THE NETHERLANDS

MARKETVIEW RESIDENTIAL

MAY 2015

CBRE

The Netherlands Residential, May 2015

Increased investor interest in new developments

Rents +4.4% y-o-y | House prices +2.4% y-o-y | Units sold +32.2% y-o-y | Investment Volume +78.2% y-o-y | Prime yield (multi) -35 bps y-o-y

‘Country-wide recovery of owner-occupier market’

STRENGTHENING RECOVERY

In the past six months, the Dutch housing market continued its road to recovery. The number of transactions per month increased considerably and reached an all time high in December 2014 of 25,300 units. December 2014 was the last month house buyers could benefit from a temporary tax cut on intra-family donations as long as it was spent on owner-occupier investments or additional mortgage redemptions. After the expiry of this temporary measure, the number of transacted dwellings returned to more normal levels around 11,500 units per month.

The recovery in the residential market was confirmed by the highest y-o-y price increases since January 2009. Average transaction prices increased by 2.7% in March 2015, compared to March 2014. Consequently, the average house price reached a high of € 225,000 in the same month.

The recovery of the owner-occupier market is supported by ongoing economic growth. GDP growth amounted 0.9% in 2014 and will grow by 1.7% throughout 2015 according to the estimate of the Netherlands Bureau for Policy Analysis. The downward trend in the unemployment rate is set to continue into 2015. After the peak of 8.1% in the first quarter of 2014, unemployment came down to 7.1% in March 2015. Furthermore, economic growth is supported by private consumption growth for the first time since the recession. Most notably sales of furniture stores rose substantially over the past months, which is a direct effect of the increased number of transactions in the owner-occupier residential market.

DIVERGENCE IN THE OWNER-OCCUPIER MARKET

Since the first quarter of 2015, price increases of owner-occupier houses are not just confined to the larger cities, but are also witnessed in peripheral regions. As such, the owner-occupier

‘Continued regional divergence in growth’

market of the whole country is recovering. However, strong divergence in price growth across the country remains. In the traditional resilient residential market of Amsterdam, y-o-y prices surged by 10% in 2015 Q1, compared to 2014 Q1. This exceptional growth contrasts to a y-o-y price increase of 0.2% in Zeeland, which entered the growth phase for the first time since 2009. The recovery in the Randstad area is characterised by divergence too. The weaker price recovery in parts of Rotterdam and The Hague in the south of the Randstad, contrasts to strong growth in Amsterdam and Utrecht in the north of the Randstad, remains evident.

