

Bouwinvest to focus on mid-market rentals in urban areas

There is a major shortage of mid-market rental property in the Netherlands, particularly in urban areas. As Bouwinvest, we want to help resolve this situation. We are taking measures to ensure our current portfolio remains accessible. But, ultimately, adding more homes across the board is the only way to structurally ensure there are sufficient affordable homes. As Bouwinvest, we believe that everyone involved in the residential property sector, at whatever level they operate, should work together, and should be prepared to make compromises. Only when local authorities, housing corporations, institutional investors and project developers are prepared to join forces, will we be able to develop a structural solution to the serious shortage of mid-market rental properties in urban areas.



Het Dok, 314 mid-market rental homes in Amsterdam

Bouwinvest's mission

Our mission is to enhance pension benefits in a responsible way by investing in sustainable real estate. We invest both at home and abroad, while keeping one eye on the world around us. Through our funds and mandates, we invest in homes, shops, offices, hotels, logistics centres and healthcare property. This enables us to realise the best and most sustainable returns for our clients.

Our current portfolio offers some solutions

Bouwinvest started investing in property in 1952. Since then, we have built up a major residential portfolio in the Netherlands' central urban belt, mainly in Amsterdam. We currently have over 22,000 homes under management and in our pipeline.

Bouwinvest invests pension and insurance premiums and so takes a long-term view. Our investments last 20 years or more and we are involved on the ground in the areas we invest in. Like local authorities and housing corporations, we benefit from the presence of livable and inclusive districts, with a complete range of rental properties. These are the areas where people want to live and work, both now and in the future. And these are also the areas which offer our investors the best option for a stable return, to make sure they can pay pensions into the future as well.

Bouwinvest is involved in the ongoing discussion about affordable housing. We have looked at what we can do with our present housing stock. We decided in 2018 to raise the rents of our non-rent controlled properties by no more than inflation plus 1%. In 2019, we decided to raise the rents by no more than inflation plus 0,5%. We are also looking at lowering the income requirements for our rental properties, so that more people will be eligible to live in them. But structural solutions to solve the shortage of mid-market rentals do not lie in the existing housing stock. At the moment, non-rent controlled property accounts for just 7% of the total Dutch housing stock. The

biggest challenge is to increase the supply, by building more mid-market rentals and investing more in housing across all sectors. This will require working together and it is together that local authorities, housing corporations, institutional investors and property developers can make this a reality.

Structural shortage of mid-market rentals

The housing market in many areas, particularly in cities, is under extreme pressure. Economic recovery, migration, and a housing market which had ground to a halt during the crisis years, have created a pool of people looking for somewhere to live. Prices are shooting up because very few new homes had been built. Certain groups, such as young families and starters, are becoming out-priced, which is distorting the population make-up of cities. This can have unwelcome knock-on effects, such as making it impossible to keep facilities up to scratch. There is no simple solution because the problems in the urban housing market are complex. Much more needs to be done than simply building the right type of property.

Local authorities and housing corporations in urban areas have traditionally focused attention on social housing and on property to stimulate home ownership. Both sectors are subsidised. Non-rent controlled property (above €720 a month) accounts for a small proportion of the total and is not subsidised. Yet, everyone involved recognises that mid-market rentals (€720 - €1,000) are key to an efficient housing market.

Housing corporations have returned to their key role: housing low-income households in rent-controlled properties. The market for owner-occupied properties has, therefore, become less accessible to consumers due to high prices and high demand, low interest rates, tougher mortgage rules and more flexible job contracts. Pressure is rising in the mid-market rental sector, but there is little supply and not enough new homes are being built. Estimates indicate that there is currently a shortage of 295,000 houses.

Bouwinvest invests in all price levels across the non-rent controlled sector. Our portfolio also includes rent-controlled properties, student homes and sheltered housing. Mid-price rentals are a key part of our strategy and must contribute to our growth targets.

However, it is becoming much less viable for institutional investors to put money into this sector. Rising land and building costs, and mounting demands in terms of rent, rental increases, building quality, sustainability and property size, mean that Bouwinvest has to pull out all the stops to make mid-market rentals cost-effective. In short, it is becoming more difficult to meet our agreements with pension funds by investing in mid-market rentals, and to make sure that they get the return necessary to build up good pensions for their participants.

Everyone must contribute

Local authorities, housing corporations, project developers and institutional investors are natural partners, because they all take a long-term view. They share a common interest: to develop an inclusive, undivided city which is stable in value and in which people genuinely want to live and work. Cities which are open to all, whatever their income, tend to be livable and economically strong – in other words, future-proof. At Bouwinvest, we consider this stability to be essential.

This can be realised by working together to build high-quality and sustainable homes for affordable rents. Local authorities can contribute here by ensuring that the mid-market rental sector becomes part of their housing strategy. This will lead to a substantial increase in the supply of mid-market rental properties. Achieving this demands appropriate land prices and regulatory measures which are both workable and market-based. For their part, institutional investors can be expected to ensure the long-term supply of homes for people with an annual income of €38,000 to €52,000, and to moderate rent increases. Bouwinvest would be pleased to discuss this with local authorities.

How did the current situation develop?

The shortage of mid-market rentals in the Netherlands developed during post World War II reconstruction. The government's strategy focused on home ownership (via mortgage tax relief) and social, or rent-controlled housing (via housing corporations). This led to an enormous increase in the supply of both social and owner-occupied property in the past decades – at the expense of mid-market rentals.

