The playing field for real estate investors in the Netherlands

Trends and developments on the Dutch real estate market 2019-2021

Office and hotel, Amsterdam, the Netherlands, Hourglass

Bouwinvest Real Estate Investors
Realising the best possible returns for our clients requires carefully considered investment decisions. This is why Bouwinvest monitors global macro-economic and socio-demographic trends and developments. We also keep a very close eye on the pension and real estate sectors. Our own research team has a great deal of expertise and know-how in the Dutch and international real estate markets. The team conducts extensive and detailed analyses at both macro and micro levels on a continuous basis. In this report, Bouwinvest shares its expectations for the Dutch real estate sector for the next three years.

We first take a look at the Dutch economy, the investment market, society and political developments. In addition, we share trends and developments in five sectors of the Dutch real estate market: the residential market, retail market, office market, hotel market and healthcare market. These show that the outlook for the Dutch real estate market as a whole is positive. The Netherlands has strong economic and demographic fundamentals, particularly in urbanised areas. The Netherlands is set to outperform Europe on a number of fronts, such as economic growth, unemployment and investment volumes. The Netherlands will therefore remain attractive for institutional investors looking to invest in real estate.

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Current trends and developments

The market for real estate investors is extremely dynamic, due to the continuing economic recovery, the search for returns and political developments. In this report, we outline the main factors that are influencing real estate investments right now and that will continue to do so in the years ahead.

Economy

The Dutch economy is growing, outperformer in Europe

The growth rate of the Dutch economy has been one of the highest of all western European countries, and this growth has so far continued strongly in 2018. In the second quarter of this year, the Netherlands outperformed the Eurozone as a whole in terms of GDP growth, on a year-on-year basis. This growth was driven primarily – and certainly more than in the past – by domestic spending. For the last 17 quarters, consumers have spent more compared to the previous year. Investments in fixed assets – including homes – were up by more than 5% compared to the same period of last year. All of these increases were supported by stable high consumer confidence levels.

Across all business sectors, construction companies recorded the biggest increase in production in the first quarter of 2018, driven primarily by the construction of new homes. The Netherlands’ gross domestic product (GDP) is expected to show continued growth in the coming years. The forecasts of the Dutch Central Bank (DNB) and the government’s central planning agency (CPB) exceed those of Oxford Economics. This growth will level off somewhat from 2.6% in 2018 to 1.3% in 2022. The average GDP growth of 1.6% for the full period 2018-2022 will therefore be above the average of the past 10 years (0.9%), but still below the long-term average (1990-2017) of 2.1%. Inflation is also set to rise in the years ahead, from 1.4% in 2018 to 1.7% in 2021/2022.

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Source: Oxford Economics and Bouwinvest Research & Strategic Advisory

Major shortage of construction workers

The construction sector saw the loss of some 75,000 jobs during the economic crisis. However, the recovery of the economy and the strong demand for homes means construction companies now have more work than they can handle and are faced with a shortage of staff.
Dutch news agency ANP reported that Dutch construction companies have an average of more than 10 months’ worth of work in the pipeline, more work than the Dutch construction sector has ever had the pipeline. The risk now is that construction companies will have to turn away work, as they simply do not have the required workforce. That may put pressure on growth in the construction sector. The shortage of construction workers is also pushing up the building costs for new projects. This in turn is pushing up prices in the real estate market as a whole and creating an additional challenge for players in this sector, including institutional investors.

**Investment market**

The Dutch real estate investment market has reaped considerable benefits from the positive market sentiment in recent years. This was also borne out by the record volume of €19.5 billion in real estate investments in 2017. This made the Netherlands the third largest destination for real estate investors in continental Europe. Investment volumes also remained high in the first half of 2018. Although the exact volumes vary per real estate consultancy, the volumes are more or less in line with those of last year. Signs are that the Netherlands will continue to be popular with international investors. The transparency of the Dutch real estate market, the sound economy and the fact that prices are still attractive compared to neighbouring countries all play a key role in this continued interest.

Total investment volumes depend on macro-economic developments, relative valuations and the supply available in the market. JLL Research predicts that the total investment volume in 2018 will lag that of 2017, simply because there are fewer large portfolios and assets on the market. The slightly downward trend in the latest economic forecasts also point in that direction. The graph below clearly shows the relationship between general economic growth and investment volumes. The fact remains that Dutch real estate is still highly attractive, initial yields will remain under pressure and that investors are broadening their focus across the board.

