Real Estate Research

March 2023

# Netherlands Real Estate Strategic Outlook

First Quarter 2023

## IN A NUTSHELL

— Dutch property prices underwent a significant correction last year due to a surge in financing costs and a weak economic outlook. However, we believe that the price correction is nearly done, particularly in the logistics and residential sectors.
— A significant revaluation of the logistics sector offers an attractive (re)entry point into a market with ultra-low vacancy rates, strict planning regimes and robust occupier fundamentals.
— Divergence between best-in-class office buildings with green certifications and old, lower-quality, grade B stock provides an opportunity for a value-add refurbishment strategy in high-productivity markets.
— Operational residential assets – including student housing, senior living and co-living – offer a yield premium over tradtional multi-family residential and are expected to be resilient to economic disruption given sustained tenant demand and undersupply of good-quality stock.

## Real estate market in a period of price correction

The Dutch economy is expected to slow as inflation remains elevated, with real GDP growth falling sharply to less than 1% in 2023, from over 4% in 2021 and 2022.[1] The economy will likely enter a shallow recession in the middle of this year, based on weak consumer spending, slowing global demand and limited investment. Previous and expected future rate hikes by the European Central Bank (ECB) have pushed up government bond yields and subsequently Euro swap rates. As a result, Dutch property yields have expanded rapidly across all sectors. We believe that most of the market price correction has already materialised in the logistics and residential sectors; however, property and fund valuations are likely to lag market pricing. We anticipate attractive investment opportunities at near-bottom pricing this year.

## Return to logistics

Despite the strength of occupier fundamentals, ultra-low yields have forced us to take a cautious view on the logistics market in recent years. However, the significant repricing of the sector is now providing an attractive (re)entry point. Following a run of sharp compression, prime yields moved out more than 100 basis points in 2022, reflecting a price correction of roughly 20%.[2]

We believe that logistics in the Netherlands will continue to perform well based on strong occupier demand and low levels of vacancy, with limited availability of zoned land restricting speculative supply. Modest take-up figures during 2022 were mainly a result of low availability rather than weakening demand. A lack of good-quality logistics space is expected to push up rents; however, lower consumer spending due to the increased cost of living and a recession may impact demand and dampen rental growth in the short term.

[1] Oxford Economics, January 2023
[2] DWS, January 2023

Given tight planning controls and a shortage of high-quality space, we also see an opportunity for value-add strategies, such as the redevelopment and repositioning of old light industrial assets into last-hour logistics near Amsterdam and Rotterdam. Such a strategy could also help to meet specific ESG targets by utilising roof space for solar photovoltaic systems in order to generate renewable energy, or the facilitation of electric vehicle charging stations, for example.

