Inbeeld

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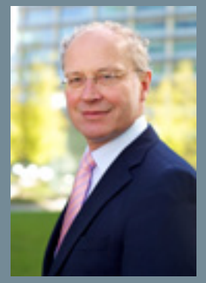
11

'Now is the time to get into housing rentals'

Bouwinvest

Diversification



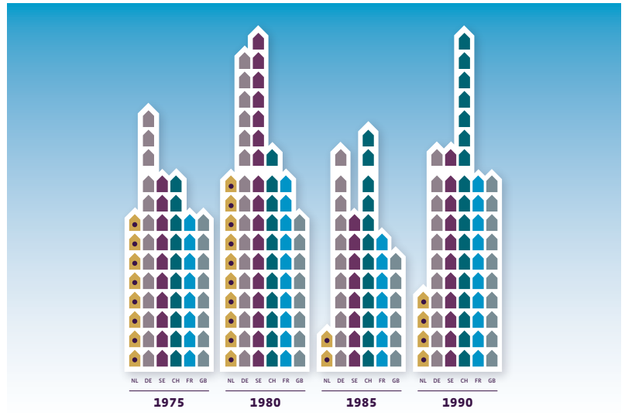
The Dutch housing market is getting a lot of attention from both local and international investors. Recently a journalist from The Wall Street Journal called me to ask what was going on in the market here. Well, a lot of things are coming together at the moment: firstly residential prices have stabilised and there is a new housing pact between the government and the housing sector.

The implementation of the pact will be a major operation and will lead to a huge reform of the housing market. This will impact on all sectors of the market; house-buyers, social housing and the free rental sector. Bouwinvest is fully involved in this undertaking and we are investing heavily in the construction of non-regulated rental properties this year.

To international investors the Netherlands appears to be a small country, but they do need to realise that there are major regional differences across the market. There is a shortage of homes in big cities, while in peripheral areas there is a surplus. Consultancy Finance Ideas fully explores these trends in their report on the Dutch residential market from a European perspective. It's not possible everywhere in the Netherlands to get a stable return in the housing market. This requires detailed research, and that is Bouwinvest's added value.

Thanks to our research capabilities, we have a good overview of the right investment properties in the right locations. Other investors are welcome, but naturally we don't want to make too much competition for ourselves.

I hope you enjoy this publication
Dick van Hal, CEO



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'There is no country where more, relatively speaking, is invested in real estate than in the Netherlands'

OPPORTUNITIES FOR INTERNATIONAL INVESTORS IN THE DUTCH RESIDENTIAL MARKET

Fly to the money!

Even before the 'Dutch Residential Investments in a European Perspective Study' was completed I was optimistic about the opportunities available for national and international investors in the liberalised sector of the residential rental market in the Netherlands, but the situation is even better than I thought. All signs point in the same direction: now is a very good moment to get into this market.

Piet Eichholtz

The Dutch residential market offers good returns to investors and can play an important role in reducing risk for pension funds: housing delivers excellent risk diversification and protection against inflation that is better than any other investment category. What is odd is that almost no one outside the Netherlands realises this. The Dutch market is virtually unknown abroad.

Most of the large international institutional investors with whom we have spoken are biding their time, saying: "first let them come with a good proposition". On top of this, most of these investors would rather not invest directly in bricks and mortar, preferring to invest in funds with proven reputations. My message to the eight Dutch institutional investment managers who

About the author
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took the initiative to carry out this study is this: 'Fly to the Money!" Go abroad and use the information in this report to show just how good things are with the Dutch residential market. If you want to attract international investors then you need to go to where they are: go to Zurich, Stockholm or Paris and organise an afternoon or a workshop with investors!

Dutch Residential Rental Market

The rented housing market is quite underdeveloped in Europe. In only six European countries do institutional investors have significant holdings of residential assets in their portfolios: the Netherlands, Switzerland, France, Germany, Sweden and the United Kingdom. The Netherlands has a long tradition of investment by institutional investors in housing. Residential properties make up 50% of the Dutch IPD index. In none of the other countries that we looked at, with the exception of Switzerland, was more, relatively speaking, invested in housing than here. We are quite advanced with this market and there is a good investment infrastructure.

DUTCH RESIDENTIAL INVESTMENTS IN EUROPEAN PERSPECTIVE

Eight large institutional fund managers with Dutch residential property portfolios have joined forces to focus international attention on the Dutch housing market. Even though Dutch investors have been active for quite some time in the residential market, international investors are barely present in the Netherlands. The study 'Dutch Residential Investments in a European Perspective' carried out by Finance Ideas, a consultancy firm, in cooperation with IVBN, shows that the Dutch market makes for an interesting investment for domestic, as well as international investors. The initiative for the study came from Altera Vastgoed, Amvest, a.s.r. vastgoed vemogensbeheer, Bouwinvest, CBRE Global Investors, Delta Lloyd vastgoed, Syntrus Achmea real estate & finance and Vesteda.

The liberalised residential rental sector in the Netherlands seems quite small when compared to the housing corporation sector, but internationally it's comparatively large.

Viewed historically, residential rental properties have delivered reasonably good returns in the last 10 years, especially when compared with offices. In three of the six countries that were reviewed there were negative returns in only one single year. Compared with other investment categories, the Dutch non-regulated residential rental sector has delivered long-term stable returns with limited risks.

Risk-spreading

Investment in rented housing is, in the long run, an extremely effective inflation hedge. An additional advantage is the opportunity for diversification, as there is a low correlation with this investment asset and shares, bonds and cash. There is even low correlation between countries. From a portfolio perspective, investing in housing can be very interesting. The correlation between the Dutch and Swiss markets is -0.28, meaning that a combination of rental housing properties in both countries offers a very good opportunity to spread investment risk.

Opportunities

The largest share (88%) of the Dutch residential rental market is currently in the hands of housing corporations and is state-regulated. Tenants rights are protected and rents are based on inflation plus a mark-up. Only 5% of Dutch households live in non-regulated rental accommodation. This sector is growing and the growth will continue in coming years as new regulations come into effect, including measures to reduce the incidence of renters occupying homes that are no longer suitable for them (either based on too-high incomes or too-small household size) and adjustments to the tax system to reduce the attractiveness of buying homes.

This gives institutional investors, who are mostly focused on the non-regulated market, an expanding space of opportunity. At present 55% of their portfolios are made up of non-regulated housing units. This share will increase as new residential projects are now mainly made up of non-regulated housing. New rules will also require housing corporations to dispose of part of their (non-regulated) housing stock and concentrate on their core tasks.

