

OUTLOOK 2021

RESIDENTIAL

FAST FORWARD



**CUSHMAN &
WAKEFIELD**

RESIDENTIAL OUTLOOK 2021 – FAST FORWARD

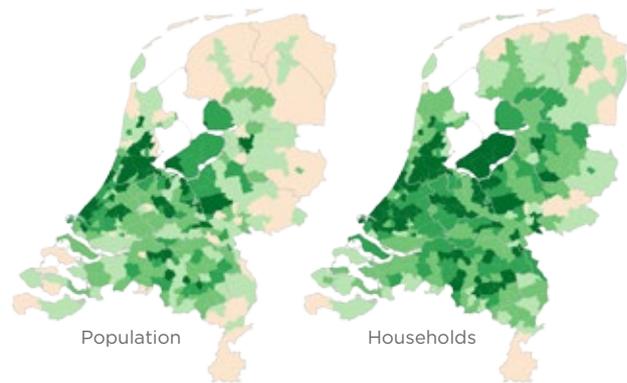
In many ways, the year 2020 was a very unusual year for the Dutch residential market. Historically high purchase prices and investment volumes were coupled with stagnating population growth. In the big cities, a lack of newcomers and the strong desire for a garden and home office among those moving away, meant that population growth stalled. Peace and space were sought and found in the peripheral municipalities of the urban regions as well as much further afield. Shortages arose in the housing market in the earthquake district of East Groningen, with double-digit (14.3%) price rises, while in Amsterdam prices rose by only a modest 3.4%. Have homes simply become unaffordable and has demand relocated to the regions? Or is there more to it, and is the pandemic causing more fundamental changes to the way we live, work and enjoy our leisure time?

RESIDENTIAL USE IN THE NETHERLANDS

The Netherlands is a nice country to live and work in. Our country is rated highly on all the relevant ranking lists. This has made it very popular in recent years among people from around the world. In 2019 more than a quarter of a million people (275,000) from other countries came to live in the Netherlands, which doesn't even include natural population growth. After deducting the number of people who died or emigrated, the net population increase in the Netherlands was 132,000. In other words, a city the size of Zwolle was added.

In 2020, population growth in the Netherlands halved and net positive migration was 63,000 people. Migrant workers and international students in particular stayed away last year. The higher death rate (164,000) caused by the virus outbreak also damped down population growth. Nevertheless, the population did increase in 2020 and now stands at almost 17.5 million people. Never before have so many people been living in the Netherlands.

Immigration has made the largest contribution by far to population growth in recent years. Although



0% (contraction) between 0% and 5% between 5% and 10% between 10% and 15% more than 15% growth. Unit: % (growth percentage) Growth compared to 2020

this rise in immigration to the big cities largely came to a standstill in 2020, trends over the year have shown significant parallels with the degree of lockdowns and relaxations of the related safety and health measures. Population growth has always resumed during such a relaxation, so it would appear that the stagnation is caused above all by practical obstacles.



Migrants arriving in the Netherlands, however, are not evenly distributed throughout the country. They have a strong preference for the largest cities. In Amsterdam, but in the other big cities too, newcomers are increasingly typified as young, highly educated professionals who form single-person or a maximum of two-person households and are looking for somewhere to live for work or study. They are actually a part of the existing migration of young people within the Netherlands to the cities. Those who have recently come to live in Amsterdam from elsewhere in the Netherlands or abroad have much higher incomes than the local population. More than 45% of those moving to Amsterdam earn the highest incomes, with 38% of them earning more than double the average.

The fact that population numbers in the major Dutch cities are rising ties in with a migration to the cities that has been apparent for some time. An increasingly well-educated and specialized workforce seeks the best jobs at the best locations. Large employers are experiencing a War for Talent, and in their turn move their businesses to the big cities, which again attracts talent, creating a centrifugal force with the big cities in the Netherlands at the centre. We can therefore expect the population to continue rising for the time being.

The average age of those living in the big cities is considerably younger than the average in the Netherlands. For example, two-thirds of the population in Amsterdam is younger than 44. In comparison, in the Netherlands as a whole roughly half of the population is younger than 44. The 25-44 age category in particular is heavily overrepresented in the population statistics, largely accounted for by the strong pull exerted by the cities on the younger population as described above.