**Growth economy y-o-y and investment volumes**

![Graph showing GDP growth and real estate investment volumes from 2003 to 2021.](Source: Oxford Economics, JLL and Bouwinvest Research & Strategic Advisory)
Society and politics

Geo-political developments
On the international politics front and in international trade relations, we are seeing a growing number of countries with populism. International migration is also putting pressure on individual countries and on international treaties. These elements are triggering unrest and may affect the real economy, capital markets and, indirectly, real estate markets.

In the sections below, we focus on outlining the social and political developments in the Netherlands, plus we devote specific attention to the imminent exit of the United Kingdom from the European Union.

Climate transition
The Netherlands must be close to climate-neutral in 2050 if it is to meet the requirements of the Paris Climate Agreement. Companies and organisations in the built environment want to reduce CO2 emissions by making changes to homes and buildings. To this end, almost every building in the Netherlands – neighbourhood by neighbourhood – will have to be adapted seven million homes and one million other buildings. This means that the combined players in this market will have to make some 50,000 existing homes more sustainable between now and 2021 and will have to adapt some 200,000 homes per year well before 2030. ‘It is an enormous task,’ said Diederik Samsom, chairman of the Built environment sector commission.

Regulation of the mid-rental segment
Both the government and market players believe it is important that sufficient mid-rental segment homes are available in the overall housing supply. These are affordable rental homes for middle income earners who cannot find a home in the government regulated rental sector or the owner-occupier sector. After all, a city must be able to provide homes for all income groups. However, the supply of mid-rental segment homes – with rents of between around € 700 and € 1,000 – is lagging demand by some distance. The future additional need for mid-rental homes is estimated to be between 60,000 and 200,000 in the next 10 years. Local authorities are devoting a great deal of attention to increasing the number of mid-rental homes in their coalition agreements and the national government addresses the issue of this category of rental home in its draft legislation Measures in the Mid-rental sector (Maatregelen Middenhuur).
Abolition fiscal investment institutions (FII) and increase in corporate income tax
Many Dutch real estate investment funds use the Dutch Fiscal Investment Institution (FII) structure, which has been in effect since 1969 and is the world’s oldest fiscally transparent investment structure for real estate. FIIs are currently still tax-exempt if they pay out their full profits to investors, which include institutional real estate investors, pension funds and insurance companies. But the current cabinet, Rutte III, wants to abolish dividend taxes and to prohibit real estate investments via FIIs from 2020 onwards. This means that – if these plans are put into effect - this tax exemption will cease to exist. Instead, the corporate income tax rate will increase from 0% to 21%. This tax hike will mainly put pressure on the income of pension funds and insurance companies with large Dutch real estate holdings. The definitive decision on the abolition of the FII structure is expected on budget day (Prinsjesdag) in September 2018.

ECB winds up debt buy-back programme, interest rates remain low for the time being
At the start of 2019, the European Central Bank (ECB) will wind up its buy-back programme. In the first nine months of 2018, the ECB purchased € 30 billion a month. That was considerably less than in previous years, when the ECB bought up € 60 billion a month and – earlier still - € 80 billion per month. At the same time, the ECB is keeping interest rates in the Eurozone low, but the first increases in interest rates are expected in the autumn of 2019. We do not expect these factors to result in any immediate change in real estate investments, but it may result in some stabilisation in initial yields.

Corporate relocations to the Netherlands as a result of Brexit
Various companies have indicated that in the event of a hard Brexit they will relocate their head offices from the UK to cities in continental Europe, including Amsterdam. Amsterdam is one of the favourite locations for high frequency traders and stock exchanges looking for a new home because of Brexit. But other companies are now also choosing this route with Brexit in mind, such as the European Medicines Agency. US television company Discovery has already announced its plans to relocate, as have the American options exchange Cboe, the trading division of data company Bloomberg and the Spanish building giant Ferrovial. A hard Brexit could give an additional boost to the markets for both offices and homes in the major cities of the Netherlands, but will negatively impact the Dutch economy as a whole.
Residential market 2019-2021

Expected regional household growth until 2040

Rise in house prices levels off

House prices will continue to rise in the coming years, but growth will be slower. House price rises continued to increase over the past four years, from an average 2.0% in the first half of 2014 to 8.9% in the first half of 2018. However, the progressive average of this growth did stabilise in recent months.

Source: ABF Research Socrates (2017), Bouwinvest Research & Strategic Advisory
The main drivers behind the rise in house prices are low interest rates and growing consumer confidence in the housing market. However, others factors have also played a role, such as the housing shortage, the attraction of the big cities and the strong decline in values in the years of the economic crisis. Bouwinvest expects the price rises to continue, but does expect these to level off in 2019. An ever-increasing number of homes are becoming unaffordable for a growing group of potential buyers because the supply is so limited. If we also see a rise in interest rates and the government limits the deductibility of interest on mortgages, this will no doubt have an impact on house prices.

