Dutch Market Outlook 2024-2026

Bouwinvest Real Estate Investors

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Introduction

The Dutch real estate market is continuously responding to changes in society. While some of these changes happen overnight, like Covid-19 and the war in Ukraine, they are often the result of long-term trends that have a more dormant effect, like the ageing of the population. Bouwinvest discusses these developments in this Outlook, with a specific focus on the five important real estate sectors below, each with its own characteristics, opportunities and challenges.

The Dutch housing sector faces challenges of affordable housing, sustainability and changing government policies. We dive into the implications this has for institutional investors in this market.

The office landscape is of course affected by the rise of remote working, or working from home (WFH). Despite this, demand for high-quality and sustainable office space continues to increase, with a great emphasis on sustainability and flexibility. We analyse how the Dutch office market is responding to these changes and explore the effects of these adjustments on supply and demand dynamics.

The Dutch retail market needs to redefine itself amid the ongoing growth of online shopping and changing consumer behaviour. Where will the vibrant and experiential retail environments of the future be? We provide insight into how retailers and investors are dealing with these changes.

Tourism in the Netherlands continues to grow and this makes the hotel sector an increasingly important focus sector for investors. We describe the impact of Covid-19 on this market, but also discuss the long-term drivers and the current status in the field of hotel investments.

A growing elderly population, a high degree of policy dependence and the gradual shift in how healthcare operators view the ownership of their real estate is driving a steady transformation of the healthcare real estate landscape. We analyse the current status of healthcare real estate in the Netherlands and the prospects for the coming years.

We hope you find this Outlook informative. If you would like more information; please contact us at Bouwinvest.

Contents

Economy, Policy and trends 4

ESG 8

Capital markets 10

Residential market 13

Office market 18

Retail market 23

Hotel market 30

Healthcare market 35

Economy,
Policy and trends

Effects of high inflation spiral through the economy

The Dutch economy recovered quite well from the Covid-19 period and ranked among the best performing countries in Europe post-Covid. However, the country's economic growth ground to a halt in 2023 and the Netherlands even dipped into a technical recession in the second and third quarters. Private consumption was one of the major drivers of recent years' economic growth, but high inflation rates are limiting consumer spending growth. Sentiment among consumers dropped to all-time lows and they remain pessimistic about the economic outlook at the moment.
Additionally, the weakening producer confidence is evident in the industrial output, which has decreased by more than 8% compared to last year. Germany is an important sales market for Dutch industry, and is also suffering from a negative sentiment. And the recent collapse of the Dutch government has not been a trigger to lift this negative sentiment. Clearly, headwinds currently have the upper hand and have left the Dutch economy floundering in turbulent waters.

To bring down inflation, the European Central Bank (ECB) raised its policy rate multiple times this year, taking it to 4.0% in September, the highest level in more than 20 years. Central banks in other parts of the world have also taken similar steps, but it will take time before inflation rates respond to these policy interventions. For example, the ECB increased interest rates by 250 basis points in 2022, while impacts on inflation are only being seen in the second half of 2023. In fact, the ECB said in September that it does not expect inflation to drop to its target rate of 2.0% until 2025.
By the end of August, Dutch inflation rates stood at 3.0%, below the European average and much lower than the 9.6% in 2022, although the drivers of price rises have changed over time. The 'inflation bubble' was sparked in 2021 by sharp increases in energy prices that in turn fuelled the increase in housing costs. Energy prices are currently back at late 2021 levels, but still 50% higher than three years ago. Current inflation is being driven by the food, clothing and restaurant segments, as their products and services are about 10% more expensive than 12 months ago. In particular, food prices are almost 25% higher than two years ago. Producers are charging higher costs (i.e. rent, energy, wages) on to consumers, which is having a second order effect on inflation. These effects are dampening consumer spending growth, which has been one of the major drivers of economic growth in recent years.

Inflation rates (year-on-year) for major components compared to average wage increases

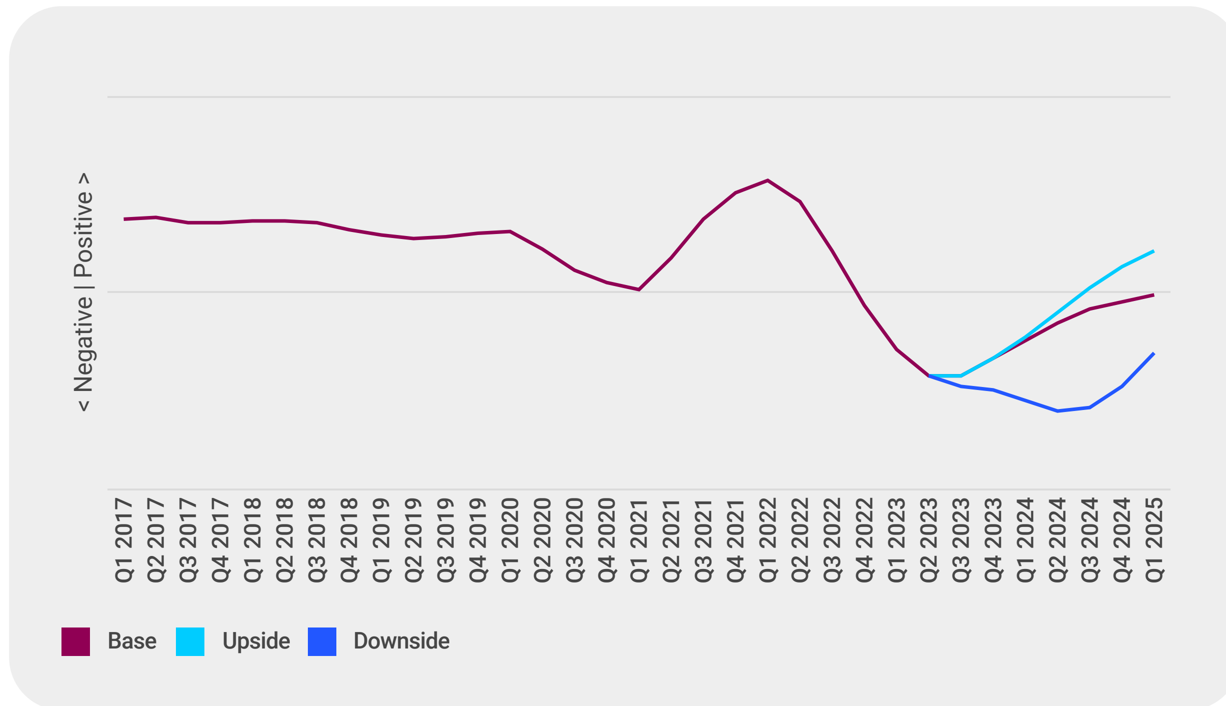
	Wages				Inflation			
		Total	Housing	Food	Transport	Recreation	Restaurants	Clothing
2019	2.8%	2.7%	3.1%	3.7%	4.6%	3.0%	4.3%	1.2%
2020	2.7%	1.0%	0.8%	0.6%	-2.3%	1.9%	4.7%	-2.0%
2021	1.9%	5.7%	10.0%	2.6%	12.6%	1.6%	1.9%	5.3%
2022	3.9%	9.6%	12.4%	16.8%	4.0%	5.8%	9.3%	11.3%
2023*	5.8%	3.0%	-7.7%	9.6%	2.1%	7.0%	8.8%	10.7%

Source: Statistics Netherlands (2023)
** Note: data refer to the increase over the period August 2022 – August 2023*

As a response to the persistent inflation, wages have increased quite sharply over the past two years. The current year-on-year average wage increase stands at 5.8%, which is the highest level so far in 40 years. However, these recent wage increases, which are lagging inflation, have not been sufficient to bolster the purchasing power of Dutch consumers. The tight labour market in the Netherlands, with a high number of vacancies, is one the forces behind these wage increases. In addition, unemployment rates remain at ultra-low levels, despite the recent 50% rise in bankruptcies.

The medium-term economic outlook is challenging and many factors remain highly uncertain. Elections scheduled for the end of November, along with geopolitical situations in other parts of the world, are having a greater impact than in previous decades. This year is expected to be a year of limited growth and rising unemployment rates, with the impact of high inflation becoming more visible in for example lowering consumer spending. Interest rates and inflation are forecast to remain higher for longer than previously thought and the economic environment is not expected to improve until 2025 onwards. Given the uncertain market environment, pathways for expected economic sentiment differ per scenario and could even deteriorate if more headwinds emerge. Though, an improvement in circumstances could be an accelerator for an early recovery.

Dutch economic sentiment is expected to improve



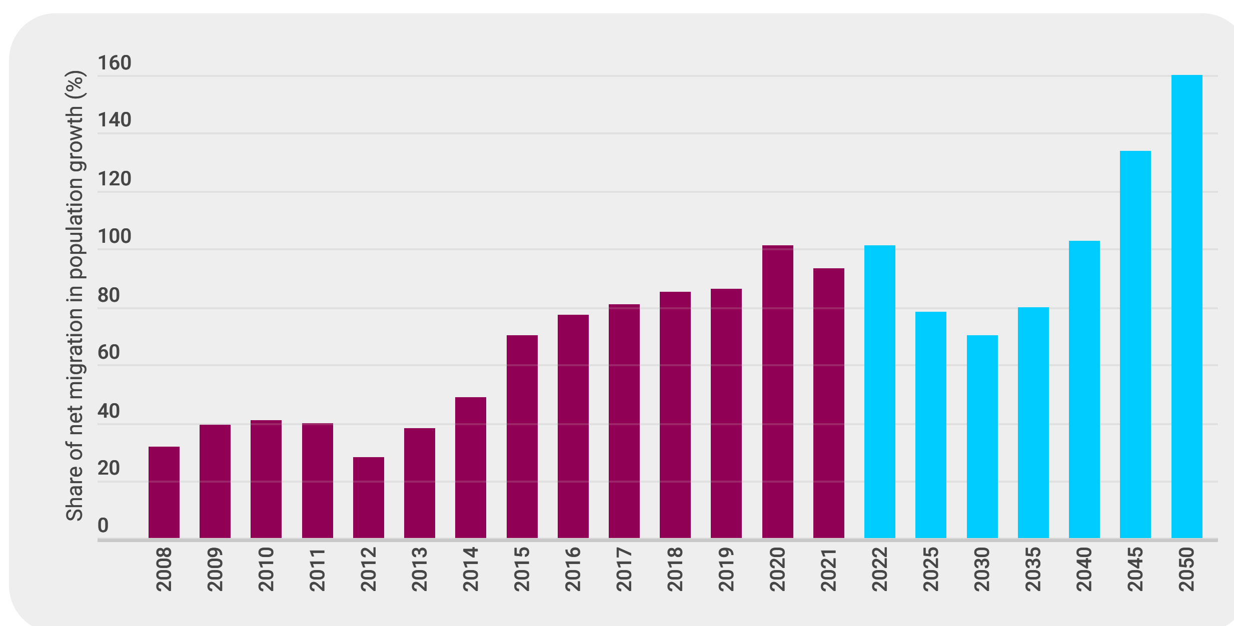
Source: Bouwinvest (2023)

Dutch political environment at the crossroads of a new era

The Netherlands is currently navigating a highly charged political landscape as it prepares for the upcoming general election in November 2023, the current government remains in office until a new coalition has been negotiated. On average, this has taken more than three months in the past, but the highly fragmented landscape, with a seemingly endless number of political parties vying for power, could lead to a prolonged period of negotiation. The fact that there are several pressing topics pending on which a decision needs to be made makes this election particularly significant.

Concerns, which are also prevalent in other European countries, include the asylum crisis, poverty reduction, the affordability of and access to the housing market and climate change and adaptation. The influx of asylum seekers has strained the country's capacity to provide shelter and support, but the Netherlands also attracts a significant number of foreign students and highly-skilled immigrants. Net migration has become the major driver of population growth over the past decade. Immigration remains a permanent topic of discussion, with rising geopolitical tensions across the world and the effects of climate change becoming more discernible, which in turn results in people leaving their own countries in search of income security. Higher immigration could provide part of the solution to the structural shortages on the labour market in segments such as healthcare, which could in turn help to maintain the affordability of the Dutch welfare state.

Net migration continues to drive population growth



Source: Statistics Netherlands (2023)

The issue of climate change and climate adaptation covers a broad range of related topics, such as the nitrogen emission problem and its impact on the built environment and infrastructure. Excessive nitrogen emissions are causing structural ecological damage to sensitive natural areas and therefore need to be limited. This is resulting in new challenges and additional costs for the start-up of new-build projects for example. In addition, the real estate sector faces the task of reducing its carbon footprint and plays an important role in the energy transition. The limited expansion options in the electricity infrastructure are preventing fast-moving changes and this is also restricting the number of new construction projects.

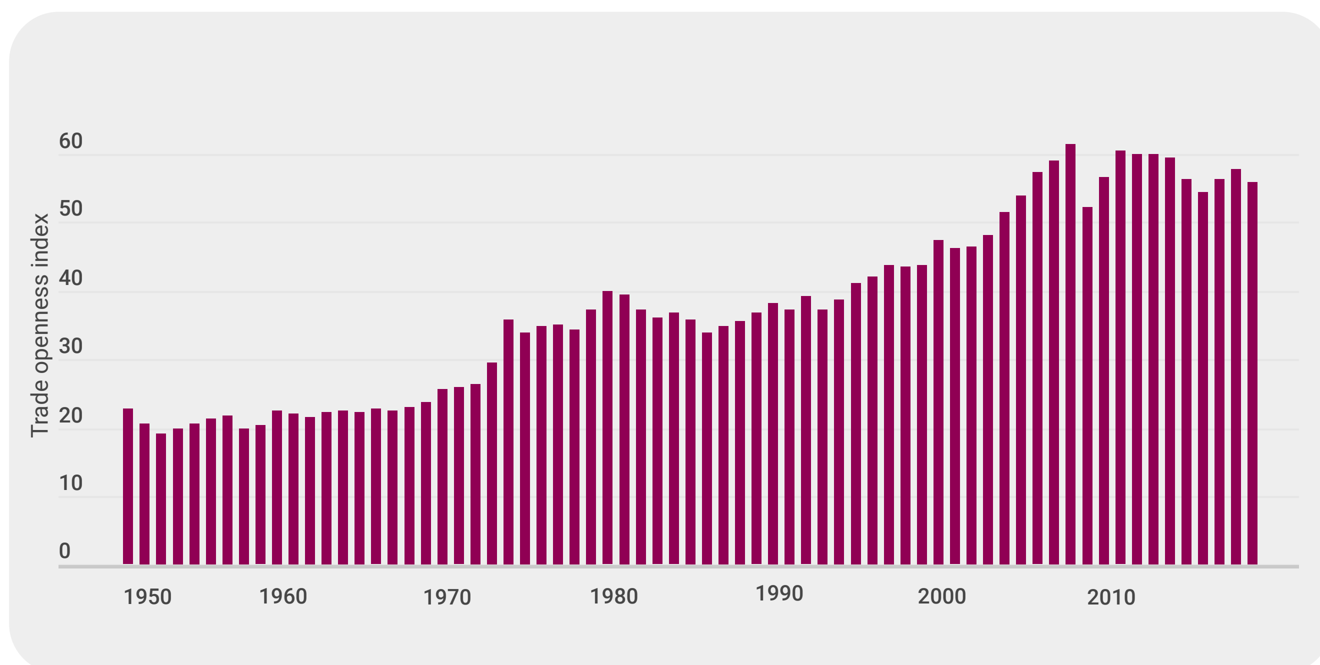
Many of the key challenges are interrelated or dependent on each other. There is a housing shortage and new homes are needed for students, (highly skilled) migrants and asylum seekers. Construction of these new homes is dependent on a stable electricity network. The afterpains of the Covid-19 pandemic (i.e. end of governmental financial support to consumers and businesses) and the implications of the high inflationary environment (i.e. affordability) create a scenario that can be characterised as the 'turbulent '20s'. Clearly, the November 2023 election carries significant implications for the nation's future direction.

AI is the new disruptor in real estate

Amidst the current economic and geopolitical turmoil, a significant technological development is unfolding. The (generative) AI revolution is advancing rapidly and it will change our society dramatically, including the way we work, learn, travel and live. For example, the adoption of ChatGPT, one of the major services based on OpenAI, was 100 times faster than for Netflix. It is expected to revolutionise entire sectors and is fuelling debates on subject ranging from job losses to widening social disparities. The ethical side of AI is a major discussion point, but its possibilities seem to be limitless. AI can play an important role in solving issues like climate adaptation and help to accelerate the energy transition – despite AI also being a massive energy consumer – and is likely to affect the real estate market. Direct use cases include valuation, asset and property management, research and new product development, which could become more efficient and effective. The indirect effects might be even more intense. For example, AI might shake up the healthcare sector, not only by increasing the productivity of health workers, but also by creating smart living areas. Demand for space and the way we use space will change or even become obsolete for specific segments or locations. Clearly, AI will be a major disruptor in the real estate sector in the coming decade(s).