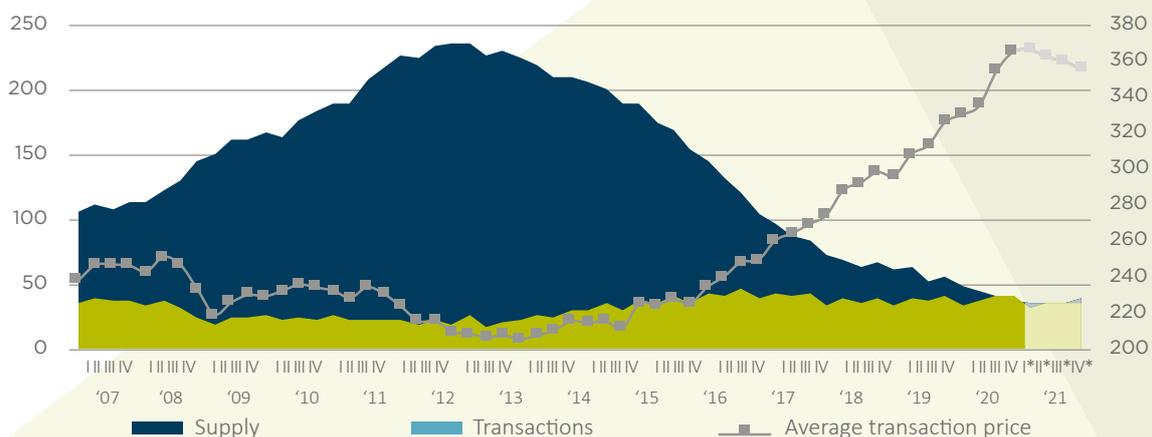
Once these younger adults start families, the trend is to move to the suburbs. Many of these families move out of the cities into larger and more affordable homes in the region. In essence, this explains what is going on in the housing market in 2020 and 2021: the new influx of people has temporarily stabilized, while the move away from the cities to the regions has strengthened.

Besides population growth, trends in the size of households is playing an important role in generating shortages in the Dutch housing market. The average household size has been declining for decades, as a result of which more and more homes are needed to accommodate the same number of people. This is due not only to the population growth described above, but also, and just as importantly, smaller families. Since 1977 the average number of persons per household has fallen from almost 3 persons to 2.14 persons in 2020. Besides the decline in the number of persons in each household, smaller family units are apparent from the strong rise in the number of single-person households on the housing market as a result of lifestyle (in the big cities) and an ageing population (shrinking regions). This means that six out of every ten homes in Amsterdam are now occupied by just one person, and shortages dominate in the housing markets of the shrinking regions.

CHRONIC HOUSING SHORTAGE

Large parts of the Netherlands are experiencing the repercussions of a tight housing market. The oft-repeated adage of build, build, build cannot be stressed enough. According to the Dutch government, as of mid-2020 there was a shortage of 331,000 homes, a shortage that is expected to

Supply and demand on the market for owner-occupied homes
in numbers (l.) x 1,000 and purchase price x EUR 1,000 (r.)



rise to 419,000 in 2025. The current production of new homes is therefore structurally inadequate to keep pace with the expected growth in the number of households, let alone to tackle the existing shortages on the housing market.

With its national Housing Agenda (Woonagenda), the government intends to build 75,000 homes a year from 2020 to 2025. In 2020, however, the number of new homes being built stalled at 69,000, largely because fewer building permits were issued in 2019. However, the number of building permits issued is estimated to be 15% higher in 2020, so more homes are expected to be built in 2021 and 2022. Nevertheless, it is anticipated that by 2025 the growth in the number of households will have overtaken housing production again, which will lead to a growing housing shortage once more.

The huge housing shortage is not, however, a direct consequence of foreign migration to the Netherlands and a suburbanization of the Randstad population, but has various causes. In the wake of the financial crisis in 2008, the Dutch housing market was virtually at a standstill until 2014 and so few homes were being built that skilled workers left the construction sector in large numbers. As a result of the relatively fast turnaround from the crisis to an economic boom, since 2015 there has been chronic undercapacity of both materials and personnel in the construction sector to implement all the plans in the short term, and since then the target for new homes has not caught up with demand.

Another major reason for the current housing shortage is an administrative one and is to do with the additional environmental and affordability requirements which many municipalities are prioritizing. These include gas-free neighbourhoods or far-reaching intervention in market forces by determining in advance the maximum rental or purchase prices, especially in the big cities.

Finally, since May 2019 the nitrogen issue has delayed more than 18,000 building projects to a greater or lesser extent. Although the construction

sector has been able to continue for the time being since the introduction of a threshold value for temporary nitrogen emissions last September, emissions from building projects must have been reduced by 80% within the next ten years.

