figure 6.4, which illustrates the investment preferences of institutional investors per type of housing project. This figure also shows that, as in previous years, institutional investors also continue to be highly interested in acquiring existing residential portfolios. Approximately 60% of the investors surveyed said they were also considering investing in such portfolios.
Figure 6.4 also reflects institutional investors’ interest in rental homes for specific target groups. As was the case last year, senior housing complexes are of particular interest to institutional investors. Approximately 60% of the institutional investors surveyed said they were looking at opportunities for this type of housing project. The growing interest among investors in senior complexes and care homes is aligned with demographic developments, such as the ageing population and the growing need for the care of the elderly.

**Figure 6.4: Interest of institutional investors according to type of housing**

![Interest of institutional investors according to type of housing](source: Capital Value, 2016)

As indicated above, institutional investors are experiencing difficulties in finding a suitable destination for their available capital. At the moment, there is not enough product available on the market. While these investors have a strong preference for new-build developments they are aware of a major mismatch between the demand and available supply of development locations. Institutional investors apply a minimum threshold for an investment of approximately EUR 5 million per project. Location is also an important deciding factor, with priority given to urban growth regions in the Netherlands. These are the regions that are undergoing positive demographic and economic developments, and where tight conditions in the rented housing sector are expected to increase.

Institutional investors were asked about their investment horizon when acquiring a new-build complex. The results (see Figure 6.5) reveal that the majority of institutional investors (67%) have a long investment horizon of between 15 and 25 years. They were also asked whether they would consider an operating guarantee (of approximately 10 to 15 years) when in discussion with a municipality or housing association about the purchase.

**Figure 6.5: Average investment term institutional investors**

![Average investment term institutional investors](source: Capital Value, 2016)
of land or complexes. Around 83% of the investors said they would indeed consider this. The results of the survey also revealed that all the investors polled would be willing to cooperate with housing associations in future new-build initiatives. This points to opportunities for the development of mixed (large-scale) housing projects whereby housing associations take on the social portion of the development while institutional investors handle the non-regulated rented sector housing.

### 6.3 Private investors

Private housing investors continue to play a very important role in the Dutch housing investment market. Their position in the regional rented housing sector in the non-regulated sector will show particular growth now that the activities of housing associations are limited in this sector.

**Figuur 6.6: Breakdown of private investors according to volume of their housing stock**

![Breakdown of private investors](source: Capital Value, 2016)

The group of private investors is characterised by its inventiveness and diversity with respect to residential investments. Figure 6.6 illustrates the diversity of the group of private investors and outlines the group’s profile based on their housing stock. The figure shows that there is an extremely large group of active private investors with small portfolios (up to 25 housing units). These investors are mainly active on a regional scale, of which the majority are seeking investment opportunities up to approximately EUR 5 million. A large portion of this group of investors has a limited background in investments in (residential) real estate.

At the other end of the private investment spectrum are the specialised private residential investors who have a large portion of the private rental homes in their portfolios. These are investors with a professional background in residential real estate. In terms of organisation and strategy, these private investors have a pronounced institutional profile. Investors in this category are more often in a position to purchase bigger portfolios (> EUR 20 million) and are mostly active in the national market.

Figure 6.7 illustrates the geographical investment preferences of private investors per province. The majority of investors say they are primarily seeking investment opportunities in the peri-urban provinces of Zuid-Holland (72%), Utrecht (68%) and Noord-Holland (44%). This is because the increasing demand for rental homes and the rising residential market shortages are the greatest in these provinces. A small portion of the investors surveyed expressed a desire to invest nationally. These are primarily larger private investors. The smaller investors include more regional players who focus on only one or two provinces. Due to this regional market knowledge, they see more opportunities for rent optimisation and value creation in investment opportunities.
Developments in 2015

In 2015, private investors invested approximately EUR 600 million into Dutch rental homes. This is equivalent to the volume invested in 2014. A look at the transactions of private investors in 2015 reveals that an extremely diverse group was involved. Private investors were primarily involved in smaller residential transactions (< EUR 10 million) such as the purchase by two private investors of 56 apartments from the Woonkracht10 housing association. However, private investors were also involved in larger residential transactions (> EUR 20 million).

