Vesteda Market Watch

Q3 2018

7.9

Housing Market Indicator

In 2018, we have learned to expect the unexpected, whether it be politics, weather or housing. While some experts expected the Dutch housing market to cool down in 2018, the market actually heated up. Driven by growing scarcity and a strong economy, the housing market reached new record highs. This upturn is reflected in The Housing Market Indicator*, which rose to a level of 7.9 in Q3 (Q1: 7.6).

The index is mainly driven by economic developments and the situation on the housing market. Solid economic growth, low unemployment numbers and especially above-average price developments are the main drivers.

On the consumer side, we can see the downside of price developments, given the reduced affordability of housing in the Netherlands. There is an increasing number of households running out of housing options in the larger cities. This applies particularly to households in the lower part of the middle-income class.

Another area of concern is sustainability. Albeit the score is a reasonable 6.5, developments in the Netherlands on this matter remain limited. It is true that the share of 'green' energy that we use is increasing, the pace at which this is happening is still low. We wonder whether the measures taken by the government, large companies and the consumer will be sufficient to trigger the necessary acceleration. However, sustainability is high on the list of priorities among residential investment managers. This is reflected in the higher overall GRESB score of all Dutch non-listed residential funds.
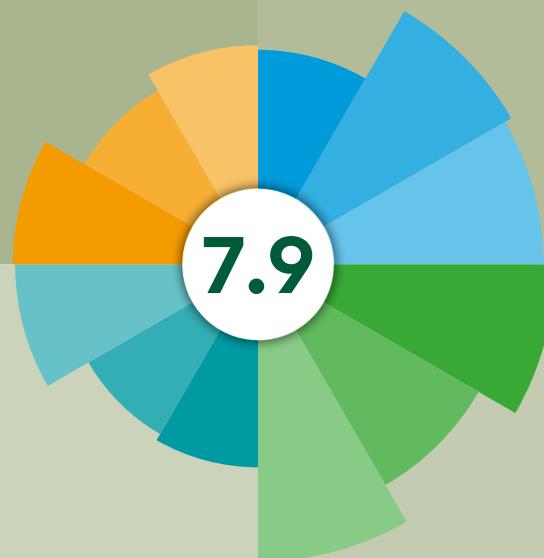
Consumers

6.8

Economy

8.6

7.9

Sustainability

6.5

Housing Market Indicator
overall score, actual per Q3 2018

Housing

9.2

Please visit www.vestedamarketwatch.com
for more information on the Housing Market Indicator

Economy 8.6

Economic growth 6.5

The GDP is increasing but in a slower pace than before. The economic growth, measured in change of GDP, was estimated to be 0.2% in 2018Q3 relative to 2018Q2. It was the lowest growth rate in two years and due to slower increase in investments, for example in construction. Still, GDP growth in the year 2018 is expected to be almost equal to growth in 2017 and CPB (Netherlands Bureau for Economic Policy Analysis) predicts a continuation of the current economic growth levels in the upcoming years.

Source: Statistics Netherlands

Unemployment 9.8

Unemployment has been rapidly decreasing since early 2014 and reached a level of 3.7% in the third quarter of 2018. The labor force in The Netherlands exists of almost 9 million people and only 330,000 people are unemployed. In principle, this is a positive development, but the downside is that significant shortages of personnel occur in certain sectors such as the construction sector. This puts a brake on the housing construction and therefore affects the housing market.

Source: Statistics Netherlands

Inflation 9.5

Inflation between 1.5% and 2.5% is generally regarded as a healthy level. But the last two years inflation was frequently below this healthy level. Since July 2018, inflation has been close to 2%. Current inflation is primarily driven by the increase in housing prices, water and energy prices and the transport sector.

Source: Statistics Netherlands

Housing 9.2

Market liquidity 10.0
It's no secret the housing market is tightening as demand increases and there is lack of (suitable) supply. Following this trend, the market liquidity reached a historically low of 0.37 which exceeds the record of 0.45 in 2007. This is good news for people selling a house, however, homeseekers don't have many options left to choose from.

Source: Calcasa

Rental prices 8.2
The prices of free-market rental homes are not as volatile as the price-development of owner-occupied homes. However, there is a connection between them. When prices of homes for sale are increasing, rental homes will become relatively cheap. This opens the door to higher prices of free-market rental homes, although it will always be within tight contractual limits. The Calcasa free market rental index reached a level of €1270 per month in the third quarter of 2018 which is an increase of 14.3% on a 3-years base. It must be noted that these numbers include furnished homes and rental price-developments of unfurnished homes from institutional investors are more moderate.