OUTLOOK OCCUPIER MARKET 2021

The Dutch housing market is currently experiencing the consequences of many years of high demand for homes coupled with faltering building of new homes. As a result, large parts of the country are experiencing sharp price increases which have put homes out of financial reach for large groups of people looking to buy their own home.

Transaction prices for homes sold rose strongly again by 11.6% in the fourth quarter of 2020 compared to the same period last year, bringing the average transaction price of a home currently to EUR 365,000. The rise in price per square metre last year was the fastest in 20 years.

For the time being, transaction prices will not stabilize or fall. Add to this the lower number of new housing developments and pressure on the housing market will only increase more and more. Although the fundamentals are very good now, the question is whether these will remain so throughout 2021. The rise in unemployment caused by COVID is less than anticipated but will only really become apparent when government support is ended. The major banks in the Netherlands are virtually unanimous in their prediction that the housing market will cool in 2021 as a result of the COVID crisis. The number of sale transactions is expected to fall by 10% in 2021 to a level of around 200,000. According to the Economic Bureau of ING, house prices will peak during the first quarter of 2021, after which they will fall until 2022.

Although the fall in the number of transactions is expected to be 10%, this does not mean that house prices will fall by 10% too. Because of the large number of bidders for each home, the expected



stabilization in prices is weaker than the fall in the number of transactions, and furthermore this is only temporary. Where on the one hand the number of those interested in each home for sale will fall in the short term, on the other hand the housing shortage means that enough potential buyers remain who can indeed make an offer. In the medium term, the structural problems pushing up prices on the housing market have simply not been tackled sufficiently to fundamentally reverse the upward trend.

On balance, the change in transfer tax will have a slightly positive effect on the number of transactions. Young starters will have postponed their purchase until 2021 in order to benefit from the tax reduction. On the other hand, private investors in the housing market will be confronted with a rise in transfer tax from 2% to 8%.

OUTLOOK INVESTOR MARKET 2021

In 2020 some EUR 8.9 billion was invested in homes, a record and a rise of 12% compared to 2019. This makes the housing market the only segment which experienced a growth in investment volume compared to the previous year. The share of homes in the total investment volume increased to 51%. This is in particular due to a large number of transactions in the last quarter of 2020, most of which had been brought forward because of the rise in transfer tax in 2021. Due to the high levels of investment in homes in recent years, substantial investment in homes is also expected in 2021, albeit less than in 2020 because of the limited supply.

Despite the COVID crisis, the housing market can continue to rely on interest from investors, and together with segments such as logistics and healthcare can be regarded as a refuge for investments in commercial property. The demand for available residential portfolios is therefore considerable.

The broad interest among investors in the various segments of the residential investment market is due not only to cyclical developments in the economy, but also to structural trends in the housing market. Homes have proved to be a safe, low-risk investment category, as a result of which substantial investment volumes are allocated to them, certainly compared to other segments on the property market.

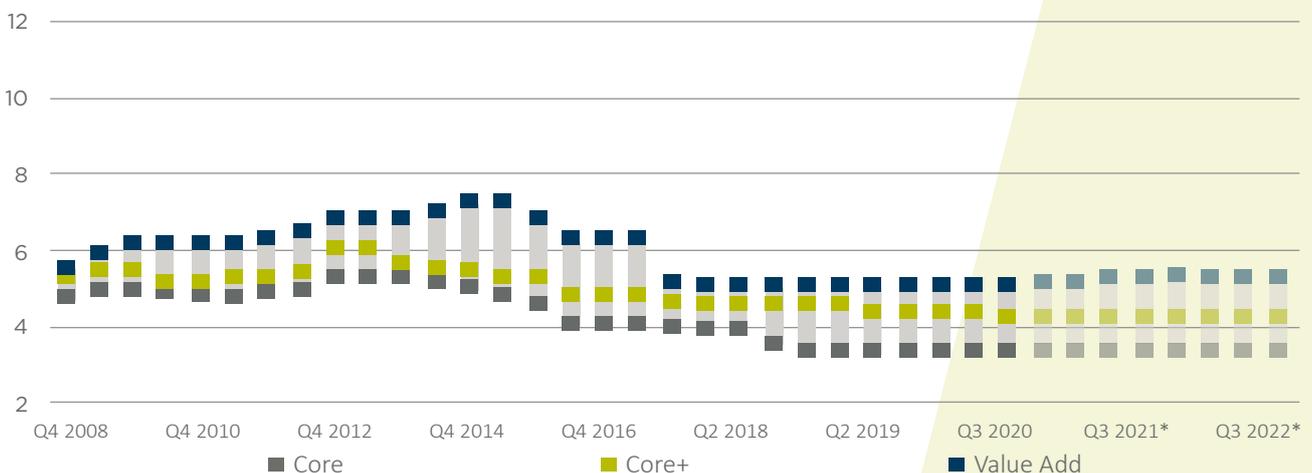
What's more, investors and buyers have been specializing more in certain segments of the housing market such as rented homes, student accommodation and private residential care. This has caused the segment to grow and become an investment category that is relatively easy to finance thanks to its low risk profile.