In 2015, investment transactions involving private investors were spread throughout the Netherlands. National portfolios were primarily purchased by larger private investors, while smaller portfolios or complexes drew substantial interest from local parties. In 2015, private investors mainly invested in existing structures (older than 10 years). Yet we are also seeing increasing activity among private investors in new-build and redevelopment projects.

Outlook 2016

The investors surveyed indicated that they have approximately EUR 500 million available to invest in Dutch rental homes in 2016. Since only a part of the private investors took part in the survey, it is quite possible that the actual available volume will be higher. As is the case with institutional investors, there is increasing demand for investment options among private investors. Sufficient supply on the market is also key for this group.

In addition, the new Housing Act severely restricts the role of housing associations in the non-regulated rented housing sector. This provides opportunities for private residential investors, particularly for small-scale residential projects in the non-regulated rented sector at regional/local level. Due to their size, such projects generally hold little interest for institutional investors. In contrast, private investors can add value to these projects due to their local market knowledge, which enables them to even better align residential projects with local market demand.

Private investors’ investment policy and product preferences

Figure 6.8 confirms that private investors are primarily involved in smaller transactions. This figure shows that a large portion of investors are looking for investment opportunities up to EUR 5 million (institutional investors often apply a minimum of EUR 5 million). It is striking that the percentage of private investors seeking investment opportunities in the range of EUR 5 to 10 million has increased sharply compared to last year. Only a small portion of the investors (4%) are looking for investment volumes greater than EUR 20 million.

A substantial part of the residential portfolio of private residential investors is currently comprised of rented social housing (approximately 75%). However, this study reveals that when looking for new investment opportunities,
the investment preferences of the group of private investors are increasingly above the liberalisation limit (see Figure 6.9). The most important reason for this is the landlord levy imposed by the government. In addition, 48% of the private investors surveyed said they were more open to investments in the rented housing sector just above the liberalisation limit, particularly in light of the fact that it has been set for three years.

6.4 International investors

International investors play an increasingly large role in the Dutch residential investment market. Capital Value conducted a separate survey of this group of investors. The results of that research were published in January in the report, ‘The investment policy of international residential investors – Focus on the Dutch market, 2016’. International investors came to the Dutch residential investment market two years ago and have since pur-
chased rental homes to the value of approximately EUR 2 billion. Discussions with these international investors revealed that they plan to remain active on the Dutch residential investment market in the years to come.

Figure 6.11 shows where the majority of these international investors are from. Approximately 31% are from North America, 28% from the United Kingdom and around 25% from Germany. To get a better investment profile of these investors, they were also asked for which parties they invest. The results revealed that most of the investors (82%) invest using institutional capital. In addition, the vast majority of the international investors prefer to invest directly in Dutch rental homes (81%). Only 14% said they were interested in both direct and indirect investments.

Developments in 2015

In 2014, international residential investors were responsible for 50% of the total volume invested in Dutch rental homes. This percentage dropped to 26% in 2015. Nevertheless, in 2015 international investors were still very active in the Dutch market and the number of international investors with a Dutch residential portfolio increased further. International investors were mainly involved in the purchase of residential portfolios in the range of EUR 20 to 70 million. In the 2015 report, we expressed our concern about the availability of suitable residential portfolios on the Dutch market. This expectation was fulfilled and resulted in an increased focus by international investors on the acquisition of new-build developments, a housing market sector traditionally dominated by

Figure 6.11: Country of origin of international investors with interest in the Dutch residential market

Source: Capital Value, 2016
mainly Dutch institutional investors. For example, the American investor Heitman invested in a new-build project in Amsterdam-West where approximately 500 studio apartments are being constructed for young people.

**Outlook 2016**

Due to developments in the Dutch residential market and the Dutch economy, Dutch residential investments remain of great interest to international investors. International investors were asked to estimate their available budget for Dutch residential investments over the coming years. Their responses revealed that, like last year, they have approximately EUR 3 billion available for 2016. The investors surveyed indicate that they have approximately EUR 2.5 billion available to invest in the Dutch rented housing sector in 2017 and 2018. However, the question still remains whether enough residential portfolios will become available over the coming years to enable these investors to spend their earmarked budgets. After all, a portion of the international investors is continuing to look for portfolios of a substantial volume (> EUR 250 million). In addition, the expectation is that international investors in 2016 will be more often involved in new-build developments and housing projects for specific target groups, such as student housing.