Whenever the Dutch housing market is being discussed, there is always a comment about the high level of mortgage debt in comparison to GDP. Looking only at loan-to-value, the country indeed leads the world, however we do have many mortgages that are structured as saving and investment vehicles, meaning that much of the debt can be set off against assets that are directly linked to the mortgage. In addition the country is rich in assets like bank deposits, the surplus value of houses and pension balances. If we take these into consideration then the net worth of the average Dutch household looks quite good.

Prices

There are a number of reasons why foreign investors should invest in the Dutch residential rental sector. The price-to-rent ratio in the Netherlands is good. The Swiss market is tightening and is becoming expensive. In Sweden and France the rate of house price growth is flattening out. In the Netherlands the financial crisis together with government measures designed to cool the market have caused house prices to fall by about 18% since 2008, meaning that Dutch prices are now quite attractive. The ratio of house prices to rents is also almost back to its long-term average. As the stock of houses here is very limited and the level of construction of new houses has declined, there are shortages in the market. This supply shortfall is expected to continue for the foreseeable future.

According to the Dutch Statistics Bureau (CBS) the average size of households is falling, and the number of households is growing by 60,000 each year (single person households, elderly people etc.). The country will need an additional one million extra homes in the future, but hardly anything is currently being built. Looking at the limited number of building permits that have been issued, this situation is not going to improve in the short-term.

> 'The Dutch non-regulated residential rental sector has delivered long-term stable returns with limited risks'

This will lead to shortages in the market, which is good news for investors. The tightening in the housing market is most likely to be felt in the cities of the Randstad and Brabant and in the Zwolle and Arnhem/Nijmegen regions.

Building Proposals

Even though it's now a good time to enter the Dutch market, international investors remain cautious. At the moment there are no obvious products for them. Investors have told us: "we don't want to invest in bricks and mortar, we want to invest in funds with dedicated portfolios and good management". Dutch market players need to experiment with setting up this type of fund and with opening up to international parties. Companies could put a part of their portfolios in separate funds that would be open to foreign investors. Housing corporations could take 3,000 housing units, set up a fund with a management structure and take this to investors. That's how you experiment. The study is not finished, we need to build proposals and for this I am looking primarily at the eight companies that commissioned this project.

I don't think that Dutch companies should just go after international investors who have never before been in the Netherlands and who have never before invested in housing. That's a bridge too far. The focus should now be on foreigners who are already active in commercial real estate in the Netherlands to try to get them interested in the

‘The ratio of house prices to rents is now almost back to its long-term average’

residential market. That’s where the Germans come into focus; they have been active here for quite some time. You can also approach it from another angle by looking at parties who have invested in residential properties in their own countries, but never in the Netherlands. And there you are talking about investors from the five countries that the report studies. In coming years a million homes will need to be built. Of these, 60% will be bought by individual buyers and 40% by housing corporations and institutional investors. A rough estimate is that the market can absorb an investment volume of roughly seven billion to 14 billion euros. A large part of this money will have to come from abroad. That’s the challenge!

GROWING DEMAND

The demand for non-regulated rental properties will grow strongly. It’s expected that in the coming 20 years demand will grow by between 286,000 and 695,000 housing units.

De Feniks and Het Baken, Amsterdam

CentreCourt, The Hague

Summertime, Zuidas, Amsterdam

HOUSING MARKET REFORMS BEGIN TO PAY OFF

Momentum in the free sector residential rental market

Investors are seeing increased momentum in the Dutch liberalised residential rental market. Reforms have levelled the playing field between rental and housing ownership. Domestic housing corporations are now required to focus more on their core tasks and the economy is recovering

“The outlook is good”, says Michiel de Bruine, Head of Asset Management Residential at Bouwinvest. “Subsidies on social sector housing are being reduced, tenants who live in social properties for which they don’t qualify are being tackled, mortgage interest tax deductions are being slowly reduced and buyers are being required to pay more of their own capital upfront. This is leading to a level playing field between all market segments”

Increasing demand

These developments will translate into increasing demand for rental properties in the liberalised sector, and that offers opportunities for investors. “There are about 860,000 households in the Netherlands that occupy rented social housing, but who earn more than € 34,678, the upper-income limit to qualify for such housing. These are potential candidates for new houses. However, they face a housing market where there is a big shortage of rental properties in the so-called ‘middle segment’, with monthly rents between € 700 and € 1,000. Only 3% to 4% of the rental properties in the Netherlands pay rents of over € 700. That’s the segment on which Bouwinvest wants to focus”.

Renters’ Levy

Even though many measures have been taken to create a level playing field in the housing market, the renters’ levy - whereby renters of homes under the € 700 level must pay a charge to the government based on the value of the property - is, according to De Bruine, a factor that has a

negative impact on returns. “The renters’ levy partly impacts us. We have about 2,000 houses in our portfolio that rent for under € 700. We want to reduce this number by selling properties or, if possible, by ensuring that properties can be transferred into the non-regulated sector. Bouwinvest’s vision is that we want to invest in this sector. Some 81% of the housing units in our portfolio are now in the liberalised sector, the rest are social housing.” According to De Bruine, Bouwinvest would rather offer homes with a monthly rent of just over € 700. The risk however is that such housing, for example after revaluation, would revert to being in the social sector. “You need to have assurance that homes, once they’ve been liberalised, will remain so. Then you will take the plunge into the lower mid-level sector”, De Bruine argues.

‘Investing in Dutch housing is a good instrument for diversification’

Lower mid-level sector

There are huge opportunities in this lower mid-level sector. “We see more and small households coming along. There is large demand for small, but high-quality, apartments with living areas of between 45 and 55 square metres. That’s the segment we would be interested in getting into, but it’s difficult”, according to De Bruine. “With the present housing points system, such units come very close to falling into the social sector, and the people who would happily live in them would not qualify for the homes because they earn too much.” The demand for small, high-quality apartments is particularly high in Amsterdam and Utrecht. The free rental sector limit should be reduced. The plan to freeze the limit for a few years is however a step in the right direction. With the annual rent increases, more properties will enter the liberalised sector.”

The Dutch Housing market from a European perspective

Bouwinvest, was one of eight institutional investors that commissioned consultants Finance Ideas to carry out a study of the Dutch residential market from a European perspective. With the results of this study we hope to shift international attention to the Dutch market. “In the Netherlands, the housing market is well known. Everyone is aware of the current trends. But foreign investors need a lot of convincing that the Dutch residential sector is actually a very good market. When they hear of Dutch real estate they think of offices, and that market is not doing so well at the moment. For housing, this is really the right moment to get into the market”, said De Bruine.

One of the points to be stressed is the lack of correlation with other residential markets in Europe. “It’s not the case that if the housing sector in Germany is doing badly, then the Netherlands will also be doing badly. It’s very local. Investing in the Netherlands is a good instrument for diversification”.