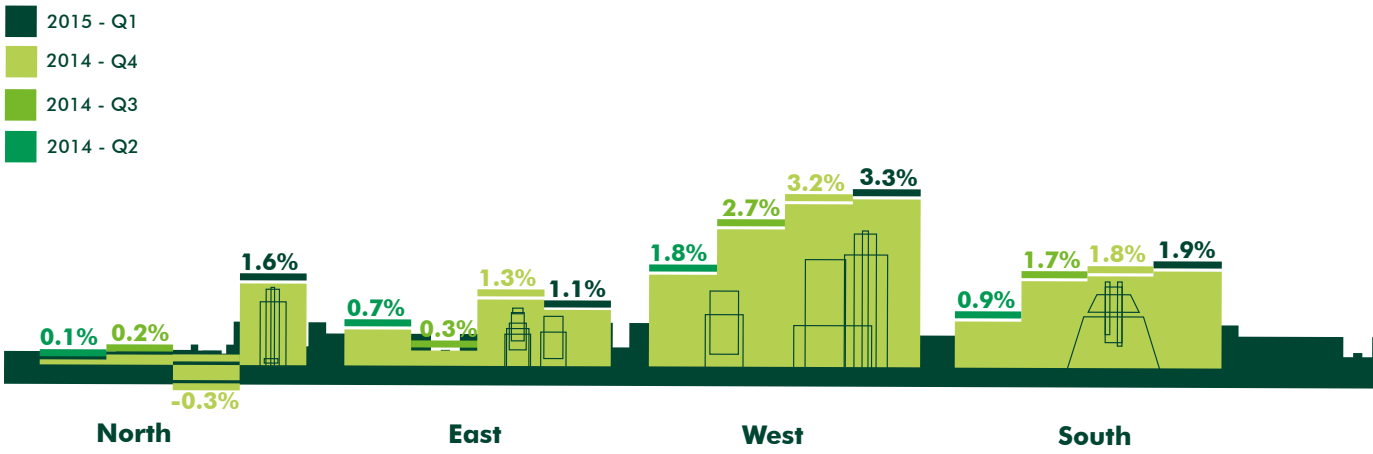
RENTAL SEGMENTATION

In line with house prices in the owner-occupier market, rents are rising too. Due to changing legislature on the rental market the average rent increase in The Netherlands accelerated over the last few years. In the period 2000 - 2010 rental growth fluctuated around the inflation rate, but as of 2012 average rental growth exceeded inflation considerably. In 2013 rents increased by 4.7% and 220 bps over inflation, in 2014 the spread rose to 340 bps over inflation with rental growth of 4.4%.

Demand for rental homes in the mid-price segment of € 710.68 - € 1,000 is highest. This is the price segment just above the rental cap of the regulated market which is only accessible for low income households. Demand in the higher price segment is less strong as the current low interest rates give the owner-occupier market an advantage.

Chart 1

Y-O-Y HOUSE PRICE CHANGE, HIGHEST GROWTH IN AMSTERDAM



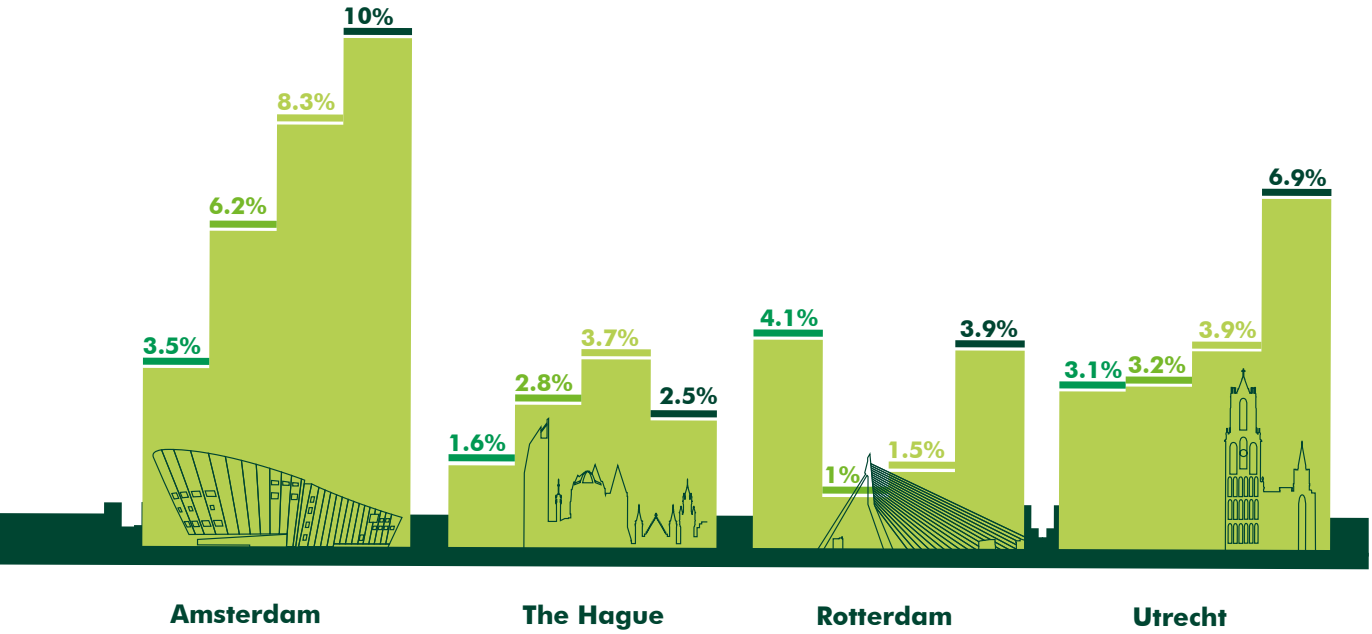
‘Shrinking gap vacant possession value and investment value’

In line with the owner-occupier market, the rental market is polarising too. Amsterdam is experiencing most demand pressure on the mid segment and sees the upper limit rise above € 1,000. Other cities follow at a distance, with Haarlem, Utrecht and most notably Den Bosch showing stronger rental growth compared to The Hague and Rotterdam.