**International investors’ investment policy**

The survey results reveal that international investors continue to have a strong preference for investments in existing structures (no older than 10 years) (see Figure 6.13). An important advantage of investing in existing structures is that these portfolios generate a direct return from ongoing rental income. Unfortunately, the supply of this type of residential portfolio proved limited over the past year. This prompted many international investors to broaden their horizons and consider alternatives such as new-build developments. One such example is the German investment fund Patrizia, which signed a letter of intent with the municipality of The Hague to construct 600 homes annually.

**Figure 6.13: International investors’ interest according to type of housing product (multiple answers possible)**

Source: Capital Value, 2016
Figure 6.14 illustrates international investors’ interest in rental homes for specific target groups, such as student and senior housing. Interest among international investors for this type of product has increased sharply in recent years. The student housing shortage and ageing population are the key drivers behind this growing interest, which was clearly visible in 2015. For instance, the American investor Greystar purchased the Diemen-Zuid student campus, a transformation project consisting of 939 housing units for students.

When considering an investment, the geographic location of the residential portfolio continues to be an important decision making component for international investors. This factor indicates that their interest is mainly focused on urban regions such as the Randstad conurbation and the Brabantse Stedenrij region. However, international investors are also prepared to invest outside these urban regions. For example, German investor LaSalle purchased 350 single-family homes in early 2015 from the Servatius housing association in the Maas-tricht region.

**Figure 6.14: International investors’ interest in housing products for specific target groups**

<table>
<thead>
<tr>
<th>Category</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student homes</td>
<td>50%</td>
</tr>
<tr>
<td>Housing complexes for the elderly</td>
<td>30%</td>
</tr>
<tr>
<td>Care dwellings</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Capital Value, 2016
Chapter 7: Housing associations

7.1 The new Housing Act
The new Housing Act went into force on 1 July 2015. This new Act is aimed at creating a clear framework with respect to the activities of the housing associations and their role in the residential market. The government is of the opinion that housing associations have conducted too many activities in recent years that fall outside their core task. According to the government, this core task comprises: The creation of a “qualitative and affordable supply of social rented housing for people on a limited budget” (Dutch Government, 2015). By introducing the new Housing Act, the government is also trying to create scope for market parties. The new Act will lead to significant changes in the operations and real estate activities of housing associations. This section includes a brief overview of the most important measures from the new Housing Act. The housing associations were also surveyed about a few of these measures.

Housing associations’ sphere of activity
The new Housing Act severely restricts the housing associations’ sphere of activity. Their primary focus will be on the service of general economic interest (SGEI) activities, which are essentially the development, lease and management of social rented housing. Housing associations are now severely restricted in their ability to develop non-SGEI activities because the government believes that such activities should be left to market forces. Housing associations are, however, permitted to continue their current non-SGEI activities.

Separation of SGEI and non-SGEI activities
The new Housing Act prescribes that a clear separation be made between the current SGEI and non-SGEI activities of housing associations. They are therefore required to administratively separate or legally split their SGEI and non-SGEI activities. Housing associations were asked which choice they intend to make (see Figure 7.1). The results reveal that most associations will opt for an administrative separation (45%), while only 9% of those surveyed indicated they will choose to legally split these activities. Approximately 12% indicated they had not yet made a decision. Housing associations must report their choice to the Minister prior to 1 July 2017. This regulation does not apply to all housing associations; those with an annual turnover of less than EUR 30 million are subject to a less stringent regime. They are not required to administratively separate or legally split their activities but must make a distinction between SGEI and non-SGEI activities in their annual accounts.

Figuur 7.1: Housing associations’ choice for separation of SGEI and non-SGEI activities

Source: Capital Value, 2016
The demand for various housing market areas

Housing associations are also limited in the scope of their geographic working area, with each housing association being assigned a core region. As with their non-SGEI activities, housing associations can continue their current activities outside their core region but will be greatly limited in the development of new activities outside this region. Capital Value has researched the potential implications of this regulation, the results of which are summarised in a separate box in this section.