No sign of immediate end to housing shortage in the Netherlands

Pressure on the housing market is particularly high in the Randstad urban conurbation and other urban regions. We expect this pressure to continue in these regions in the years ahead due to a shortage of new-build homes.

The shortfall in the number of homes built over the past 10 years has created a quantitative housing shortage in the Netherlands. In mid-2018, this shortage stood at between 100,000 and 140,000 homes. And this does not include the qualitative housing shortage. In other words, the shortage of homes due to the fact that many existing homes are too old or fail to meet current market requirements. The Interior Ministry’s National Housing Plan 2018-2021 outlines three key objectives: build more homes and build them faster, continue to ensure a supply of affordable homes, and use the existing supply more effectively. Increasing the supply – at least 700,000 homes before 2025 – will be the biggest challenge. Although Bouwinvest expects housing production to be accelerated where this is possible, we do not expect the pace of production to accelerate quickly enough in the near future. There is a major shortage of concrete residential construction plans and market players are faced with growing staff shortages, which is pushing up building costs. Plus there are other delaying factors, such as additional requirements related to mid-rental sector homes and developments on the sustainability front.

Housing demand shifts to different locations

Bouwinvest is seeing the demand for homes shift in part to municipalities outside the large cities and to different types of homes.

Within the urbanised regions of the Netherlands, we are seeing demand shift to peripheral municipalities. Rising prices and the general shortage of appropriate supply in the big cities are resulting in increased demand for housing in the areas just outside the cities. We are also seeing an increase in both demand and supply of compact apartments due to the high square-metre prices in the big cities. Cities have a high proportion of single and two-person households. While compact apartments may be a solution for some of those looking for a home, we expect the demand for more complete apartments to be greater and more structural. The increased ageing of the population also means we expect to see continued growth in the demand for life-cycle proof homes.
Mid-rental segment the focus in major cities
The mid-rental housing segment is expected to become more tightly regulated in the years ahead. This increased regulation will be felt the most in the big cities. Consumers are facing high and still-rising house prices, something that is also being felt by institutional investors. Pressure on the Dutch housing market has pushed up the prices of owner-occupier homes in attractive locations to extremely high levels. Investors are faced with relatively high purchase prices when looking to acquire new projects. And this is resulting in higher rents to secure sufficient returns.

Various municipalities, including Amsterdam and Utrecht, are currently working on policies targeting the mid-rental segment. The demand for rental homes in this segment is particularly high, while realising such homes in the current market conditions is proving far from simple. The only way to create the impetus required to respond rapidly to the growing demand for mid-rental segment homes will be through far-reaching cooperation between all the stakeholders involved, together with the willingness to compromise on both sides. The aim therefore is to optimise cooperation between developers (price, quality, number), investors (rental level, income requirements, indexing), housing corporations (through-flow and return-flow) and local municipalities (land prices, long-term agreements).

Dutch rental housing market remains attractive to investors
In 2017, total investment volume in the residential real estate market came in at around € 5.5 billion. The interest from investors is expected to remain high in the coming years.

The strong interest from investors, both private and institutional and both domestic and foreign, in the Dutch housing market is clear from the increase in investment volume. This increased by 20% compared with 2016, to a total of around € 5.5 billion in 2017. Investors also have sufficient capital available for investment in Dutch rental homes in the years ahead. The growing interest and the lack of sufficient new-build projects are compressing initial yields. This is why investors are increasingly looking at municipalities outside the major core cities.
Office market 2019-2021

Increasing demand for office space
Unemployment is low and the number of jobs available is growing. On that basis, Bouwinvest expects to see a continued increase in demand for office space in prime locations in CBD (Central Business District) areas in the years ahead.

The working population will continue to expand in the coming years, which will in turn lead to an increase in the potential demand for office space. Many organisations are once again anticipating growth, are more inclined to relocate and also willing to make sizeable investments in their office premises. Vacancies in the office market will continue to decline in the coming years on the back of growing user demand and the ongoing transformation of empty office buildings for other uses such as apartments. The square metre price for apartments has risen to such an extent that repurposing remains an interesting option.

Office market is a replacement market
At a national level, the Dutch office market remains primarily a replacement market rather than an expansion market, although Brexit may provide a positive impetus in that respect.