Foreign investors are slowly but surely beginning to look at Dutch residential real estate. “We’re seeing increasing interest. Not only for properties in our residential funds that we want to sell, but also in the market. When we are buying, we sometimes also see non-Dutch parties who are bidding. Investors are convinced that this is the right moment. They are supported in this by the study’s conclusion.”

Growth

Bouwinvest’s parent shareholder, bpfBOUW, the Dutch construction workers pension fund, has approved a significant expansion over the next three years in the level of the company’s rental property investments, from € 2.6 billion to € 3.3 billion. The higher investment will be focused in the Randstad region, in particular inner-city housing with rental prices between € 700 and € 1,000. Bouwinvest will also aim to increase the average sustainability of its portfolio.

Rabobank Pension Fund invested € 50 million in Bouwinvest’s Residential Fund in January of this year, as the institutional investor saw the steady improvement in market fundamentals with a structural shortage of housing set against a background of a steadily increasing number of households. And recently the Netherlands’ Confectionery Industry Pension Fund invested € 30 million in our Residential Fund. Leo Dekker, chairman of the pension fund: “The pension fund decided after the findings of our last ALM study that we would start to invest in real estate from 2014”.

Bouwinvest is, according to De Bruine, on track with its investments. “Soon we will have more than 1,000 properties under construction in Amsterdam. In April we won the tender for The Pontsteiger building in the city’s Houthaven area, 300 mid-level apartments will be built here. We’re building at Overhoeks in north Amsterdam and in the Eenhoorn area beside the Amstel station where we will build starter homes and student accommodation, while at the Stadionplein we are working on 100 new apartments. We also have a project underway in Utrecht, and the Rosorum care home in Haarlem had been completed.”

To produce results, a lot of time and energy is being devoted to acquisitions. “You don’t just want the right location, but also the right product for the right target group. For this we do a lot of market research. We now know a lot about what our clients are looking for. Bouwinvest has strict requirements for its projects and we are constantly looking at how to do things better. The market is merciless. You need to deliver a good product. Local knowledge and client knowledge is essential.”

RABOBANK PENSION FUND CHOOSES BOUWINVEST

In January 2014 Rabobank Pension Fund invested € 50 million in the Bouwinvest Dutch Institutional Residential Fund. “We have the same aim, namely to achieve a stable return for our pension fund participants. I’m confident that this investment will contribute to this aim”, said Jos Dirks, General Director, Rabobank Pension Fund.

Rabobank Pension Fund invests in real estate because this investment category is expected to deliver stable long-tem returns and is a good diversifier in relation to other investment assets, as well as providing a hedge against inflation. “The core investment style of the Bouwinvest Residential Fund and its risk-return ratio fitted the investment profile that Rabobank was looking for”, explained Bernard Walschots, Director Fund Management at Rabobank Pension Fund.

In July 2014 also the Netherlands’ Confectionery Industry Pension Fund has invested €30 million in the Bouwinvest Dutch Residential Fund. Leo Dekker, Chairman of the Confectionery Industry Pension Fund said: “The pension fund decided after the findings of our last ALM study that we would start to invest in real estate from 2014. Real estate provides a stable and sustainable return for the retirement income of our pensioners and now is a very attractive time to step into the housing market.”

fact

“Soon we will have more than 1,000 properties under construction in Amsterdam”

MICHIEL DE BRUINE

PROSPECTS FOR HIGHER THAN AVERAGE RETURNS

DUTCH HOUSING MARKET VERY ATTRACTIVE

Reinhard Mattern, Chairman BNP Paribas REIM Germany

In recent months the Dutch residential market and especially the Randstad region has started to attract the attention of international investors on a scale that previously would only have been seen in cities such as London and Berlin, This is a completely new development for a market that in the last few decades has been totally dominated by local investors.

International parties are mostly interested in investing in rental properties in the € 700 to € 1,000 per month range. The expectation is that scarcity in this rental segment will increase in coming years. A number of private equity investors have also said that they are looking at social housing that is coming onto the market through portfolio disposals by housing corporations.

This year it was announced that BNP Paribas REIM Germany, an asset manager for (amongst others) several German pension funds, had purchased on behalf of a pension fund a portfolio of 265 apartments for € 40 million from Amvest. The portfolio is made up of four apartment complexes in a number of locations in the Randstad. BNP Paribas REIM, which has € 4.4 billion in assets under management and is active in 14 countries in Europe and Asia, intends to invest more in the Dutch residential market and is on the lookout for further attractive portfolios, particularly in the Randstad.

Touching the bottom

According to Reinhard Mattern, CEO of BNP Paribas REIM Germany, the Dutch housing market is in an interesting situation, one that makes it an attractive market to get into. “The last few years have seen a significant drop in prices on the Dutch residential market. We think that the bottom has now been reached. On top of this the tax regime and regulations relating to the housing market have been adjusted. The expectation is that in the near future there will be increased demand for high-quality housing. This raises the prospect of higher than average returns. There is sufficient risk-premium over ten-year bonds, about 250 basis points. For us, this is a signal to invest in the market.”

German market

BNP Paribas REIM Germany is also active on the German residential market, but this market is according to Mattern too expensive, a result of many German and international investors buying portfolios there in the last few years. “Our investors have too few possibilities to buy real estate that could give satisfactory returns. The question that we ask with every investment is: what are the returns on equity for real estate compared to investing in risk-free bonds? Real estate is actually an attractive investment possibility at a time when interest rates are very low. We need therefore to look for alternatives. We think that the Dutch market for core residential real estate is more attractive at the moment than the German market.”

The purchase of 265 apartments in the Randstad was the first step into the Dutch market. “We were familiar with the Netherlands through other investments. I should say that we were not positive about the Dutch office market. The residential market in contrast has moved in the other direction and is consequently very interesting for us.”

‘There is currently a shortage of good portfolios ’

Special Fund

Catella Real Estate is another foreign investor with its eye on the Dutch residential rental market. This German fund manager is part of the Swedish financial services company Catella and has recently launched a special fund for the Dutch housing market. The fund has a target of a total investment in the Dutch market of € 250 million and is focused primarily on the residential rental sector. It is the first German investment fund that is totally focused on this sector.

BNP PARIBAS REIM GERMANY

Reinhard Mattern is CEO of BNP Paribas REIM Germany. The company is based in Munich and is an asset manager for (amongst others) German pension funds. The fund manages more than € 4.4 billion in assets under management and is active in more than 14 countries in Europe and Asia. BNP Paribas Real Estate is worldwide one of the largest real estate advisers, with an international network in 36 countries and more than 3,400 employees.

Recently Patrizia has signed a purchase agreement for the acquisition of a portfolio of approximately 5,500 residential units in the Netherlands. The seller was the Dutch housing association Vestia. UK and U.S. investors have also indicated that they think the market has troughed and are looking at the opportunities presented by possible future rising rents.