New roles for municipalities and tenants

Housing associations will also be required to make performance agreements with the municipalities involved. In doing so, it is expected that agreements will be made concerning how the association will contribute to the municipality’s housing policy. Capital Value asked the housing associations if they had already made performance agreements with their relevant municipality(ies) (see Figure 7.2). The results reveal that most associations (60%) have already made such agreements. Approximately 36% said they were still in discussions with their municipality(ies). Tenants (organisations) and municipalities will have more say in the policy of housing associations. This means, for example, that tenants will be directly involved in drawing up performance agreements between the municipality and the housing association.

Figure 7.2: Do housing associations have performance agreements with municipalities?

Source: Capital Value, 2016

Valuation at market value

Another new aspect of the recently introduced Housing Act is that from 2016, housing associations will be required to value their entire real estate portfolio at market value (as rented property). The results will be included in their annual accounts. Standardisation of valuations will ensure better comparability between housing associations. In this context, the Ministry drafted the ‘Model-based valuation of market value’ manual, which includes the guidelines housing associations must follow in order to valuate their real estate portfolio. Housing associations can choose between the basic and full version. Capital Value polled the housing associations about the extent to which they currently valuate their real estate portfolio against market value (see Figure 7.3). The results reveal that approximately 33% of the associations already valuate their real estate portfolio against market value. Approximately 27% say they will do so for the 2015 calendar year and approximately 40% say they will start with the 2016 calendar year.
As stated above, the new Housing Act requires that housing associations focus on one core region in an assigned housing market area. Within this context, research was carried out into the possible implications of this regulation for the associations’ housing portfolio. Given that the core regions will not be established until 2016, an existing classification of housing market areas will be applied to associations’ housing stock in this context, in order to further analyse the effect of the regulation. In conducting the analysis, we used the existing classification from the 2012 housing study Woon Onderzoek Nederland (WoON 2012).

The formation of a housing market area is the joint responsibility of municipalities. They have until one year after the introduction of the Housing Act to form these housing market areas, which will then be assigned to the associations. Municipalities must jointly present a proposal to the Minister for the formation of a housing market area in which they demonstrate that together, these areas form a regional housing market. After a housing association is assigned a housing market area, this becomes the association’s core region. Thereafter, the association is no longer permitted to make (expansion) investments (such as the purchase of housing stock or new-build) outside the core region. One exception to this is replacement new-build following demolition.

First, an analysis was made of the number of housing market areas in which each housing association is active. This revealed that most of the associations (282) are active in only one housing market area. Nevertheless, approximately 21% of the associations that were studied (75) are active in two or more market areas (see Figure 7.4). A substantial number of associations will therefore be affected by the restrictions of the new regulation.

![Figure 7.3: Does your organisation already value property at market value?](source: Capital Value, 2016)

![Figure 7.4: Distribution housing associations according to residential region](source: WoON 2012)

<table>
<thead>
<tr>
<th>Active in no. of regions</th>
<th>% housing associations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>79%</td>
</tr>
<tr>
<td>2</td>
<td>14%</td>
</tr>
<tr>
<td>3</td>
<td>4%</td>
</tr>
<tr>
<td>4</td>
<td>1%</td>
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<tr>
<td>&gt; 5</td>
<td>2.5%</td>
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</table>
An assessment was also made of the volume of housing stock that is located outside the core regions. The assumption was made here that the core region of an association is the housing market area with the largest number of homes, and that the association will be assigned to that region. A calculation revealed that 329,779 out of a total of 2,294,662 housing association homes are located outside the core regions. In short, approximately 14.4% of their stock.

This analysis shows that establishing the housing market areas will undoubtedly be a topic of discussion among municipalities and housing associations when implementing the new Housing Act. After all, the regional (investment) restrictions associated with the assignment of a housing market area are clearly very important and the results show that a substantial number of associations are active outside their own core region.

Further information: Thijs Meijer and Thijs de Graaf wrote an ex-ante analysis on this topic, which was published in the November (2015) issue of the housing magazine Tijdschrift voor de Volkshuisvesting.