Source: Calcasa

Transaction prices 10.0
House prices are rising at an accelerating pace in the Netherlands, mainly due to strong demand, combined with lack of adequate housing supply in the market. Low interest rates on mortgages is also a strong driver. House prices rose 9% on an annual basis from € 267,000 to € 292,000 in 2018 Q2. This price is an all-time high and beats the former record of € 260,000 in 2008. The pace of the rally is high, with a 9% year-on-year increase, but not as high as in 1999/2000 when the increase was around 20%.

Source: Calcasa

Sustainability 6.5

Energy label 6.0

Buildings are responsible for approximately 40% of energy consumption and 36% of CO_2 emissions. Therefore, increased renovation of existing buildings has the potential to lead to significant energy savings and lowering CO_2 emissions. The energy performance of Dutch residential buildings is measured according the Energy Performance of Buildings standards. This standard comes down to a ranking from label A tot G, where A is the most energy efficient. Currently, about 43% of the Dutch homes are registered with an energy label. At the end of 2017 29% of all Dutch homes with an energy label are registered with an A or B label and 31% is listed with a C label. Together, the A, B and C labels represent more than half of all registered labels. At the same time, this means that energy performance is still lagging behind in 40% of Dutch homes.

Source: Energy Performance of Buildings Directive / Netherlands Enterprise Agency

Green energy 5.7

In 2017, total energy consumption in the Netherlands was more or less equal to the consumption in 2016. Compared to 1990, energy consumption increased by nearly 10%. On the other hand, consumption per capita dropped by almost 5%. An important contributing factor is the increasingly efficient use of energy sources over the years. The building environment plays an important role in this improvement, because central heating boilers have become increasingly economical and new buildings have better insulation. In 2017, fossil fuels accounted for 92% of total energy consumption, which is approximately the same as in the previous year. The remaining 8 percent was generated from renewable (green) energy sources, nuclear energy, waste and imported electric current. Unless, we are moving in the right direction, there is still a long road ahead to reach the levels which are agreed upon with other European countries.

Source: Statistics Netherlands

GRESB 7.7

Since 2010, the Global Real Estate Sustainability Benchmark (GRESB) has provided a tool to compare the sustainability of property investment funds. The benchmark rates environmental management practices and their implementation. Dutch non-listed residential companies scored a total of 77 points on average in 2018. This upturn of 7 points compared to 2017 is even better than the increase of 3 points in 2017 compared to 2016.

Source: GRESB

Consumers 6.8

Consumer confidence 7.8
Consumer confidence was on a high level with scores over +20 between Nov-2016 and July-2018. Recently, it shows a decrease, partly related to the financial situation of customers in the past 12 months. Still the indicator is quite positive and there is a considerable willingness to buy. Historically, the consumer confidence indicator is significantly above its long-term average over the past two decades (- 3). The indicator reached an all-time high in January 2000 (+ 36) and an all-time low in March 2013 (- 41).

Source: Statistics Netherlands

Affordability 5.9
Where some people refer to the current situation on the housing market as a housing bubble, others say it's still in balance given the low mortgage rents and high household income. Fact is that house prices are increasing at a higher pace than income growth. This situation puts more pressure on affordability of housing. The score of 5.9 indicates that affordability is becoming an area of concern. A relative higher part of net incomes is spent on housing. It should be noted that this score relates to the affordability of a mortgage loan, however this development can also be seen in the rental market where the housing cost to income ratio increases.

Source: Calcasa

Satisfaction 6.7
Customer satisfaction is high on the agenda of many institutional investors. Tenants of free-market homes pay a decent amount of rent and therefore except something in return. Given the score of 6.7, which reflects the performance of institutional investors from a tenant's point of view, decent quality is offered. However, there is more to be gained. Whereas the home itself and the surroundings are rated above average, there are several points to improve regarding the customer service.

Source: IVBN/CustomEyes

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Housing Market Indicator: Technical explanation
The Housing Market Indicator (HMI) is an objective indicator of the current market situation, developed by Vesteda. The HMI provides a quick overview of the Dutch housing market from a residential investors perspective. The HMI is updated twice a year.

The HMI is made of 12 key determinants. These 'drivers' are divided into 4 different quadrants with 3 drivers per quadrant. The 12 drivers are scores on a scale from 1 to 10, based on the best available data. The data on most drivers has been placed in historical perspective, whereas the historical lower and upper limits were determined as the maximum range. Only on the drivers GRESB and customer satisfaction the actual scores are used. The average of the scores on the 12 drivers was then used to calculate a final score. The indicator only contains historical data, predictions are not included in the HMI.

As the manager of the largest residential fund in the Netherlands, Vesteda believes it is important to increase the knowledge on the Dutch residential investment market and to promote transparency. With the Housing Market Indicator, Vesteda therefore offers more insight into current market developments on the Dutch housing market.

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