For the past few years, the rules on allocating social housing have included tougher new limits on income. This, coupled with soaring house prices and stricter mortgage rules, has created a growing pool of people who want a mid-market rental property. Society is becoming more flexible and this has boosted the popularity of renting. Demand has outstripped supply and there is now a major shortage, in terms of both quality and quantity.



Summertime, 171 mid-market rental homes in Amsterdam

Why is the mid-market rental sector so important?

- 1 It ensures an inclusive city with a balanced population
- 2 It offers middle-income households an alternative to buying
- 3 It makes it possible to move away from social housing
- 4 It gives starters a foot on the housing ladder
- 5 It can encourage pensioners to move and sell their own property

New-build solutions

Stimulating mid-market rental development is one answer to the demand for housing in urban areas. But realising this will require everyone – local authorities, developers, institutional investors and housing corporations – to both talk to each other and to share responsibility.

In addition to the steps we have taken to ensuring our current portfolio remains affordable, we are also making agreements with local authorities about new-build mid-market rentals. These cover, for example, the rent for new tenants and maximum rent increases. Our starting point here is always our agreement with our clients – Dutch pension funds.

Bouwinvest commits to new housing projects early on in the process and provides developers with forward funding. This speeds up the development of mid-market rentals, which is essential.

How to speed up development?

1. Form district-level alliances in urban areas

Institutions with the same long-term vision are natural partners and should work together as early in the process as possible. Bouwinvest believes that transparency is key to creating trust.

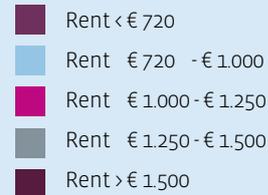
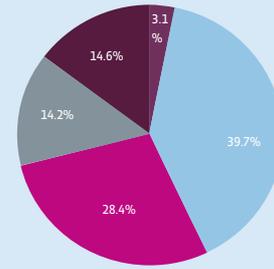
2. Ensure good links with neighbouring areas

Good links to the suburbs are essential. Bouwinvest is convinced that good, frequent public transport links will encourage people to move out of cities, particularly if the price is right. In other words, there needs to be a clear vision and strategy to tackle urbanisation at a metropolitan level. Private sector firms can help here by exchanging expertise about area development and housing needs. Bouwinvest already does this, as well as investing in four major nationwide research initiatives and the public-private Holland Metropole project.

3. Quality is key

Bouwinvest is calling for an intensive alliance between organisations which have a long-term affinity with the area concerned. These are the organisations which can manage aspects of the process such as the price/quality ratio. Bouwinvest therefore supports the development of fully-fledged mid-price rental properties.

Facts & Figures Bouwinvest Residential Fund



Almost 62% of the portfolio is invested in:

Amsterdam
Utrecht
Rotterdam
The Hague

Assets under management Residential Fund
€6.1 billion

Number of homes (portfolio and pipeline): 22,000

* HY 2019

Which mid-market rental tools work?

Tool	Stimulates development of more mid-market homes	Beneficial to mid incomes	Contributes to institutional investor returns
1. Close cooperation between local authority, housing corporation and investor	●	●	●
2. Specific land prices for mid-price rentals	●	●	●
3. Include mid-market rentals in housing programmes	●	●	●
4. Long-term duration for mid-market rentals	●	●	●
5. Make agreements about moving between sectors	●	●	●
6. Link property size to rent for new contracts	●	●	●
7. More flexibility in income requirements	●	●	●
8. Limit rent rises to CPI plus small increase	●	●	●

● dark green: positive effect, ● light green: limited effect, ● yellow: no effect

Our research shows that target tenants are not interested in micro-apartments measuring no more than 30 m². In addition, a mix in tenant type and facilities are what makes an area attractive. This will require long-term agreements, which are workable for all stakeholders.

4. Make agreements about progression

Tenants in rent-controlled properties who technically earn too much to live there should be given priority for mid-market rentals. And if mid-market tenants find themselves with a lower income, it should be easier for them to move back down the ladder. Sufficient supply and good cooperation between housing corporation and institutional investor are crucial in this, such as on data transfer and process management. Bouwinvest has the expertise in house to work on this.

5. Use the right processes to stimulate mid-market rentals

Local authorities have more tools at their disposal to steer the mid-market rental sector but it is important that they use these tools with the aim of adding long-term value to the local housing market. To ensure these tools have the desired effect, measures should take account of the wishes of housing corporations and institutional investors. The previous page looks at the impact of the different tools.

What quality standards do Bouwinvest mid-market rentals have to meet?

- 1 A mix of two and three-room apartments in a complex
- 2 No two-room apartments in the Holland Metropole smaller than 45 m²
- 3 No three-room apartments in the Holland Metropole smaller than 65 m²
- 4 Private outside space
- 5 Proper kitchen area with inbuilt appliances
- 6 Suitability for all types of household - young professionals, starters and seniors

About Bouwinvest

Bouwinvest Real Estate Investors B.V. is specialised in managing real estate portfolios for institutional investors. Bouwinvest strives to achieve risk-adjusted returns on behalf of its pension fund clients. We manage €12.1 billion (HY 2019) in assets within five Dutch property sector funds and three international real estate investment mandates in Europe, North-America and Asia-Pacific. With 65 years of experience and a heritage rooted in pension funds and the construction industry, we understand the needs of long-term institutional investors and the dynamics of the domestic and international real estate investment markets. Bouwinvest has an experienced team of 180 investment professionals. With our long successful track record of managing real estate investments in the Netherlands, we have been able to transfer this winning model to markets across the globe with similarly successful results. What we learn abroad can also be applied at home. For more information please visit www.bouwinvest.com.

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