### 7.2 Housing associations’ housing stock

Housing associations jointly own approximately 2.4 million rental homes, which represents around 75% of the total rented housing sector. These 2.4 million rental homes are divided between a total of 374 housing associations spread throughout the Netherlands (see Figure 7.5). The vast majority of these associations (around 63%) own less than 5,000 housing units, with a limited number (some 17%) owning more than 10,000 housing units. The measures included in the new Housing Act will have a serious impact on the housing portfolios of both larger and smaller housing associations. This section will provide greater insight into the housing stock of housing associations and how this is expected to develop in the near future.

**Figure 7.5: Breakdown of housing associations according to volume of housing stock**

![Figure 7.5: Breakdown of housing associations according to volume of housing stock](image)

*Source: Aedes, 2015*

**New housing valuation system**

The bulk of housing association homes (95%) are currently rented out in the regulated sector. This means these homes are rented for a maximum of EUR 710.68 per month. The other 5% are rented in the non-regulated sector and are therefore less tied to rent regulations (WSW 2015). From 1 October, the housing valuation system (woningwaarderingstelsel or WWS) was amended. This points system determines the quality of the home and therefore into which rented sector it falls. Under the new system, homes assigned 146 or more WWS points can be rented out for an initial rent that falls within the non-regulated rented sector. The most important change in the new system is that the value under the Valuation of Immovable Property Act (WOZ) is a major determinant for the number of WWS points assigned.
An ageing housing stock

Figure 7.6 displays the construction period of the housing stock of housing associations (dPi2014). This figure shows that approximately 20% of the association homes were built between 1970 and 1989 and that 55% of these homes are older than 35 years. In many cases, older homes are less aligned with current housing preferences. These homes are therefore less future-proof, less sustainable and run a greater risk of becoming vacant. To fulfil their so-called replacement task, housing associations will have to add new-build homes to their housing stock to offset this ageing trend and keep their stock at an acceptable level. However, WSW data reveal that housing associations are devoting more capital and attention to renovating and transforming their housing stock as well as making it more sustainable instead of investing in new-build developments (WSW 2015). The WSW expects that these efforts will fall short in tackling the actual ageing of their housing stock. One possible consequence is that the housing stock of housing associations will decrease in future. One indicator that further underlines this possibility is the number of permits for new-build homes issued to housing associations.

New-build permits

The number of new-build permits issued to housing associations has fallen sharply since 2009 (see Figure 7.7). While approximately 25,000 permits were issued to housing associations in 2009 this number fell to an historic low in 2013 and 2014. In both years, housing associations applied for approximately 7,000 permits (CBS 2015). The preliminary forecast for 2015 shows a slight rise in the number of permit applications to approximately 8,200. Unfortunately, this number is still in sharp contrast with the need for affordable rental homes and the ambitions of housing associations with regards to the development of their housing stock.

Construction forecast 2015-2019

Housing associations have outlined their construction plans for the coming five years. The results are shown in Figure 7.8. This figure also shows how many homes the housing association sector has constructed in recent years. This data reveals that the associations aimed to construct approximately 95,000 homes in the period 2015-2019. This is equivalent to approximately 19,000 homes every year. This number is structurally lower compared to the 29,000 homes that were completed annually in the period 2010-2014. The financial status of the housing associations is having a negative impact on their investment capacity. In order to keep the housing stock at an acceptable level, associations opt to delay demolition plans or carry out complete renovations. It is also noteworthy that the portion of non-SGEI homes will further decline over the coming years to 1,200 homes a year. This development is the result of regulations in the new Housing Act. The new construction plans of housing associations therefore include less and less scope for non-SGEI developments.
Need for cooperation

According to the findings of ABF Research, as presented in Chapter 3, the construction brief for the regulated rented sector in the coming five years comprises approximately 110,000 homes. This is equivalent to approximately 22,000 homes per year. The main contractors behind the construction of these rental homes continues to be the housing associations. However, the question remains whether the housing association sector will be able to achieve this projected construction brief in the future given the number of building permits issued to housing associations and their construction plans. In addition, this sector is facing the major challenge in the medium term of replacing their ageing stock. For the effective functioning of the Dutch (rented) housing sector, a quantitatively good supply of rental homes that fit the current housing needs of Dutch households continues to be important. Cooperation and alignment among the municipalities, housing associations and investors therefore continues to be essential in order to achieve this for the future. If no effort is made in this area, the pressure on the housing market will only further increase. This will mean that more households will have to seek accommodation at the bottom (OOS) of the Dutch housing market.