### Office refurbishments

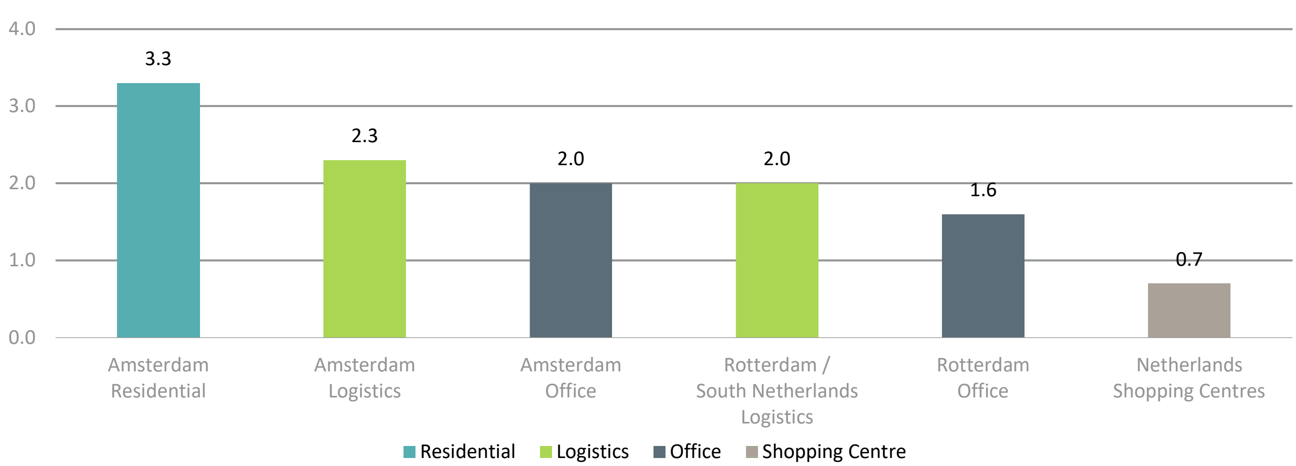
We continue to see a divergence between best-in-class office buildings with green certifications and old, lower-quality, grade B stock. Occupiers are rethinking their office footprint in a post-Covid world, generally looking for less, but higher-quality space. The push by tenants towards sustainability is driven by company net-zero targets and talent retention. Increasing competition for skilled labour is impacting employers' choice for asset quality and location, and as a result, the availability of grade A office space remains well-below historical norms in the Netherlands.

We have a strong preference for the refurbishment of old, but centrally located office stock over new build assets. Our 'Next Generation' office refurbishment strategy is aimed at high-productivity markets where good-quality space with strong ESG credentials is still in short supply. The Amsterdam office market is ideal for such a refurbishment strategy, based on robust macro-economic factors, low grade A vacancy and high barriers to new supply. However, finding suitable and attractive opportunities could represent a challenge.

### Focus on operational residential

Residential prime yield expansion has been more severe in the Netherlands compared to other European markets, including the low-yielding German residential market. However, high transfer taxes and the possibility of stricter rent regulation make traditional multi-family residential less appealing for investors. Fundamentals for the sector remain strong, with favourable city-level demographic trends, persistent undersupply, and robust household income growth. That said, multi-family becomes more of a tactical play at this point of the cycle, as yields remain below all-in financing costs. Value-add and active management strategies might still be viable, however.

**Prime Rent Growth Forecast, 2023-2032f (% p.a.)**




Source: DWS, January 2023. Note: f = forecast. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

In the Dutch market we prefer operational residential, including student housing, senior living, and co-living. Such assets typically offer a yield premium over multi-family residential, while having many of the same safe-haven characteristics, including low vacancy, stable income returns and a supply-demand imbalance. Student housing and senior living assets are typically valued at a 50-100 basis point yield premium over multi-family, depending on micro-location and market maturity.

Student housing is a counter-cyclical sector as enrolment numbers are typically inversely related to the economic cycle: the tougher the job market, the more likely the decision to study. Enrolment among Dutch students continues to grow but increasing international student mobility is likely to be the more significant driver of growth, with the Netherlands offering a number of high-quality universities, a large number of English-language-based courses, a relatively low cost of study and possible rent subsidies.

There is still a shortage of good-quality purpose-built student accommodation (PBSA), despite the recent development of several large complexes. As such, entering the PBSA market would most likely require a development strategy given the size of the sector and limited high-quality standing stock.

A rapidly ageing population and a lack of suitable and good-quality senior living establishments offer an opportunity for senior living investments. The number of people aged over 75 is expected to grow by around 35% over the next ten years, compared to 3% growth in the overall population.[3] However, current stock of assisted living units relative to the elderly population – also known as the penetration rate – remains well below mature markets such as the United States and Australia.

Co-living is an emerging, but fragmented sector with an increasing number of operators. Tenant demand for such product is increasing, while available stock remains in limited supply. We expect this subsector to continue to gain traction with both tenants and investors. We prefer growing and resilient cities with tight housing markets and a high share of young population, graduates and single-person households, such as Amsterdam.

[3] Oxford Economics, January 2023

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