Many companies with offices continue to look for ways to reduce the floor space they use. This means that a growing working population will not necessarily result in a comparable increase in demand for office space. The Netherlands will however continue to be an attractive location for businesses. Amsterdam and the Netherlands both score high as attractive places to live, as well as on fronts such as good education levels, innovation and infrastructure. Brexit has so far had a positive impact for the Netherlands. Amsterdam and the other G4 cities are benefitting from the fact that organisations such as the European Medicines Agency and UK companies in the financial sector are now moving to the Dutch capital.

Focus on best cities, best locations and best buildings.
Office users will be focusing primarily on the big cities, the best locations and the best buildings in the coming years. Offices in the major cities have performed considerably better than offices in small cities over the past 15 years. We expect this difference to continue or increase in the future. Clients and talented employees are concentrated in the major cities, which makes these locations even more attractive. Offices located in city centres or within walking distance of public...
transport in the big cities have historically shown the strongest value growth. Bouwinvest expects these types of offices to continue to show an above-average performance over the next 10 years. And the more buildings meet the quality demands of users, the better those buildings will perform. The demand for multi-tenant and multi-functional office buildings near infrastructure hubs is expected to remain high. In addition to the location, a healthy working environment also plays an increasingly important role in the attractiveness of office buildings or complexes. Employers’ choices in terms of certain cities, locations and buildings are frequently inspired by the war for talent. Companies can clearly differentiate themselves from their peers by choosing the right city, the right location and the right building.

**Shortage of high-grade office space**

The office space vacancy rate in the strongest areas is currently below the desired level. This provides opportunities for new high-grade developments.

There is a clear shortage of high-grade office space in the strongest locations in the Netherlands. The vacancy rate in Amsterdam city centre, the Amsterdam Zuidas business district and the Utrecht city centre/central station area is extremely low and well below the healthy frictional vacancy level of 5-7%. Estate agents have noted that the office market is missing out on opportunities on this front. The near-failure of the relocation of the European Medicines Agency (EMA) to Amsterdam is a good example in this respect. What this means in effect is that there are opportunities for new-build projects in these strong locations. In more peripheral locations and in smaller municipalities (not near a CBD), the repurposing of offices into apartments remains an ongoing process.

**Tenants opt more frequently for alternative locations**

Due to the pressure on the best locations in the big cities, an increasing number of office tenants are opting for alternative locations in and around the big cities.

The pressure on the more popular locations in the big cities means that vacancy rates in these areas have dropped significantly, the incentives for tenants are limited and rents are on the rise. This is why we are seeing an increasing number of tenants opting for alternative locations in or even outside of the big cities. In Amsterdam, for instance, the vacancy rate is declining in alternative locations such as Zuidoost and Sloterdijk, but also in the city’s northern and eastern districts. And recent years have also seen vacancy rates drop in the peripheral municipalities of Hoofddorp and Amstelveen. These peripheral centres are benefitting from their proximity to Amsterdam and their relatively low office rents.

**Flexible working concepts gaining in popularity**

The demand for flexible working concepts is growing. Serviced offices and co-working spaces are expected to see substantial growth on an annual basis.

A growing number of companies are opting for greater flexibility in their rental contracts. The share of these so-called flex concepts, also known as serviced offices and co-working spaces, in the overall office market is growing considerably on an annual basis. These concepts are expected to increase their market share by some 20-30% per annum in the coming period. This percentage is relatively high: flex concepts currently account for just 2% to 3% of the overall office rental market. If this projected growth materialises, serviced offices and co-working spaces will account for 5% to 10% of the office market in five years’ time 6.

This proportion will be considerably higher in the big cities. Office users prefer to hire parties that can provide that flexibility, as well as additional services. Office investors also sometimes leave the lease arrangements and the package of additional services to intermediaries. This is changing the relationship between owner, landlord and tenant.

Additionally, these concepts will to some extent transfer to the regular office market. Office tenants in regular offices will increase their expectations when it comes to office design and lay-out, the experience of the working environment and the services offered.
Investors regain confidence in Dutch office market

The enormous interest on the part of both domestic and international investors resulted in a record total of around € 7.9 billion in office investments in 2017. Interest in office investments is high right now and will remain high in the coming years.

Strong interest on the part of investors, primarily from the US and UK, has boosted the investment volume in the Dutch office market, from less than €2.0 billion in 2013 to around € 7.9 billion in 2017. These investors were initially on the buy side, but they are now shifting to the sell side, with the available product being picked up by institutional players. Interest in office investments is high right now and will continue to be high in the future. This means that the downward pressure on initial yields in the more popular locations will remain a factor for the foreseeable future. Among the G4 cities, the office market in Utrecht has developed particularly strongly, due mainly to the developments around the city’s central station. There are still major differences between locations. Although there is a qualitative shortage of office space in some areas (around the Zuidas business district, for instance), many office locations elsewhere still have relatively high vacancy rates.
Retail market 2019-2021

Consumer spending growth levelling off
Consumer spending growth is expected to level off slightly in line with the general slowdown in economic growth.

