Vesteda Market Watch

Q1 2019

Housing Market Indicator

There is no doubt about the attractiveness of the Dutch housing market. Driven by the continued scarcity of homes and a strong economy, the housing market reaching new record highs. However, the longer this situation lasts, the more it is a question if, or more likely when the market will bottom out to more normal levels. We cannot answer that question right now, but there are signs that could indicate that the housing market is indeed cooling down. This is reflected in the latest score of The Housing Market Indicator, which dropped to 7.3 in Q1 (Q3 2018: 7.9). It is too early to say whether this signals the start of a more structural change from the trend seen over the past few years.

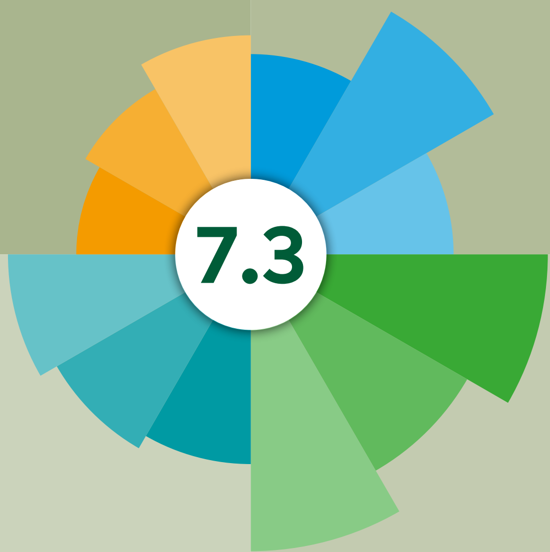
The economic and housing market drivers are still very positive. This is primarily driven by economic growth, low unemployment and above-average house price developments. At the same time, both economic growth and house price increases are levelling off and inflation climbed to a fairly high 2.8% in Q1 2019.

The drivers on the consumer side are most notable. Customer satisfaction is still reasonable but affordability is under pressure and in Q1 Dutch consumer confidence declined to -4, the lowest level since 2015.

On the sustainability side of residential investments, it is quite clear that the attention institutional investors are giving to sustainability is now paying off. The GRESB score of all Dutch non-listed residential funds increased to 7.7. At the same time, the overall developments in the Netherlands on this front remain limited and will need to be speeded up in the coming years if the country is to achieve its climate goals.

Consumers
5.7

Economy
7.1



Sustainability
7.0

Housing
9.3

Housing Market Indicator
overall score, actual per Q1 2019

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

Economy 7.1

Economic growth 5.9

- Economic growth, measured in change of GDP, came in at 1.7% in Q1 2019. This is a decrease, compared to the 2.2% in Q4 2018 . GDP growth for the whole of 2018 came in at a healthy 2.7%.
- This means that the growth figures for 2018 were just a fraction lower than the GDP growth recorded in 2017 (2.9%). However, it seems that GDP growth is levelling off.
- According to the CPB (Netherlands Bureau for Economic Policy Analysis), GDP growth will slow to a projected 1.5% both this year and in 2020. International uncertainties, such as US trade policy, Brexit and the state of the Chinese economy, are expected to have a negative impact on the economy.

Source: Statistics Netherlands

Unemployment 9.3

- Unemployment has been decreasing rapidly since early 2014 and stood at 3.6% at the start of 2019.
- The labour force in the Netherlands consists of almost nine million people and only 330,000 people are currently unemployed.
- In principle, this is a positive development, but the downside is that certain sectors, such as the construction sector, are experiencing significant shortages in personnel. This is putting a brake on housing construction and is therefore having a negative impact on the housing market.

Source: Statistics Netherlands

Inflation 6.0

- In Q1 2019, inflation climbed to 2.8%, which is on the high side of the inflation spectrum. Inflation of between 1.5% and 2.5% is generally regarded as a healthy level. This high inflation is expected to be temporarily, driven by indirect tax increases and higher energy costs.
- Over the past two years, inflation has frequently been below this healthy level, but has been close to 2% since July 2018.