‘Even though interest in the market is increasing, the question remains whether sufficient supply will become available’

UK RESIDENTIAL MARKET CLOSE TO OVERHEATING

While the Dutch housing market is still at the beginning of a fragile recovery, the UK housing market is close to overheating. Recently Sir Jon Cunliffe of the Bank of England warned that a housing crash could threaten the financial stability of the UK. According to Cunliffe it is “dangerous to ignore the momentum that has built up in the housing market”. He warned of a “sharp correction” with negative consequences for many households. The Nationwide Building Society announced at the same time that house prices had risen by 10.9% in 2013, the sharpest rise since the beginning of the financial crisis.

Supply

Even though interest in the market is increasing, the question remains whether sufficient supply will become available. Mattern has signalled that it has been difficult to find good investments. “The biggest problem that we have in the Netherlands is not shortage of capital. We are well-financed. The question is: are owners prepared to sell? There is a shortage of good portfolios. Owners of housing portfolios see the increased interest in the market and are playing a ‘wait-and-see’ game in the hope of getting higher prices. I would advise them to be careful, interest rates can change. No one knows what’s going to happen in the coming period.”

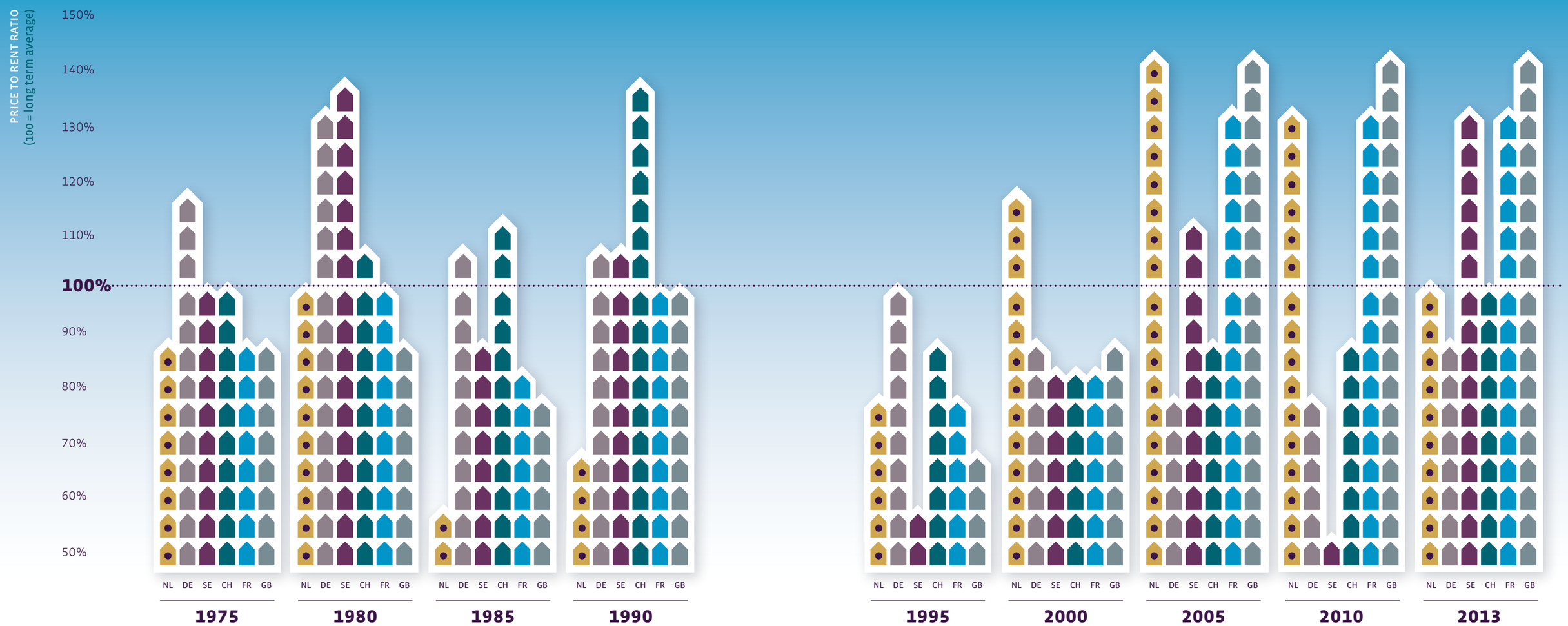
Higher volumes

If there is a sufficient supply of good non-regulated rental properties, the number of transactions involving international investors can rise and a lot of money will flow into the Dutch residential investment market. Investors are, above all, interested in larger volumes of € 50 million and above. These foreign investments could bring the plans of Minister Blok (Housing and the Central Government Sector) to expand the market for non-regulated rental properties a step closer. There are therefore more than enough opportunities in the Dutch non-regulated rental market. Now that the UK housing market, as well as the German market, in the larger cities, are beginning to overheat, the Dutch market, on the eve of a recovery, offers attractive investment possibilities with a chance of solid returns.

“There is sufficient risk-premium”

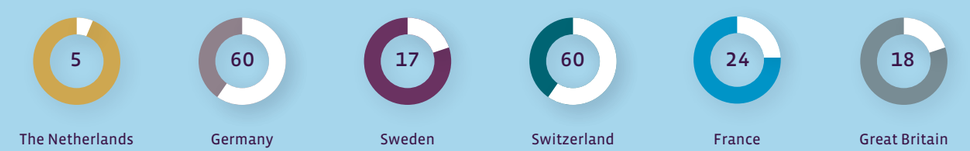
REINHARD MATTERN | BNP PARIBAS REIM GERMANY