Over the past few years, economic growth has been accompanied by a steady rise in consumer confidence, rising consumer spending and higher retail spending (+4.2% in 2017). Food stores recorded their highest ever sales figures in 2017. Gross National Product (GDP) growth is expected to continue in the years ahead, but is expected to flatten out: from 2.6% in 2018 to 1.3% in 2022. This is also expected to affect consumer spending, which is set to decline from growth of 2.7% in 2018 to growth of between 1.3% and 1.4% in the period 2019-2022.

Trends and outlook
Non-food is playing catch-up, rapid growth in online sales continues and consumers want a clear proposition.
Continuing economic growth, high consumer confidence and the dynamics of the housing market are expected to drive continuing demand in the furniture, interior design and DIY sectors in the period ahead. The non-food sector is also playing catch-up. We expect online sales to grow faster than offline sales in the future, although traditional sales still make up by far the biggest share of retail sales. We also expect to see continued growth in the Food & Beverage (F&B) sector. The question is whether and to what extent F&B has grown too quickly – in terms of the number of locations. We expect to see some level of consolidation in this market in the future. Another trend that is likely to continue is consumers making clear choices. Consumers are opting for either high quality or low prices. This means that retailers need to position themselves clearly if they want to continue to attract consumers. Another factor, primarily relevant in the fashion sector, is that consumers expect a rapidly changing range of goods on offer. Fashion retailers have to add new articles to their ranges every one or two weeks.

Sales increases vary per sector
The (expected) rise in sales varies sharply per sector, partly due to the impact of online shopping.

Food versus non-food
There is a clear difference in sales growth between food and non-food stores. The total retail sales in the food sector in 2017 came in 17% higher than in 2008, while the total sales of non-food stores at year-end 2017 were still 0.5% lower than before the economic crisis. As per usual, online sales increased the most: +19.5% according to the Dutch Central Bureau of Statistics (CBS).
Food & Beverage versus stores
Last year saw a sharp increase in Food & Beverage (F&B) sales, especially in the restaurant sector (+7.8%) and among fast food chains (8.9%). F&B sales growth was much more marked than for food stores (+2.6%) and non-food stores (+2.7%). This is a clear sign that eating and drinking out is accounting for a steadily increasing share of consumer spending and spending in shopping streets and areas.

Online versus regular shopping
Sales from online shopping are increasing more rapidly than traditional retail sales (+19.5% in 2017 according to the CBS; +13% according to Dutch digital commerce organisation thuiswinkel.org). Although measurement methods and growth percentages differ, it is clear that people will continue to become more and more used to the convenience and ease of online shopping.

Neighbourhood and district shopping centres remain popular
Neighbourhood and district shopping centres are continuing to hold their own in the densely woven Dutch retail landscape. However, vacancy is still a threat for a number of larger shopping centres. Neighbourhood and district shopping centres with a strong offering of daily groceries are maintaining their strong appeal in their catchment areas. However, it is important that these shopping centres get the ‘basics’ right (clean, completely safe), that there are as few obstacles as possible to shopping (accessibility, parking), that they devote constant attention to the retail mix and that they continue to move and develop with the times. Vacancy is still a threat for a number of these shopping centres, certainly if their share of non-food is relatively high. This is a particular danger for district shopping centres - larger shopping centres in which a greater proportion of the retail units are focused on non-daily groceries shopping. These centres may see downward pressure on rental levels in the future. The investment pressure for these shopping centres remains high. They are an interesting addition to many portfolios, thanks largely to their solid direct returns.

Online and physical retail becoming steadily more interwoven
The combination of online and physical stores is becoming more and more common. Online is a clear opportunity for retailers, but it is also a threat. And this also goes for neighbourhood shopping centres.
Although there are still many retailers without a webshop and lots of online retailers without physical stores, in most cases online and offline are becoming steadily more interwoven. This trend will only become more marked in the future. Physical stores want to know who their customers are and how they shop. To obtain this information they use digital resources, such as apps, mobile phone payment systems, tracking systems, sensors, local offers, interactive fitting room mirrors and the like. At the same time, a growing number of online retailers are opening physical stores or service points to complement their webshops. Online retailers want to use these physical stores to give consumers the freedom to buy their goods in whatever way they choose.