Source: Statistics Netherlands

Housing 9.3

Market liquidity 10.0

- Market liquidity declined to a historical low of 0.36 in Q4 2018, which was lower than the previous record of 0.45 in 2007. This figure shows the tightness of the housing market, which is marked by high demand and a lack of (suitable) supply.
- The low market liquidity is good news for people selling their homes, but home seekers have fewer and fewer options to choose from.

Source: Calcasa

Rental prices 8.0

- The Calcasa free market rental index shows an increase of 14.8% on a three-year basis. It should be noted that these figures include furnished homes. Rental price developments for unfurnished homes owned by institutional investors have been more moderate.
- A study conducted by the Ministry of the Interior (WOON2018) shows that the increase in rental prices since 2015 has not affected the percentage of gross income per household spent on housing. This percentage has been stable at approximately 35%. However, it should be noted there are local differences and there has been a slight increase over the last year.

Source: Calcasa

Transaction prices 10.0

- House prices rose by 8.3% on an annual basis to € 300,000 in Q1 2019, House prices stood at € 293,000 in Q4 2018. Current price level is an all-time high, but the year-on-year increase is lower than the rise recorded in Q4 2018 (9.8%).
- To put this into perspective, this house price level is only slightly higher than the peak in 2008, when corrected for inflation.
- The increase is mainly due to strong demand, combined with lack of adequate housing supply in the market and low interest rates on mortgages.

Source: Calcasa

Sustainability 7.0

Energy label 6.3

- At the end of 2018, 33% of all Dutch homes with an energy label had been registered with an A or B label and 30% had been assigned a C label. Combined, A, B and C labels accounted for 63% of all homes registered with labels.
- The total figure of 63% of A, B and C labels in 2018 was an improvement on the 60% registered in 2017.
- At the same time, this does means that energy performance is still lagging in almost 40% of Dutch homes with a registered label. Taking into account that buildings are responsible for approximately 40% of energy consumption and 36% of CO2 emissions, accelerating the renovation of existing buildings has the potential to result in significant energy savings and significantly lower CO2 emissions.

Source: Energy Performance of Buildings Directive / Netherlands Enterprise Agency

Green energy 6.9

- In 2018, overall energy consumption in the Netherlands stood at 3,100 Petajoules (PJ), around 50 PJ less than the previous year.
- This decline was due in particular to lower consumption of coal: 40 PJ less than in 2017. The use of other energy sources remained more or less the same.
- Fossil fuels still accounted for 90% of total energy consumption, which was a reduction of 2% compared to 2017. The remaining 10% was generated from renewable (green) energy sources, nuclear energy, waste and imported electricity.

Source: Statistics Netherlands

GRESB 7.7

- Dutch non-listed residential companies scored a total of 77 points on average in 2018. This upturn of seven points compared to 2017 is even better than the year-on-year increase of three points seen in 2017.
- The increase of the GRESB scores shows that institutional investors are devoting considerable attention to sustainability issues.
- The Global Real Estate Sustainability Benchmark (GRESB) is a tool used to compare the sustainability of real estate investment funds. The benchmark rates environmental management practices and their implementation.

Source: GRESB

Consumers 5.7

Consumer confidence 4.8

- Consumer confidence declined to -4, which is just below the long-term average over the past two decades (-3).
- This is a marked decline compared to the high consumer confidence scores of +20 in the period November 2016 to July 2018.
- Consumer confidence reached an all-time high in January 2000 (+36) and an all-time low in March 2013 (-41).

Source: Statistics Netherlands

Affordability 5.5

- The score of 5.5, compared to 5.9 at the end of 2018, indicates that affordability is becoming a growing area of concern. Consumers spent relatively larger part of their net income on housing in the last year. At the same time, the percentage of gross income per household being spent on housing is still at a reasonable level.
- It should be noted that this score relates to the affordability of a mortgage. However, this development can also be seen in the rental market, where we are also seeing an increase in the housing costs to income ratio.

Source: Calcasa

Satisfaction 6.7

- The score of 6.7 is the actual score the tenants gave Dutch institutional investors for their services. Tenants of free-market homes pay a fair amount of rent and therefore expect something in return. This score means institutional investors are offering decent quality.
- However, there is still room for improvement. While tenants rate the homes themselves and the surrounding areas above average, there are several areas of potential improvement on the customer service front.

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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