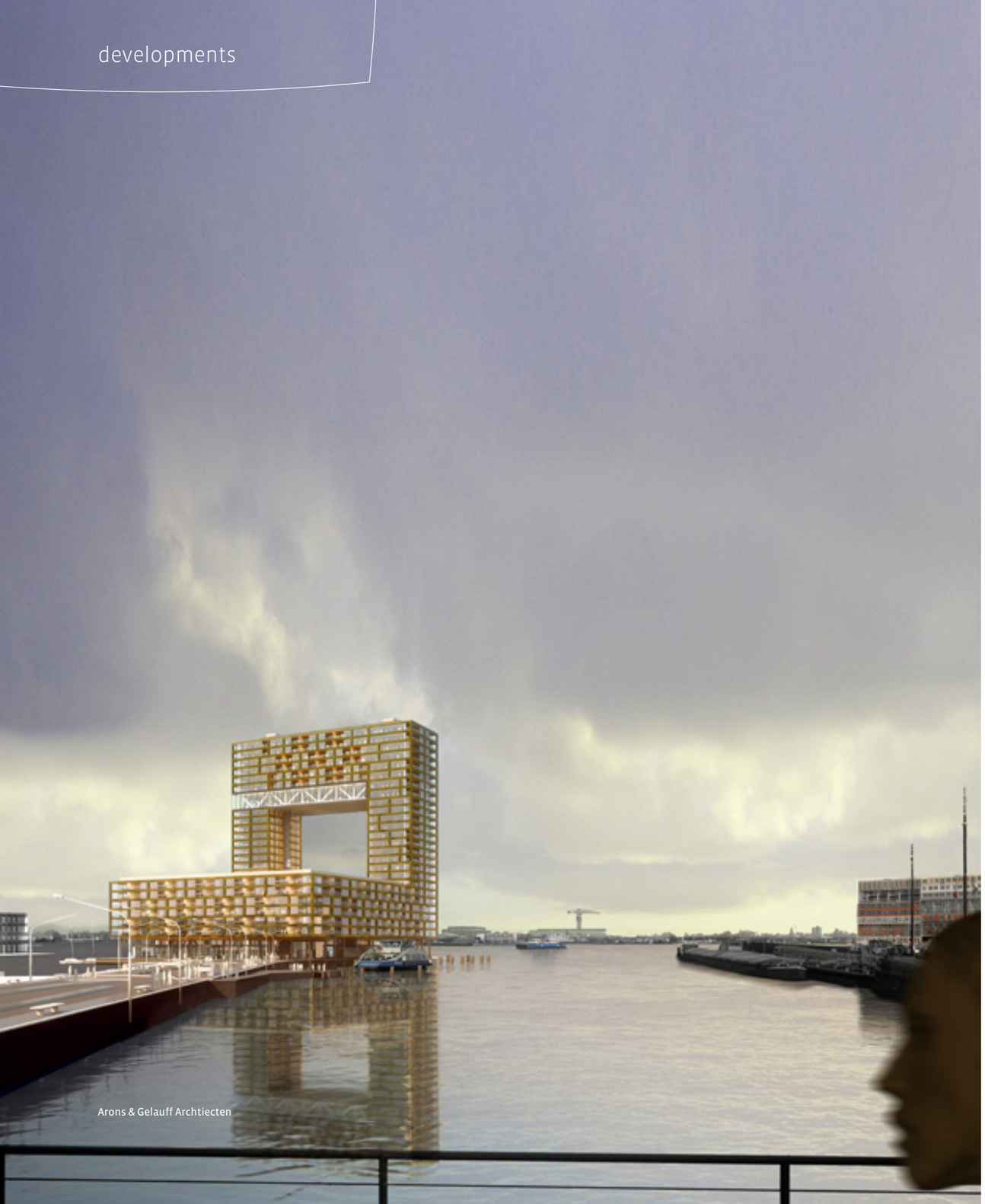
The Netherlands **versus** Europe



RENTAL INCOME (%)

NON-REGULATED RENTAL HOUSING VS TOTAL HOUSING STOCK (%)





Arons & Gelauff Archtiecten

AMSTERDAM GETS CONTEMPORARY CITY GATE

the pontsteiger building icon in houthaven

The Houthaven (Timber Harbour) area in Amsterdam will undergo a complete metamorphosis in the next few years. The light industry and temporary student housing that are presently found there will be replaced by a new city neighbourhood, that offers living by and on the IJ waterway. The most striking new building will be, without doubt, The Pontsteiger, a contemporary city gate that will tower above the (new) islands that make up the Houthaven.

Ebe Treffers, Regional Manager, Acquisitions & Development Residential, Bouwinvest

The Pontsteiger, located at the end of the jetty from which ferries leave for north Amsterdam, will consist of 450 apartments, of which 300 will be high quality liberalised sector rental properties. Developers Dura Vermeer and M.J. de Nijs will design and complete the building. Bouwinvest Dutch Institutional Residential Fund NV will acquire the 300 non-regulated rental apartments for its portfolio.

History

The Pontsteiger has a long history. Architects Arons & Gelauff first designed the building in 2007. The financial crisis however put a spanner in the works. The plan, which was amended several times, never got off the ground and it was not until the city of Amsterdam, in a last ditch attempt, took the project over last year and granted an unconditional tender to Dura Vermeer, De Nijs and Bouwinvest, as investor, that things began to move. “We've only been involved with the tender since December last year”, said Ebe Treffers, Regional Manager Acquisitions & Development Residential, Bouwinvest. “In a very short period of time, together with Dura Vermeer and De Nijs, the architect, the builder and a number of other advisors, we put together an updated design, based on our own requirements.

From the opening of the tender on January 7, we only had until March 13 to submit our unconditional bid. We're very proud that we could turn this around so fast. Our partners Dura Vermeer and De Nijs were also able to complete the tender. They re-examined the project and agreed to take for themselves a number of risks, including the sale of about 150 apartments. It's a unique project in terms of complexity, scale, size of the investment, decision-making and cooperation. It shows the commitment of those involved!"

'The Pontsteiger is a unique project in terms of complexity, decision-making and cooperation'

Milestone

The agreement to build The Pontsteiger is an important milestone in the development of Houthaven. "This was the last chance for the City of Amsterdam" according to Treffers. "Without The Pontsteiger, planning for Houthaven would of course have gone ahead, but the financing for a part of it would no longer have been there, and the neighbourhood would have ended up looking quite different".

Where previously ships unloaded timber, 2,000 homes will soon be built on seven islands in the IJ waterway. At present only 20% of the total project has been agreed, but tenders are now being issued for the remainder. "This will be a complete new neighbourhood on the IJ" explained Treffers. "It's a sort of reclamation. At some spots land is going to be removed to let the water in, in other places the water will be pushed back. The Pontsteiger itself will stand in the IJ, something that will be quite a technical challenge".

Quality

In a few years all the work should translate into a new residential neighbourhood. Treffers: "Living on the water will make Houthaven special. There is space for about 2,000 homes of all sorts and for all levels in society. Of these, 20% is reserved for social housing, the rest will be rented or sold at market rates. The neighbourhood will have infrastructure such as schools, restaurants, a hotel, medical facilities and space for small businesses. It will be a typical Amsterdam neighbourhood." To properly connect Houthaven to the nearby Spaarndammer neighbourhood and the city centre, a tunnel for through traffic is being built on Spaarndammerdijk, one of the four main ring routes within Amsterdam. A park will be built on the roof of the tunnel and the 'old' Spaarndammerdijk will be reserved for local traffic.