Figure 7.7: New build permits issued to housing associations, 2000-2015

Source: CBS, 2015 adapted by Capital Value, 2016

7.3 Sale of housing association stock: Sale of individual units vs. entire complexes

This section looks in more detail at the sale of housing association stock. This includes individual sales to owner-occupiers (i.e. property splitting) as well as the sale of entire housing association complexes to third parties (investors or other associations).
**Individual sales**

The individual sale of homes to owner-occupiers (i.e. property splitting) continues to be an important tool that is frequently used by housing associations to generate income. This extra income is used to reinvest in their own housing stock, whether for renovation, new-build or other purposes. Housing associations also sell individual homes as a strategic way of contributing to the diversification of neighbourhoods where they hold a lot of stock. WSW figures reveal that in 2014, housing associations sold approximately 18,500 homes to owner-occupiers and that this figure will further increase in 2015 to around 19,500 homes (WSW 2015). Housing associations therefore represent the largest group of property splitters on the Dutch market. Capital Value asked housing associations if they were currently considering reducing the sale of individual units in connection with maintaining their social housing stock. The results revealed that approximately 33% of the housing associations are thinking along these lines. However, around 51% said they were not considering reducing such sales.

**Sales of complexes**

From 1 July 2015, the Housing Association Home Sales Circular (Circulaire verkoop corporatiewoningen) is part of the new Housing Act. This Circular establishes the conditions under which housing associations can sell portions of their housing stock to third parties. Via this regulation, the government has simplified the sale of, in particular, non-regulated or to be deregulated rental homes. The government hopes the move will make it easier for investors to purchase housing association stock, thus accelerating the growth of the private rented sector. It also gives the housing associations another strategic tool with which to focus more on their core task, namely the renting out of affordable rental homes within their core region. In order to sell an entire complex, housing associations must request approval from the Ministry. As part of the sales process, the Housing Association Authority (Autoriteit Woningcorporaties) checks to make sure that all the conditions and regulations have been fulfilled and that the pricing system has been complied with.

In practice, this new regulation is providing associations with greater opportunities to sell entire complexes to investors. In addition, the procedure is shorter compared to the sale of individual units. Recent transactions indicate that under the current regulation, housing stock that is and/or can potentially be deregulated is proving easier for housing associations to sell. The fact that these homes can be sold for, at minimum, market value plays an important role in this regard.

Figures from the WSW show that the share of housing association sales of entire complexes to third parties has increased sharply in recent years. Approximately 6,400 homes were sold in 2014, and the expectation for 2015 is that around 9,900 association homes will be sold to third parties. A major contributor to these sales figures was the sale of the Vestia and WIF portfolios. In 2015, the sale of smaller portfolios to investors also saw strong growth. Examples include the divestment of complexes by Woonkracht10, Viveste and Servatius.

**7.4 Housing association sales objectives**

Housing associations were asked about their objectives concerning the sale of complexes in the near future, as well as their motives for such sales. The survey results reveal that approximately 35% of the housing associations are planning to sell parts of their housing stock over the coming two years in the form of entire complexes. Approximately 16% said they were currently studying the possibility of selling complexes. The remaining 49% of housing associations indicated they had no such plans at the moment (see Figure 7.9).

Housing associations were asked about the key reasons behind their decision to sell complexes. The results again reflect the impact of the new Housing Act on the operation and portfolio strategy of housing associations. Housing associations are presently working hard to align their current portfolios with their assigned core tasks as described in the Act. Approximately 48% of those surveyed stated that the complexes to be sold were not suitable for their target group (non-SGEI). Approximately 27% of the housing associations surveyed indicated they were selling complexes because they were located outside their core region. In addition, the sale of complexes continues to be an important tool with which housing associations can generate income for reinvestment.
income generated from the sale of homes that are or will be deregulated, for example, can contribute to the realisation of new-build developments for the social sector, which are a better fit with the task profile of housing associations.

