OUTLOOK

RESIDENTIAL
2023 MID-YEAR UPDATE

CUSHMAN & WAKEFIELD

OUTLOOK

TO BALANCE BETWEEN FOUNDATION AND LIQUIDITY

CUSHMAN & WAKEFIELD

INVESTMENT MARKET

Besides the development of interest rates and higher construction costs, housing investors are also facing changes in legislation and regulation. Higher funding costs can no longer be compensated for on the income side, as rent increases up to and including a new middle segment will be regulated . New-build developments are harder to justify due to this limitation on income, in combination with rising costs of construction. In addition, the self-occupancy obligation, changes to the housing evaluation system, the realization of large quantities of (regulated) housing and the sustainability transition pose serious challenges. These developments are causing uncertainty among investors and mean that existing investment strategies and plans need to be revised.

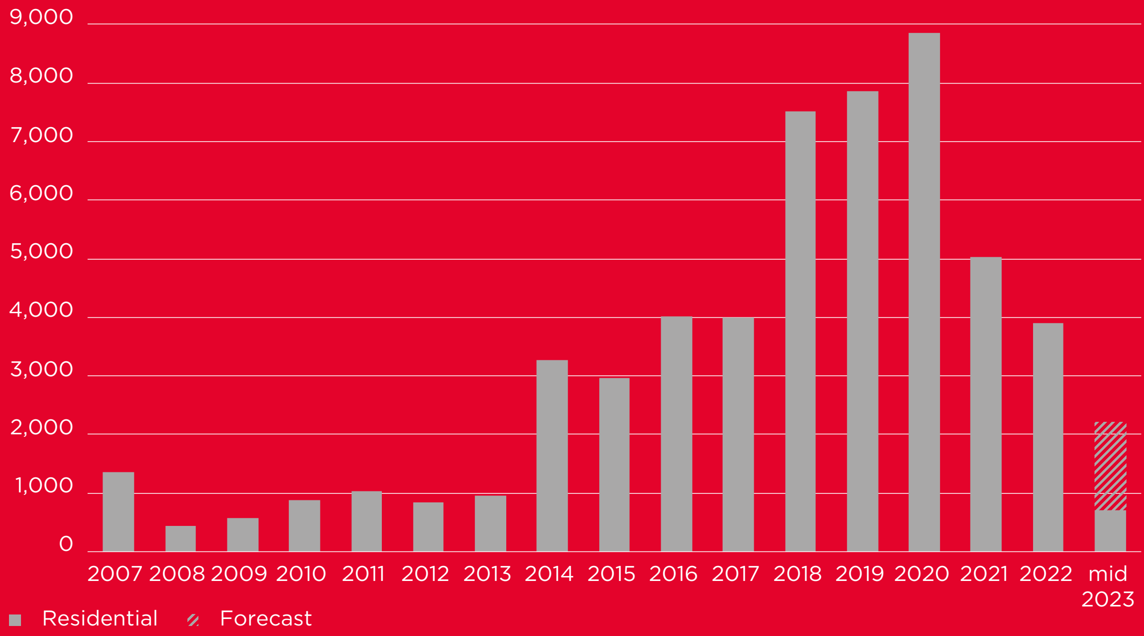
Investment volume in the first half of the year looks as though it will amount to around EUR 700 million. Compared to the same quarter a year ago, this is a decline of roughly 70%. Nonetheless, investment in residential accounted for 29% of total investment volume, so this segment still represents a major portion of the real estate investment market.

Whereas in previous years the volume of investment in residential was still declining due to lack of available product, the whole market has loosened up since the second half of last year. This means that supply no longer consists solely of an investment product with a higher risk profile. 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.

The change in the funding environment is having a big impact on the market. Interest rate increases by the US central bank (the Fed) and the European central bank (the ECB) mean that some investors can no longer justify their investments. There is moreover uncertainty because both the Fed and the ECB have announced that interest rates could rise further at the end of this year. Yields have increased as a result of the increase in interest rates.