Another less severe and slower driver of change than the introduction of AI is the current trend of deglobalisation. Over the past centuries, the world witnessed several waves of globalisation and deglobalisation caused by political and technological events. Driven by the Covid-19 pandemic and geopolitical tensions across the world, companies are revisiting their supply-chain channels. Instead of optimising efficiency, the focus is shifting to more 'local' supply chains in a move to gain more control over them. The gap in costs between making goods in Asia compared with Europe has also narrowed, which is making the financial aspects less crucial. In addition, the protection of critical industries and ESG play an important role in these decisions. One example is IKEA, which in 2021 decided to relocate some of its production lines from Asia to Turkey, which is closer to the European market. These near-shoring activities will affect the real estate market, in particular the logistics and manufacturing markets. As near-shoring locations become more attractive for working and living, other segments of the real estate sector are also expected to benefit from this trend. Developments and innovations in AI could accelerate this deglobalisation trend, sometimes referred to as geoeconomic fragmentation.

Deglobalisation effects visible over past decade



Source: Penn World Table (2023)

ESG

In the real estate sector, there is a growing demand for mandatory Environmental, Social, and Governance (ESG) disclosures. These requirements are expected to become more comprehensive, necessitating specific guidance tailored to the unique challenges of the industry. This guidance will not only promote comparability but also prevent the unintentional misrepresentation of sustainability efforts. The efforts to harmonise ESG for real estate are constant, although we do see three areas where this will become more prominent in the coming years i.e. whole life carbon, climate adaptation and social.

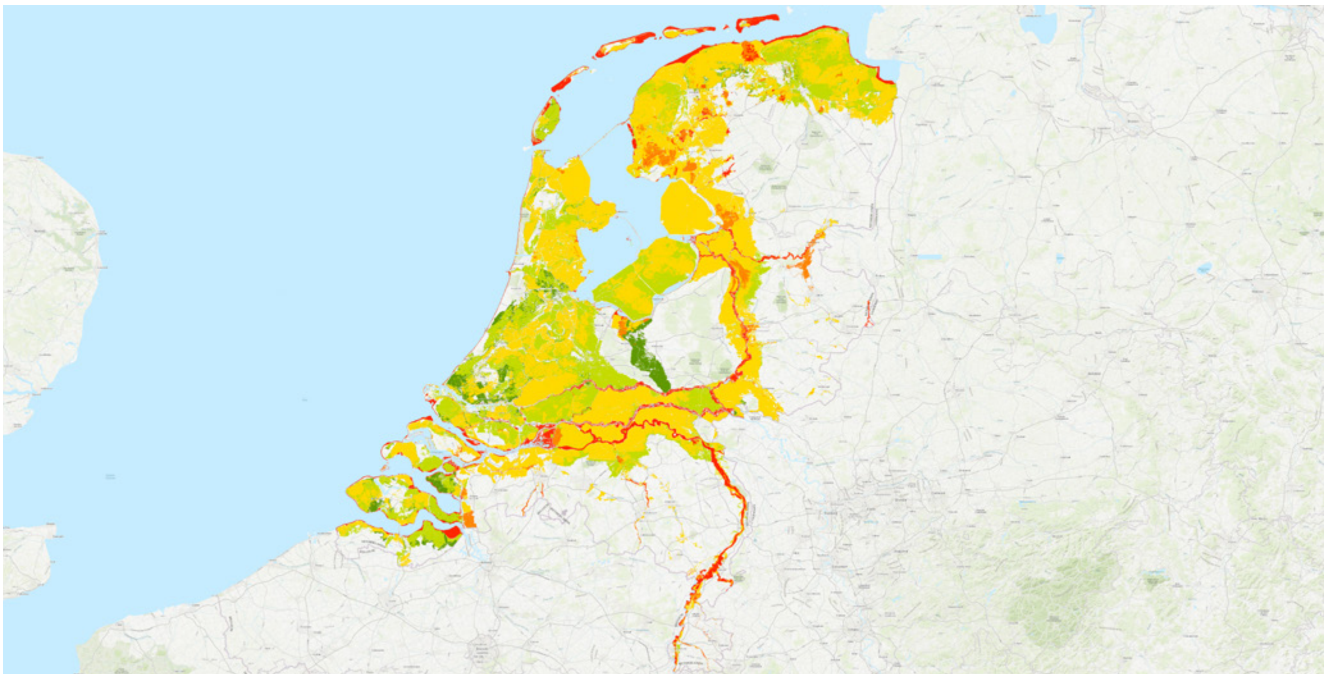
Whole life carbon

To achieve net zero emissions, the real estate sector must reduce its carbon footprint, as this currently accounts for 40% of the global economy's greenhouse gas emissions. Many real estate companies have already committed to lowering their operational CO_2 emissions by improving energy efficiency and switching to renewable sources. These are essential steps to align with the 1.5°C scenario of the Paris Agreement, also referred to as Paris Proof or CRREM aligned. However, operational emissions are not the only source of carbon impact. The construction and real estate sectors also need to consider embodied carbon, which is the carbon emitted during the production, use and disposal of building materials. This requires a whole life carbon approach that covers both operational and embodied emissions. One strategy to reduce embodied carbon is circularity, which means designing and managing buildings in a way that minimises waste, maximises resource efficiency and preserves value over multiple life cycles. We expect the sector to incorporate embodied carbon and circularity criteria in investment decisions, in addition to operational carbon emissions. As a result of the increasing importance and regulation of whole life carbon and circularity, we expect to see a push on innovation, collaboration, and transparency in the sector.

Climate adaptation

Climate adaptation is reshaping the real estate sector by influencing risk assessment (see as an example the figure below on flooding risk in the Netherlands), property values, insurance costs, building regulations, infrastructure investments, and overall market dynamics. Though, this example shows that major flooding risk arises from rivers, where mitigating measures are being implemented by reinforcing dikes.

Flooding risk by >20cm in the Netherlands by 2050



Source: https://www.klimaateffectatlas.nl/en/location-specific-probability-of-flooding

LOCATION-SPECIFIC FLOOD PROBABILITIES

- No significant probability of flooding
- Extremely low probability: < 1/30,000 per annum
- Very low probability: 1/3,000 to 1/30,000 per annum
- Low probability: 1/300 to 1/3,000 per annum
- Medium probability: 1/30 to 1/300 per annum
- High probability: > 1/30 per annum

Real estate professionals and investors are increasingly recognising the importance of climate resilience in their decision-making processes aimed at mitigating risks and seizing opportunities in a changing climate. Standardisation is emerging as a vital tool for assessing climate-related risks.

Establishing a common language and a level playing field is essential for evaluating vulnerabilities and determining the most effective adaptation measures. The recently introduced Framework for Climate Adaptive Buildings by the Dutch Green Building Council (DGBC) marks a significant step towards industry-wide standards in the Netherlands, with further developments on the horizon. Collaboration is key to a successful adoption in real estate. Government entities, real estate investors and the scientific community are increasingly acknowledging the universal impact of climate risks. They are coming together to address these challenges collectively, recognising that no single entity can tackle them in isolation. The ongoing trend towards standardisation and a unified approach is laying the foundation for a successful joint effort in navigating the complex landscape of climate adaptation in real estate.

Social

Addressing social factors in real estate is becoming increasingly important for both investors and property developers. Social considerations in real estate are focused on the well-being of communities, residents, and employees. There are several ways to address social factors in real estate, such as affordable housing, community engagement, health and safety, diversity and inclusion, tenant and employee well-being. These impact investments are on top of the agendas of many real estate investors.

An agreed sector approach and definitions on social impact in real estate is lacking but Bouwinvest believes this will change in the coming years. Initiatives are underway to make it more tangible and measurable such as Social Responsibility Alliance launched this year by DGBC, together with the Urban Land Institute, the Impact Institute and many participants from the sector.

Obviously some factors are easier to measure than others, for example rent reduction as part of affordable housing. In the social rental market, rents are being artificially reduced to provide people with a low income fit-for-purpose housing, while also enabling them to afford other basic needs. This is also happening in the private sector, either voluntarily or enforced by a local city council. Quantifying this is fairly straightforward, as you simply have to compare rents with market rents.

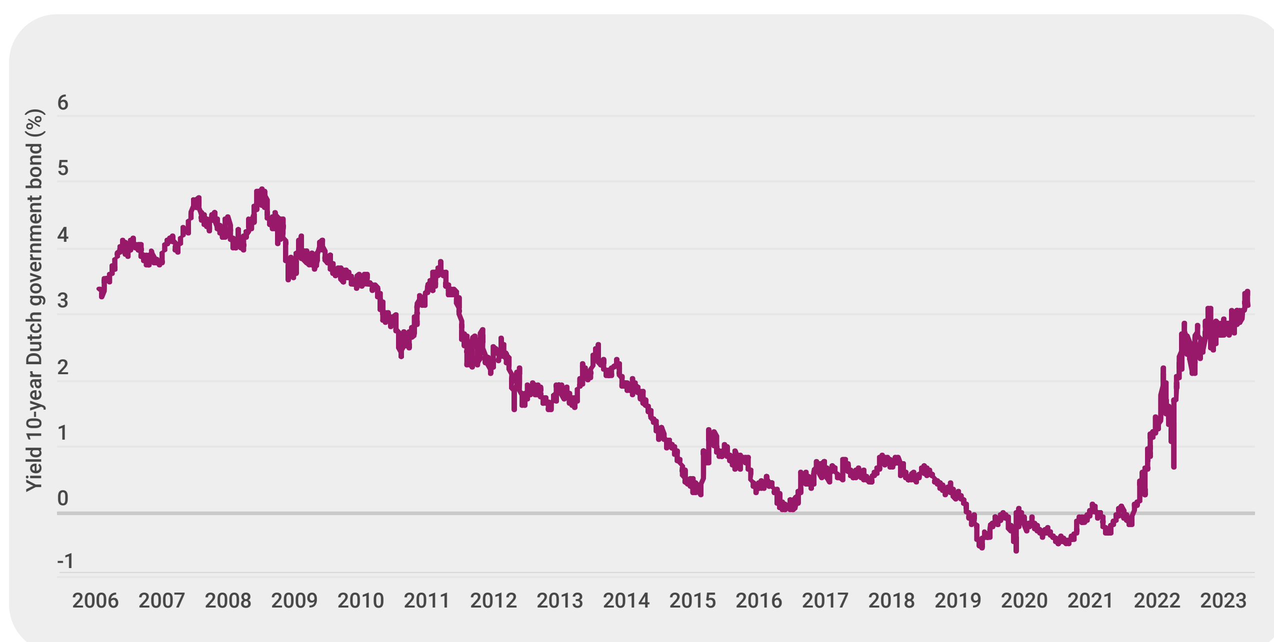
It is also possible to measure the social impact such as community activities, but so far this is not being adopted on a large scale. Reporting on these social factors means being transparent on what you contribute to as a company. European SFDR Art 9 (impact) real estate investment products are already in place to do just that, but the volume of assets under management is marginal as a proportion of total investment products. They partly use the same criteria, namely affordability (rent reduction and/or energy performance) and well-being (community concepts) and we expect health to be added in the future.

Capital markets

Two years ago, we wrote the following in the Outlook: "The ready availability of capital, low interest rates and the search for yield margin have for some time been driving substantial investment volumes and historically low initial yields in real estate investment markets." It is fair to say that this situation has completely reversed.

The rise in interest rates is having a huge impact on the real estate investment market. Driven by the ECB's previous QE strategy, interest rates fell steadily, dipping below 1% from late 2014 and even slipping below 0% from mid-2019. Since the start of 2022, however, the ECB has repeatedly raised interest rates in an attempt to keep inflation in check. At the time of writing, the 10-year government bond rate is slightly above 3% and it has also become clear that the initially prevailing idea that this would be a short-term rise no longer holds water.

Interest rates increased strongly within a short period

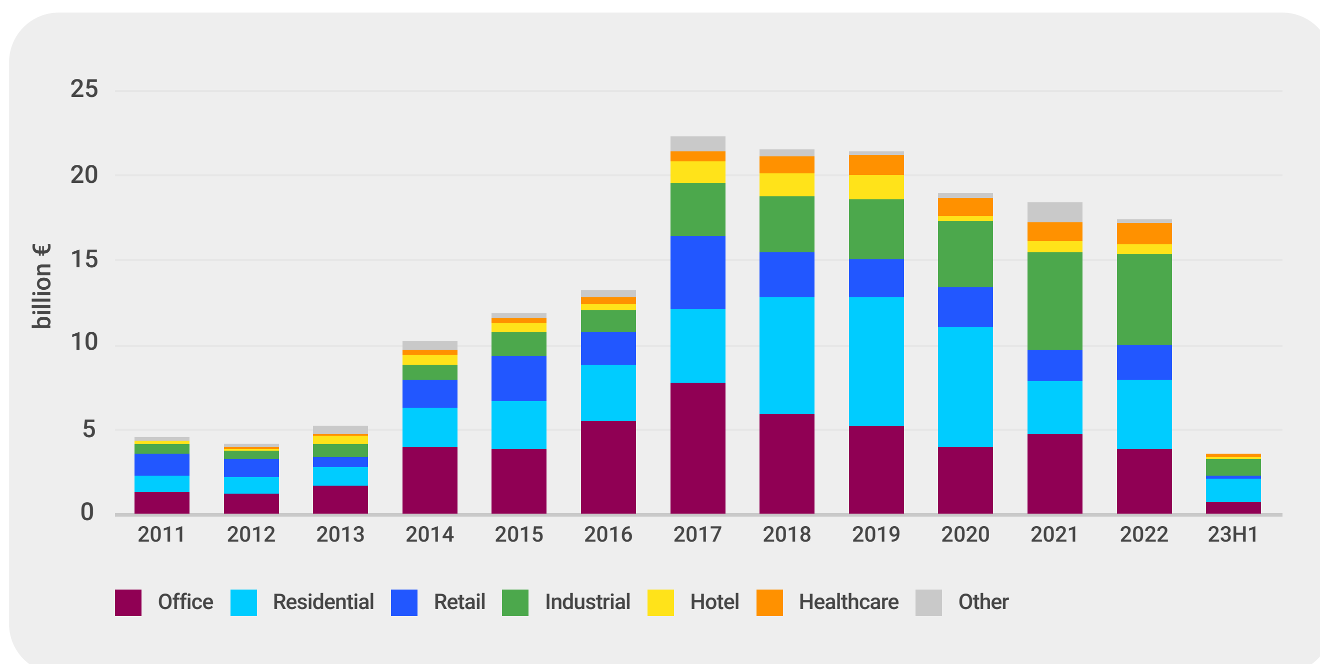


Source: mtsmarkets.com, edited by Bouwinvest (2023)

This has led to higher initial yields, a sharp increase in financing costs and consequently significant declines in values right across the real estate investment market. Together with high uncertainty about the future, this has brought the real estate investment market in Europe and also the Netherlands to a virtual standstill. Of course there are still the occasional transactions, but on the whole buying and selling investors first need to reach agreement on the expected price developments.

The inflation hedge character of real estate has remained, as contract rents in most real estate sectors are linked to CPI, these have also risen considerably, also when considering CPI caps in rental contracts. The translation of CPI increases to market rental growth is mainly seen in markets with healthy underlying user demand and where affordability is less at risk.

Investment volumes halved in 2023



Sources: JLL and Capital Value, edited by Bouwinvest (2023)

Interest rate hikes began to have a substantial impact on real estate investment transactions in the Netherlands as of Q4 2022, although investment volumes at that time may suggest otherwise.

The € 4.6 billion of investments seen in Q4 2022 was significantly lower than the Q4 totals in previous years and the decline in investments then continued in Q1 and Q2 of 2023 The total for the first half of 2023 came in at just € 3.5 billion, which, if extrapolated, will bring the total this year below post GFC levels in 2014 and 2015. Compared to the other sectors, offices and residential saw a relative smaller decline of less than 50%.

Data from RCA show that the share of foreign buyers has fallen sharply in all sectors. High interest rates act as a greater brake on these buyers, as they tend to use more leverage than domestic players. In addition, the sharp increase in the transfer tax is deterring and it is a relatively simple matter to allocate acquisition capital to other asset classes and countries with more attractive returns. Though, private investors became more dominant in most of the sectors, while the picture for institutional investors is blended.

Shift in share of total investments per sector in 2023 (year-to-date) compared to 2022

	Investor type	**Institutional**		**International**		**Private**	
Sector	**Side of transaction**	**Buy**	**Sell**	**Buy**	**Sell**	**Buy**	**Sell**
Residential		▲	▲	▼	▼	▲	▼
Healthcare		▲	▼	▼	▲	▶	▶
Office		▶	▲	▼	▶	▲	▶
Retail		▼	▼	▼	▼	▲	▲
Hotel		▲	▶	▼	▼	▲	▲

Source: RCA, edited by Bouwinvest (2023)

Initial yields for all sectors have increased substantially, although the magnitude varies by sector and location. In sector-market combinations with the lowest initial yields and in prime markets yield increases are much higher than in sector-market combinations which are more niche and in secondary markets. After all, the spreads between the risk-free rate and the initial yield of real estate need to be large enough to make investing in real estate attractive. But then the spread does tend to become more narrow in periods with high interest rates than it is in periods with (very) low interest rates. With respect to the prime office market, for example, in the period around the GFC (2005-2011) interest rates were high, averaging around 3.5%, and net initial yields were on average about 1.75%-points above this. After the GFC, with sharply falling interest rates, this spread widened, to an average of 3% in the period 2017-2021.

