OUTLOOK

RESIDENTIAL 2023

CUSHMAN & WAKEFIELD

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BALANCING FUNDAMENTALS AND LIQUIDITY

RESIDENTIAL

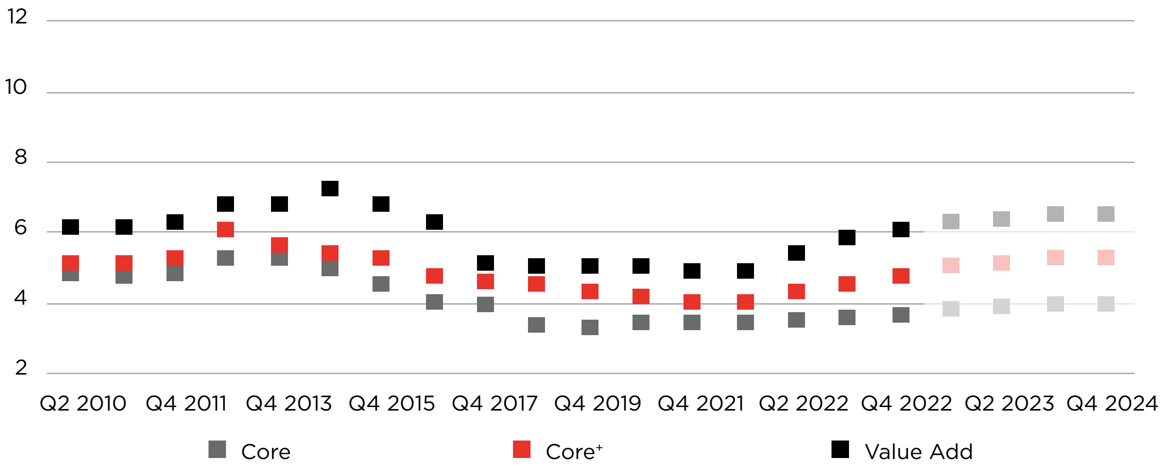
Investors in residential real estate will have to prepare for changes to legislation and regulation, as well as the development of interest rates and much higher construction costs. Higher costs of funding can no longer be compensated for on the income side, as rent increases for properties up to a new middle segment will be regulated (up to a monthly rent of approximately EUR 1,000). Inflation will no longer be the main factor, as the average annual increase in wages with high inflation will be considered instead. Developments, including new-build developments, will be more difficult to make worthwhile. Moreover, other aspects such as sustainability improvements, the possibility that municipalities will introduce an owner-occupancy requirement, changes to the Housing Evaluation System and the need to realize large quantities of social housing - for new-build - present significant challenges.

There will be a change of trend from previous years, in which the level of available supply ultimately determined transaction volume. The entire market will loosen up across the board in 2023, a development that could already be seen in 2022. There is a growing perception among investors that this may well be the time to dispose of properties that had previously been acquired on favourable conditions.

As a result, initial yields are rising on the condition that good returns are still offered for propositions with a low risk profile. This is mostly due to continuing investment pressure from mainly institutional investors. These investors are not (or less) reliant on external funding and also mostly have a long-term investment horizon, and are therefore able to operate in a way that is less driven by cyclical factors.

Dutch property investment market - Residential

Gross initial yield on core, core+ and value add

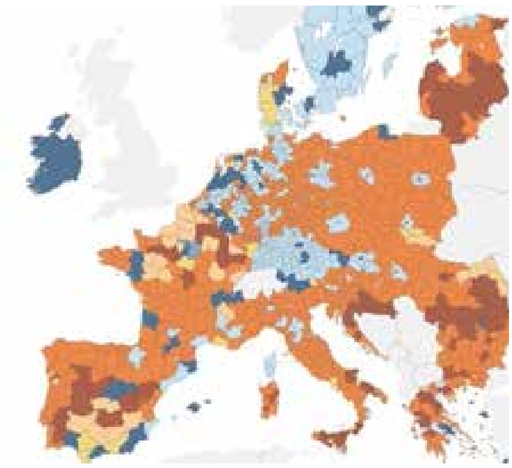


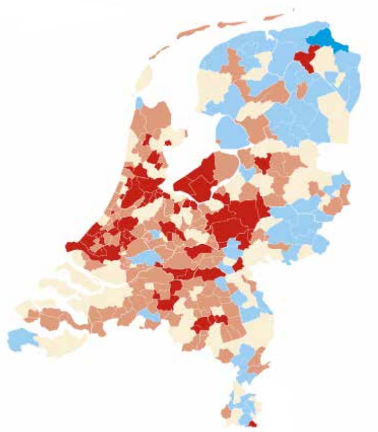
The fundamentals of the Dutch housing market are still good: the country is highly popular as a place to live and work, and this is an important driver behind relatively strong population growth. The geopolitical situation has not become more stable in recent years, and this is prompting huge flows of migration. This is observable not only outside Europe, increasing numbers of people within Europe are also moving to the Netherlands. The Netherlands is currently 'winning' in Europe due to these migration patterns, adding more than 100,000 residents net each year since 2015. In 2019, this influx amounted to 130,000, and in 2022 (to the end of Q3) there were 191,000 new residents. Much more frequently than previously, this has involved highly educated professionals that mostly earn twice the average income. Based on a new estimate, the Bureau for Economic Policy Analysis recently stated that around 18.9 million people will require housing in the Netherlands in 2035: a record. The shortage of housing will continue as a result of this strong population growth and the current issues in the housing market.

It is not surprising that the Dutch housing market has undergone turbulent development in recent years. Rising mortgage rates and the differentiation of transfer tax seem to have had some effect, but whether this will affect demand for housing is still unclear. Rapid expansion of the housing stock has turned out to be difficult. Developers face much higher construction costs and less favourable financing conditions, while prospective homeowners are less inclined to take on the risk of double housing costs with rapidly increasing energy charges. At the same time, higher mortgage rates are not helpful for either future housing costs or borrowing capacity. We accordingly expect the pressure on the housing market to increase.

The focus of national and local government on easing the pressure on the housing market is largely on increasing subsidized housing with new-build properties, whereas the bulk of demand is for owner-occupied and rental housing in the middle segment. The large supply of subsidized rental housing (33% of all homes) compared to the limited supply of rental housing in the non-subsidized sector (7%) means that there is a huge difference in prices between these two sectors and many people looking for a home have no options. Subsidized rental housing is no longer accessible for middle-income earners, while the number of affordable rental homes in the non-subsidized sector is way below expectations since the review of the Housing Act in 2015. Increasing the supply of housing in the middle and non-subsidized sectors needs to encourage people to move up the housing ladder and would also be a crucial link in the housing stock between subsidized rental accommodation and owner-occupied homes. With the government's proposal to regulate rents in the middle sector and encourage owner occupation combined with a sizeable boost to the construction of subsidized housing, its housing market policy is not currently focused in this direction. We expect the housing market to continue to experience severe pressure in 2023 as well.

Growth and contraction of the European population in 2015-2019 and forecast of the population in the Netherlands in 2035





Sharp contraction (10% or more)
Contraction (2.5% to 10%)
Reasonably stable (-2.5% to 2.5%)
Growth (2.5% to 10%)
Strong growth (10% or more)

Source: Eurostat, CBS

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