Figure 7.10 confirms the picture that housing associations primarily aim to sell complexes of homes that are or will be deregulated. Of the housing associations surveyed, approximately 69% indicated that they aim to sell entire complexes of liberalised homes. Approximately 63% said that homes that will be liberalised are also included in their sales plans. The reason why associations are selling off this part of their stock relates to the fact that such homes are easier to sell under the current regulations. The past year has provided additional evidence that it is not difficult to sell these housing complexes in the current market.

The survey results show that 38% of housing associations also want to sell permanently regulated rented homes. These are primarily housing complexes located outside the core region of the housing association and which fall under a stricter sales regime, making them more difficult to sell to investors. However, the regulations do
not apply if these complexes are sold to another housing association. The sale by Ymere of 1,000 permanently regulated rented homes to its fellow association, Woonwaard in Alkmaar, is an example of this.

The regulation governing the sales of housing complexes has been in force for over two years now. Several housing associations have already sold parts of their stock under this regulation and various associations are currently planning to sell complexes in the near future. So will the sale of housing complexes also become a fixed part of the sales policy of housing associations? This question was put to the housing associations who sold parts of their housing stock as entire complexes over the past two years and to associations which expect to do so in the near future. The results (see Figure 7.11) reveal that the sale of housing complexes is currently mainly being used as a temporary strategy to achieve portfolio objectives in connection with the new Housing Act (28%). Approximately 19% said that the sale of complexes was already a fixed part of their sales policy. An additional 16% of those surveyed said they were expecting to make such sales a fixed part of their sales policy in future.

Based on these results, we can conclude that the sale of complexes is a valuable addition to the acquisition and disposal policy of housing associations. For a portion of the associations, this will become a permanent policy feature. Other associations will primarily use this as a temporary tool to tackle short term portfolio or financial issues within the organisation.

7.5 Investor interest in housing association stock
Investors were asked about their interest in acquiring housing association homes. The results revealed that interest remains very high for 2016. All the institutional investors surveyed indicated that they were interested in acquiring housing association stock. With private investors the percentage of those interested stood at 95%. This does not mean that investors are interested in all the housing stock being sold by the associations. After all, the housing complexes must fit into the investors’ investment profile. The investors were also asked about any advantages and disadvantages to acquiring housing association stock (see Figures 7.12 and 7.13). This concerns the general perception of investors, as it is understood that the actual advantages and disadvantages are clearly very portfolio-specific. Incidentally, the results are closely aligned with last year’s responses.
According to the investors surveyed, the biggest advantage of acquiring housing association homes is the rent price potential. From the viewpoint of the investors, a large number of the association homes are leased far below market rent levels. However, this difference has been largely negated in recent years by the fact that housing associations, in particular, have exercised their option to impose above-inflation rent rises. It is also relatively easy to rent out these complexes, which investors see as another important advantage. They estimate the vacancy risk as low. The fact that many housing association complexes are in good locations also plays an important role.

However, while the rent price potential is an advantage, there is also a downside in that the homes generate a low direct return at the time they are purchased by an investor. The rent prices for homes that are permanently regulated and those that will be deregulated can only be adjusted after being transferred. The key disadvantage, according to investors, is the fact that the vast majority of housing association stock is still subject to a landlord levy.
Figure 7.12: Advantages of acquiring housing association homes according to investors (multiple answers possible)

- Quality of homes in general
- Quality of maintenance
- Rentability
- Rent potential
- Good locations
- Rent potential

Source: Capital Value, 2016

Figure 7.13: Disadvantages of acquiring housing association homes according to investors (multiple answers possible)

- Low direct return
- Poor living environment of neighbourhoods
- Complexes where individual units have been sold off
- Subject to landlord levy
- Unclear regulations
- Other

Source: Capital Value, 2016
Chapter 8: The financing market for residential investments

8.1 Developments in the financing market for residential investments in 2015
In recent years the developments were strongly influenced by the economic crisis and the stricter capital requirements for banks that were imposed by regulators. As a result, new real estate loans were only granted to a limited extent. Many banks went through a period during which their activities were driven by getting their balance sheets in order through de-risking. Now that the capital position of banks has improved, and the real estate investment market has experienced a significant recovery, new real estate loans are being issued. Financing for the residential sector is also attracting significant interest and most banks are eager to increase their exposure to this sector.