Sharply rising interest rates and initial yields have led to negative capital growth, despite relative higher rents as a result of CPI indexations. Write-downs in Dutch real estate values are being taken more quickly than during the great financial crisis. However, we expect to see a further impact in the final quarter of 2023 and the first part of 2024 and to only see the first sign of recovery in most sectors from 2025 onwards in the base scenario.

The landscape for capital allocated by institutional investors has significantly changed compared to a year ago. At that time, there was still talk of possibly having to reduce the allocation to real estate, which had increased relatively sharp due to the fall in the stock market and the then negative bond rates. In last year's Outlook, we had already anticipated a sharp decline in real estate prices. Meanwhile, that decline has now taken place, while the stock market has rebounded markedly and both government and investment grade corporate bonds have remained relatively stable. As a result, the institutional over-allocation to real estate is currently much less of an issue in the Netherlands than it was last year.

On the institutional side, however, the inflow of new capital from Dutch pension funds is a considerable issue. As a result of the aging population and the related pension benefit obligations, institutional investors are facing a reduced inflow - and even outflow - of capital from Dutch pension funds that they can use to invest. This means that institutional parties are now being forced to tap into foreign pension funds, insurers and other capital flows that need to be invested for the long term much more than they did in the past. This transition in the investment market will take time and is therefore expected to lead to lower investment volumes in the coming years.

Dutch Market Outlook 2024-2026

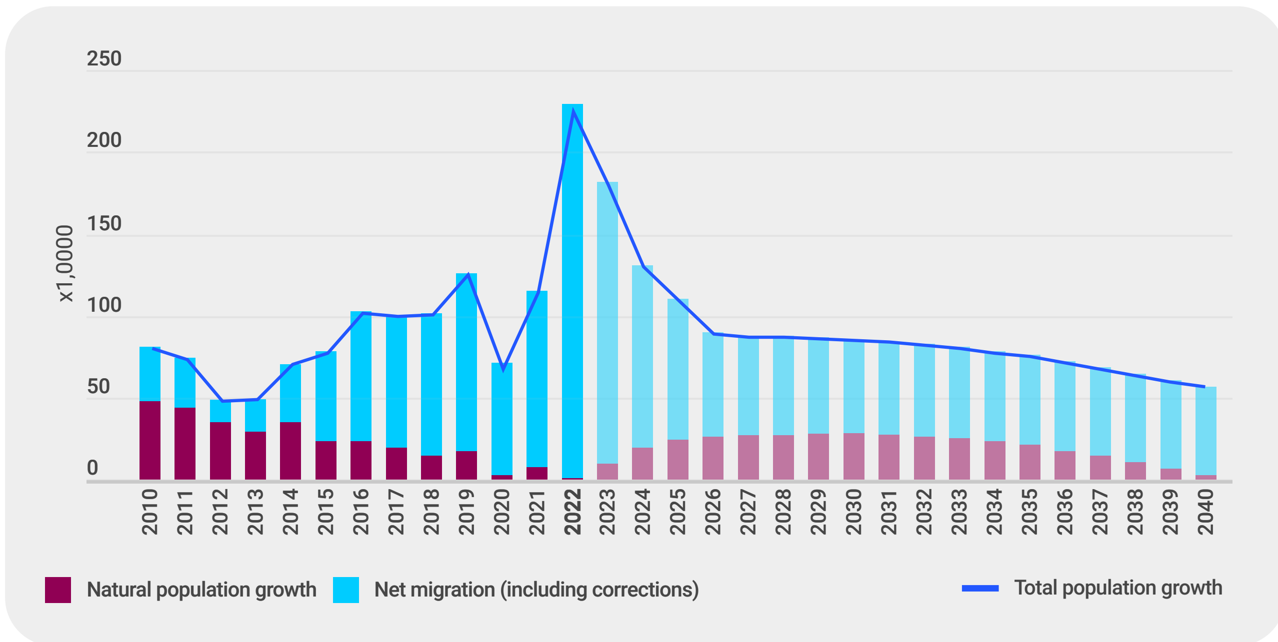
Residential market

Next, Eindhoven

Migration more important and volatile

How will demographic developments affect the housing market? It has been known for some time that the Dutch population and the number of households will continue to grow in the coming years. The only difference is that in the future the population development of the Netherlands will be more dependent on migration and this is less predictable than, for example, birth and death forecasts. Recent examples are the number of Ukrainians who settled in the Netherlands after Russia's invasion of Ukraine and the absence of expats during the Covid-19 pandemic.
Migration is expected to remain positive in the coming years because the Netherlands remains attractive for migrants to settle, due to its favourable socio-economic and political climate. This applies to both highly educated migrants and those with little formal education. The demand for housing will therefore not only increase in the future among a broad group of households, but will also be more volatile than in the past. The housing stock will simply not be able to absorb these shocks, partly because current construction procedures are significantly slowing down the development of new-build housing. Shorter development processes are therefore necessary to anticipate and respond to more volatile demand more effectively in the future. In addition, temporary housing concepts and easy-to-transform/flexible real estate could play a significant role in absorbing these migration shocks.

Migration is major driver of expected population growth



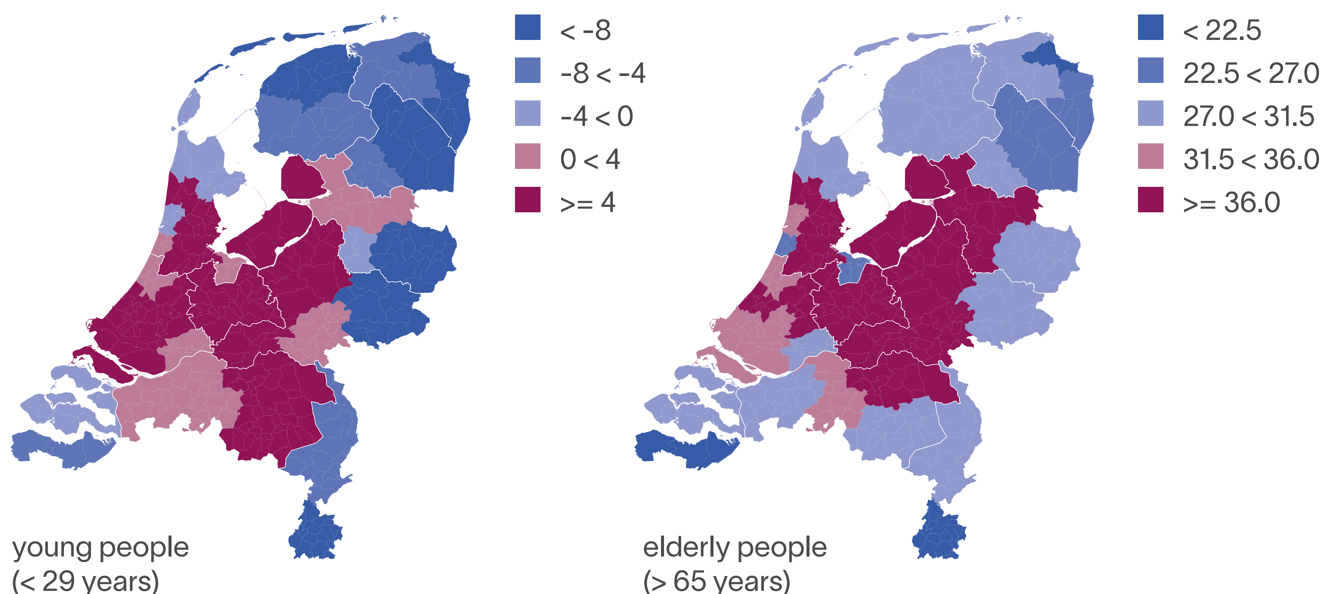
Source: Statistics Netherlands (2023)

Who are these new households and where will they settle? Forecasts show that the share of the total population living in the Randstad[1] will increase even further. This percentage is currently 42.5% and will increase to 44.0% over the next 15 years.
The reason for this growth is the influx of migrants, who want to settle in the Randstad combined with the natural growth of the population. When the population development is broken down by age structure, it is striking that the growth of the younger age groups remains positive in and around the major cities of the Holland Metropole[2] and that the more rural parts of the Netherlands show a negative development. The number of elderly people is increasing in all regions as a result of the ageing population. But here, too, growth is strongest in the Holland Metropole. Finally, the number of households with a lower income is expected to increase sharply in the short term as a result of a sharp decline in real household income. The demand for affordable (rental) homes will therefore increase sharply, especially in urban areas.

"Increasing demand in the Randstad is creating an additional upward price pressure on the rental market."

1 Randstad is a conurbation in the Netherlands including its largest cities Amsterdam, Rotterdam, The Hague and Utrecht.
2 Holland Metropole is an alliance between the five largest cities in the Netherlands (Amsterdam, Rotterdam, The Hague, Utrecht and Eindhoven) and the most import real estate developers and investors.

Population growth of young people and the elderly largest in the Randstad (in percentage)



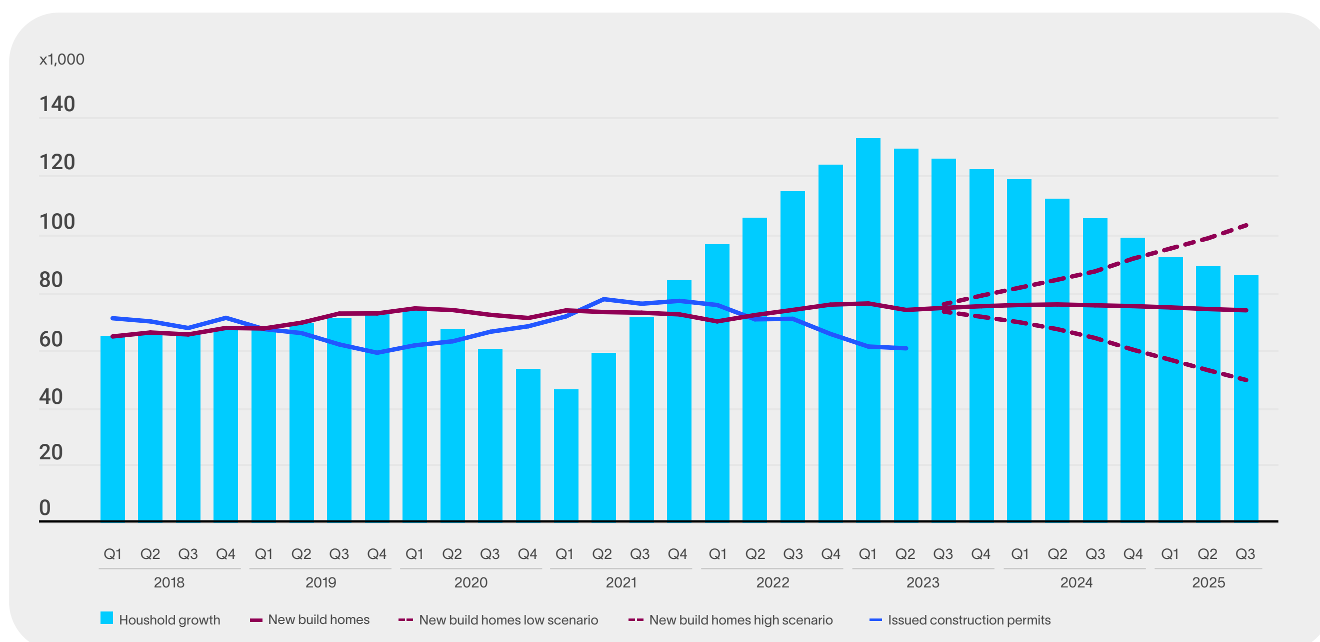
Source: ABF Research (2023)

New-build supply and growing housing shortage

The growing number of households will therefore contribute to increasing demand for housing. Nevertheless, it is not possible in the short term to take the development of new-build homes to a level that will meet this demand. In fact, the opposite is true. Due to rising construction costs, increasing regulation, nitrogen emission problems and long procedures, it is becoming increasingly difficult to arrive at a healthy business case for new-build projects. We therefore expect the housing shortage to increase even further in the period 2024-2026, supported by the negative trend in the development of the number of permits issued for new-build homes since the beginning of 2022.

Why are issued building permits a good indication of the development of the housing stock in the near future? On average, the completion of a new home takes nine quarters after a permit is issued. This means that if a building permit for a home is obtained at the end of 2023, it will not be ready for occupancy until early 2026. The current situation shows that the Netherlands has been in a downward trend in terms of the number of permits issued since early 2022. The number of new-build homes being completed will therefore also decline. We expect that the current quantitative mismatch of 390,000 homes can increase by approximately 27,000 homes each year over the next three years.

12-month rolling average of the number of new construction permits issued, completed new homes and household growth



Source: Statistics Netherlands, ABF Research and Bouwinvest (2023)

The mismatch on the housing market

The quantitative housing shortage will continue to increase in the coming years. However, the qualitative housing shortage will be even greater. Among other things, supply and demand are getting further out of balance in the rental housing market. Particularly in urban areas and among certain target groups (single person households, both young and old), resulting in upward price pressure. In particular, the demand for affordable rental housing will continue to increase. Affordability of housing is and will remain an important theme also in the owner-occupied housing market. Last year, the financing of owner-occupied homes deteriorated for many households due to rapidly rising interest rates. The result was a declining number of transactions, falling house prices and limited deal flow. The financing of housing is now improving somewhat due to wage increases and is expected to continue to gradually improve in the coming period.

Growth in house prices and an increasing number of transactions will only be possible when financing and affordability are more in balance. We therefore expect a moderate price development and a relatively low number of transactions in 2024. From 2025 onwards, we possibly will see a stronger recovery in house prices and the number of transactions. However, it will remain difficult for first-time young buyers in the owner-occupied market. This group is expected to become more dependent on the rental market, whether or not in alternative household forms, or will be forced to continue living with their parents for longer.

Challenges and opportunities on the residential investment market

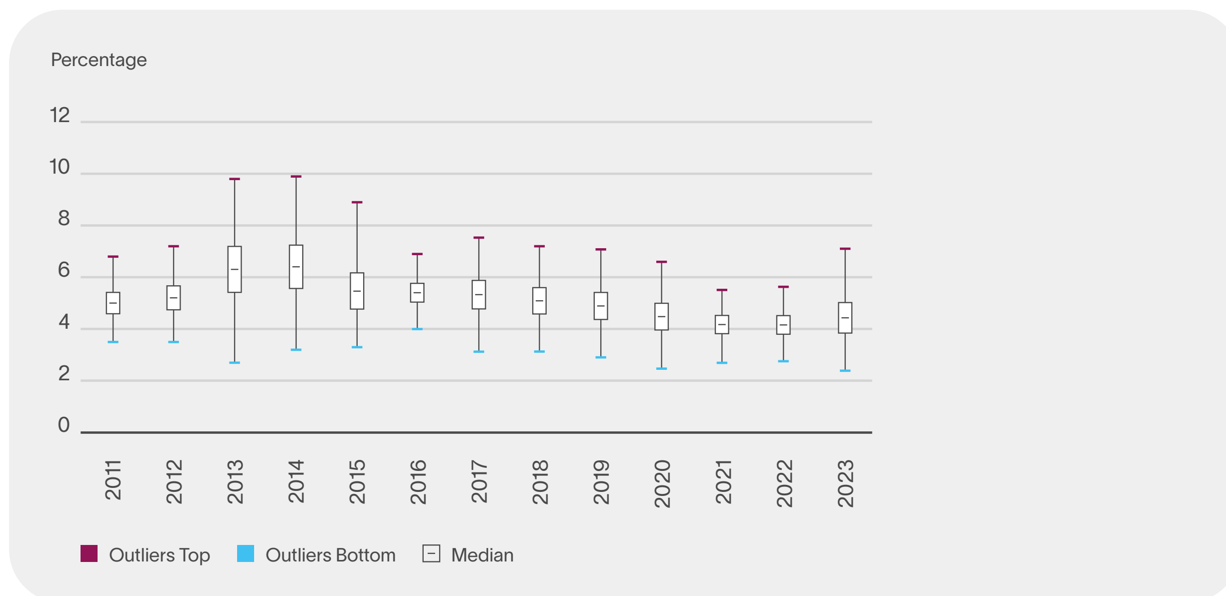
The significant decline in residential real estate values since Q3 2022 seems to be stabilizing. The number of transactions and investment volume is still limited and is not expected to increase in the short term, driven by negative investor sentiment. This sentiment is influenced by uncertainties surrounding new rental regulations and the swift, significant rise in interest rates. The social problems on the housing market have increased the political pressure to intervene. Proposed policies often overshoot their target or even exacerbate the problems on the housing market and make investors reluctant to make new investments. Short-sighted policies therefore have a counterproductive effect in terms of reducing the housing shortage.

Some investors are now reconsidering their residential activities in the Netherlands. Some large portfolios are known to be currently on the market. Under these market conditions, the potential group of buyers for these large portfolios is very small; they operate according to more opportunistic strategies and more often than not are working with leverage. We therefore expect these transactions only to be realised at significant portfolio discounts, offering potential buyers their higher sought after yields. Finally, financers are increasingly demanding that investors draw up a sustainability plan when purchasing existing complexes. Investors will also price this in. Both these trends are reason for us to expect a higher upward yield correction in the short term for older, non-sustainable real estate and for large portfolio transactions.

