Oostenburg - Amsterdam

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Syntrus Achmea

Outlook 2023-2025

SUMMARY

Meerstad - Groningen

General developments

This is a time of significant macroeconomic and political uncertainty. The aftermath of the coronavirus pandemic and especially the war in Ukraine are driving up inflation and interest rates. Economic growth forecasts are falling and purchasing power is under pressure. The government is working on new policy that affects the housing market in particular. The volume of investment will decrease accompanied by a changing field of competition among investors. Despite the short-term uncertainties, real estate and mortgage investments remain robust in the long term. The occupancy rate remains high, long-term protection against inflation remains intact with investment supported by a stable income return.

ESG

Investments are now routinely benchmarked against ESG criteria, achieving social impact in addition to financial returns. Clarifying the impact of real estate investments will become even more important in the coming years. Changing laws and regulations will require institutional investors to increase the volume and quality of their ESG reporting and to improve its transparency. Through these changes and additional reporting requirements, the European Union is forcing investors to speed up the process of making their investment portfolios more sustainable. Objects that cannot be made more sustainable are expected to be disposed of at an accelerated pace.

Mortgages

The foundation of mortgage investments remains the attractive returns relative to the risk and the diversification benefits compared to other fixed-income and marketable securities. Economic uncertainties, such as the rise in energy costs and high inflation, affect what home buyers can spend, and the rise in interest rates is putting the brakes on the house price increases of recent years. A decrease is not expected. Because of the rise in mortgage interest rates, annuity mortgages are becoming more attractive than interest-only mortgages, and 10-year mortgages will also become relatively more important than longer fixed-interest periods. Even with a possible increase in interest rates, payment arrears would be low from a historical perspective. Credit losses will remain very limited. ESG is becoming an increasingly central theme for mortgage investors. The same applies to consumers because sustainability is playing an increasingly important role in mortgage applications. >

Residential

Although Dutch rental properties remain an attractive asset class, future regulations, high construction costs and rising interest rates are creating short-term uncertainty. However, the long-term prospects remain good. The demand for affordable rental properties remains high, which limits the rental risk. Besides the stable income return, institutional investors can make an impact by investing in affordable and sustainable rental properties and thus reducing the housing shortage.

Healthcare real estate

Because it is mostly unaffected by economic conditions, healthcare real estate is an attractive investment even in turbulent times. The demand for suitable housing where minimal or more demanding care can be provided remains as high as ever. Concepts where people can live at home for as long as possible are essential. Affordability is becoming more important due to restrictions in the nonsubsidised rental sector and because costs are rising faster than turnover for healthcare institutions. Investors are increasingly looking at healthcare real estate as a way of making an impact. Investor demand for healthcare real estate far exceeds supply.

Retail

Despite the current uncertainties, retail is emerging from its slump. The demand for readily marketable retail space in the best city centre locations will continue to rise in the coming period, and district shopping centres will continue to perform steadily. Although rents and valuations have not yet returned to their former levels, this is a good time to invest because the market is still in a recovery phase. However, the market is not immune to the current uncertainties, with falling purchasing power and rising prices posing the greatest risk. Investors are still cautious, but the sector's recovery is creating new opportunities in the market. Retail real estate also offers some protection against inflation and produces diversification benefits in multi-sector portfolios. ■

One Space - Delft

De nieuwe Sint Jacob - Amsterdam

FOREWORD

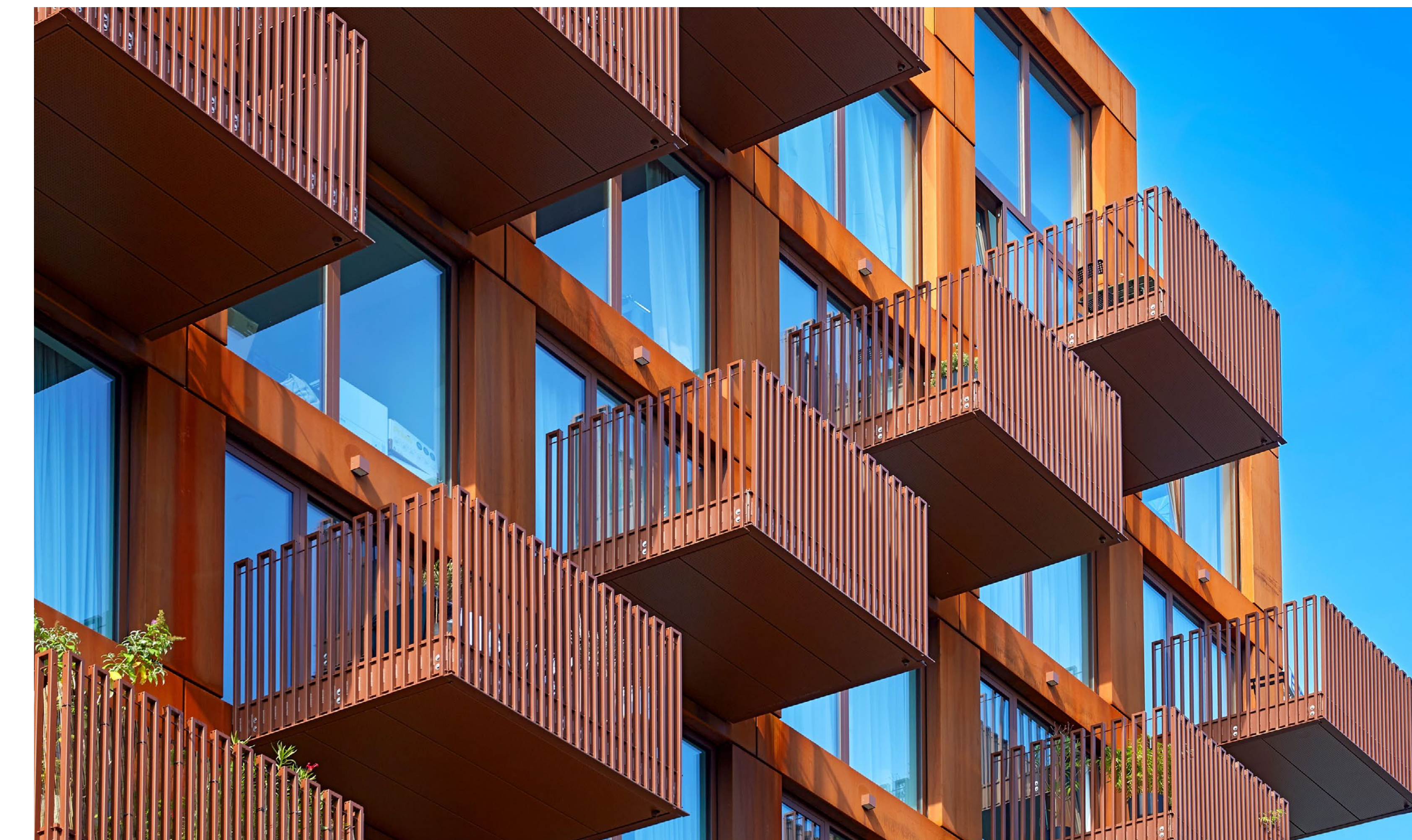
Today's news headlines are dominated by a war resulting in high energy prices, historically high inflation, loss of purchasing power and rising interest rates – all of which lead to significant short-term economic uncertainties. These developments will inevitably affect tomorrow's real estate and mortgage investments. More so than in recent years, real estate rental income will determine return, with values lagging behind.