Rise of dominant online retailers and fast delivery
The online market is subject to two major trends that have also arrived in the Netherlands: dominant (international) online retailers and super-fast free delivery. If these trends continue, they could have a major impact on the retail environment.
In addition to the rapid expansion of online retail sales by established retailers in the Netherlands, players like Amazon and Alibaba are entering the market and are looking at how they could serve the market more effectively. Any full-fledged entry on the Dutch market by such retailers could have a major impact on the existing (online) retail landscape.

On top of this, we are seeing a number of clear trends on the home delivery front. One of the most significant of these was the shift to ‘ordered before 10pm, next day delivery,’ but delivery times are already much shorter in many countries. The impact of delivery within two hours at no extra cost could also be a trend that will have a major impact on the retail market. Neighbourhood shopping centres will also be affected by these trends, as the likes of the delivery of daily groceries – currently a very small part of online orders – move up a notch. However, online retail is also facing a number of challenges, such as the costs incurred for returns and logistics solutions for the likes of last-mile delivery.
Retailers and investors focus on prime retail locations in major cities

The biggest retailers are choosing to open their stores in the major cities. This is reducing vacancy rates and pushing up rental values. We expect this trend to continue.

The biggest retailers are focusing primarily on the larger cities that are set to see strong population and visitor growth in the years ahead. The main shopping streets of these major cities are increasing their appeal at a regional level, and even at an international level, by offering stores with clear and innovative experience concepts. The largest cities are recording stronger rental value growth than smaller towns and cities. What is more, vacancy rates in the centres of the largest shopping cities fell to an average of 5.5% in 2017. This trend is expected to continue for the foreseeable future.

Investors remain interested in retail real estate

Investors are expected to remain interested in retail real estate. This will put additional pressure on initial yields.

The € 3.8 billion that investors pumped into retail real estate in 2017 makes this sector one of the largest real estate sectors in the Netherlands, along with the residential and office real estate sectors. The huge level of interest from (international) investors is putting continuous pressure on already tight initial yields for prime retail locations.
Hotel market 2019-2021

The growth of tourism is structural and worldwide

Tourism is growing rapidly on a worldwide basis. Given the rise of the middle class in Asia, this growth is only likely to accelerate even further in the years to come.

With the exception of periods of recession, the number of global tourists has been increasing on structural basis for many years and more than doubled in the period 1995-2015, from 525 million to 1.25 billion. This is due to trends such as the increasing pace of globalisation, the general rise in wealth, the increase in the number of international students, digitalisation, the flexibilisation of work, the falling price of air travel and the professionalisation and innovation of the hotel sector. There no reason right now to assume that we will see any decline in the growth of tourism. In view of the strong growth of the middle class in Asia – mainly in China and India – it seems more likely that we will see an acceleration of this growth.

International tourism

Number of people in billions

Source: World Tourism Organization, Bouwinvest Research & Strategic Advisory
Demand for hotel rooms continues to increase
The number of overnight guests is growing. This growth is particularly marked in the international guests category. The demand for hotel rooms in the Netherlands has been growing for many years. In the entire period from 2002 to 2017, there were only four years that saw a relative decline compared with the previous year: 2002, 2003, 2008 and 2009. With the exception of these years of recession, we have therefore seen 12 years of undiminished growth in the number of guests. In the full year 2017, the number of overnight stays in hotels increased by no less than 11%. The graph below also shows that after the recession of 2008, the annual growth in the number of foreign guest also grew faster – in relative terms – than the number of Dutch guests. The internationalisation of tourism is a fact of life.

Movements in the number of guests in Dutch accommodations
% change vs. previous year

Source: CBS, Bouwinvest Research & Strategic Advisory

Amsterdam attracts the most hotel guests
Amsterdam has more hotel capacity than any other city in the Netherlands. But despite the large number of hotel rooms, both occupancy rates and room prices are on the rise.

Amsterdam accounts for one-third of all overnight hotel stays in the Netherlands. In July 2017, Amsterdam had 479 hotels with a total capacity of 32,602 rooms and 71,879 beds. That is 6% more rooms than in 2016 and close to 12,000 more rooms than in 2009. Amsterdam also accounts for roughly half of all overnight hotel stays by international guests. Despite the growing supply, both occupancy rates and room prices in Amsterdam have continued to increase over the past few years. The overall occupancy rate stood at 84.6% in 2017 (83.0% in 2016) and the average room price was € 156 (€ 144 in 2016).

Amsterdam needs more space for hotels
The strong growth of tourism in Amsterdam is creating demand for new hotels in the capital city. There is a lot of pressure to keep pace with the growth of tourism.