Since new building developments in the Netherlands are offered on a project-by-project basis and in relatively small volumes, investors within the Netherlands and abroad have kept out of the battle for new developments and focused above all on acquiring existing property.

Until recently, developers preferred to buy in the private housing market, so it was the Dutch institutional investors above all that continued

Trends in gross initial yields for residential property

in %, top, middle and basic segment (costs payable by purchaser (k.k.))



to invest in the expensive, new developments in order to rejuvenate their portfolios and make them more sustainable. The COVID crisis has led to renewed interest among developers in selling entire complexes to investors. This reduces the development risk and the uncertainty surrounding future pricing, where investors are only willing in the Randstad to make offers on the basis of values with vacant possession in excess of 100%.

The COVID crisis has increased the investment risks, while existing risks are being re-evaluated. Examples of these are the risks surrounding construction costs, the scarcity of building materials, the nitrogen problem, sustainability requirements and the new Environment and Planning Act. The rise in turnover tax is expected also to affect the sale of competitively priced portfolios in 2021, and so investors find themselves increasingly in a dilemma: on the one hand they want to be in the mix as soon as possible, and on the other hand in such an early phase of a development they still need to take account of all these uncertainties, with an as yet unknown effect they will have on yields.

The overheated market situation has led in recent years to huge pressure on property, causing yields to fall across the board. For 2021, yields are expected to stabilize due to tighter restrictions imposed by the various authorities as regards rental growth.

FAST FORWARD

Unlike earlier recessions, the current crisis cannot be traced back to systematic economic or social flaws. If the virus can be suppressed this year, there is nothing to prevent a rapid economic recovery.

On the housing market, existing trends and processes have not changed because of COVID but are merely accelerating and becoming more visible. The customary life cycle, in which students and young adults migrate to the cities and then move to the regions when starting a family, is continuing unchanged.

The trend to move out of the cities has not changed, but the influx of migrants is lagging as a result of the pandemic.



However, the 'region' is becoming ever larger and now encompasses large areas of the Netherlands: house seekers from all regions are looking for affordable homes, as well as more space and peace. Urbanites from the Randstad are regularly spotted in the Achterhoek and East Groningen. Here too, the COVID crisis appears to be accelerating existing trends in the housing market. A good physical and digital infrastructure has already enabled professionals to work further away from the office. Added to this, a daily presence at the workplace will no longer be the norm. As a result, employees will receive and demand more freedom of choice in the form of a greater distance between home and work. We were already adopting different patterns of living, shopping and working, but are less and less bound to the traditional search area when deciding where to live.

Although there is relocation to the regions, the big cities remain popular, with high house prices and severe housing shortages. Transforming retail space in the municipal core areas into homes could offer opportunities. Social and demographic trends are causing a rise in the number of single-person households. This increases the demand for smaller, affordable homes in secondary districts; locations with good accessibility, plenty of amenities and where it is easy to meet others (alone together).

Driven by this immense pressure on the housing market and the rising popularity of living, working and enjoying leisure time in the lively city centres with all amenities within walking distance, retail buildings are highly desirable places in which to live.

Housing associations can play an important role here. Recently the government decided to introduce a more relaxed market test so that housing associations can be more active again in the medium segment. This could be the prelude to intelligent regulations that will allow us to resolve the housing shortage and add attractive, inclusive neighbourhoods to our towns and cities. It is not surprising, therefore, that the call for a central and integrated vision of spatial planning is getting louder. Since the abolition of the Ministry of Housing, Spatial Planning and the Environment (VROM) in 2010, the spatial organization of the Netherlands has lacked direction, while the task is becoming ever larger in scale and national coordination is needed. This issue is not only limited to the housing shortage, but also includes the construction of wind farms and solar parks and the restoration of forests and nature reserves. The claim on space by countless stakeholders deserves a national and integrated vision for housing and how we can live and work together sustainably.



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