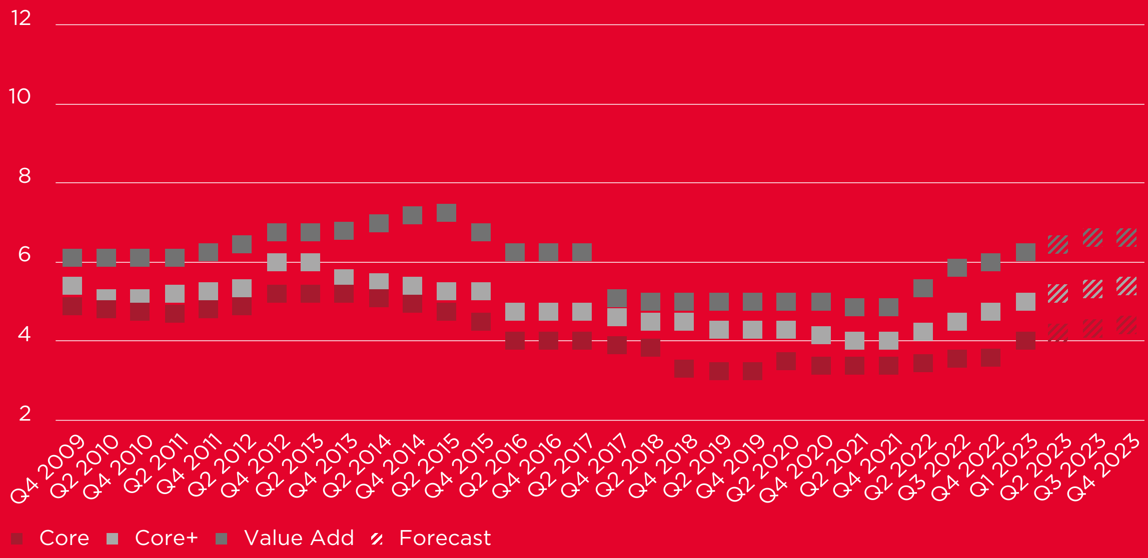
Investors are taking a more critical view of residential investment product. While core product can still be acquired for a good price, value-add properties are harder to justify due to the rise in construction costs and rent regulation. The sustainability transition concerns more than simply a home's energy label; locations are also tested for climate resilience and investors are taking more account of the associated risks, such as the threat of flooding. This reduces the extent of land available for construction, and also affects the product available to investors. This is one of the reasons why it is proving difficult to rapidly increase the housing stock. Developers are facing much higher construction costs and less favourable financial conditions, while housing corporations are encountering national and regional restrictions. Because of the fact that the population of the Netherlands is growing structurally by more than 100,000 residents a year since 2015, and construction of housing has fallen behind year after year, there will be significant shortages in the housing market in 2023 as well.

The Dutch real estate investment market
Investment volume in residential (in EUR x mln)



Source: Cushman & Wakefield, 2023

Development of gross initial yields - Residential
GIY with costs to buyer (%) Core, Core+, and Value add