But even in turbulent times, real estate and mortgage investments continue to be a safe haven for long-term investors. Demand for owner-occupied and rental properties remains high, supported by demographics and the strong characteristics of the Dutch economy. The need for healthcare real estate is greater than ever, while the retail market in the larger cities is slowly recovering.

Even so, we face considerable challenges, especially in the housing market, where much uncertainty exists. Oddly enough, this unrest is largely caused by politics. The announced measures are mostly piecemeal and sporadic. Political turmoil provides no basis for investors to make long-term commitments to necessary investments in the housing market. We are heading towards a huge missed opportunity. While economic uncertainty is causing many smaller and foreign investors to drop out, and intended sales to private individuals increasingly no longer provide the security that developers need to start building homes, the parties that wish to and can invest for the long term are at risk of being sidelined by regulations. This not only puts investment in new construction, but also making existing stock more sustainable, at risk. Institutional investors have much to offer in improving our cities and in boosting sustainability and housing production. We thus call for a comprehensive approach to the housing market that brings together demand for housing, affordability and sustainability. A comprehensive approach that stands up to long-term scrutiny and is not swayed by the issues of the day.

This Outlook sets out our expectations for real estate and mortgage investments for 2023–2025. We cordially invite you to examine our views on macroeconomic developments, on ESG and the separate mortgages, residential, healthcare real estate and retail submarkets ■

Boris van der Gijp, Syntrus Achmea Director



CURRENT SITUATION AND PERSPECTIVE

GENERAL DEVELOPMENTS

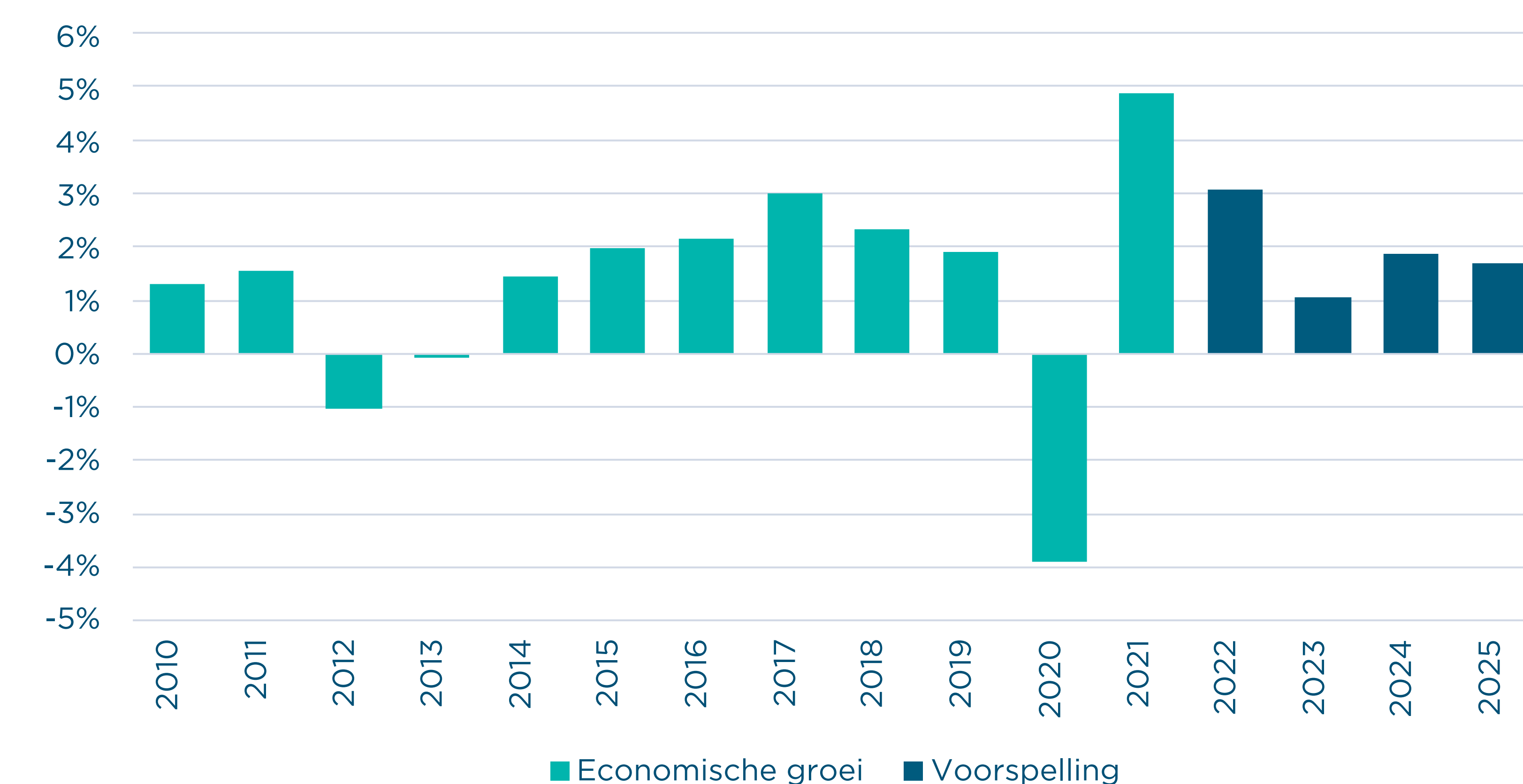
This is a time of significant macroeconomic and political uncertainty. The aftermath of the coronavirus pandemic and especially the war in Ukraine are driving up inflation and interest rates. Economic growth forecasts are falling and purchasing power is under pressure. The government is working on new policy that affects the housing market in particular. Despite the short-term uncertainties, real estate and mortgage investments remain robust in the long term.