"The expectation is that Houthaven will make the Spaarndammer area more attractive, meaning that whole part of the city will improve," Treffers said. The majority (80%) of Bouwinvest's 300 high-quality apartments will have three main rooms, the rest two rooms with surface areas between 69 and 103 square metres. Rents between € 1,000 and € 1,400 mean that they will be in the luxury category. The homes will be located in the 'lower -U' part of the building and in its support towers. The highest part of the tower is reserved for apartments that will be sold to private individuals. The building will have a parking garage with space for 265 cars and 45 mooring spots for boats. The City of Amsterdam puts a lot of emphasis on sustainability and so the apartments will be heated using waste heat from industry in the city's harbour area and cooled using water from the IJ. Every apartment will have outside space.

Target groups

As with every project, Bouwinvest carried out a study of target interest groups. The location on the water and the culturally very lively surroundings will be attractive to so-called 'Urban short stay' and 'Private Quality' target groups. "We expect the 'Urban short stay' group to be over-represented: career-focused, one and two person households, who, without too many commitments, want to live in a top location. On top of this we expect that older and one to two person households in the 'Private Quality' category will be attracted by the luxury apartments. The building's allure and its location on the IJ, close to the A10 ring road, makes it even more attractive." The Pontsteiger is in terms of square metres probably the largest building that Bouwinvest will have in its portfolio. "It's difficult to imagine how big this is going to be. Bouwinvest has other large-scale rental areas and buildings in Amsterdam, such as on Java and Borneo islands and Het Kwartier close to the Olympic Stadium. This though is one single building."

Invest in Amsterdam

Bouwinvest has, on behalf of is Residential and Office Funds, invested heavily in projects along the IJ waterway, including Overhoeks in north Amsterdam (the Halve Maen building) and the Aitana Hotel on IJdok. "The Pontsteiger fits perfectly in this list," according to Treffers. "For us it's good to be involved in a neighbourhood we believe in, even if it's far from being completed. The city is moving steadily in the direction of the IJ and the waterway is becoming more and more part of the city. The location allows us to develop large volumes, of rental apartments and so contribute to the success of the city's plans to develop more housing on the edges of Amsterdam. We have been the largest investor in houses in the centre of the Dutch capital in recent years, and we want to continue this." Treffers expects more competition from foreign investors in coming years, particularly in Amsterdam, which will mean that the non-regulated rental market will become much more of a normal market alongside social housing and the owner-occupier segment. "That's where Bouwinvest makes a difference", according to Treffers: "We can take these sort of risks. We can take decisions quickly and are able to invest large amounts. The Pontsteiger will make an important contribution to our target of investing € 250 to 300 million annually. But it won't stop there. We are in the market to develop or buy more projects of this scale."

Construction of The Pontsteiger will start in October 2015, with completion planned for December 2017

THE LIGHTS ARE ALL GREEN FOR THE HOUSING MARKET

Important role for the free sector rental market

When he became minister for Housing and the Central Government Sector, Stef Blok's main challenge was to get the Dutch housing market moving again. He announced a series of measures designed to bring private homeowners' high debt levels back to normal proportions, to ensure that renters didn't stay stuck in houses for which they were no longer suited and that housing corporations returned to focus on their core-tasks.

The various interest groups involved did not thank Blok for his plans, pointing out that with the poor economic climate at the time they could further exacerbate the poor situation of the housing market. Blok persevered and a large part of his measures were recently approved by Parliament. Looking back he said: "I'm glad I didn't wait. I'm happy to listen to good advice, but sometimes you just have to do what needs to be done".

Strong foundations

It looks as if Blok got it right. His gut feeling that the housing market was about to turn a corner has been confirmed. The Dutch market is on the move again. The economy is slowly recovering and the measures that were taken in relation to house buyers and renters are beginning to bear fruit.

Eight large institutional investors thought the same as Blok about the market and recently presented a joint report, aimed at foreign investors, that details the chances that the Dutch liberalised sector rental market offers them.

Officially accepting the report, Minister Blok said: "I'm very happy with this report as I think it's very important that the housing market in the Netherlands gets moving again. The lights are all green again for the housing market and it helps that the economy is slowly improving".

Blok is fascinated by how quickly home buyers and investors reacted to the new regulations. "The latest numbers from the Land Registry show that the volume of house buying is increasing."

There are also positive developments on the rental market, according to Blok. "Since July 1 2013 it's been possible to increase rents in line with the income of the tenant, and for the first time since 2007 rents haven risen at a rate that is higher than inflation. In fact last year they rose at the highest rate since 1994. Looking at how much the economy has developed since 1994, it becomes obvious that rents were kept artificially low for many years, making it less attractive for investors to get into the Dutch market. They are now coming back in, whereas for many years institutional investors were selling off their portfolios.

Looking at the study, Blok questions whether such sell-offs made sense. One of the most interesting conclusions of the report is, according to the minister, that over the last 35 years the return on rental housing has been higher than that on offices. "From an economic perspective you could argue that investing in a consumer market is safer than in a commercial market. Housing is a safe investment. Just like food it's a primary need and whether or not the economy is doing well people need to live somewhere. As an investment, housing is immune from economic cycles. I'm not really surprised by the numbers, but I do wonder why everyone was so focused on the office market."

According to Blok, investors can better invest in rental housing than in government bonds that, while they are low-risk, have low returns. "With rented housing, rents can be raised by inflation, even in bad years. What could be better for a pension fund than an investment that follows inflation?" The minister is pleased with the increasing interest of investors in the rental market. "It's important that new money comes into the housing market. It's clear that the middle-segment, with rents between € 700 and € 1,000, is quite poorly supplied. There's a lot of demand for mid-level rentals, and that will only increase in the future, as people will be less likely to get permanent employment contracts and mortgages. The foundations of the rental market are strong."

'What could be better for a pension fund than an investment that follows inflation?'

The Heelmeesters

Blok expects that the measures he has taken will mean that people who now live in social housing but who earn more than the upper income limit for such homes will be quicker to move on to buying a house or renting in the liberalised sector. "The rental market is going to develop. I was in Amsterdam recently, near Amstel Station, where I visited a new development (The Heelmeesters). It's in the price segment just above social rental. It looks pretty nice, but more importantly is how well the rental take-up has been. I would love to see more of that type of project."

The development of the liberalised sector rental market plays a significant part in Blok's plans for the future, and for this he is relying on not only Dutch institutional, but also foreign investors. "I'm convinced that we have an attractive proposition. Timing is crucial. In neighbouring countries you can





see that the market has peaked. The Dutch economy is only now beginning its recovery. Banks are cautious about financing and this is a good moment to get into the markets, also in relation to pricing".

