Opportunities in Dutch Residential Investment Market

There is a great deal of movement in the Dutch residential investment market. In large towns demand is clearly outstripping supply and the secondary locations also seem to be going that way. Given that situation, are investors still left with opportunities to acquire properties? And can any return still be made on rental properties?

Real estate investors operating in the Dutch market can roughly be sub-divided into institutional investors, private investors and foreign investors. Although the programmes of requirements of these parties differ considerably, similarities can also be found within these groups of investors.

**Institutional investors**
Dutch institutional investors mainly invest for pension funds and insurers. These parties do not only look at the returns, but, above all, also at the coverage ratio of their obligations, which is why institutional investors usually follow a risk-avoiding core strategy. In concrete terms this means that they are looking for recently or newly built housing complexes situated in the larger residential areas within growth regions.

**Private investors**
The segment of private investors varies strongly, from small or first-time investors owning one or more properties to large, wealthy family offices, which often show similarities with the institutional parties. Generally speaking, private investors are less able to make use of diversification within their portfolios to mitigate the risks. For this reason they are looking for a higher return with, normally speaking, a higher risk profile.

**Foreign investors**
Many foreign investors have no in-house knowledge of the Dutch lettings legislation and the residential property market. In that case they can set up their own Dutch asset management department, in the same way that Patrizia has done, but this requires volume. And in recent years sizeable residential portfolios have appeared to be scarce in the market. Another possibility for foreign investors is to take over the shares in an existing party or portfolio, also known as the “share deal”. Here, too, the aim of investors is often to build up a larger portfolio and to create volume. Intensive co-operation with an external advisor, sometimes locally, will be indispensable in that case.

In recent years the German Patrizia Immobilien has quickly grown into one of the largest players in the Dutch rental property market. Much talked-about acquisitions by this company include the portfolio of Holland Immo Group (approx. € 152.5 million, source: PropertyNL) and of course the Vestia portfolio (approx. € 577 million, source: VastgoedMarkt).

Last year FRIS was involved in advising on the “Frieschriedt” residential property portfolio, which is spread across the Netherlands, with a total volume of approx. € 150 million.

**Residential investment market**
In 2015 total Dutch investments in direct property amounted to approximately 11.6 billion, more than 15 percent up compared to 2014. Approximately one third of these investments were made in rental properties. By far the largest part of these residential investments, approximately EUR 1.8 billion, were made by the Dutch institutional
Foreign investors invested approximately 1 billion in residential properties, yet the interest of international investors in the Dutch real estate market is still increasing.

**Positive market developments**

During recent years the share of and demand for private-sector rental properties has increased, especially in the large towns in the Randstad conurbation. This positive trend is driven by demographic and economic developments and by changed government policies.

As a result of the demographic development, the number of single-person households in the Dutch housing market is increasing, a trend that will continue in the future. This group includes students, first-time tenants and buyers and other singles. This is not only the group of younger single-person households, but also the 45+ age group, which is becoming increasingly important.

In 2030 some 3,500,000 people will be living alone in the Netherlands, which represents 40% of the total number of households. The group of singles between the ages of 45 and 64 is now the biggest part of all singles (30%). And in 2030 this group, together with the 75+ group, will form the largest group of singles. The group of single-person households is as heterogeneous as their living requirements, although we are seeing some new trends in the rental property market in the Randstad area.

**Prospects**

It is expected that the size of the Dutch residential investment market will be approx. EUR 2.5 to 3 billion in 2016. It is not just the demand side that will be a limiting factor in this regard; there are plenty of Dutch and international parties on the look-out. Whether there will be sufficient supply to satisfy this demand will depend on the construction production on the one hand and on whether the current owners will want to sell their portfolios on the other. The start of 2016 has been very promising; although the real estate investment volumes decreased by 17 percent globally in the first quarter 2016, the Netherlands saw an increase of 39 percent compared to the first quarter of 2015.

If we look at the gross initial yields (GIYs) on purchases of newly built rental properties in Amsterdam, they are expected to fall to approximately 4 percent this year, against five percent well over a year ago (quote from Syntrus Achmea). In other large towns near Amsterdam, such as Utrecht, the GIY on purchases of prime-segment rental properties will decrease to approx. 4.5 percent in 2016. In the large towns in the south of the Randstad a lower limit of 4.75 percent is expected in 2016. This percentage also applies to premium city locations in Brabant and on the Amersfoort-Arnhem-Nijmegen axis.

**Focus areas**

In the years to come investments will focus on private-sector (medium-priced) rental properties. Not just on the central locations in the large towns, but actually also on a larger regional spread in the surrounding urban areas. Other developments are the more riskful investments in area developments, conversions of offices and other commercial real estate and investments in older parts of towns. This will also mean that investments will be more oriented towards the medium to long term (5-10 years).

In addition to towns with a traditionally strong performance, such as Amsterdam, Utrecht, The Hague and Rotterdam, residential investors increasingly often look at the municipalities in the periphery of these towns. In the case of Amsterdam these are Zaanstad, Diemen and Haarlemmermeer, for Utrecht it is Nieuwegein, for The Hague it is Delft and for Rotterdam it is Dordrecht. The interest of investors in medium-sized towns such as Amersfoort, Amhem, Leiden, Haarlem, Maastricht and Den Bosch is also on the increase.