Macroeconomic and political uncertainties

Economic growth falls

The strong economic growth experienced in 2021 and the first half of 2022 is under pressure. Economic growth is stunted mostly by rising energy prices, which will remain high for the time being. Unemployment remains low. Although minimum wage is rising and wage increases are a top agenda item at trade unions, wage increases are expected to lag behind inflation on average. As prices outpace income, there is a loss of purchasing power, which government measures only partially compensate for in limited target groups. For now, the consumer is thus mainly footing the bill. Meanwhile, work is in progress to supplement the gas supply and seek ways to save energy and keep it affordable for households. Measures are expected in 2023, thus delaying the recovery of purchasing power. A sustained solution is being sought to reduce dependence on Russian gas, in which making existing real estate more sustainable plays a crucial role. >

Economic growth slows down

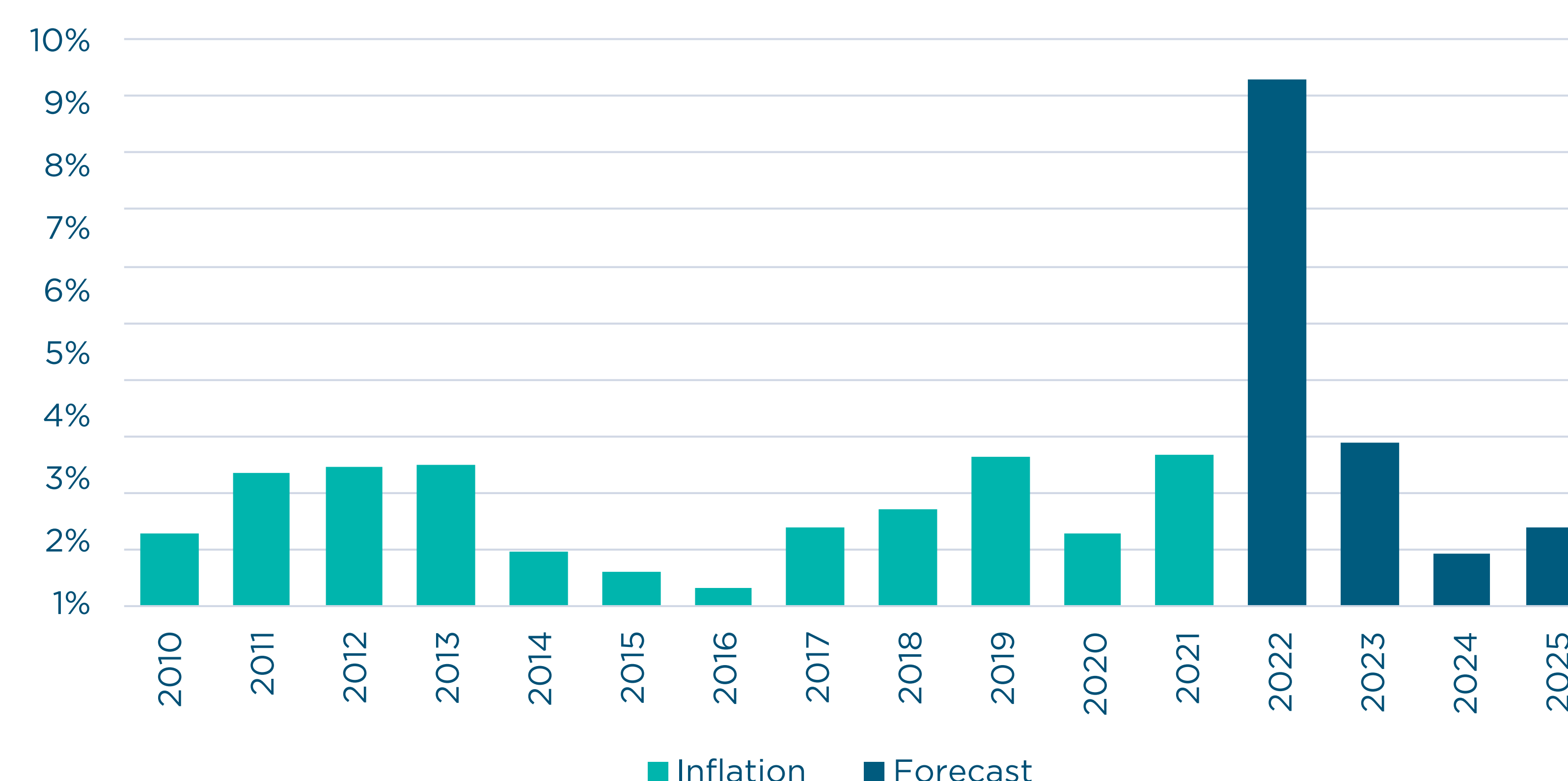


Source: Oxford Economics (2022), adapted by Syntrus Achmea Real Estate & Finance

High inflation will normalise in 2023

Inflation has risen sharply since the fourth quarter of 2021. After coronavirus, global demand not only recovered more strongly than production chains could handle, but energy prices also spiked because of the phasing out of Russian gas imports. High inflation affects especially lower- and middle-income households, who find themselves financially trapped by rising monthly costs. As the economic and geopolitical uncertainties remain significant, high inflation persists longer than expected. Inflation rose to record highs in August 2022. To curb price increases, the ECB traditionally raises interest rates. This has only had a limited effect on inflation to date because it is mainly driven by high energy prices. The government is thus looking at alternative solutions to reduce dependence on Russian gas, limit energy consumption or introduce a maximum price for gas. Whatever solution is found, inflation is expected to start decreasing in 2023 and return to a level just below 2%, the ECB's target inflation rate, as from the second half of 2023. Investors in commercial real estate can usually index the agreed rent to inflation but the maximum rent growth for residential properties is limited. The risk lies mainly in sluggish economic growth and the higher interest rates that could adversely affect property valuations.