Promotion

The study 'Dutch residential Investments in a European perspective' shows that out-of-sight is indeed out-of-mind as far as the Dutch rented housing market goes. If left to the minister, this will quickly change. "I was at Expo Real last year in Munich and I'm going there again this year. We recently held a private meeting here in the Netherlands with foreign investors at which I spoke. I'm going to continue doing this sort of thing, and at the ministry we have just completed an English-language brochure to explain to international investors all the changes that have taken place." These types of initiatives lead, according to Blok, to more interest from investors. "Civil servants from my department were at an event recently in London and saw that there was a lot of interest. If you read the papers you can see that a lot of foreign parties are active on the mortgage market. That shows that investors are doing the maths and coming to the conclusion that the Dutch housing market has bottomed out and that the government has clarified future policy. I expect more such stories to appear".

Blok recognises that the dual system of social and free sector housing requires some extra explanation for foreign investors, but argues that this doesn't

> 'There is demand for mid-level rentals, and that will only increase in the future'

cause problems. "Most countries have some form of social housing. What sets the Netherlands apart is the social rental sector's large role. But the explanation that there is an income limit above which the market is free and where there is limited supply and a lot of demand, is of course easy." Dutch institutional investors would like to see a clearer division between the social and free sectors and a clarification of and limitation in the role of housing corporations. "It's logical that in a democracy people fight for their own interests", said Blok. "As a minister, I need to serve the public interest and I observe the market. Very little has been invested in the middle-segment and here I have intervened with a number of measures, such as applying a Renters' Levy and freeing rents of the housing corporations to create a level playing field for all participants." The minister also pointed out that a bill has been sent to Parliament in June, that would limit the role of housing corporations to their core task: providing social housing. "Corporations have more opportunities because a state guarantee means that they can borrow quite cheaply, but investors need to have a level playing field. On top of this, housing corporations are not the right place for investment risks. That's been proven with the corporations' total losses in misplaced investments standing at about € 800 million in the last few years. We need to protect the taxpayers and tenants from these type of losses."

Questioned on what the ideal balance between social housing, non-regulated rental and house buying should be, Blok said: "I don't have a cut and dried figure for so much social, so much rental and so much owner-occupier. A good indicator is whether there are long waiting lists in a market. There are waiting lists in the social sector because people with higher incomes stay living in cheaper houses. You could always take the number of people moving house as an indication of how many people are stepping into a higher segment. The owner-occupier market was overheated; prices were rising a lot faster than inflation. I don't look at rapid price rises, that's a bad signal, you had better look at how long houses have been for sale on the market."

Regional differences

Blok warned that even though there are signs of recovery in the housing market, it's not across the board and there are big regional differences. "You can see a clear move into the cities. International investors are following Dutch investors into the Randstad, Eindhoven, Arnhem / Nijmegen and Zwolle, and cities such as Groningen that have their own pulling power. There is higher demand in these areas. The government cannot prevent houses in regions with declining populations from becoming unoccupied."
For the eight Dutch institutional investment managers, Blok has some advice: "Spread the word! The product is good, from an investor's perspective it's logical to invest here!"

STEF BLOK

S.A. Blok was appointed Minister for Housing and the Central Government Sector on November 5 2012. His portfolio includes all aspects of housing and construction, government real estate and the civil service.

Spread the message!

Frank van Blokland | Director IVBN

The Dutch Residential Investments study was possible thanks to the enthusiasm of Bouwinvest, which quickly found seven other institutional investment managers who were willing to take part in the study:

Altera Vastgoed, Amvest, ASR, CBRE Global Investors, Delta Lloyd, Syntrus Achmea Real Estate & Finance and Vesteda. The IVBN, the branch organisation for institutional investors, provided content for the study, partly on behalf of the six other residential investors who are members of IVBN. The above-named companies were prepared to fund the study and provide input. Once their agreement was in place, Finance Ideas was identified as being able to quickly prepare a well-researched study of the market.

Foreign analysts whom Finance Ideas contacted and who were shown the Dutch market's solid fundamentals (particularly for the non-regulated residential rental sector), showed little familiarity with the market. While Dutch residential investors have appreciated the market's evolution, it appears that until now we have forgotten to mention this abroad! It's important for all players who are now investing in the non-regulated sector rental market that more funds be sourced from international investors. This will increase competition, but also means that substantial growth in this market segment could be achieved.

The non-regulated market sector in the Netherlands consists of about 340,000 rental properties, and there is enormous demand from both young and old families, and also from within the fast growing group of one-to-two person households (young and old). The rented housing marking in the Netherlands is over-regulated, with a much too dominate position for housing corporations in the social sector. The policy changes that the government has launched will bring many changes here. However, it will still be necessary to monitor and understand the housing market and therefore it seems sensible to invest alongside Dutch professional investors who know the 'ins and outs' of the market. The IVBN keeps its members fully informed of developments in the market and international investors can also become members of the organisation , as long as they are represented in the Netherlands, or have a presence here. IVBN members have invested about € 50 billion in real estate in Dutch cities, that is around a quarter of all investment in property in this country. Of this € 50 billion, about € 22 billion has been invested in rental housing (around 130,000 units, including care homes). On top of this, the various members of the IVBN have invested about € 50 billion internationally.

3X Housing markets

The European investment market for residential rental properties is extremely underdeveloped according to the 'Dutch Residential Investments in a European Perspective' study.. The housing market can provide a good hedge against inflation and the diversification of risk. Correlation between housing markets is very limited and sometimes even non-existent. Each country has its own characteristics – renting is very popular in Germany, while in the UK, the market has been liberalised. The Dutch market is still quite limited, but prospects for growth are good.

GERMANY

HOUSING'S SHARE OF THE IPD INDEX

12%

1997 > 2012
TOTAL RETURN

5%

1997 > 2012
DIRECT RETURN

4.1%

2 1 '70 > '14 > 1.14 X

RETURNS IN THE LAST 10 YEARS

5.1%

1 Leading up the financial crisis house prices rose strongly in a number of European countries, but in Germany they were stagnant. Only in the last few years have they begun to rise, particularly around the four largest cities. In the rural areas of eastern Germany and Nordrhein Westfalen they are falling.

The German housing market is a renters' market. Most (60%) homes are rented, primarily (54%) in the liberalised sector. The renting of a house is socially acceptable and is certainly not seen as a second choice. This is a result of a conservative approach to the housing market. To get a mortgage a house buyer must be able to pay 20% to 30% of the purchase price in cash. Germans need to save to buy a house, and use special vehicles such as 'Bausparen' to do so. This means that they generally tend to only buy a house when they are older. But before they do so they do want to live in high quality rented accommodation.

Rents

The 'Mietspiegel' (Rent Level) is the basis for all rents. Every two years local governments use existing and new rental contracts to determine the Mietspiegel for each city. A higher rent can be agreed in new rental contracts, but future annual increases are then not possible. Rents under the Mietspiegel level can be raised every year at a rate set by the government.