FURTHER YIELD COMPRESSION

With the market for residential investments opening up in 2014, all eyes have been on the unwinding of bulk portfolios by social housing corporations – eagerly targeted by foreign investors. Local fund managers have found themselves sometimes outpaced by more agile foreign investors (e.g. private equity parties), particularly in portfolio deals involving large volumes of capital. This is illustrated by the acquisition of the WIF portfolio in 2014 Q4. Although actual completion of the deal is still postponed, WIF and Round Hill Capital agreed on a purchase price of € 365 m, which makes it the second largest residential investment deal of 2014.

In 2014, the investment market for residential property in the Netherlands witnessed a record high investment turnover of almost € 2.9 b, an increase of 177% y-o-y. Despite an increasing shortage of supply, investment growth was also witnessed during the period 2014 Q4 - 2015 Q1, when total residential investments amounted € 351 m (an increase of 78% y-o-y). The strong investor appetite and growing imbalance between supply and demand have put yields under downward pressure. Since 2014 Q1, yields for multi-family and single-family housing compressed by 35 bps and 25 bps respectively.



Source: CBRE Research

‘Investors targeting new developments’

NEW HOUSING DEVELOPMENTS

The anticipated shortage of supply has increased investor interest in new housing developments. Although demand among foreign fund managers is growing, investments in new housing developments are still an all-domestic playing field. This reveals a strong competitive advantage for domestic investors. In the past fifteen months (2014 Q1 - 2015 Q1) about € 712 m of new housing developments have been traded, which accounted for about 23% of total investment turnover. Out of all new housing developments, 92% was acquired by domestic institutional investors, most notably BouwInvest, Syntus Achmea and Amvest.

The (foreign) appetite for residential properties is also supported by indirect investments through new capital inflows in institutional funds. In 2015 Q1, ASR raised € 85 m for its Dutch Core Residential Fund in two separate deals of € 50 m and € 35 m respectively. Vesteda hereupon closed its first international equity placement of € 600 m, with Allianz and an undisclosed Japanese investor as participants. Lastly, German investor Catella recently established its new Panta Rhei Dutch Residential Fund, seeking to invest € 150 m this year alone.

Chart 2

RESIDENTIAL INVESTMENT MARKET, LARGE SHARE OF EXISTING

Source: CBRE Research

‘Institutional investors have shifted to buy-side’