Inflation peak in 2022



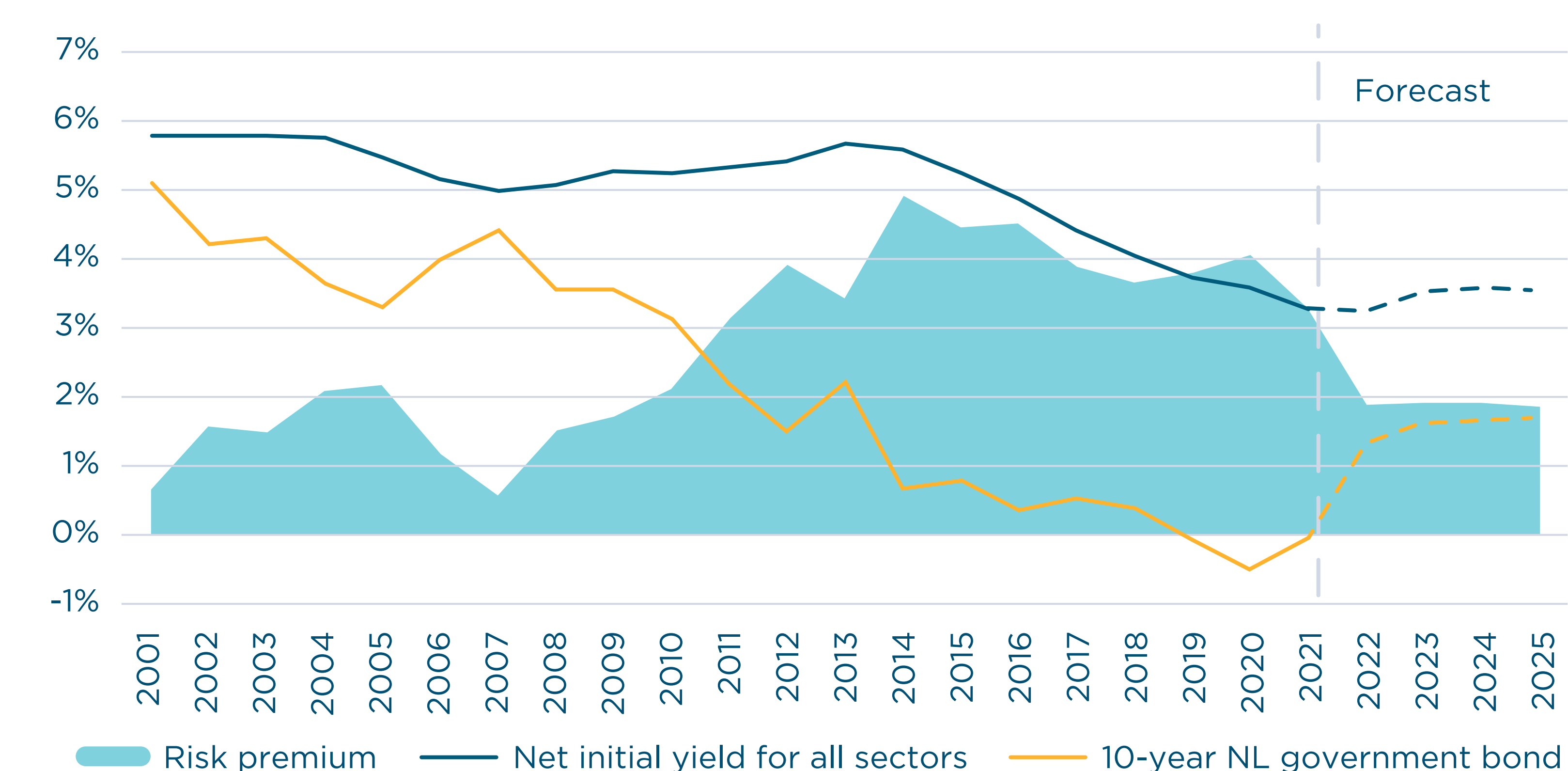
Source: Oxford Economics (2022), adapted by Syntrus Achmea Real Estate & Finance

Higher interest rates lower the risk premium for real estate

The traditional approach to tackling high inflation is to raise interest rates. The ECB has raised interest rates more than initially announced and is expected to raise interest rates again in the second half of 2022. When interest rates rise, capital becomes more expensive, creating upward pressure on interest rates in almost all financial markets. This includes long-term government interest rates, mortgage interest rates and other financing costs. Initial yields then also normally rise.

The spread between initial yields and long-term interest rates was already historically high in recent years, mainly because of extremely low interest rates. With interest rates rising again, the spread will normalise in the coming period. If inflation normalises from 2023, there will be no further increase, the effect on real estate valuations will be limited and major adjustments will be avoided. >