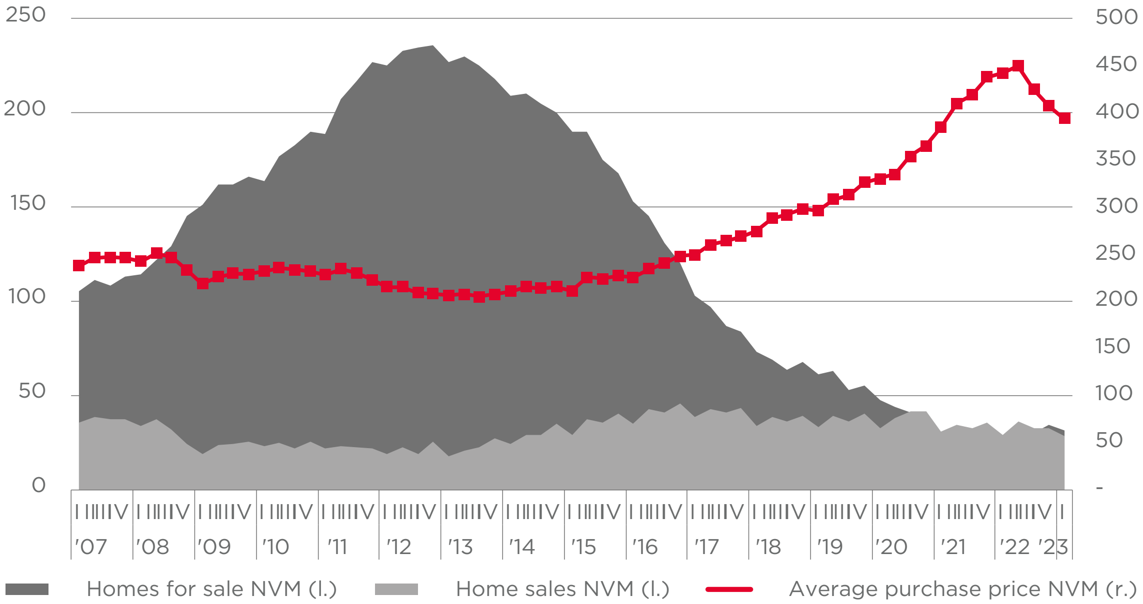
Source: Cushman & Wakefield, 2023

USERS' MARKET

The users' market also reached a turning point in the middle of 2022. The market has now quietened down, after the preceding years that featured high demand for housing, scarce supply, a tight market and rising house prices nation-wide. Housing has become less affordable due to factors including higher interest rates, as well as higher energy and construction costs. Overbidding has become less frequent, and consumers prefer to sell their own homes first before purchasing a new one. The average time to sell in the second quarter of 2023 was lower at an average of 35 days than in the first quarter when the average time to sell was still 42 days. With this, the trend of increasing times to sell visible since the middle of last year has been broken, at least for the time being. In due course, this could present opportunities for first-time buyers and people trading up.

The owner-occupier housing market has become more accessible as a result of the decline in transaction numbers and increased supply. Transaction prices have accordingly fallen for the third consecutive quarter. In the second quarter of 2023, the average sale price for an owner-occupied home was EUR 410.000, compared to the market a year ago, the trend in the transaction price is still negative with a decrease of 8.9%. Potential buyers have more choice due to the increased supply and lower prices, but higher mortgage rates mean that many of them are unable to access the market. In addition, new-build projects are being withdrawn from sale due in part to higher construction costs, so the addition of new homes to the stock is not keeping pace.

Supply and demand in the housing market
in numbers (lh axis, x 1,000) and average purchase price (rh axis, x €1,000)



Source: NVM, processed by Cushman & Wakefield, 2023

There is still tightness in the rental housing market, and the national rent level has increased further in the second quarter of 2023. The average monthly rent now stands at EUR 17.10 per square metre, an increase of 2% on the previous quarter.

Demand for rental accommodation is as high as ever, especially in the G5 cities, where all rents have risen compared to a year ago. In the capital, people are paying an average monthly rent of EUR 25.68 per square metre. The biggest year-on-year increase has occurred in The Hague, where monthly rents have risen 6.4% to EUR 18.19 per square metre. Supply of rental accommodation in the G5 is declining rapidly, as private landlords feel they are forced to sell their rental properties because letting will soon no longer be profitable due to upcoming tax changes.

Will the proposed regulation of rents mean that rental accommodation becomes more available and more affordable? Partly due to the new housing valuation system (the WWS), many homes will fall out of the non-subsidized sector, meaning that new-build developments will be harder to justify for developers. The focus of national and local government on easing the pressure on the housing market appears to be mainly on increasing subsidized housing, whereas the bulk of demand is for 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. Increasing the supply of housing in the middle and non-subsidized sectors would 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 in combination with a sizeable boost to the construction of subsidized housing, its housing market policy is not currently focused in this direction.