Amsterdam is by far the biggest draw in the Netherlands, both in terms of the number of tourists and the numbers of business visitors. The total number of guests in Amsterdam had risen to 8.3 million in 2017, from 4.0 million in 2000 and this figure is expected to increase to nine million guests in 2018. The period between 2016 and 2017 alone saw the number of guests increase by a massive 990,000 (+14%). Each guest stayed in the city for an average of 1.9 nights in 2017. This translates into a total of 15.9 million overnight stays, a growth of 13% compared with 2016. Last year saw an increase in both the number of overnight stays by foreign visitors (+14%) and by domestic guests (+12%). The main brake on growth is the lag in the supply of hotel rooms.
Amsterdam city council set limits on mass tourism

The Amsterdam city council formulates policy measures to manage the growth of mass tourism.

In the period 2018 – 2020, Amsterdam is set to add another 7,000 hotel rooms. At the same time, the city council has adopted a very restrictive policy with respect to new-build projects in the city centre. The result of this is that most hotel development is concentrated around the city’s ring road. In an effort to manage the growth of mass tourism in the city, the city council has announced a number of new policy proposals, such as a hike in tourist tax from 2020 onwards and limits on private holiday lets in the city. These measures are expected to have a slight dampening effect on the growth of tourism, but not necessarily the number of hotel visits. The impact of these measures will be felt mostly by Airbnb lets, hotel boats and cruise ships. And these are the hotel sector’s biggest competitors.

Tourism is also growing in other parts of the country

New hotels are also being built in regional core cities. There is no reason to assume that we will see any reversal in the structural rise in the number of tourists.

The graph below shows the development of tourism in all the Dutch provinces in the period 2012 to 2017. The provinces of Noord Holland and Zuid Holland show the highest levels of growth in terms of the number of overnight stays. At the same time, provinces such as Noord-Brabant, Flevoland and Overijssel all saw their overnight stays increase by 30%. Gelderland and Drenthe clearly lagged with growth of less than 10%. Nor is there any reason to believe that we will see a reversal in the structural rise in tourist numbers in outlying cities. The rising demand is partly due to the new hotels opening in the other G4 cities, but also the new hotels opening in regional cities. At the same time, the rising demand is also resulting in new hotel projects in these cities, and therefore also new investment propositions. Of course, economic cycles will play a role in developments in the hotel sector. Any decline in (global) economic growth will have some impact on leisure spending, and that will include hotel visits.

Cumulative growth number of overnight stays per province 2012-2017

Source: CBS, Bouwinvest Research & Strategic Advisory
New initiatives such as Airbnb are actually boosting the growth in tourism, as they add a new supply category to the current supply and lower the threshold for travel. At the same time, initiatives like Airbnb do compete with the hotel sector. However, a growing number of cities worldwide are imposing limits on the letting out of people's own homes. This is also happening in the Netherlands. The city of Rotterdam has limited the number of nights that a home can be let via platforms such as Airbnb to a maximum of 60 days, while Amsterdam has set the limit even lower at 30 days. These kinds of developments can only benefit the hotel sector. For that matter, the price difference between a hotel room and a room rented via Airbnb in Amsterdam is very small. This makes hotel rooms relatively attractive.

Hotels respond to rise in client differentiation

'Something for everyone' is certainly true of the hotel sector these days. Hotels are launching a steady stream of new differentiating concepts to increase guest loyalty.

The hotel concept front is seeing a steady increase in the number of variations on offer. One example is extended stay hotels. This segment is a clear response to the demand for longer-term accommodation. Guests can stay in these hotels for a number of weeks or even months at lower room rates and they can leave their luggage in the hotel. On top of this, we are seeing an increase in the number of hotels focusing on the creation of a pleasant in-hotel experience, including good restaurants. We are also seeing the emergence of new concepts on the budget hotel front, concepts that add design and experience to this segment and by doing so clearly differentiate these hotels from standard budget fare. Hotels that manage to serve both the tourist segment and business travellers have the best chance to continue to deliver stable and solid performances. They are in a perfect position to offset any decline in one segment with growth in the other.

Dutch hotel market has become a full-fledged investment category

The investment volume in the hotel sector rose to € 1.4 billion in 2017, making it a serious investment category.