Lower risk premium in future years

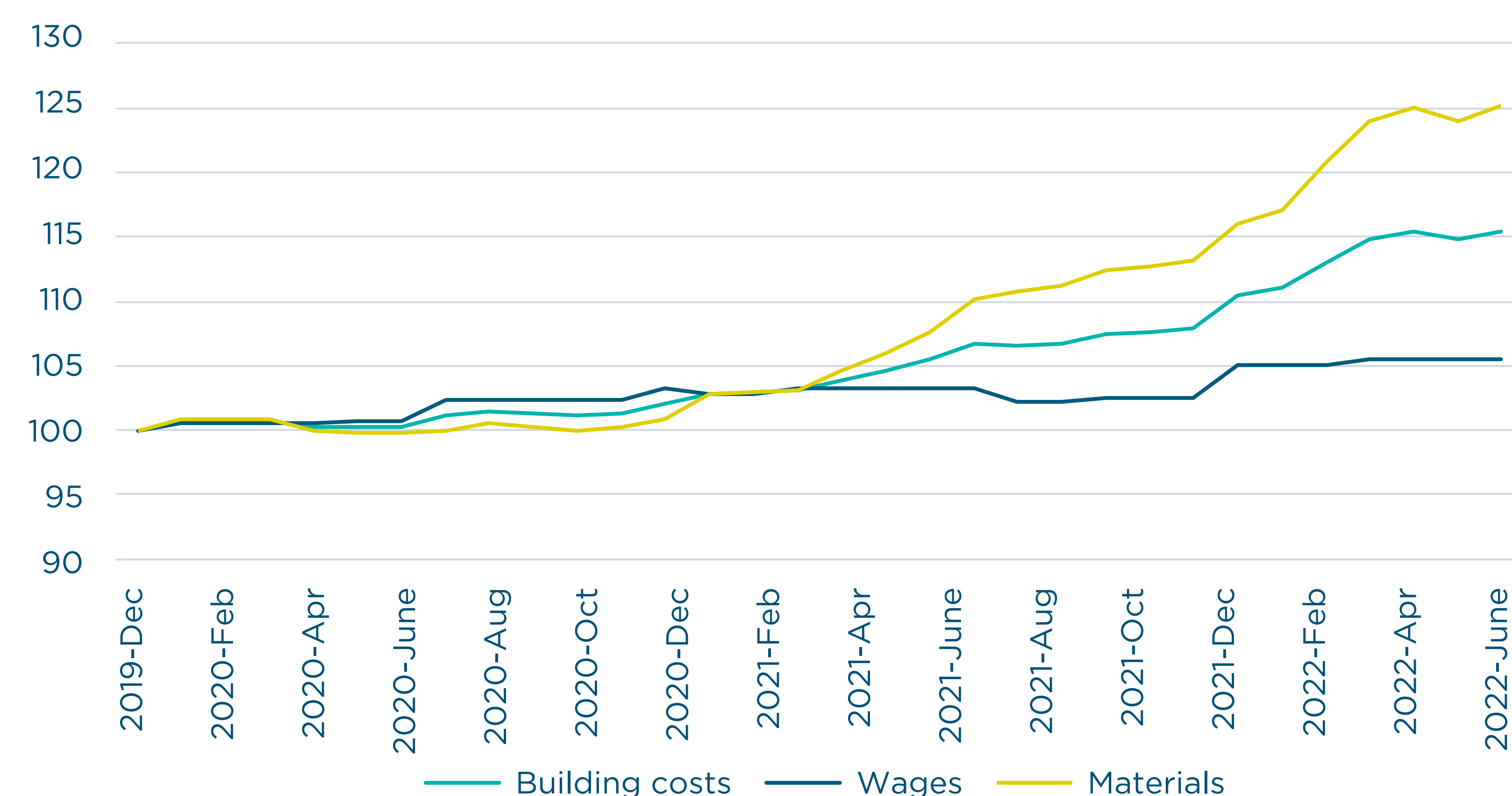


Source: Oxford Economics (2022), MSCI (2022), adapted by Syntrus Achmea Real Estate & Finance

High construction costs hinder building projects

Higher energy prices and a steep increase in material costs drove up construction costs for projects sharply from mid-2021. Developers and contractors are not only struggling to start new projects, but delivering current projects on time and budget is also proving difficult. This is compounded by delays caused by regulations and capacity problems at municipalities and construction companies. The intended increase in construction output to reduce shortfalls in the housing market will not be achieved in the coming years. Investors face delays in the completion of their projects as a result.

Development of construction costs (end 2019=100)



Source: CBS (2022), adapted by Syntrus Achmea Real Estate & Finance

Nitrogen problems persist

Nitrogen remains a major problem in the Netherlands, affecting mainly housing construction in the real estate sector. Nitrogen emissions are relatively high in the Netherlands because of its large livestock herd. This only allows for limited housing developments, especially around Natura2000 areas. The government's plan to sharply reduce livestock numbers is meeting strong public resistance. Although the Building Exemption that came into effect in 2021 means that only nitrogen emissions during the use phase are decisive, the nitrogen issue limits housing construction in large swathes of the country. The housing shortage meanwhile remains high.

Housing shortage remains difficult to solve

The Netherlands has a serious shortage of affordable housing, while new housing is becoming increasingly difficult to build. Although the national shortage is around 4% of the stock, it is higher in many regions. There are also differences in qualitative need. For example, an ageing population means the demand for lifetime homes is high throughout the Netherlands, but greater in some regions than others. The government has presented several plans in the National Housing and Construction Agenda to boost housing production, such as subsidies to speed up planning and investments in required infrastructure.

Policy measures are also being implemented for affordability. For example, there is an intention to regulate the mid-market rental segment according to the housing valuation system, while abolishing the landlord levy should create more financial capacity for housing associations to invest in affordable rental properties. For the target group in need of care, the policy pays more attention to lifetime homes. Despite these good intentions, inhibiting factors will dominate in the coming years. Rising construction costs, rent regulation, lengthy planning procedures and nitrogen policy make projects less profitable or even unfeasible. This not only curbs housing production in general, but also limits investors' ability to invest in sustainable rental properties. The government seems to be lacking a sense of urgency. It is thus unrealistic to think that we will eliminate the housing shortage in the coming years. >

Illiquid investments remain attractive – even in the new pension contract

The pension system is changing for pension beneficiaries, affecting their contribution payments and their entitlement to pension assets. For long-term investors like pension funds, the new scheme changes, for example, how pension contributions will be invested in the future. The new contract creates more flexibility in this regard. The capital requirement ceases to apply. This increases the attractiveness of illiquid investments such as real estate and mortgages. However, the maximum scope for illiquid investments is also limited because subportfolios are created – depending on the contract choice – and participants' risk attitudes are taken more explicitly into consideration. A pension fund's current allocation to illiquid investments is also a determining factor. Although there may be differences from one pension fund to another in maintaining, reducing or increasing the proportion of illiquid investments with the new pension contract, the attractive characteristics of illiquid investments do not change. >

More information on the implications of the pension contract through Achmea Investment Management

Investment policy under the solidarity contribution scheme

Be alert of market risks until conversion

Impact of current situation for real estate investors:
'Uncertainty in the short term, robust expectations in the long term'

The attractive characteristics of illiquid investments do not change in the new pension contract.