At the other end of the yield spectrum, we see an increasing group of investors who, given increasing urbanisation and the decline in the affordability of housing, are looking with great interest at the possibilities of impact investing, with its stable income flows and the low-risk profile of affordable rental properties.

These trends are also reflected in the development of yields. The figure below shows that the yield spread between core and lower quality residential real estate and the median gross initial yield for residential investments has been decreasing since 2013 until 2022. A result of a maturing market gaining more traction from investors. Higher interest rates and negative market sentiment have resulted in an higher median yield and a bigger yield spread in 2023. At Bouwinvest, we expect that the yield spread will further increase the coming years. This will be the result of a bigger variety of investment opportunities (brown vs. green, new-build vs. existing) but also investment strategies (opportunistic and value-add vs. core and impact investments).

Quality difference of residential real estate increases in 2023 as reflected by the gross initial yield



Source: StiVad edited by Bouwinvest (2023)

Dutch Market Outlook 2024-2026

Office market

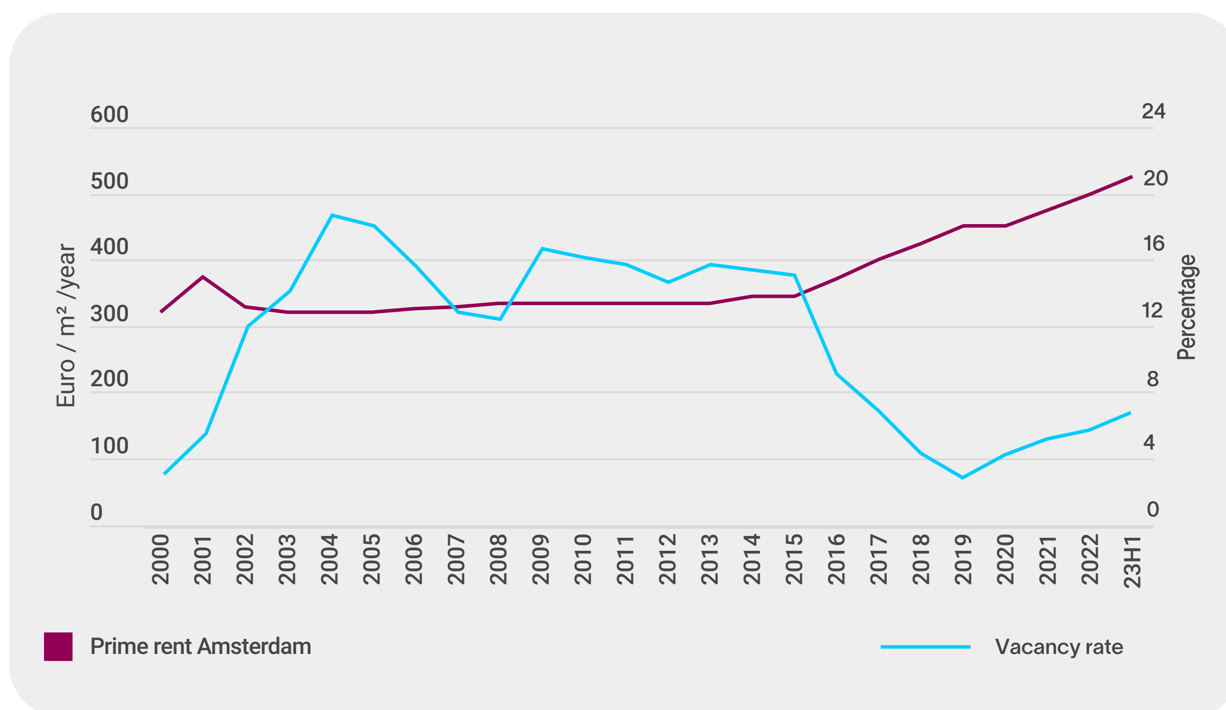
Central Park, Utrecht

The rebirth of the office market in 2015

Due to the enormous amount of new office development around the turn of the millennium, vacancy started to rise sharply in Amsterdam in this period and peaked at 18.7% in 2003. In the period to 2015, vacancy was never lower than 12.5%, but as of that year vacancy rates started to decline sharply as vacant offices were rapidly converted to other functions and occupier demand picked up again.

The relationship between vacancy and rental price development is strong and clearly visible in the figure below. During the 2002-2015 period of high vacancy, top rents remained flat. Rents (finally) started to rise again only when vacancy rates started to fall after 2015. The graph below is for Amsterdam, but all other major cities in the Netherlands paint a similar picture.

Strong relation between vacancy and headline prime rents in Amsterdam



Source: JLL, edited by Bouwinvest (2023)

"The office market is facing a transition due to the combination of working from home, the sustainability challenge and the concentration of occupier demand."

Working from home

The 2020 Covid-19 outbreak meant that offices were temporarily used very sparingly and that working from home became the norm rather than the exception, even among people who had previously barely worked from home. Office take-up remained low, while vacancy rates did not decline any further (although this was almost impossible in prime locations) and rent increases ground to a standstill. The office market entered an intermediate phase, with many companies taking pause and starting to think about the role the actual office should play in the post-Covid period, as well as the optimal location and the required surface area that came with it. As we expected at the time (see the previous Outlooks), this had no immediate effect on vacancies. Only recently have we seen an acceleration in the number of companies consolidating locations, subletting floors and renting flexibly.

For the office market as a whole, Bouwinvest still expects a maximum of around 10% of the current office stock to become redundant. And we expect the surplus to mainly arise at secondary and tertiary locations. The focus of companies on the most accessible and vibrant locations is permanent and because the number of square metres that companies rent is declining due to working from home, the best locations are coming within reach of more and more companies. However, even these prime spots will not escape the short-term increase in vacancy rates. It will take time for the office market to settle into a new equilibrium.

Major market developments and potential impact on offices by quality rate

Major market developments	Prime office properties	Secondary office properties	Tertiary office properties
Increase in WFH	Short-term increase in vacancy; long-term positive effect	Increase in vacancy	Potentially highest increase in vacancy
Higher interest rates	Hardest hit due to lowest initial yields (buyers using financing)	Some direct effects (purchased by funds, opportunistic and value-add investors)	Some direct effects (purchased by private investors)
Increasing unemployment	Largest cities and prime properties are most resilient	Some negative effects	Some negative effects
Increasing sustainability demands / regulations	Investing in sustainability has best chance of paying off in lower vacancy and higher rents	Investing in sustainability has lower chance of paying off	Investing in sustainability has lowest chance of paying off
Increase in flex office renting	Same effects everywhere		
Sites for new office buildings	Highest demand and highest rent; despite high construc-tion costs still feasible	Becomes feasible again with lower construction costs	Difficult to make feasible taking high sustainability regulations into account

Positive effect   Negative effect   Strong negative effect

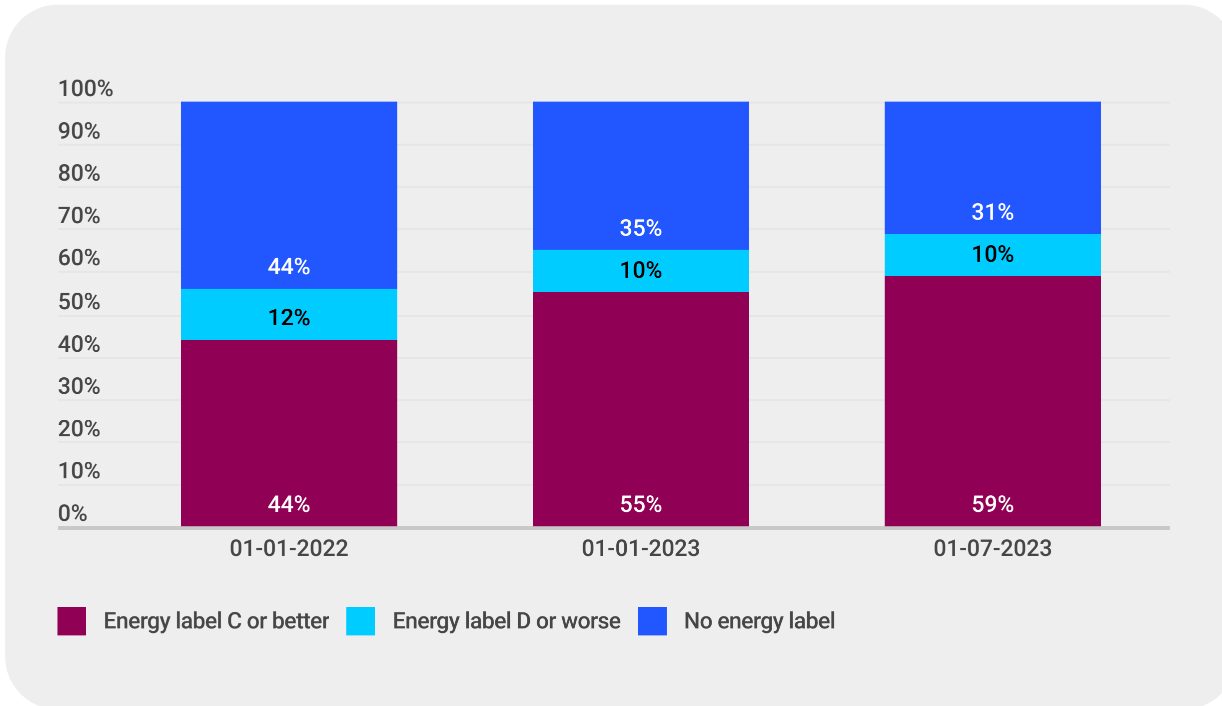
Source: Bouwinvest (2023)

Finally, Bouwinvest expects the growth of flexible renting to continue for the time being, while companies will pay increasing attention to the design and 'health' of their offices, as well as the services and quality offered to employees. We also expect companies to encourage employees to come to the office at least three days a week and that employees will mainly continue to use Mondays, Tuesdays and Thursdays for this purpose.

Sustainability in the office market

The previous image already referred to increasing sustainability requirements. In the Netherlands, since 1 January 2023, offices must have at least energy label C to be rented out (listed buildings excepted). Owners are still within a transition period during which they must demonstrate that an upgrade is underway. Nevertheless, this does place considerable pressure on the part of the office market that does not comply with this requirement and that will require significant investments to do so. Part of this office stock is expected to be taken off the market eventually as a result of this legislation. This will mainly affect offices in less attractive locations, where investing in sustainability is less likely to translate into a higher occupancy rates and higher rents.

Energy labels office market the Netherlands



Source: RVO.nl; edited by Bouwinvest (2023)

Ultimately, the bar is much higher: from 2050, all real estate will have to meet the Paris Proof level, which means that offices will be allowed to use a maximum of 70 kilowatt hours of energy per square metre per year. All long-term investors, very much including institutional investors, are already fully taking this into account. The costs that will have to be incurred to upgrade the asset in question to (a minimum of) Paris Proof level are generally assessed when investors look at potential acquisitions.

Recent research by among others Eichholtz and published in ESB shows that offices with at least a C label are now worth 20% more than offices without a label. That difference is mainly due to the sharp decline in the values of offices with a G label (the worst label). There is no significant difference yet on the rental side. Whether or not you have a C label does not yet play a decisive role (but will in the short term).

In Bouwinvest's opinion, rent increases will only apply to offices that meet the highest sustainability requirements (and where higher rents are partly recouped in lower energy costs). Investing in office buildings to bring them to the Paris Proof level is easier to calculate in the best locations in the Netherlands, where demand is the strongest, rents can grow and the risk is therefore more limited.

New construction versus redevelopment

New construction is currently extremely difficult to realise in the Netherlands due to high and rising construction costs (further increased by the necessary sustainability requirements), the decline in valuations and the construction restrictions as a result of the nitrogen problem. This also means that the number of investment opportunities in new-build offices will be limited.

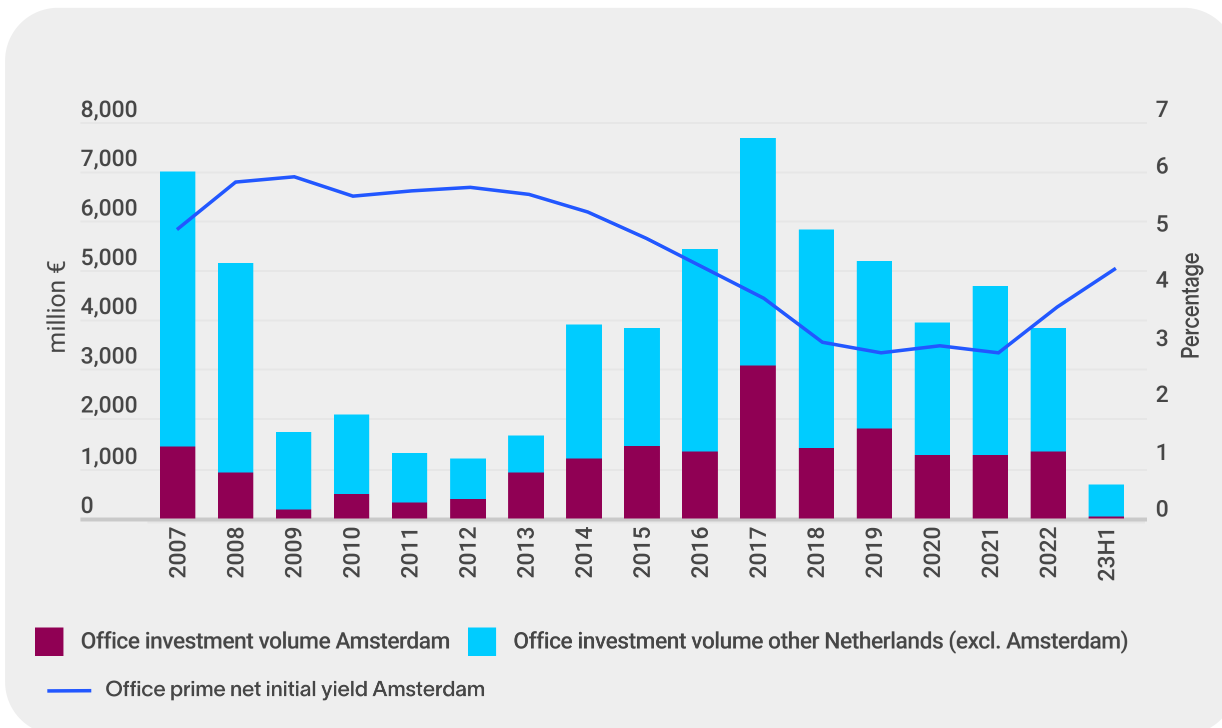
This will shift the focus to the purchase of (upgraded) existing offices. For the institutional part of the market, this involves buildings that can be made Paris Proof and are located in multifunctional, vibrant locations that are easily accessible by public transport. Energy label C offices in better B- locations are also interesting for investors who are further along the risk spectrum. There will be no new-build competition in the short term and if they can also be converted into homes in the long term, there is a fallback option.

Challenges and opportunities on the office investment market

In the first half of 2023, the investment volume of offices came in at a meagre € 650 million, remarkably with barely any transactions in Amsterdam. The reasons for the general decline are known: high interest rates and financing costs, the uncertainty regarding the general development of the office market and the continuing write-downs on the office market. Another potential factor is the fact that the uncertainty regarding the ultimate costs of making new acquisitions Paris Proof is creating a larger gap between the buying and selling parties. The fact that rents for prime office stock continued to grow had a somewhat dampening effect on the capital decline.

But why does Amsterdam seem to be hit harder? Here the difference between bid and ask prices plays the biggest role. There remains a clear interest among purchasing parties for office real estate in Amsterdam, but they would like to see the general market uncertainty translated into adjusted sales prices. Sellers do not want to deviate too much from historical initial yields and will otherwise just keep hold of the office properties.

Office investment volumes and prime net yields



Source: JLL (2023)

The rapid and large depreciation of the office market probably also means that the floor will be reached quicker, which is essential to get the investment market going again. We saw this after the GFC, when depreciation continued in small steps over a long period of five years. Bouwinvest does expect a further (more limited) write-down in H2 2023 and H1 2024, after which the market will slowly return to positive territory. This re-pricing will generate buying opportunities, especially for non-leveraged buyers, as financing costs are substantial due to higher interest rates.

Dutch Market Outlook 2024-2026

Retail market

Parkweide, Ede

Retail market heavily affected by major market developments

Over the past 10 to 15 years, we have seen steadily increasing growth in online shopping, the fallout from the GFC and, most recently, the impact of the sharp rise in interest rates and inflation rates, as a result of which we are now living in economically uncertain times. These trends have all had a direct impact on the retail real estate market. However, the experience segment (also: high streets, city centres) and the convenience segment (also: local shopping centres; daily shopping centres) have not responded in the same way.