The Amsterdam Metropolis Region is continuing to grow and may have reached 300,000 households by 2040. That growth will for the most part be from within, in the form of natural growth and individualisation (smaller number of persons per household).
A smaller part, approximately one third, will be external growth: there will be an influx of residents from other parts of the Netherlands and from abroad. In Amsterdam, for example, there is room for the realisation of 50,000 properties for the period until 2025. This will be carried out in phases. Planning for the first series of new projects with room for approx. 10,000 properties was started in 2016. Zaanstad has room for 10,000-20,000 properties due to the increase in demand. Although the number of new builds in the Amsterdam Metropolitan Region increased substantially in 2015 (over 7,500 properties), it could not keep up with the growth of the number of households (more than 20,500 households). In addition, property developers have started to increase their focus on owner-occupied properties again, because this market has also developed positively. Because the gap between the vacant value and the investment value seems to be narrowing, this development may be reversed in 2016.

Abolition of the value gap

Due to the scarcity in the residential investment market, the extremely low interest rates and the strong value development of owner-occupied properties in the above-mentioned areas, investors are prepared to settle for increasingly lower returns. In addition, housing complexes are constantly being optimised for so-called liberalised letting, partly due to the amended lettings law. In some places in the Netherlands properties with a usable surface area of less than 40 m² still end up in the private rental sector (in Amsterdam this is even already the case for properties with a usable surface area under 30 m²), resulting in much higher rents. Concepts such as group accommodation and student homes also keep pushing up the rental proceeds per square meter. As a result of these developments residential investors are prepared to pay the same amounts, or even higher amounts, for properties than private buyers are willing to do. This means that it seems to be a good idea for property developers to contract a final investor for properties early on in the development process instead of selling them to private individuals, which carries higher risks. This of course mainly applies to development projects in the larger towns. Although the interest rates are not rising at present, it would immediately affect the owner-occupied property market if that situation were to arise. It seems clear that the interest rates will increase (or must increase) in the longer run. Given the predominantly long cycle times of new-build projects, it seems that developers should secure the “cover” of their costs by making agreements with investors at an early stage, in any event for parts of these envisaged new-build projects. Within this context rented properties can develop into “safe havens”.

Friends concept and group housing

The so-called Friends housing concept, named after the popular American TV series, is well geared to the growing group of single-person households. Especially for young people who have just graduated and no longer want to live in student accommodation. In most cases they earn too much to qualify for social housing, yet “ordinary” properties are too expensive for them. The Amsterdam-based company AM Vastgoed, for instance, is developing such Friends properties. They are meant for people in their first job earning between EUR 25,000 and 30,000. Housing associations are also picking up on this development, but have a larger target group.

In other larger municipalities this concept is also attracting interest. In addition to the Friends concept for two people, concepts for multi-person households have already been thought up as well. They are sometimes referred to as the Melrose Place concept. It is clear that forms of community living are gaining in importance, which is mainly driven by the higher private-sector rents.

(Temporary) private-sector lettings of small apartments

The most noticeable change for the market is the possibility of entering into temporary (short-term) tenancy agreements requiring the tenant to leave on the expiry of the agreed term. This is especially important for small apartments, which would normally have to be let as social-sector properties, and which can now be rented out in the private sector as a result of this change. Due to the adopted amendment in the law any landlord will be able to conclude short-term tenancy agreements.

In such cases tenancy agreements can be concluded for a maximum period of two years and, in the case of shared (group) accommodation, for a maximum period of five years. Contrary to ordinary lettings, tenants can continue to apply to a Rent Assessment Committee during the entire term of the brief letting period, and even after its expiry.
Student housing

In the larger university cities such as Amsterdam and Utrecht there has been a shortage of student accommodation for a very long time. In order to end this shortage, local and national government authorities have signed an agreement (the National Student Housing Action Plan) with parties including housing associations, investors and universities, which provides for the construction of new student accommodation. In addition to the replacement of existing accommodation, which is often outdated, demand for new, high-quality student accommodation is also high. As a result this market has become increasingly attractive to investors.

The student housing market is attractive for investors due to the high take-up ratios and stable returns, while this market is also relatively insensitive to economic crises. Another important factor for investors is that the construction or renovation of student accommodation often goes hand in hand with area development, with students playing the role of pioneers. The map above shows that the locations for (new) student accommodation in and around Amsterdam correspond with the locations for area development. There is clearly a shift towards locations outside the Amsterdam ring road.

Conclusion

There are still opportunities for investors in Dutch rental properties to acquire interesting complexes and to achieve good returns.

It looks as if investors will have to look beyond the limits set by regular programmes of requirements, both functionally and geographically, for this purpose. Conversions of buildings, area development, the application of new housing forms and living concepts and investing outside of the metropolitan areas would seem to offer the best chances. These chances are mainly available to parties that are standing at the centre of the market and have some creativity. Parties must also be able to act quickly and flexibly, and preferably without making any reservations.

The conversion of the outdated Bergwijkpark office park into the attractive residential areas “Holland Park” and “Campus Diemen Zuid” is one of the most successful area developments. Snippe Projecten BV took the initiative of converting outdated offices into more than 1,000 luxurious student homes (Campus Diemen Zuid). In addition to residential properties, shops, bars & restaurants and sports and other facilities have also been created. All the 1,000 residential properties were rented out within a brief period of time and there is a long waiting list for people wanting to live here. Thanks to the construction of canals and a beautiful park, Holland Park has become a great area to live in, with 3,000 residential properties.

FRIS Research & Consultancy provides (market) opinions on conversions and area developments on a very regular basis.

If you would like to learn more about the possibilities of investing in Dutch rental properties, then we would of course gladly discuss this with you. We have had comprehensive knowledge of the (residential) investment market since 1923. Moreover, your questions will be answered by our specialists from various disciplines, which will enable you to act both quickly and flexibly. FRIS will offer you the best possible service and relieve you of a great deal of work.

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