Illiquid investments improve the portfolio's risk-return profile, including through the illiquidity premium. Investment properties also offer stable rental income and partial protection against inflation. An interesting characteristic of real estate and mortgage investments is their direct impact in the area of ESG. These characteristics do not change in the new pension contract.

#1 Real estate occupancy rate remains high

The user markets of real estate and mortgages will notice a decline in consumers' disposable income over the next 18 months. Low unemployment will ensure that major payment problems do not arise. In the absence of a global recession, the effect of consumers' lower disposable income on real estate use will be relatively limited. Due to scarcity of real estate supply, consumer and user demand for housing, healthcare real estate and the best retail locations remains intact. The good payment ethics of Dutch households ensures that the number of mortgage arrears remains limited.

#2 Real estate offers long-term protection against rising prices

Inflation plays an important role in the annual indexation of leases. For residential properties and care and nursing homes, inflation will only be partly passed on to tenants because of regulations and from a social perspective. However, because institutional investors have a long investment horizon, the large inflation peak of 2022, and to a lesser extent 2023, will have a limited effect on average inflation over the entire investment horizon. Real estate investments provide long-term protection against monetary depreciation caused by inflation-linked rent increases.

#3 Different competitive field because of increased interest rates

Increased borrowing costs improve the competitive position of investors who invest with equity only compared to investors who use loan capital. A potential risk for institutional investors is that pension funds proportionally have too much real estate in their investment mix because of the falling investment values of equities and bonds. This could act as an 'investment brake' for pension funds with such a relatively high real estate allocation, temporarily reducing investor demand.

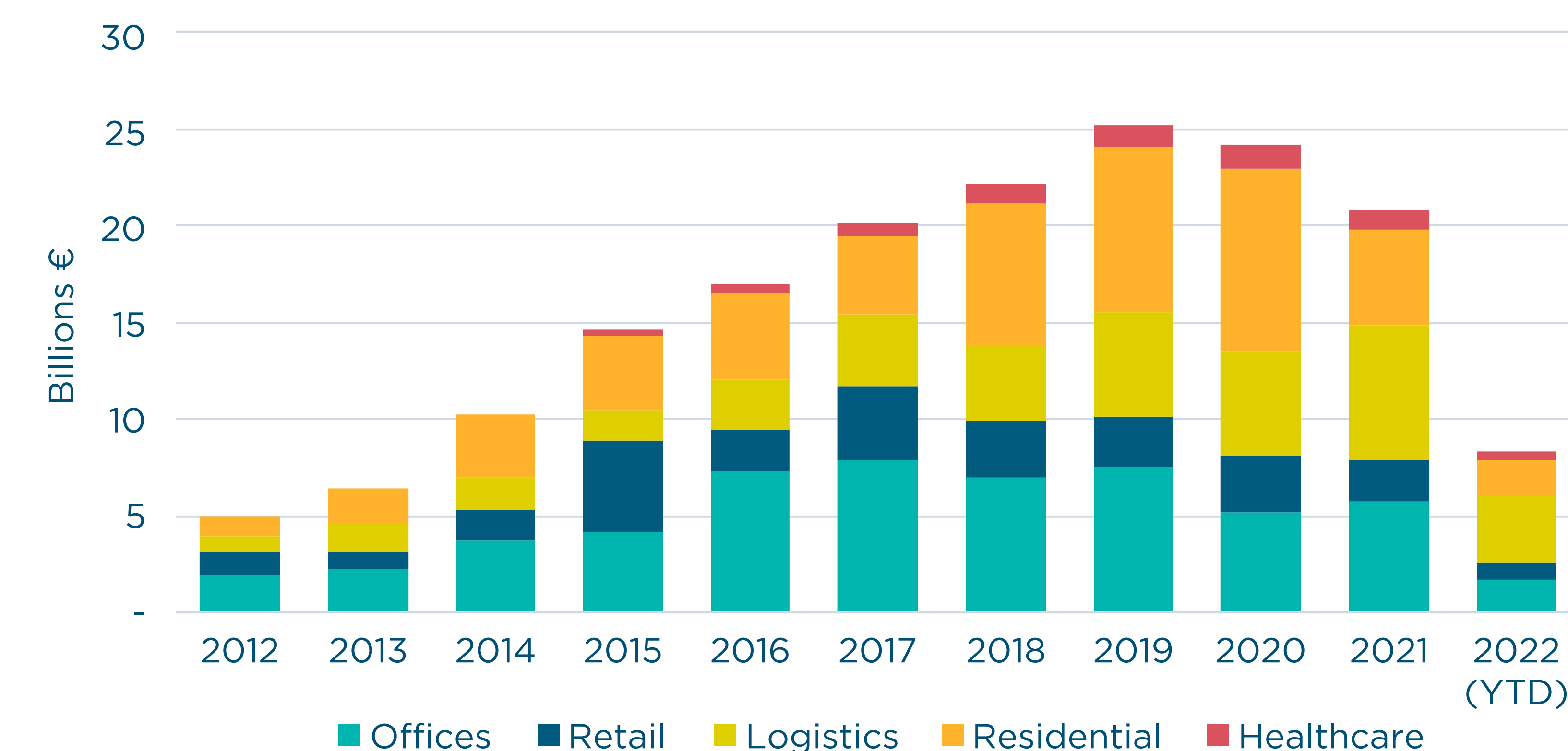
#4 The income return determines the total return in the coming years

Interest-rate hikes narrow the spread with risk-free investments in the short term as initial yields have a delayed reaction to changes in the capital market. Stable or slightly rising initial yields depress increases in value as seen in real estate in recent years. This is especially true for residential properties, where vacant possession value increases have ensured high capital growth in recent years. Healthcare real estate remains relatively stable and retail real estate has already experienced a significant period of price adjustments. In the coming years, real estate investments will be particularly attractive because of their stable income return.