This interest is often based on a risk assessment. The increasing levels of vacancies and a certain degree of oversupply in the office and retail market have not affected the residential market, which makes this an interesting sector. Research reveals that most banks consider housing (in the Netherlands) to be the least risky real estate sector. Banks are also aiming to achieve a good mix between the various real estate sectors in order to further limit and spread their risks. The degree to which banks can realise an attractive mix between the various real estate sectors is entirely dependent on the market demand for financing. The financing market for residential investments is relatively small. The exposure of banks is estimated to be approximately EUR 18 billion, with a market value in private and institutional investor residential investments of around EUR 100 billion. The LTV (loan-to-value ratio) of housing is generally lower and there are a lot of (institutional) investors who don’t finance their housing stock at all.

At the moment, residential investments are generally financed under relatively favourable conditions. Given the risk profile of housing compared to other real estate sectors, the margins for residential portfolios are comparably lower. Banks are also prepared to provide relatively long-term financing for homes. The structure of this financing is closely aligned with the risk profile of this sector. This means it is also attractive for pension funds and insurers to grant loans in this sector. There is also potential for cooperation between banks and pension funds/insurers. In addition, the German Pfandbrief system creates the possibility of issuing long-term loans under favourable terms. However, this requires adherence to the applicable laws and regulations. Valuation according to the mortgage lending value principle is one example of this.

Foreign banks are also showing an interest in financing Dutch homes. However, practice shows that the market is currently dominated by incumbent players. It is difficult to penetrate a new sector because this requires investing in local knowledge and most players are only prepared to do this if a certain market volume can be achieved. From an international perspective, the Netherlands is a niche market compared to large investment markets like the United Kingdom and Germany. Foreign parties will not readily try to directly acquire new loans from Dutch investors but are open to following their current clients to the Dutch market. There is also interest in participating in syndicated loans and club deals initiated under the lead of a local bank.

The year 2014 was a very good one for the residential investment market, in part due to the sale of a number of large portfolios to investors by housing associations. In 2015, the total volume of investments equalled that of 2014, but this required a larger number of small transactions. These two years were also relatively active in the financing market for residential investments.

8.2 Demand from housing associations
The new Housing Act includes the requirement that housing associations split their SGEI and non-SGEI activities, whereby non-SGEI activities must, in principle, be financed under customary market conditions. For this type of activity, a secured loan via the WSW is generally no longer available. Associations have until the end of this year to either legally or administratively separate their non-SGEI stock from their SGEI stock. However, there is no sign so far that they have applied to regular banks to finance the non-SGEI portion. There is no strict
requirement to use other means to finance the non-SGEI portion. This suggests that this financing issue is being resolved internally (using internal pass-through financing). In principle, internal pass-through financing can run for 15 years. As yet, no decision has been made as to whether refinancing can subsequently take place internally. It appears that the WSW will play an indirect role in this matter. The non-SGEI stock is important to associations as part of the collateral for the guarantee scheme. After all, the non-SGEI portion is what generates cash flow and positively contributes to the risk profile. This plays a role in the non-SGEI stock as well but is slowly but surely finding its way to the investment market. The WSW has, by means of Article 28 (approval of all sales) and Article 32 (approval of all financing agreements) of their regulations, a large finger in the pie.

8.3 Development issue

Given the supply and demand situation, the market is facing a significant development task. This challenge not only lies in the quantitative shortage of (rented) housing, but also in a mismatch between the existing stock and the current housing preferences of (aspiring) tenants. Added to this is the fact that a considerable part of the current stock is technically outdated. Traditionally, the initiators of area development were housing associations, developers linked to financial institutions and commercial developers supported by bank financing. Mutual cooperation ensured that mixed neighbourhoods were developed and preserved. In contrast, today, these players either no longer exist or only play a limited role in new area developments. The role of initiator will have to be taken over by investors and/or municipalities.

The majority of this development task is concentrated in the inner city areas of major cities where it largely concerns the transformation and redevelopment of existing stock. The availability of financing for this type of project may be more complex in light of its different risk profile. Despite this, both commercial banks and the Bank Nederlandse Gemeenten (Dutch Municipal Bank (BNG)) are prepared to contribute. Financing is already being made available for transformation projects and they are prepared to open up their network to promote further cooperation between public and private parties.
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