In 2017, the investment volume in the hotel sector climbed to no less than € 1.4 billion. This was € 440 million higher than the volume seen in 2016, the previous record year. Given these figures, the hotel sector now counts as a full-fledged investment sector. Buyers are largely long-term investors, often from Germany and Asia. This interest has led to some compression in initial yields, mainly in the core cities. Investors are therefore now looking increasingly at hotels in the larger regional capitals. On the supply side, we are seeing the emergence of much greater variety in the hotels on offer, with new chains, new formulas, boutique hotels, conference hotels and more attention for short stay hotels.
Healthcare market 2019-2021

The double greying of the population is driving demand for healthcare real estate for elderly people

The Dutch population is undergoing a so-called double greying trend. Not only is the number of elderly people increasing, elderly people are also living longer and longer. The greying of the population is also picking up pace in the Netherlands. By 2040, 65+ households are expected to account for 38% of all Dutch households, compared with 28% in 2018.

Growth number of households with people over 75 (2016-2040)

Source: ABF Research Primos 2017, Bouwinvest Research & Strategic Advisory
In absolute terms, that is 700,000 households. At the same time, we will also see a rise in the number of people suffering from dementia; according to current estimates, this number will increase to 550,000 in 2040 from the current 270,000. This double greying will lead to a further increase in demand for elderly care and therefore the demand for extramural care apartments and intramural care complexes.

**Withdrawal of government influence increases market forces**

Over the past few years, the government has been withdrawing from the healthcare sector. Since 2015, housing and healthcare have been separated in the government financing streams. And this financing will be reduced even further in the future. What this means is that the financing of healthcare real estate will shift more and more towards the private sector. This applies to the full spectrum of healthcare services, and we are seeing this translate into continuous growth of investment volumes in the healthcare real estate sector from institutional investors.

**Demand for lifecycle-proof homes on the rise**

The existing supply of homes frequently fails to meet the residential needs of elderly people. We need a drive to increase the quality of homes for this target group.

The government is encouraging elderly people to live independently for longer, but their homes are rarely lifecycle proof. At the same time, a large proportion of existing healthcare real estate is outdated and unfit for today’s needs. This is only increasing the demand for lifecycle-proof homes, extramural care apartments and intramural healthcare real estate, such as modern nursing homes for people suffering from dementia. Now and in the future, one of the main things elderly people will need is a greater variety of housing solutions, new services and other housing locations in their current residential environment or (back) in the city. We are also seeing an increase in demand for temporary residential solutions, as elderly people cannot always return to their homes immediately after a hospital admission. The fact that this target group is very sizeable, that many in this group are extremely wealthy and that housing is subsidized, creates opportunities for institutional investors.

**Healthcare institutions face a shortage of staff**

Healthcare institutions are rapidly professionalising, but are under pressure due to a shortage of qualified staff.

Due to the extensive professionalisation trend in the healthcare sector, numerous smaller healthcare organisations have been absorbed by their larger peers and there has been a sharp drop in the number of healthcare sector bankruptcies. This trend is set to continue in the years ahead, which will lead to further professionalisation and consolidation in the healthcare market. At the same time, healthcare providers are finding it more and more difficult to hire qualified personnel, especially the highly qualified nursing staff that are needed due to the increasing healthcare needs of potential residents. In March 2017, the government promised to invest €347 million to address this shortfall in staff. However, this will only have an impact in the longer term.
Lifestyles and housing needs changing with the arrival of the baby boomer generation

The baby boomer generation is getting older and this is changing the housing needs of the older generation. Baby boomers – those who grew up in the ‘60s and ‘70s – have very specific housing needs. Research has shown that the current generation of 70 to 90-year-olds largely prefer a lifestyle with a focus on safety and certainty. The baby boomer generation is much more colourful; they partly concerned about privacy and control, and partly more outgoing and focused on harmony. This generation is also marked by a reluctance to relocate, ‘I determine my own life’. The arrival of the baby boomer generation in the elderly people category means that one-size-fits-all housing solutions are simply no longer fit for purpose. There is now a need to replace this concept with a variety of housing and living concepts. This combined with the relative wealth of this generation – driven by a combination of savings, home ownership, the availability of assets and low housing costs – makes this a stable and relatively certain tenant group.

Investment volumes increasing

Healthcare real estate continues to be an attractive investment category with an annual influx of new investors, increasing investment volumes and shrinking initial yields. We expect this trend to continue in the years ahead.

The investment volumes in healthcare real estate are growing rapidly. These stood at just € 100 million in 2013, but had more than sextupled to € 630 million in 2017. This growth is expected to continue in the years ahead. Initial yields have also been shrinking for several years, except in second-line care. However, the fall in initial yields has been less marked than in regular residential real estate and other real estate markets, as the sector is still developing and healthcare real estate is a less well known and less broad investment product for many investors.
Sources

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