#5 Investment volume falls

Macroeconomic uncertainties, rising interest rates and uncertainty about new regulations are making investors cautious about their short-term investment decisions. Sharp increases in construction and borrowing costs are putting pressure on the feasibility of projects. For investors, it is becoming difficult to invest the capital allocated to real estate. As a result, the overall investment volume is falling in the short term. Investors will focus mainly on primary real estate where investment risks are lowest. ■

Development of investment volumes



Source: RCA (2022), adapted by Syntrus Achmea Real Estate & Finance

CURRENT SITUATION AND PERSPECTIVE

ESG

Investments are now routinely benchmarked against ESG criteria, looking at their social impact in addition to financial returns. Although impact is more relevant than ever, there are limits. This is clearly illustrated by the nitrogen issue or the crackdown on greenwashing. The entry into force of the Sustainable Finance Disclosure Regulation (SFDR) level 2 makes ESG less non-committal.

Additional information about the sustainability of portfolios becomes mandatory

SFDR level 2 enters into force on 1 January 2023. SFDR level 2 includes additional obligations for reporting on and measuring the sustainability of investments. These new rules are aimed at tackling greenwashing and increasing transparency and comparability. Two types of obligations are involved: providing insight into the adverse effects of investments on sustainability factors and providing additional information on the sustainability characteristics of funds and mandates classified as SFDR Article 8 ('light green') or 9 ('dark green').

ESG Syntrus Achmea

Statement on the adverse effects of the investment portfolio

SFDR level 2 requires transparency on the adverse effects of investments on sustainability. This includes reporting on any exposure of real estate to fossil fuel activities and the energy efficiency of real estate. Indicators such as greenhouse gas emissions and energy consumption are reported on optionally. The measures taken to mitigate the adverse effects of investments must also be stated. The adverse effects of the entire investment portfolio must be published on the website each year.

Additional information on the sustainability characteristics of Article 8 and 9 investments

The additional information on the sustainability characteristics of Articles 8 and 9 investments focuses on measurable sustainability indicators and binding elements. This must include clarification of what is intended, how it will be measured and how the objective will be achieved. Compliance with these sustainability characteristics and indicators must then be reported on periodically. >

The guidelines will help structure the investment market, with the 'light green' or 'dark green' label becoming the determining factor for raising capital. We expect new investment vehicles to focus specifically on making an impact through investments in sustainable real estate, or indeed real estate yet to be made sustainable.

Distinction between Article 8 and Article 9 funds

Fund type	Requirements
Article 8 **(light green funds)** Promote ESG characteristics	• Has a concrete ESG strategy • Must be able to demonstrate that the fund promotes ESG characteristics and strives for improvement • The majority of investments promote the ESG characteristics but no exact minimum requirement is attached to this
Article 9 **(dark green funds)** Sustainable Investments integrated into the strategy	• All investments must qualify as Sustainable Investments • Impact objective must be described clearly and in detail • Impact objectives must be measured and monitored with methodology clearly described • Must comply with DNSH (Do No Significant Harm) test • Must comply with the EU Taxonomy

Source: GRREY Company (2022)

EU taxonomy: contributing to environmental objectives

The first part of the EU Taxonomy Regulation came into force on 1 January 2022. This regulation includes a list of sustainable economic activities that must be reported on. This Taxonomy Regulation applies to investment products that come under Article 8 or Article 9. Article 8 products have environmental or social characteristics, or both. Article 9 products have a sustainable investment objective that is environmental or social, or both.

Biodiversity and ecosystems

Level 2 of this EU Taxonomy will come into force as from 1 January 2023 and additional criteria will apply. These additional criteria focus on how investments: 1. contribute to one of the six environmental objectives from the Taxonomy; 2. do no significant harm to any of the other environmental objectives from the Taxonomy and 3. the economic activity meets minimum requirements around social standards.

The six environmental objectives:

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control;
6. Protection and restoration of biodiversity and ecosystems.

Besides reporting on how environmentally sustainable properties and mortgages are, the percentage of environmentally sustainable investments of each portfolio must also be reported. Only the criteria for the first two environmental objectives have been legally developed to date. The criteria for the remaining four objectives will be published during 2022. A social taxonomy is also under development. >

The new coalition agreement contains ambitious climate and energy commitments

A new coalition agreement that makes ambitious climate and energy commitments was presented at the end of 2021. The objectives from the Climate Act of 2019 have been refined. Instead of a 49% carbon dioxide reduction by 2030 compared to 1990, a 55% reduction must now be achieved. And to ensure that this objective is met, the government's policy will even target a 60% reduction. Interim objectives have also been agreed for 2035 (70%) and 2040 (80%) to lead the Netherlands to climate neutrality by 2050. Dutch housing investors are now well ahead of these objectives. Lagging behind leads to a direct loss of institutional clients.

The long-term National Insulation Programme has been set up for residential properties. Poorly insulated homes will be tackled first and owner-occupiers with low and middle incomes will receive support. The Climate Fund has €3.35 billion available for this purpose until 2030. Hybrid heat pumps, which use gas only on cold days, are being used in the short term to heat homes. Districts are being connected to heating networks, where possible.

Because this scheme is for owner-occupiers and owners' associations only, it is off-limits to investors. This unnecessarily delays and possibly hinders efforts to make institutional real estate sustainable, as does the requirement that 70% of residents must give consent to start sustainability projects.

New guidelines for valuing sustainability

In early 2022, the Royal Institute of Chartered Surveyors (RICS) presented a practical framework of global guidelines for valuing sustainability in commercial real estate. Until now, valuations have often paid little attention to sustainability. The new RICS guidelines mean that ESG aspects such as sustainability, health, well-being and social impact will play a greater role in determining the value placed on real estate. Outdated, unsustainable property will thus see greater reductions to their valuations, which is in line with our expectation that institutional investors will dispose of outdated property quicker, especially if it cannot be made more sustainable. >

Green wall in lobby. One Space - Delft

Increasing focus on the 'S' in ESG

S for Social is becoming more important in the ESG policy of institutional investors. There is an increasing need to make the 'soft' side of real estate investment and its impact quantifiable and measurable. This is boosted further by new regulations on environmental and social sustainability such as SFDR and the EU Taxonomy. Social sustainability in real estate and mortgage investments could include promoting an attractive living environment for residents and users, paying attention to their health and happiness, and using healthy materials such as timber.