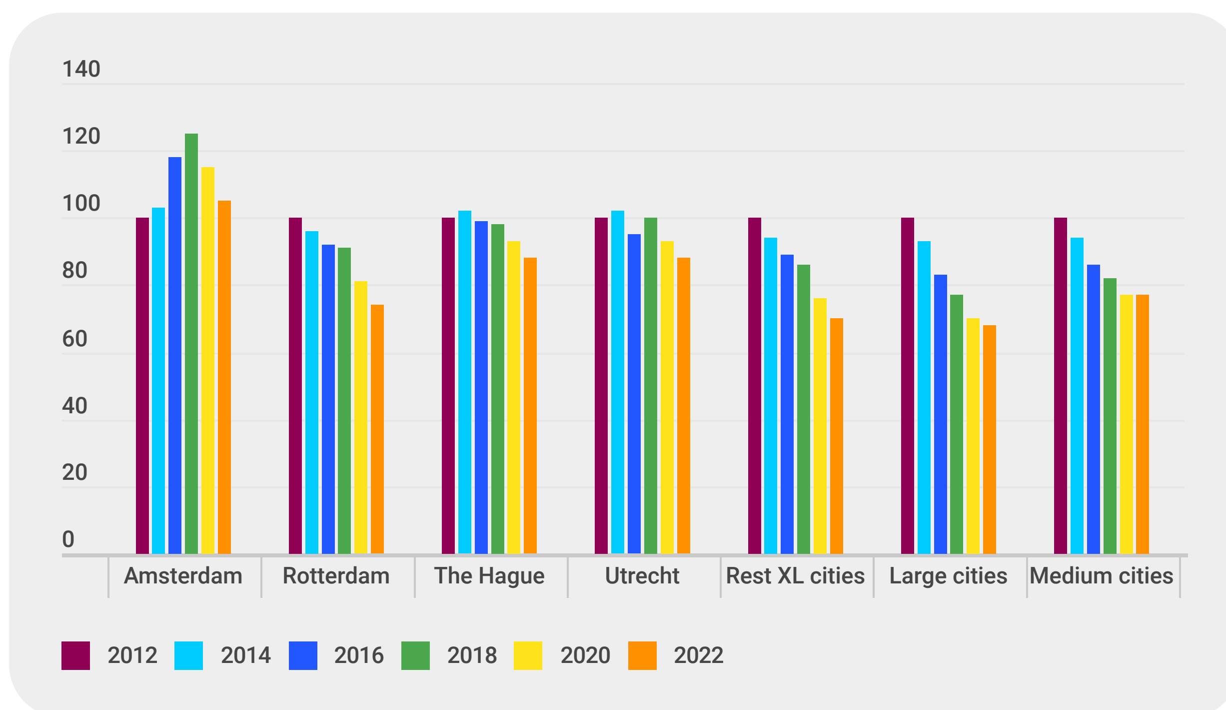
There are substantial differences in the functioning of local shopping centres and city-centre shopping areas, both in terms of the user and the investor market. Because these differences have an impact on the current era and the forecasts for the future, we will first take a brief look back, focusing primarily on MSCI annual data for the period 2013-2022.

A tale of two subsectors

Experience retail (high streets)

The effects of the GFC, Covid-19, but especially the continued growth of online shopping hit the non-daily shopping sector harder, and this is a sector overrepresented in the main shopping streets. The average absolute retail turnover of the stores has therefore been under pressure for a long time and this gradually translated into a decline in market rents on the main shopping streets in the period 2013-2019, with the exception of the largest cities, which were able to avoid this. The decline in rents is also partly a correction of the sharp increase in rents in the period 2005-2013. In the period 2020-2022, Covid-19 in particular had a huge impact on the experience sector and we saw a clear acceleration in the market rental decline, especially in the largest cities.

Market rental growth index retail experience sector 2012-2022

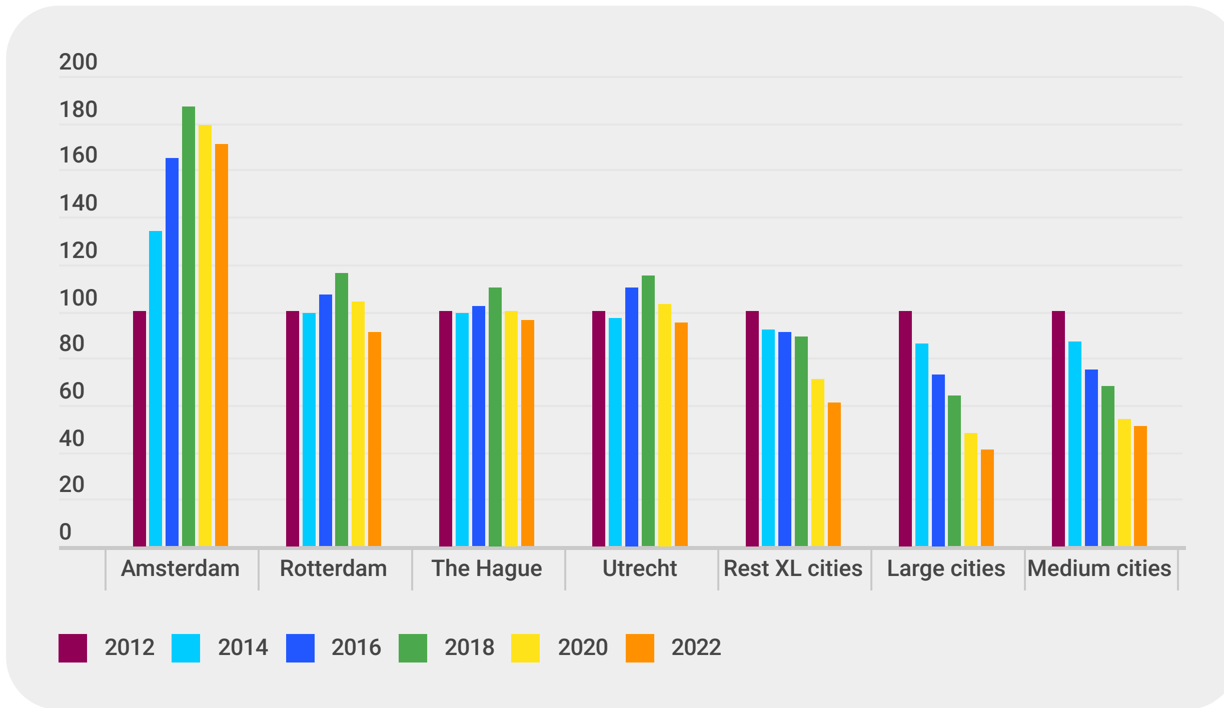


Source: MSCI (2023)

Roughly speaking, the same trend applies to capital value development. The decline in rents is reflected in a decline in values, something the largest cities were also able to largely avoid until the outbreak of Covid-19. The largest cities were subsequently hit harder during the Covid-19 period. In addition, the first effects of rising interest rates also became visible at the end of 2022 and these effects were also the most substantial in the largest cities, as that is where net initial yields were the sharpest.

"The retail market of the coming decade will centre around the optimisation of location strategies combined with far more focus on sustainability."

Capital growth index retail experience sector 2012-2022



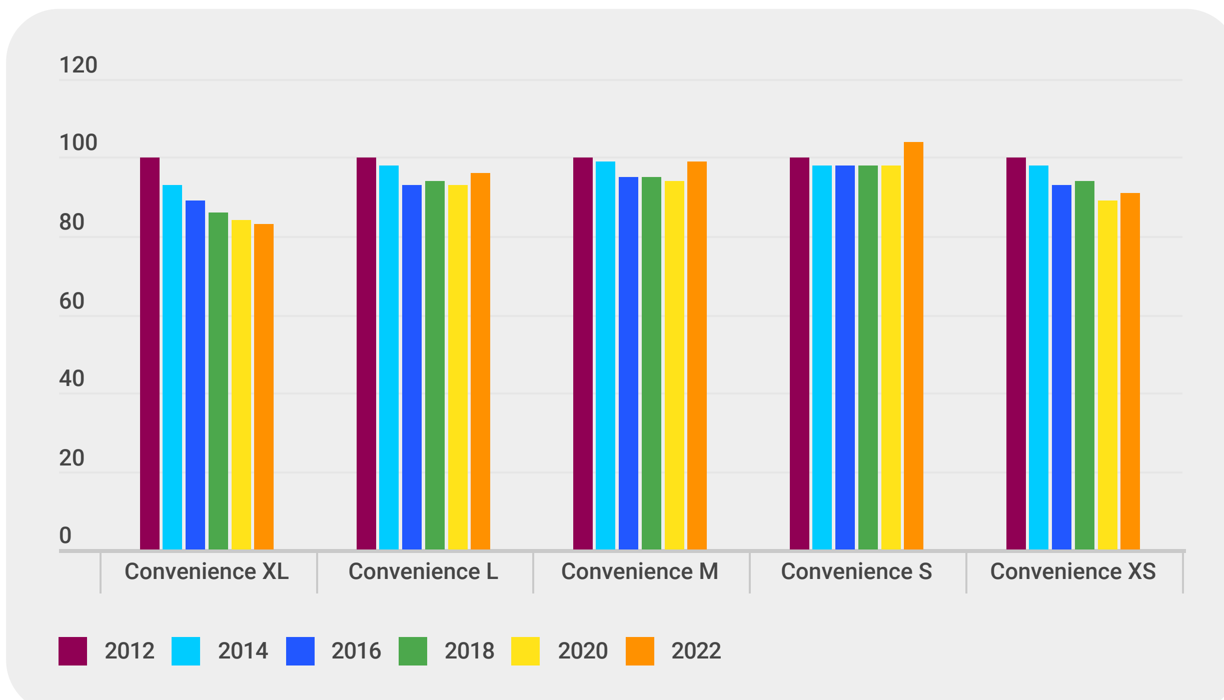
Source: MSCI (2023)

This meant that during the period of recent interest rate rises, which started to affect the real estate sector from mid-2022, high streets were hit even harder: both a sharper drop in rents and a larger increase in net initial yields. The result is that the investment market has virtually ground to a standstill over the past four quarters and investors are only willing to bid when particularly attractive properties came onto the market.

Convenience retail (daily shopping centres)

Regarding the convenience sector, the larger the shopping centre, the greater the share of non-daily offerings is. This non-daily part is much more strongly influenced by the growth of online shopping than the daily offering. As a result, MSCI data shows that the smaller shopping centres have a much better average rental development than the larger centres. This market rental development was slightly negative right across this sector until the last two years of this period: in 2021 and 2022, we saw a significant market rent increase, especially in small and medium-sized centres.

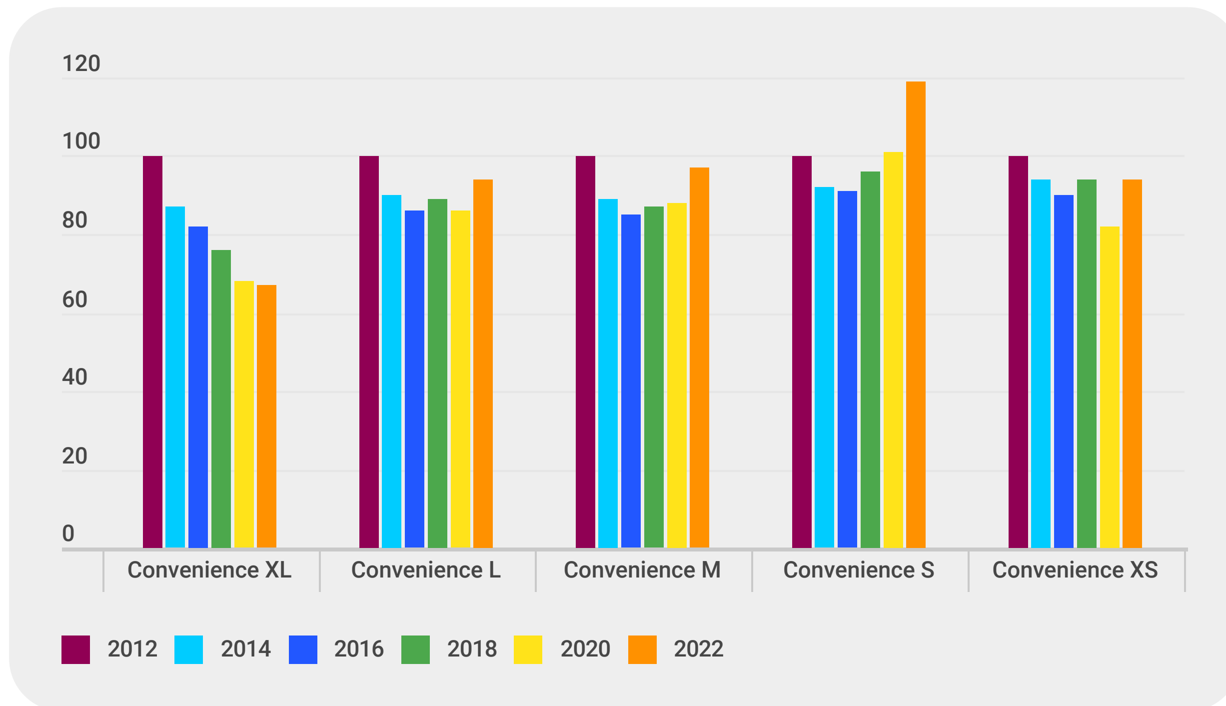
Market rental growth index retail convenience sector 2012-2022



Source: MSCI (2023)

We see the same trend in the capital value development. A gradual decline in the period 2013-2016, after which small shopping centres began a cautious rise in value, followed by medium-sized and large centres. The value growth for these centres accelerated significantly during the Covid-19 period, in which this sector benefited from the decline in visits to city centres, the closure of the catering industry and the increase in working from home. At the same time, XL convenience centres are, as expected, lagging behind and recorded a slow decline in values throughout the period.

Capital growth index retail convenience sector 2012-2022



Source: MSCI (2023)

If we zoom in on the period of the recent interest rate increases, starting from mid-2022, we see that the rental growth in this segment has largely offset the recent yield shift, continuing to make this type of property much sought after by investors.

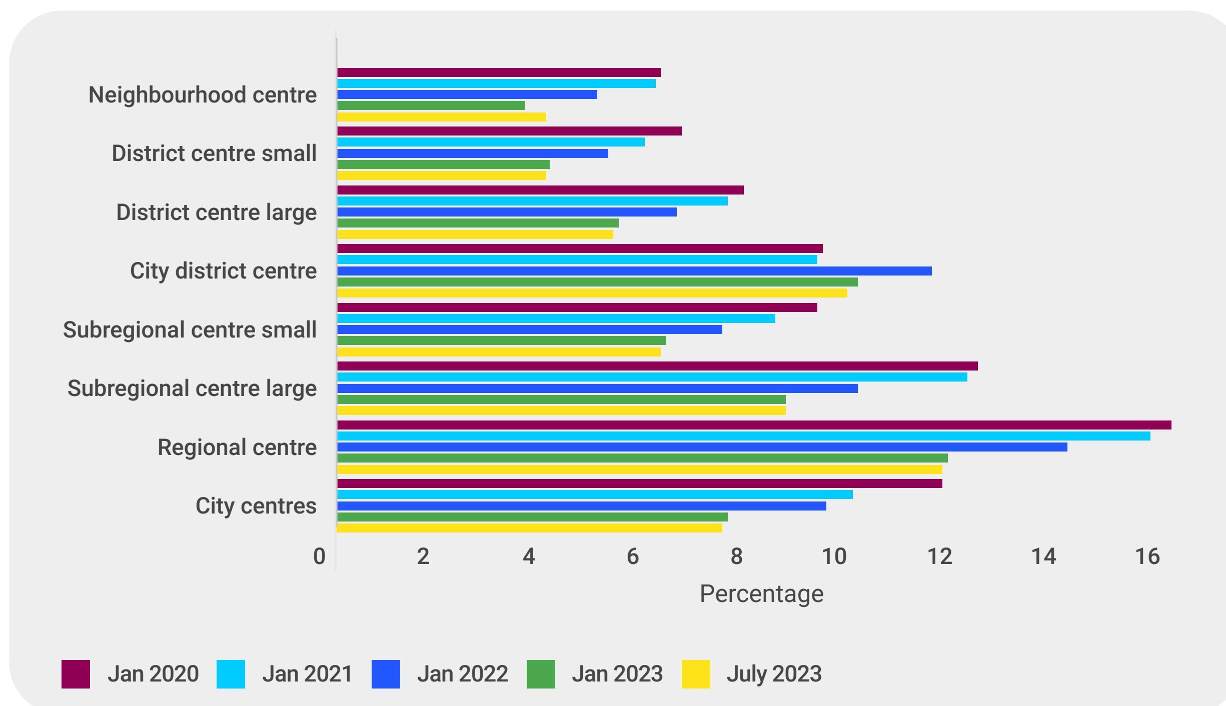
New constructions and vacancy

The Dutch retail market is very highly regulated. This has the disadvantage that it can hinder competition, but the advantages are that virtually everyone in the Netherlands lives within walking distance of a daily shopping centre and that city centres have not been sacrificed to generic out-of-town centres, as is the case in many other countries. Adding new retail stock is only allowed within the strict limits of the zoning plans and happens almost exclusively in conjunction with the development of new residential areas. This has ensured that, even in better times, there was no major increase in new retail space.

Conversely, municipalities have been increasingly supportive in terms of changing the destination of retail units to non-shopping destinations. Municipalities are also actively thinking along with owners about merging retail plinths in order to create more attractive retail floor areas. By do this, municipalities are trying try to keep core shopping areas compact and attractive.