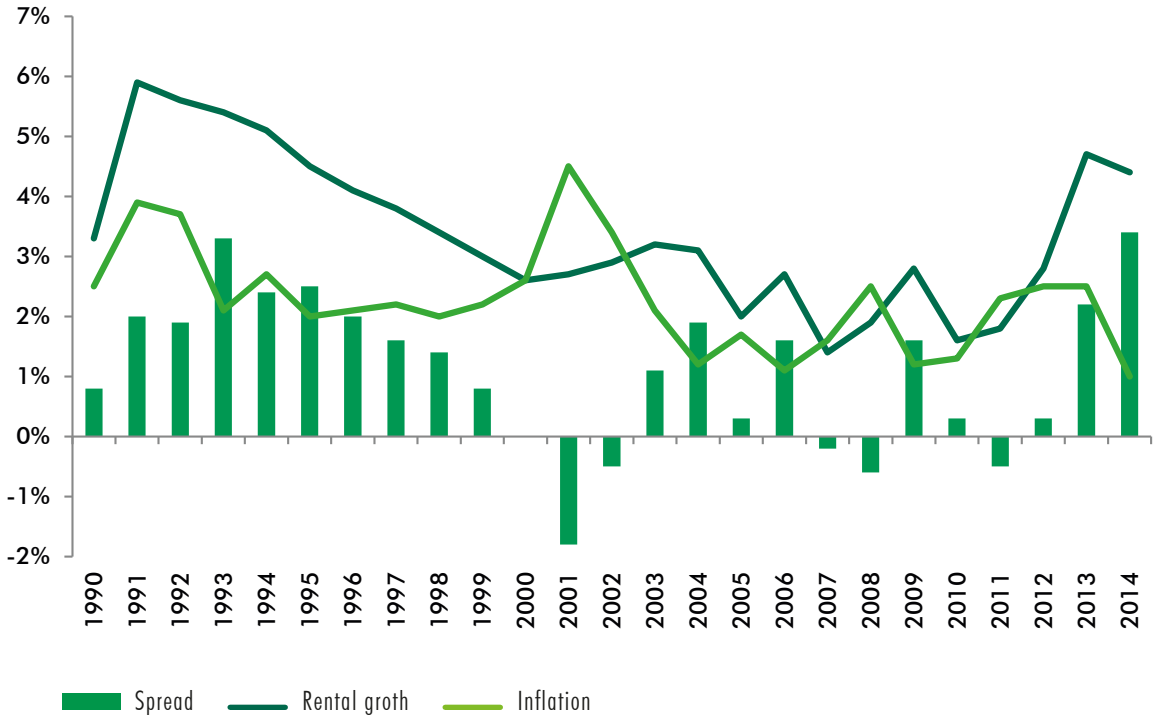
DEBT MARKET

The increase in equity deployed is supplemented by a further ease in lending terms. Competition is driven by the entry of new lenders, predominantly from the U.K. and Germany. As already witnessed in the course of 2014, this is reflected by lower margins and higher loan-to-values. In addition, lenders feel more comfortable about residential in The Netherlands as economic fundamentals are improving and their understanding of underlying market dynamics grows.

Most strikingly, lenders are becoming increasingly active in more specialist segments of the residential market including student housing and healthcare. As the shortage of student housing and (private) healthcare facilities seems to be persistent, particularly these segments are perceived as low-risk long-term investments.

Chart 3

RENTAL GROWTH, INCREASE IN RENTS EXCEEDS INFLATION



Source: Statistics Netherlands

‘Imbalance between supply and demand is putting cap rates under further pressure’

OUTLOOK

The recovery of the residential market is gaining pace and is no longer limited to large cities in the west of the country. Based on improved economic fundamentals, prices in the owner-occupier market are rising. However, the current divergence in the residential market is expected to remain present in the years ahead, due to the expected stronger economic and demographic growth in the west compared to peripheral regions.

The current low interest rate is fuelling price recovery in the owner-occupier market and outweighs stricter lending conditions enforced by the government. Maximum loan-to-value ratios of new mortgages currently stand at 103% and will come down to 100% in 2018. Also, tax deductibility of mortgage interest payments will be curtailed together with mandatory amortization.

Further restructuring of legislation in the owner-occupier market is in turn likely to result in additional rental growth in the non-regulated market. Moreover, currently a revision of the rent cap in the regulated segment of the market is pending. The proposed rent cap will be determined for 25% by the property tax value, resulting in a stronger rent increase for rental houses in core regions in the west and weaker rental growth in the peripheral regions.

Whereas the investment market for residential property in 2014 was characterised by unique large dispositions by social housing corporations and institutional investors, the increasing supply shortage of available operational residential property is now fuelling the demand for new housing developments. While new developments were already targeted by domestic investors, foreign investors among which Greystar, Patrizia, Round Hill Capital and USAA have now also explicitly expressed their interest.

The strong appetite for development products is caused by both the increasing appeal of the Dutch residential market and the imbalance between supply and demand. The recent inflow of capital in residential funds is expected to put the demand side under further pressure to deploy capital. As to the supply side, social housing corporations continue to phase out most of their commercial activities, which also applies to their involvement in non-regulated new housing developments. Even though this leaves more room for the market to fill in the gap, demand will continue to exceed supply, putting cap rates under further pressure.

Table 1

PRIME NET INITIAL YIELD

Segment	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Single-family	4.30%	4.30%	4.25%	4.15%
Multi-family	4.60%	4.50%	4.45%	4.35%

Source: CBRE Research

Table 2

KEY INVESTMENT TRANSACTIONS 2014 Q4 – 2015 Q1

Asset / portfolio	Y / Q	Location	Purchaser	Price (Eur)	Units
WIF portfolio	2014 Q4	Nationwide	Round Hill Capital	365m	3,786
Sint Jacob	2015 Q1	Amsterdam Centre	Syntrus Achmea REF	123m	349
Propertize portfolio	2014 Q4	Nationwide	Round Hill Capital	89m	976
Viper & Zen	2014 Q4	Amsterdam	Heitman / OCP	76m	400
Rijswijkseplein	2015 Q1	The Hague	Bouwfonds IM	54m	456
CBRE GI portfolio	2014 Q4	Nationwide	Round Hill Capital	54m	495
Delta Lloyd portfolio	2015 Q1	Nationwide	Private investor	53m	507
De Admiraliteit	2014 Q4	Rotterdam	Bouwfonds IM	52m	587
Staalbankiers portfolio	2015 Q1	Nationwide	Round Hill Capital	45m	465
Servatius portfolio	2014 Q4	Maastricht	LaSalle IM	41m	350

Source: CBRE Research

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