It's forecast that rents will rise further. In cities such as Berlin, Hamburg, Munich, Nuremberg and Augsburg the increases will be highest, exceeding 10%. Rents in these areas are already the highest in the country. In the Ruhr area the reverse is happening. House prices are unchanged or falling. In general, the outlook for the German housing market is positive, despite the fact that the country's population is going to shrink in coming years. The number of small households should increase, however, translating into an additional million household in the same period. The average family size is now two persons. Not every region will gain from this development, as the move to the cities will continue. Here, in urban areas, demand for smaller houses will be particularly strong.

The economic outlook for Germany is also relatively robust. GDP has grown since 2009 and the labour market is reviving. Unemployment has been falling for some time and consumer confidence is up. In the next three years the German research bureau IFO Institute for Economic Research expects the housing stock to increase by 300,000. A large part of this increase will be in newly built free rental sector apartments.

Facts

- Housing's share of the German IPD index is 12%
- Investment in housing delivered a total return of 5% in the period 1997 – 2012 and a direct return of 4.2%
- In the last 16 years there has not been a year in which total returns have been negative
- Returns in the last 10 years were 5.1%
- The risk/return ratio is 3.48
- Capital that was invested in German housing in 1970 would now be worth a multiple of 1.14 more, after being corrected for inflation.

'More demand for smaller houses'

BRITAIN

HOUSING'S SHARE OF THE IPD INDEX

4%

’70 > ’14 > 3.86 X

RETURN-RISK RATIO

1.50

1981 > 2012
TOTAL RETURN

14.1%

1981 > 2012
DIRECT RETURN

3.4%

2 The housing market in Britain is undergoing a fast recovery from the economic crisis whereby, particularly in London and surrounding areas, scarcity of supply has caused prices to rise strongly. The number of housing starts is lagging behind demand, and this comes on top of the backlog that developed when construction activity virtually came to a halt during the crisis.

Just as in the Netherlands, the British housing market has historically been characterised by a high percentage of homeowners. The ‘English Housing Survey 2012 – 2013’ reported that of the 22 million households in the country, 65% owned their own home, 18% of households rented a home in the free rental sector and 17% of families lived in social housing.

Around four million households (18% of the total) in Britain now live in a free sector rental property. In 2010 this percentage was just 10%. The shift from home buying and social housing to the private rental sector looks set to continue. Apart from the fact that not enough homes are being built, causing prices to rise sharply, tightened mortgage rules (whereby the buyer’s own money is needed to buy a house and repayment requirements have been made stricter), force people to rent for a long time while they are saving to buy their own home. Beginners on the housing ladder are finding things difficult at the moment.

The British government has taken a number of measures to get investors interested in building free sector rental properties. These include lower stamp duty and land tax for investors who put money into large projects. They will pay only 1% tax on investments rather than 5%. With the ‘Build to Rent’ programme the government arranges credit for the construction, management and rental of free sector homes and shares in the risks.

Prospects for the British market look good. Population changes, low levels of construction and laws that are very favourable to landlords will strengthen the private market in coming years. Population growth in the UK is stronger than in other European countries and it is expected that this will continue until 2060. The number of households will continue to increase in this period and the average household size, at 2.3 people, is higher than the European average.

With the strong growth in the free rental sector there is an increasing requirement for good-quality homes. The current economic situation and the state of the housing market are encouraging for existing and potential investors. Just as on the Dutch market, house prices and rents are back in balance. Investors though should be careful to pick the right regions. Large cities remain popular, thanks to all the facilities they offer, and locations with good road and rail connections are also in demand.

Facts

- Housing’s share of the UK IPD index is 4%
- Investment in housing delivered a total return of 14.1 % in the period 1981 – 2012 and a direct return of 3.4%
- In the period 2003 – 2012 there was only one year in which total returns were negative
- Average returns are 9.6%, but this is coupled with high volatility
- The risk/return ratio is 1.50
- Capital that was invested in British housing in 1970 would now be worth a multiple of 3.86 more.

‘Scarcity of supply has caused prices to rise strongly’

THE NETHERLANDS

HOUSING'S SHARE OF THE IPD INDEX

49%

’70 > ’14 > 2.50 X

1977 > 2012
TOTAL RETURN

8.6%

1977 > 2012
DIRECT RETURN

6.1%

3 **Regulatory issues have for a long time had an enormous influence on the Dutch housing market, disturbing the balance between home owning, social housing and free sector rentals. Government policy, through tax breaks and subsidies, for many years favoured homeowners and housing corporations.**

The private rental sector was the only sector that did not receive any support, as a result of which only five percent of the Dutch housing market is currently in the hands of private investors. Recently a housing pact was signed that aims to create a level-playing field, meaning that prospects for the free sector and institutional investors are improving.

Social housing was subsidised for a long time. The government provided guarantees to allow housing corporations to borrow more cheaply and so charge lower rents. Parts of these corporations' activities overlapped with those of the private sector; and here clearly the corporations had the upper hand. Housing corporations are now being restricted in their activities, they are focusing again mainly on the social sector, houses for people with an annual income up to € 34,678 and a rent of maximum € 699 per month.

All real estate owners pay tax on their properties. This is calculated and collected by local governments. This tax can be used for the maintenance of local infrastructure.

In comparison to other European countries transfer tax (stamp duty) is low in the Netherlands. Recently it was reduced from six to two per cent, a positive development for institutional investors. Landlords who rent houses for less than € 681 a month must though pay a renters' levy.

The population of the Netherlands has grown by an annual average of 0.81% in the last few years. Growth is continuing, but has now flattened off and the expectation is that around 2040 the population will begin to fall. At the same time, the average household size has fallen sharply and this is expected to continue, eventually matching the German average of 2.0 persons per household. This will stimulate the demand for housing.

Since the start of the financial crisis in 2008, house prices have fallen more sharply in the Netherlands than in surrounding countries. Dutch housing prices are very volatile, just as in the UK and France. In the period 1990-2008 prices rose twice as fast as rents. This ratio is now back in balance. The last few months have seen a hesitant recovery in the housing market, but this has mostly been confined to the Randstad region, particularly to the larger cities. Prices are still falling in peripheral regions.

Facts

- Housing's share of the Dutch IPD index is 49%
- Investment in housing delivered a total return of 8.6 % in the period 1977 – 2012 and a direct return of 6.1 %
- In the last 36 years there were only three years in which total returns were negative
- Average returns in the last ten years were 4.0%
- Risk-adjusted returns (2003- 2012) were 1.04
- Capital that was invested in Dutch housing in 1970 would now be worth 2.50 more, after correction for inflation.

‘Only five percent of the Dutch housing market is currently in the hands of private investors’

Bouwinvest

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