As a result of the above and despite the challenges that the retail market has faced and continues to face, the total vacancy rate in the Netherlands has remained relatively stable between 2015 and 2020 and subsequently even declined slightly, both in the number of stores and in floor space.

Vacancy by major retail destination 2020-2023



Source: Locatus (2023)

As a result of the above and despite the challenges that the retail market has faced and continues to face, the total vacancy rate in the Netherlands has remained relatively stable between 2015 and 2020 and subsequently even declined slightly, both in the number of stores and in floor space.

Like the rest of the real estate market, the retail sector is having to deal with high construction costs, along with strict sustainability requirements and the building limitations posed by the nitrogen crisis. Additionally, many municipalities are struggling to connect building projects to the already congested power grid and this is proving an increasing hindrance to the completion of these new projects. These limitations are creating additional barriers to the potential construction of new retail stock.
All in all, this means that vacancy is relatively limited and there are hardly any new retail stock developments. Thus, the main challenge for the sector is to make the entire existing stock more sustainable.

Making retail stock more sustainable

Until recently, retailers focused their environmental attention mainly on improving the footprint of their product range. Supermarkets were the first to explicitly take the sustainability of their real estate into account. It is an energy-intensive sector that is explicitly looking for sustainable accommodation, in combination with the energy savings this produces.

However, the energy crisis has given a major impetus to other retailers to actively look at sustainability and energy consumption of the retail properties from which they operate (often as tenants). Bouwinvest is seeing more and more retailers submitting requests to improve the sustainability of their stores themselves.

In the context of sustainability (and also costs), we are also seeing an increasing number of retailers (including the likes of Wehkamp, H&M and Zara) charging money for returning items purchased online. The additional contributions currently range from €0.50-€2.00, but it is a start in an attempt to limit rampant ordering and returns.

Finally, investors are placing greater emphasis on the sustainability of properties in their strategies. Institutional investors are explicitly including the costs required to make properties Paris Proof in the acquisition process. This is driving an increasing yield spread between green and brown assets.

Optimisation

The effects of developments over the past 10-15 years have led to the ongoing optimisation of the retail market:

- Because part of store turnover has shifted online, retailers need larger catchment areas to generate sufficient turnover. The smaller cities then get the short end of the stick and some chains are disappearing from these locations.
- In the city centres, retailers and investors are aiming for the very best locations within the A1 shopping area, which is therefore becoming more compact (and sometimes shifting).
- New retailers are cautious about opening new stores and mainly start in the largest cities.
- Real estate that no longer fully meets the demand of retailers is disappearing from the market (often by merging with neighbouring properties, sometimes by giving it a completely different function). This is making inner cities more compact.
- Scaling up continues in the best locations in the largest cities: chains combine all their strength in large, attractive flagship stores.
- Over the past 10 years, the number of convenience centres has grown slightly, but continues to lag population growth. At the same time, the number of shops in those centres has declined and the total size has increased: here, too, we are seeing an increase in scale.

At the same time, every retail store and every retail chain is faced with sharply increased costs due to increases in wages, energy costs, purchasing costs and rents. In the past period, retailers were able to pass the costs on to customers by raising prices, but we are now seeing consumers starting to tighten their belts. And as a significant number of retailers still have repayment obligations for debts incurred during the Covid-19 pandemic, bankruptcies will likely increase further in the coming period. Also because the number of bankruptcies was exceptionally low in the recent period.

Dutch Market Outlook 2024-2026
Hotel market

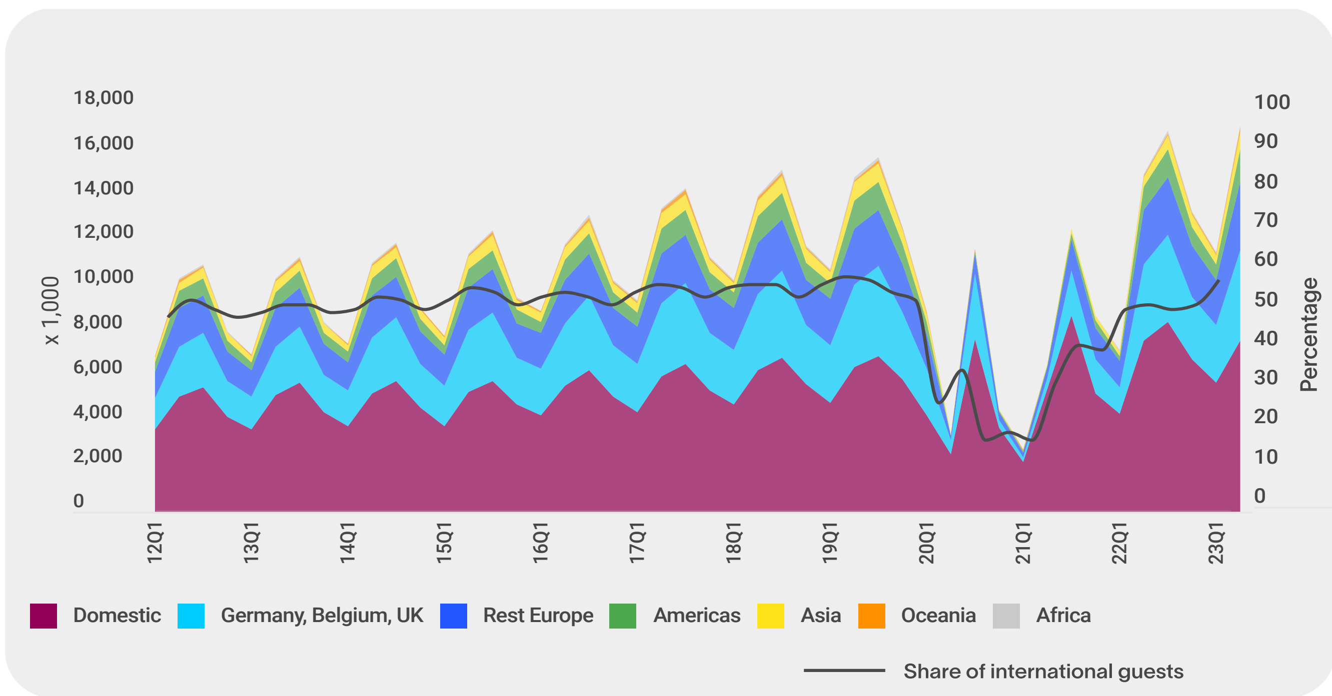
Boat & Co, Amsterdam

Travel as an essential need

Decades of data on leisure travel make one thing abundantly clear: the only way is up. More people are travelling, people are travelling more often and people are travelling greater distances. This trend is based on a combination of factors, including but not limited to, income growth and population growth (rise of the middle class), the increase in leisure time, the emergence of budget carriers, the diversification of the hotel offering, the rise of city marketing, the growth of social media and the experience economy (supported by social media), globalisation, digitalisation (ease of booking, comparisons) and the blurring of visit reasons (including mixing business and private reasons).

The Covid-19 period did, however, deal a major blow to the travel industry. The hotel sector suffered significantly from the restrictions that applied at the time to (international) travel and accommodation. On the consumer side, this led to pent-up demand and in the post-Covid period it is clear that many travellers are now looking to catch up on the trips they missed and opportunities they had to pass up, a trend sometimes called 'revenge travel'. This trend is also supported by the fact that a fair share of households saved money during the Covid-19 period and thus built up a buffer that could be spent on travel after Covid-19. This is a global phenomenon and also visible in the Dutch hotel data: since Q2 2022, the number of overnight stays in hotels in the Netherlands has been at a record high.

Number of overnight stays in hotels in the Netherlands by origin of visitors



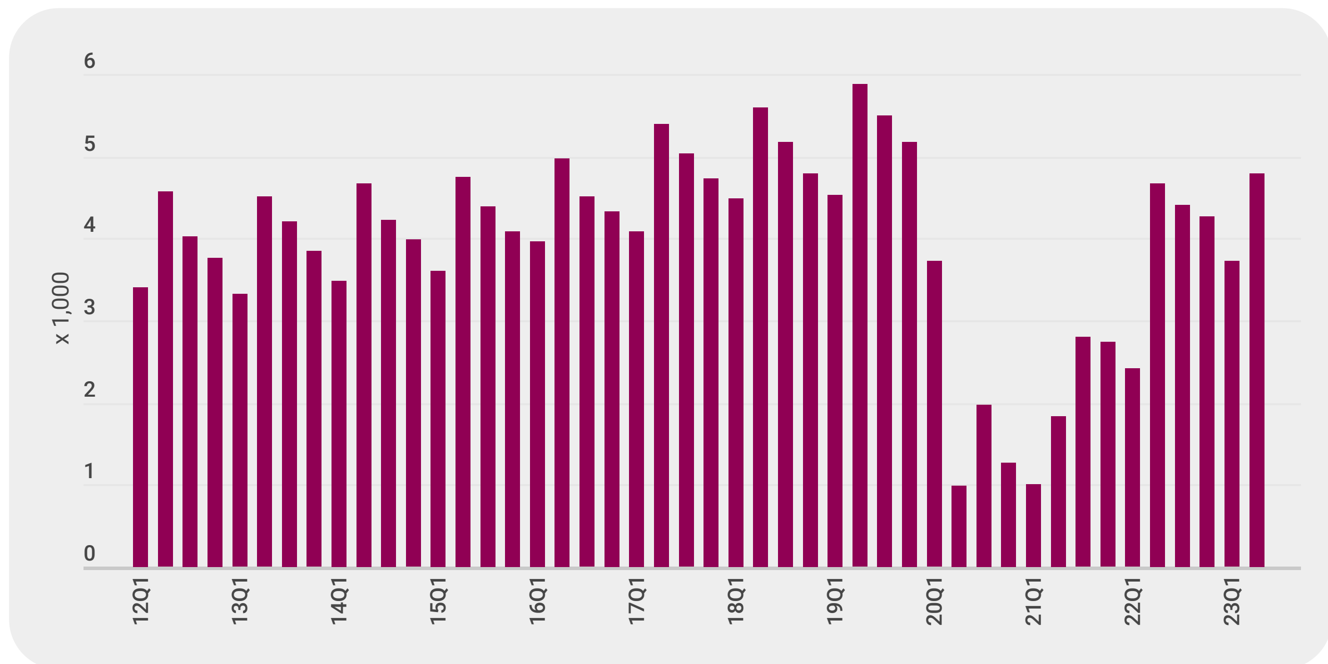
Source: Statistics Netherlands (2023)

The right-hand axis of the graph clearly shows that the share of international tourists in overnight stays grew steadily: from 48.8% in 2012 to 55.4% in 2019 (the last full pre-Covid year). This share fell sharply during Covid-19 and the Dutch hotel recovery was mainly due to greater growth in domestic tourism, which somewhat compensated for the lack of international guests. However, in the last full quarter for which data is available (Q2 2023), the share of international guests had already increased to 55.7%, only slightly lower than the record high shares in Q2 2019 and Q3 2019. The conclusion, therefore, is that international tourism is now back at full strength.

"More than ever, people are looking for new experiences – travelling is an important part of that."

And business tourism? That is the one part of travel sector that actually remains behind. On an annual basis, the trend can be seen in the graph above. The number of business overnight stays, also lagged significantly in the first half of 2023: -18.1% compared to the peak in H1 2019. Bouwinvest does not expect the share of business tourism to recover to historical levels for the time being, due to finance, sustainability and efficiency.

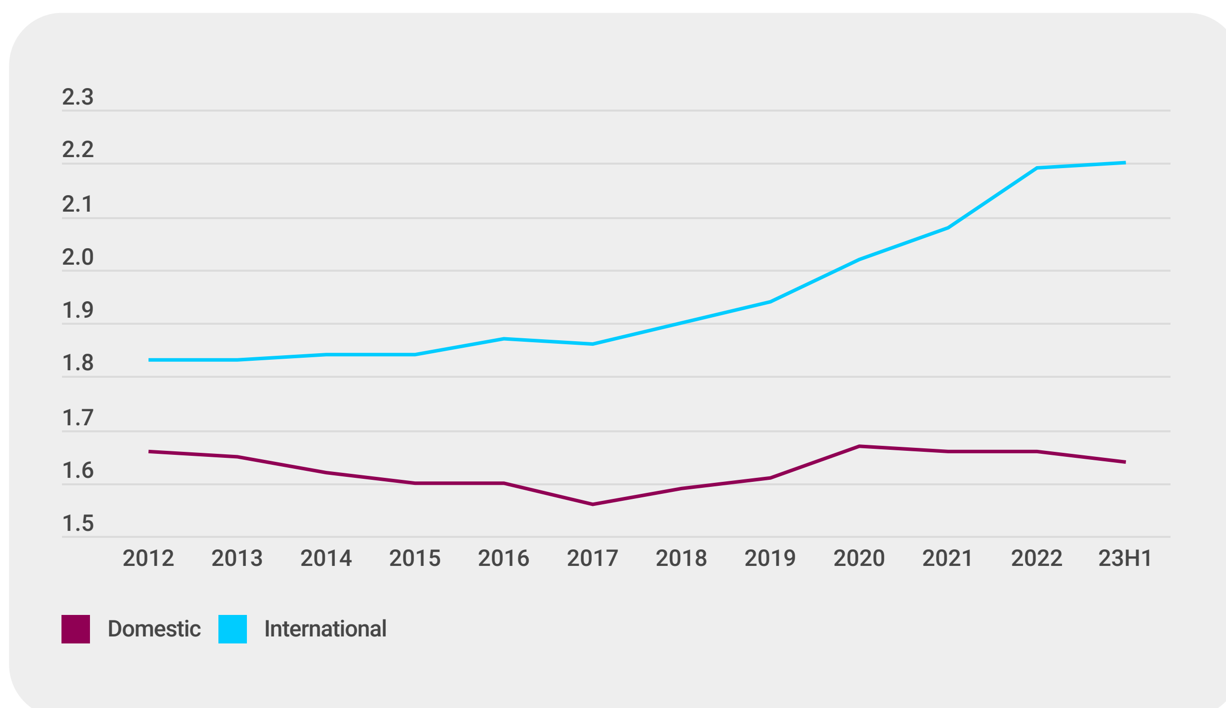
Number of overnight stays in hotels in the Netherlands by business travellers



Source: Statistics Netherlands (2023)

Notably, the length of the average stay of foreign guests in a hotel is increasing (see graph below). There is no hard substantiation of this trend yet, but it could be that business visits are becoming more efficient (travel less often but stay longer), or that travellers combine both business and leisure during their visits. This trend includes people going on a so-called workcations. As work can increasingly be carried out online and remotely and as employers are becoming increasingly accustomed to the idea of their employees working remotely, this is a trend that might grow substantially.

Average number of overnight stays in hotels in the Netherlands by origin of visitor

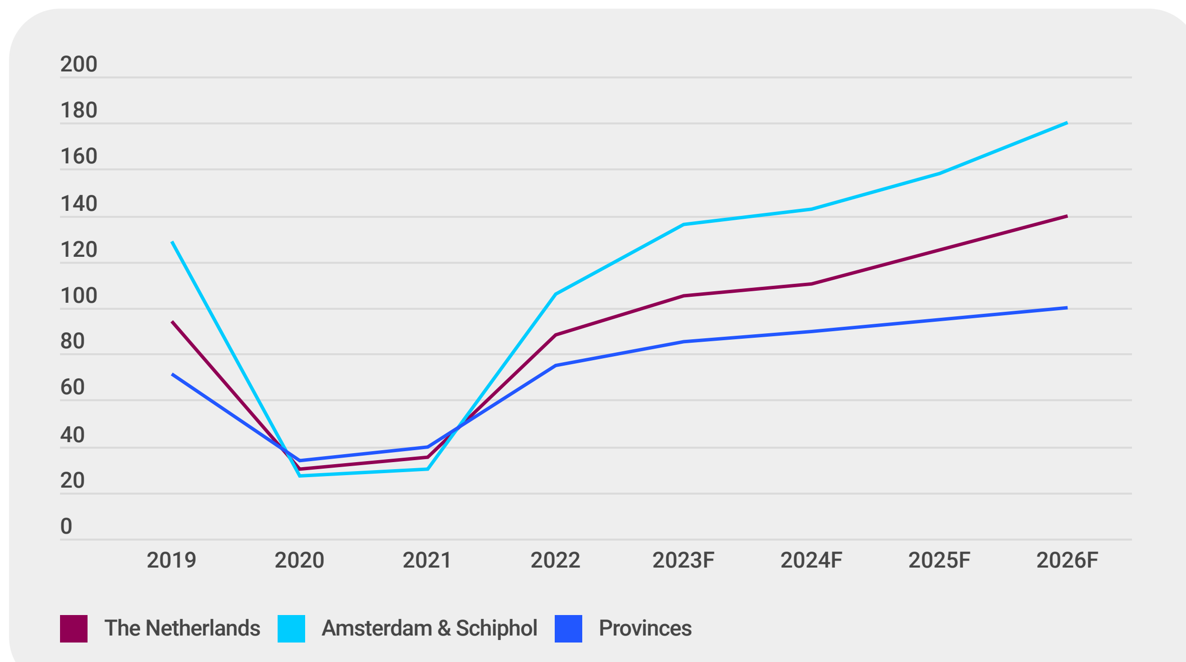


Source: Statistics Netherlands (2023)

The leisure market versus the economic cycle

The hotel sector, together with the retail sector, are the sectors with the closest connection to the real world economy. Despite the undercurrent of continued growth due to the trends mentioned above, the hotel sector is significantly affected by economic cycles. During economic downturns, consumers usually also cut back on trips and holidays. As a result, the demand for hotel rooms declines and hotels will then drop their room rates to compete with other hotels and attract tourists. This was clearly visible in the period surrounding the GFC, when it took 5-7 years for room occupancy and room rates to return to pre-GFC levels.

RevPAR (expectations) in the Netherlands



Source: JLL, edited by Bouwinvest (2023)

As described above, pent-up travel has triggered a strong return of tourism in the post-Covid world. Hoteliers increased their room rates to unprecedented levels and saw total room revenue (RevPAR) rise sharply. And all of this in an uncertain economic environment, in which consumer confidence has been at an unprecedented low level for 18 months and real disposable income is under increasing pressure. The question, however, is how long this will last and whether the current economic uncertainty might lead to a stagnation or even a slight decline of the short-term growth in overnight stays and room rates. In addition, the increased room rates put pressure on the affordability of hotel rooms, especially for the lower middle class.
The question here is when the tide will turn. If economic headwinds remain, this will ultimately have a negative impact on the tourism market and room rates will have to drop. But at the moment that is clearly not the case.

New supply

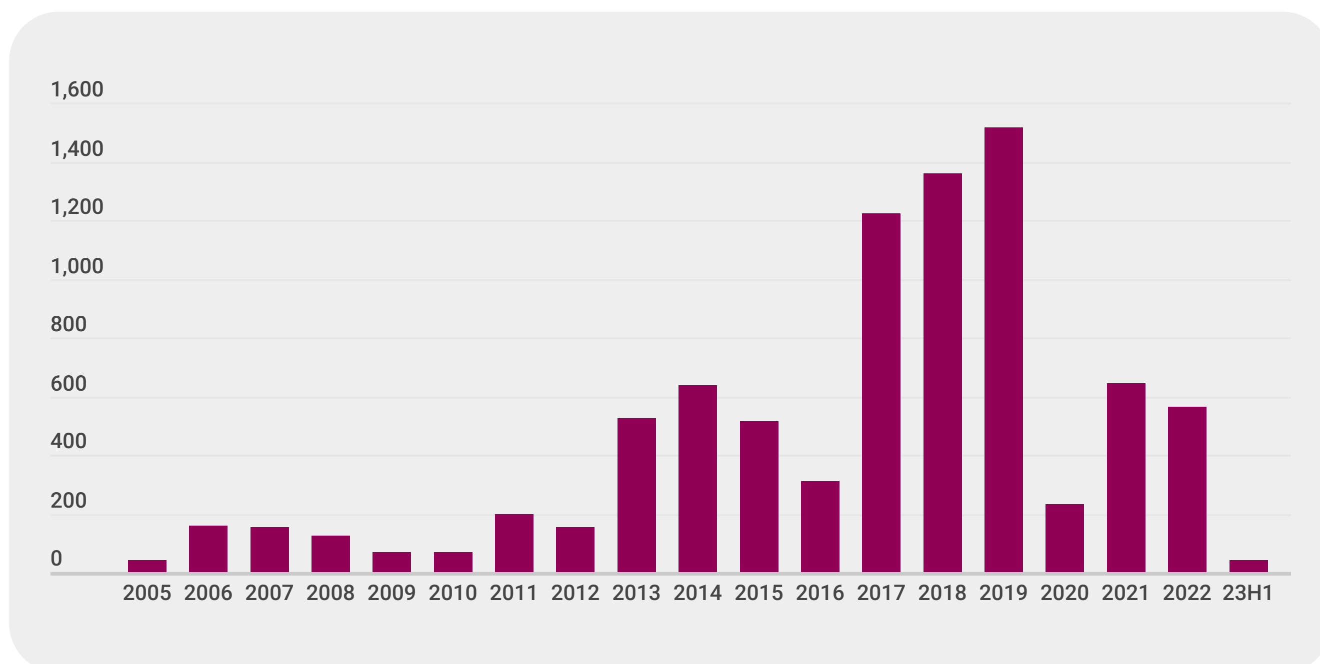
Tourism has become so huge that the most attractive cities in the world are struggling with an excessive influx of tourists. This also applies to Amsterdam, which is trying to channel tourism in various ways: significant restrictions on the construction of new hotels, limiting rental options through platforms such as Airbnb, actively promoting secondary alternatives around Amsterdam and significantly increasing tourist tax.
New construction is currently difficult to realise in the Netherlands due to high construction costs (further increased by sustainability requirements) and the need to curb emissions of nitrogen oxides, resulting in severe limitations on new developments.

Challenges and opportunities on the hotel investment market

The hotel real estate market has also been affected by sharply rising interest rates and the consequent decline in appraised values. However, as in a number of other subsectors, we have seen a significant increase in market rents, underpinned by the high demand for hotel stays, which has in turn led to higher room rates. This means that property values have, for the time being, fallen relatively modestly compared to the peak in mid-2022.

Because financing is still expensive due to high interest rates, non-leveraged investors have an edge when making hotel investments. These are, however, still relatively limited as the market is still in search of a new price equilibrium.

Hotel investment volumes

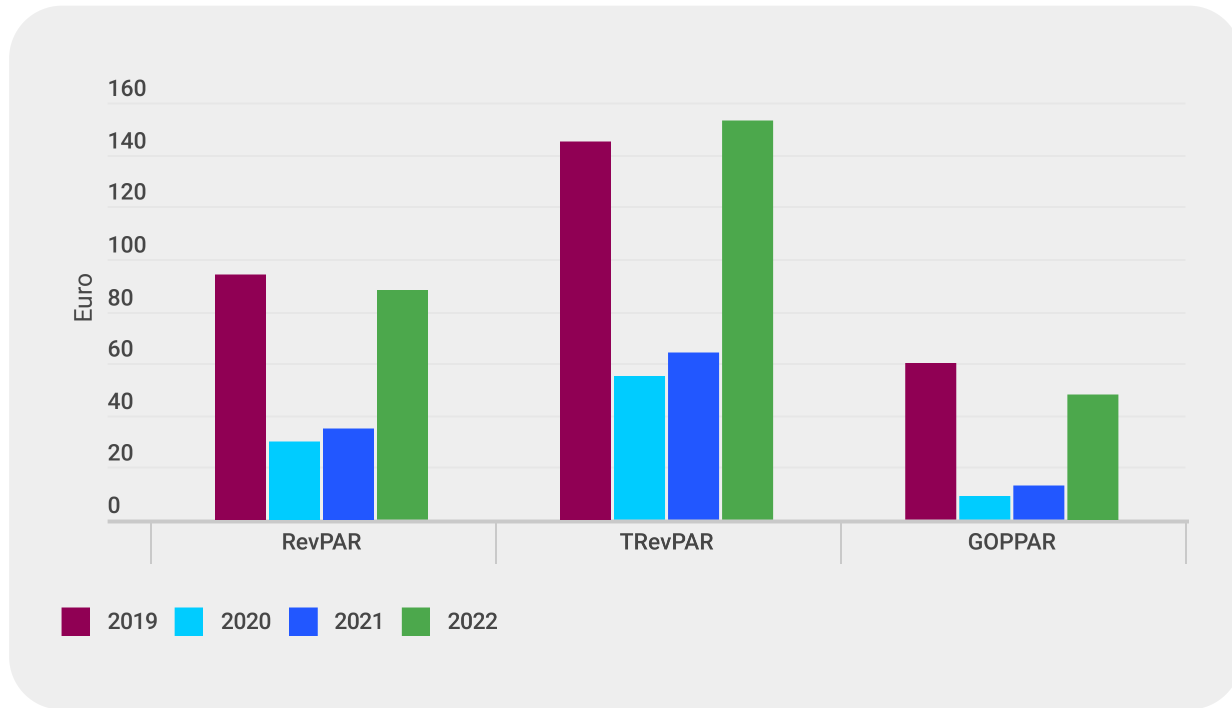


Source: JLL, edited by Bouwinvest (2023)

The aforementioned limited new construction developments in the Netherlands only further strengthen the position of existing hotels. However, almost all existing hotels score poorly when it comes to sustainability, and significant investments will have to be made to address this issue. This could become a significant underlying driver of hotel investment transactions in the coming period. Bouwinvest also expects the yield spread between green and brown assets to widen further in the hotel investment market in the coming period.

A final possible catalyst of the hotel investment market is the fact that while independent hotel owners saw revenues increase they also saw a similar rise in costs. High inflation led to substantially higher wages, higher purchasing costs and especially higher energy costs. This can clearly be seen in the graph below, which shows three key hotel metrics (all per available room): room revenues (RevPAR), total revenues (TRevPAR) and gross operating profit (GOPPAR). While the 2022 TRevPAR is clearly up from 2019, this is not the case for the gross operating profit, which includes operating expenses. This might result in an increasing share of owner-operators aiming to dispose of their real estate and focus on the operation, which could prompt an increase in sale and lease-back transactions.

RevPAR, TRevPAR and GOPPAR in the Netherlands



Source: Horwath (2023)

Dutch Market Outlook 2024-2026
Healthcare market

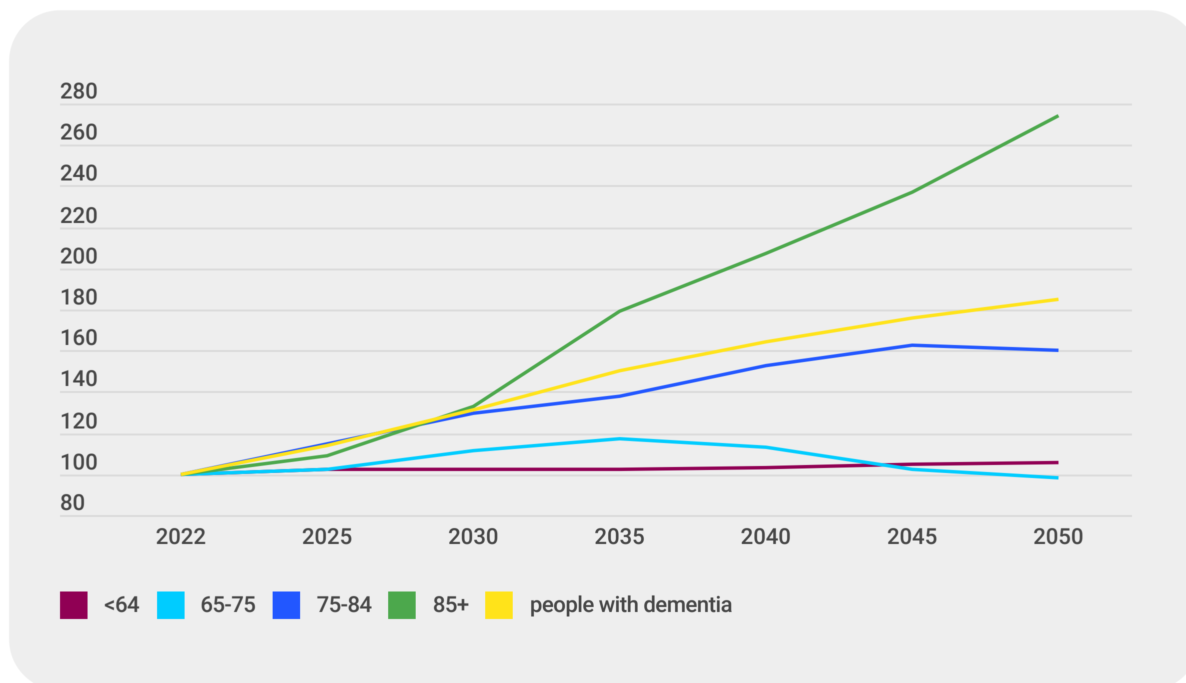
Legends, Utrecht

Challenges in the healthcare sector are shaping the fundamentals for healthcare real estate

Demographic, economic, and social trends are driving the need for a change in how healthcare in general and healthcare for elderly in particular will be organised in the future. The sector is seeing a shift from 'care' to 'health' and a continuing extramuralisation of care, whereby care and support will increasingly be provided at home and at locations other than in institutional nursing homes. This is a current theme not only in the Netherlands, but in many other countries in and outside Europe. Healthcare real estate will play a significant role in the solutions being considered, especially when it comes to providing the necessary quantity and quality of senior housing where elderly people can live independently for as long as possible and where care at home can be provided when needed. It is very likely that suitable senior housing will contribute to the postponement or even avoidance of traditional long-term care in nursing homes. However, this transition is also one of the biggest challenges that societies are now facing.

The demographic fundamentals clearly highlight the upcoming challenges. The latest data from ABF Research show that the number of people aged over 65 is expected to increase to nearly 4.9 million by 2050, an increase of more than 1.3 million or 38%. The largest growth will be in the age group of 85+, confirming the double-ageing trend. In fact, the current forecast shows that the population growth of the age group of 65-75 years will peak in 2035 and will then slow down and even shrink from 2045-2050, whereas the 85+ age group continues to show steep growth figures throughout the forecast period.

Forecast growth of population by age group and dementia 2022-2050 (2022=100)

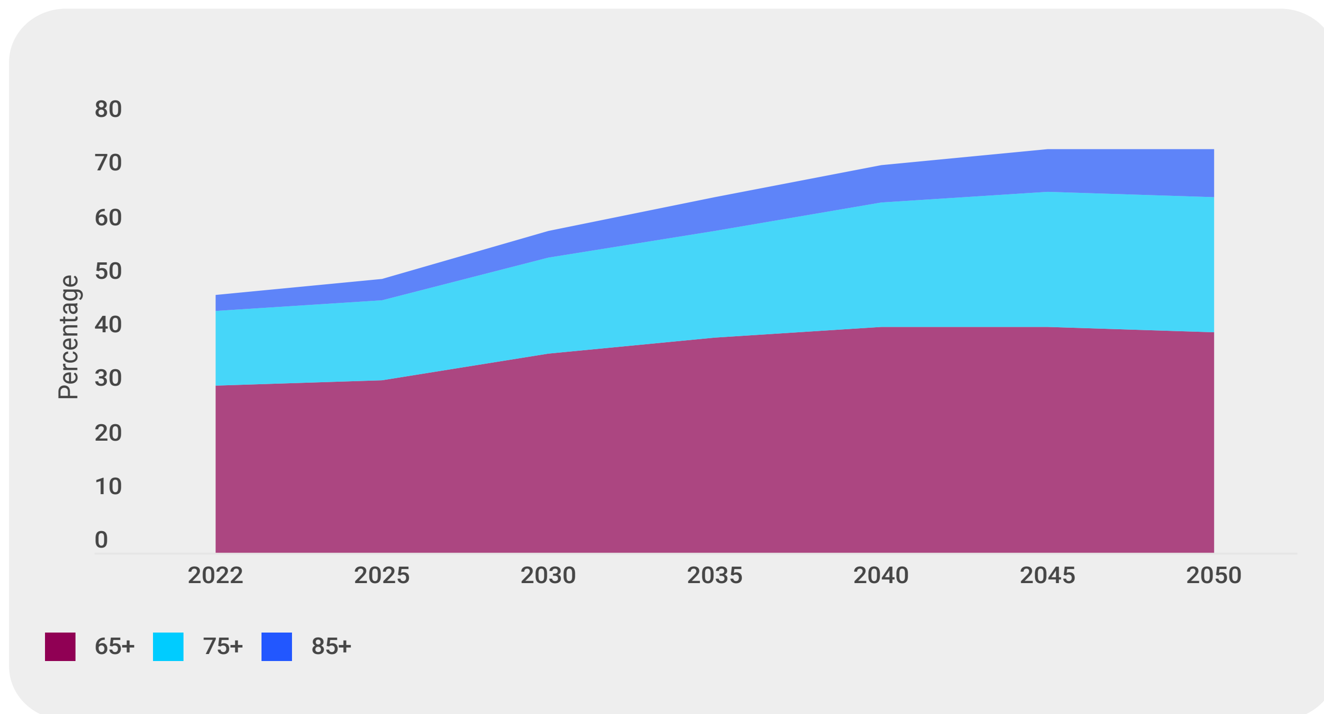


Sources: ABF Research and Vektis, edited by Bouwinvest (2023)

These demographics will definitely lead to greater demand from elderly people for more intensive and longer-term care, as old-age-related diseases, such as dementia, will also increase rapidly. Research by Vektis and Alzheimer Nederland underpin this with forecasts showing more or less a doubling of the number of people with dementia in the Netherlands, ranging from between 250 thousand and 290 thousand in 2022 to around 460 thousand to 600 thousand in 2050 (Vektis and Alzheimer Nederland, 2022).

The ageing trend is driving the emerging economic trend of rapidly rising costs of elderly healthcare. As a result, there is increasing pressure on the working age population to bear these costs. This is shown by the increasing proportion of elderly people as a percentage of the working age population, i.e. the old-age dependency ratio, which is set to rise to 41% by 2050 from 31% in 2022.

Old age dependency ratio by age



Source: Statistics Netherlands, edited by Bouwinvest (2023)
**figures are only for nursing and care including treatment*

The Netherlands already has one the highest long-term care spend per capita in Europe. The latest estimate from the Netherlands Bureau for Economic Policy Analysis (CPB) of Dutch healthcare expenditure shows that, if there are no changes in policy, collective healthcare expenditure will increase from almost 11% to over 18% of GDP between 2025 and 2060. The largest increase will be in long-term care.

Rising personnel costs are a significant driver of rising healthcare costs. This applies to both the cure and care sectors, but nursing and home care in particular are dealing with significant, and much needed, wage increases in new collective labour agreements. More expensive self-employed and temporary workers are also accounting for a larger share of total personnel costs. This share has risen to almost 10% due to structural personnel shortages and a high absenteeism rate of more than 8% of the workforce. (Intrakoop: annual report analysis Healthcare sector, 2023).

Given these demographic and economic realities, Dutch society is facing an enormous and urgent task of providing a substantial number of suitable senior living and care homes in the coming decades, as well having to deal with the exploding costs of (elderly) healthcare and the structural personnel shortages in the sector.

Surging demand for a diverse range of assisted living products

Stakeholders in the healthcare sector, including policymakers, share the view that the key to releasing some of the pressure on long-term care in nursing homes and reducing long waiting lists, lies in stimulating more elderly people to continue to live independently at home for more prolonged periods and avoiding a move to the institutional nursing home care system. This will require the realisation of significantly more suitable senior housing, preferably clustered homes, with the right building characteristics to provide efficient care at home. Technological innovations in the healthcare sector can also help to provide more efficient care and increase

the productivity of care workers. Another tool for further efficiency is the stimulation of more cooperation between the various domains from which elderly care (at home) in the Dutch healthcare system are funded. These are the Health Insurance Act (Zvw), the Long-term care Act (WLZ) and the Social Support Act (Wmo 2015).

This is precisely what the Living, Support and Care for the Elderly (Wonen, Ondersteuning en Zorg voor Ouderen, or WOZO) programme and ancillary policies are aimed at. Additionally, the Living and care for the elderly programme (programma Wonen en zorg voor ouderen) aims to accelerate the construction of at least 290,000 senior living apartments (i.e. 170,000 zero-steps apartments, 80,000 clustered homes and 40,000 clustered homes appropriate for nursing care) that are suitable for providing (future) care at home, along with actively helping the elderly to move to these houses in good time. Another target of this programme is to realise attractive living environments that are accessible for elderly people, have plenty of amenities and invite elderly people to stay active and meet other people.

To actually implement these programmes, Dutch society will have to take quite a few hurdles. In addition to the current challenging real estate markets, the most important will be to develop and build more demand-driven housing and environments for elderly people. One way to do this is by truly aiming to meet the housing needs and preferences of elderly people, and perhaps even involving them in the design stage. This will stimulate and encourage them to move more often and earlier to lifecycle-proof homes. Several studies, such as the Elderly Housing Monitor 2022, have shown that elderly people are less inclined to move from their current home, but also that they are more willing to move if the quality of the residential concept and, just as importantly, the quality of the living environment suits their needs. This is increasingly being recognised and underpinned by demand-based research that is looking into the housing preferences of elderly people and matching these with senior living concepts. For example, the Platform 31 thinktank has identified ten senior living concepts based on the most prevailing preferences of elderly people, while the Zorgsaam wonen platform has come up with six typologies.

The senior living concepts they distinguished range from more independent living, for example in apartment buildings, to more clustered and community living. Common preferences are the presence of community spaces and gardens where people can meet, form communities and, by doing so, increase vitality, reduce loneliness, and even counter dementia. Other common requirements include the presence of amenities, such as shops and restaurants, plus public transport within walking distance, as well as public space that is safe, recognisable, liveable, comfortable, and accessible. The availability of care in the neighbourhood is also seen as important. One senior living concept often mentioned as an example of co-creation is the Knarrenhof concept, which has already been built in Zutphen and which is being rolled out to several other municipalities in the Netherlands.

Separation of living and care is the trend in nursing home care

Since the implementation of the Long-term Care Act (Wlz) in 2015, new funding options such as the personal budget (PGB) and full home care package (VPT) have made it possible to receive care at home, in addition to intramural care in traditional institutional nursing homes. This has also stimulated the rapid growth of private care homes in the Netherlands, one of the main characteristics of which is the separation of rent for accommodation and additional services - such as meals and laundry - and care funded through the PGB or VPT.

The number of private care homes in the Netherlands doubled to approximately 585 in 2023 from around 291 in 2018 (Zorgkaart Nederland 2019 and 2023). In addition to this, the private care market became more differentiated in terms of pricing, as more concepts are now aimed at middle-income and even lower income elderly people with, rather than solely at the high-income group. This rapid expansion was mainly driven by the roll-out of a number of concepts, such as Stepping Stones (mid-segment) and Dagelijks Leven (lower and mid-segment) throughout the Netherlands and by the ongoing consolidation in the sector. The two largest players in the private care market are the French operators Orpea and Korian. They have acquired several care concepts over the past few years and together now account for around 30% of the total number private care homes in the Netherlands. Another 20-25% is owned by care providers with more than 10 locations in the Netherlands, such as Herbergier and Domus Valuas (Zorgkaart Nederland 2023).

Recent government policy is aimed at restricting the number of intramural nursing home places to the current 130,000 and moving less intensive elderly care outside nursing homes to 40,000 newly built places in clustered care-appropriate homes. As a result, more traditional nursing home providers have now also started implementing care models based on the separation of accommodation and care and on providing additional services, such as meals. As a result, the distinction between the private and regular intramural care sectors is becoming less clear and the nursing and care sector is becoming more differentiated.

The trend of increasing separation of living and care is also seen in the increasing share of VPT (full home care package) in the nursing and care sector with treatment, which increased to over 11% in 2021 from just under 6% in 2015.

We expect this trend of extramuralisation and continued consolidation of (private) nursing home care to continue in the coming years. The latter is also being stimulated by the weakening financial situation of care operators, who are being confronted with higher

costs for personnel, energy, food, transport, rent and maintenance for their buildings, as well as with lower income from the planned 1.7% reduction in government funding of their accommodation (NHC tariffs) from 2024.

Cooperation between healthcare players and investors can help tackle the challenges ahead

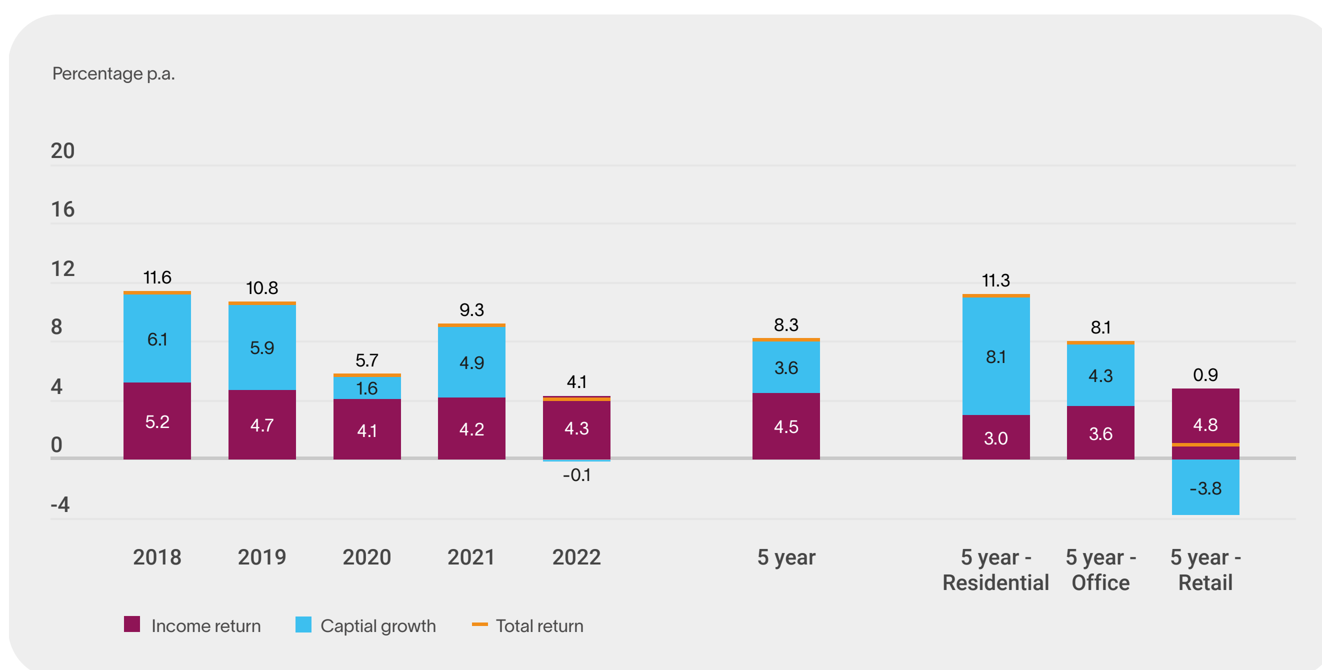
Healthcare institutions, healthcare authorities, health insurers, local, regional and national authorities, housing associations and developers are also looking to collaborate more as a way to tackle the major challenges that lie ahead in meeting the demand for elderly housing and care, as well as rising labour shortages.

In addition, institutional (real estate) investors are playing an increasingly prominent role and are willing to take more responsibility in terms of contributing for the longer term. When it comes to new forms of living, in which care is shifted from nursing homes to the home environment and the delivery of care is shifting from intramural to a complete package at home, institutional investors have expertise and know-how in residential markets in general and the rental market in particular. They also know about tenant needs and tenant engagement and can stimulate investments in sustainability. They see opportunities in investing in modern and sustainable care accommodation, for example through the redevelopment and upgrading obsolete buildings – including making them more energy efficient - in combination with sale -and-leaseback transactions. In turn, healthcare providers have the knowledge and expertise in long-term elderly care and the building requirements for providing care at home as efficiently as possible. In addition, more healthcare operators are seeing a weakening in their financial position and by working with investors through sale-and-leaseback transactions they can create more financial headroom for their core activities, as well as gain access to modern, sustainable and more care-efficient accommodation.

Healthcare remains attractive as real estate investment segment

Investors are attracted to the strong demographic fundamentals of the healthcare sector, in particular the extramural care and nursing care segments, and its relative resilience in the face of economic turbulence, together with still attractive yields compared to long-term interest rates. Compared to other real estate sectors, healthcare real estate has already shown it can provide relatively stable investment returns and that it is relatively resilient in adverse economic conditions. This is also shown in the five-year average return figures in the MSCI real estate benchmark.

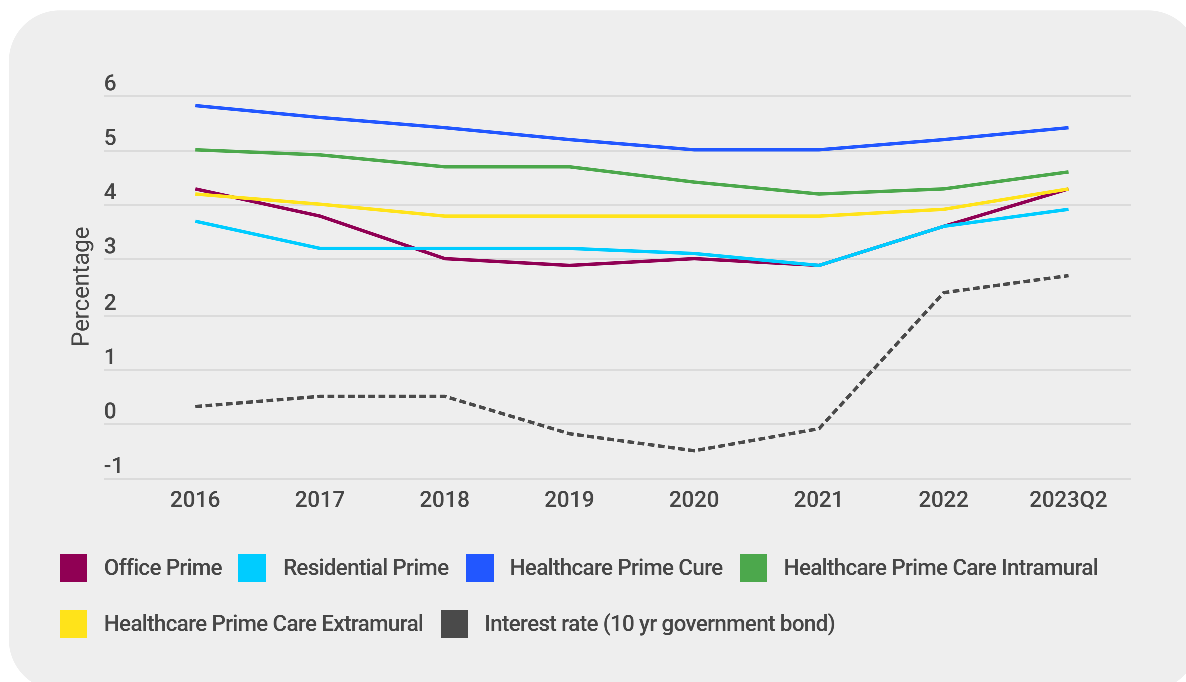
Healthcare return trends compared to other Netherlands core sectors



Source: MSCI (2023)

The other benefits investors see in healthcare real estate investments include the possibility of portfolio risk diversification, as investments hold both characteristics of residential accommodation (i.e., assisted living apartments) and commercial real estate (i.e., private care homes and nursing homes). Additionally, long-term leases of 15-20 years with healthcare operators are common practice and operators are often responsible for part of the maintenance costs. Finally, healthcare real estate can contribute to investors' ESG and social return targets.

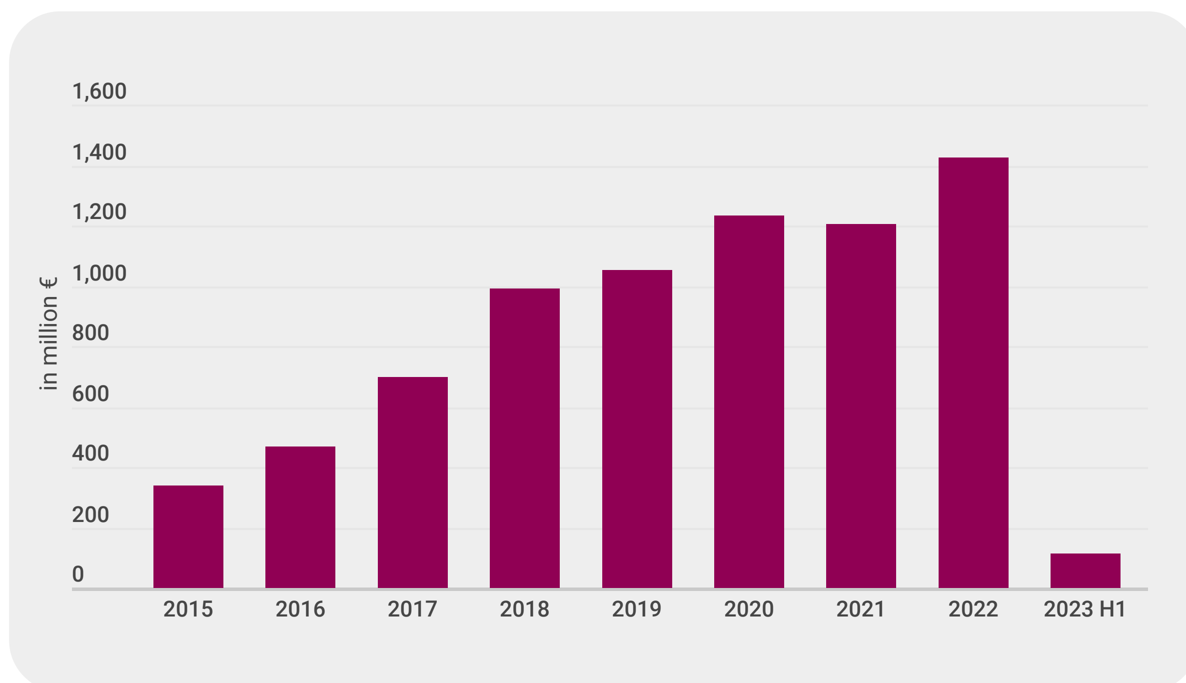
Prime net yields of healthcare segments show more resilience than other sectors



Source: Capital Value, CBRE, JLL, Oxford Economics (2023)

Over the past five years, total annual healthcare sector investment volumes rose rapidly to reach the one billion level in 2019 and increased to around € 1.4 billion in 2022. However, as a result of the sharp rise in interest rates from the second half of 2022, real estate investment volumes collapsed in 2023 and net initial yields shifted upwards as prices adjusted to the new higher interest reality. Still, when interest rates become more stable again, we expect healthcare real estate investments to pick up substantially and to also become more important in relation to other real estate segments, climbing to a 10% share of total real estate investments in the Netherlands within the next five years.

Investment volume healthcare real estate rose sharply



Source: Capital Value (2023)

Reach out for more detailed insights

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