ESG: Spotlight on Social

Social covers a broad range of social issues: from human rights to working conditions and from diversity and inclusiveness to impact on local communities. In essence, sustainable investments consider people and their impact on society.

Although regulations for making 'S' aspects transparent and measurable are lacking, Syntrus Achmea gives shape to them in various ways. For example, we recently developed a Social Impact Monitor (SIM) with which we can report on our KPI 'improving the social impact (quality of life) of investments' from our ESG strategy.

We also focus on residents' health and happiness by encouraging community building and social cohesion, and pay attention to creating affordable rental properties. The 'S' of Social thus plays a clear role in improving existing investment portfolios and could even form the basis for new investment vehicles.

Clarifying the impact of real estate investments is becoming even more important

Because of the new rules, institutional investors will increase the volume and quality of their ESG reporting and improve its transparency. Through these changes and additional reporting requirements, the European Union is forcing investors to speed up the process of making their investment portfolios more sustainable.

Because properties that cannot be made more sustainable no longer appeal to users and investors, the real estate investment market is quickly facing a grey discount or, in other words, a green premium. Real estate owners unable or unwilling to invest in sustainability will thus become institutionally irrelevant. As we expect soaring energy prices will continue to drive this development, it is vital that real estate is made sustainable. This not only applies to residential properties, where the social backlog is extremely high, but also to healthcare real estate that is characterised by outdated buildings.

Opportunities exist here for investors who want to make real estate more sustainable in cooperation with current owners.

We are convinced that investment beliefs in ESG and making real estate more sustainable are becoming increasingly relevant for investors to be successful. We give shape to this development through our ESG strategy with its ambitious objectives. We also expressly pay attention to providing clear information on the impact of real estate investments, focusing not only on the E of Environmental but also on the S of Social, with our Social Impact Monitor as a striking example. ■

OUTLOOK MORTGAGES

INVESTING IN RESIDENTIAL MORTGAGES

In recent years, Dutch mortgages have developed into an interesting asset class for investors, providing a relatively high return with limited risk and diversification benefits. Compared to other fixed-income and marketable securities, mortgage investments have offered adequate compensation for limited liquidity. Although the foundation remains sound, the outlook is overshadowed by uncertain macroeconomic developments and the consequences of the war in Ukraine.

> **Dutch mortgages have a relatively high return with limited risk and diversification benefits.**

The strong economic growth experienced in 2021 and the first half of 2022 is under pressure. Energy prices are rising and will remain high for the time being. Although low unemployment and a rise in the minimum wage offer some glimmers of light, wage increases will not fully compensate for the loss of purchasing power caused by price increases, leaving home buyers able to afford less. This will filter through to the owner-occupied housing market, where the sharp price increases of recent years will come to an end.

The residential mortgage market

Residential mortgages are loans granted to private individuals with their own home as collateral. The Dutch residential mortgages market is worth €724 billion euros. Various players operate in the residential mortgage market: banks, insurers, independent originators for institutional investors and foreign parties. Various mortgage products are offered based on the investment horizons of these parties, with a distinction drawn between the fixed-interest period and the loan to value. National Mortgage Guarantee (NHG) mortgages are attractive because of the low risk for investors through the guarantee fund, an implicit state guarantee.

Different types of mortgages exist. The two most common types are the annuity mortgage and the interest-only mortgage. Although interest-only mortgages are especially popular with homeowners refinancing their mortgage who still have mortgage interest tax relief, they are also gaining popularity among first-time buyers for whom the lack of tax benefits is now less of an issue because of the low interest rate. Straight-line mortgages are arranged less frequently because of the drawback of higher housing costs at the beginning of the term. Increased mortgage interest rates make annuity mortgages more attractive than interest-only mortgages. ■

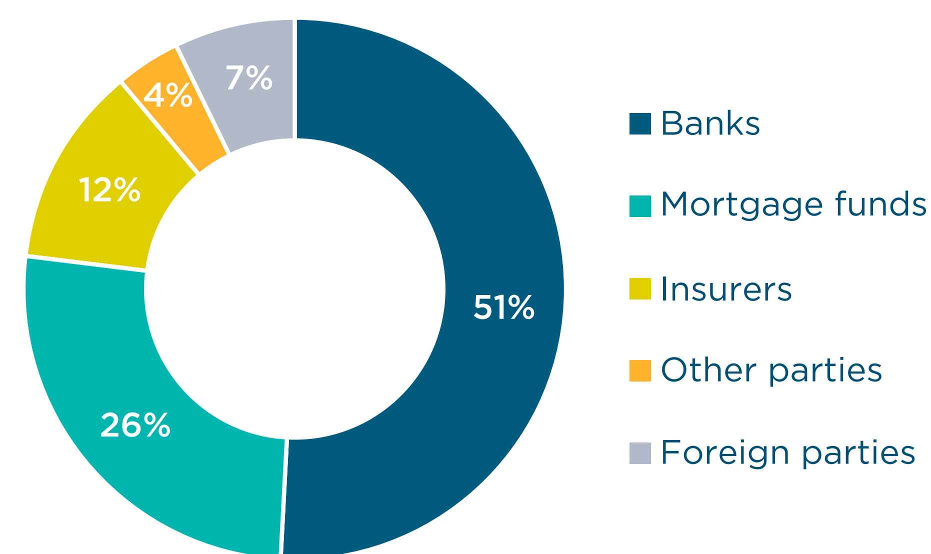
OUTLOOK MORTGAGES

FACTS & FIGURES

The Climate Agreement necessitates making the housing stock more **sustainable**. Mortgage applications are increasingly focusing on energy labels and energy-saving measures. In 2022, the proportion of applications with an energy label almost reached **50%**. Additionally, around 10% of all applications included financing for **energy-saving measures**. Source: HDN (Mortgages Data Network)

Independent originators grant mortgages on behalf of investors such as pension funds and insurers. In the first half of the year, the **market share** of independent originators increased from **22%** to **25%**. By contrast, the market share of banks fell slightly from 52% to 51%. Source: IG&H

Market share Q2 2022

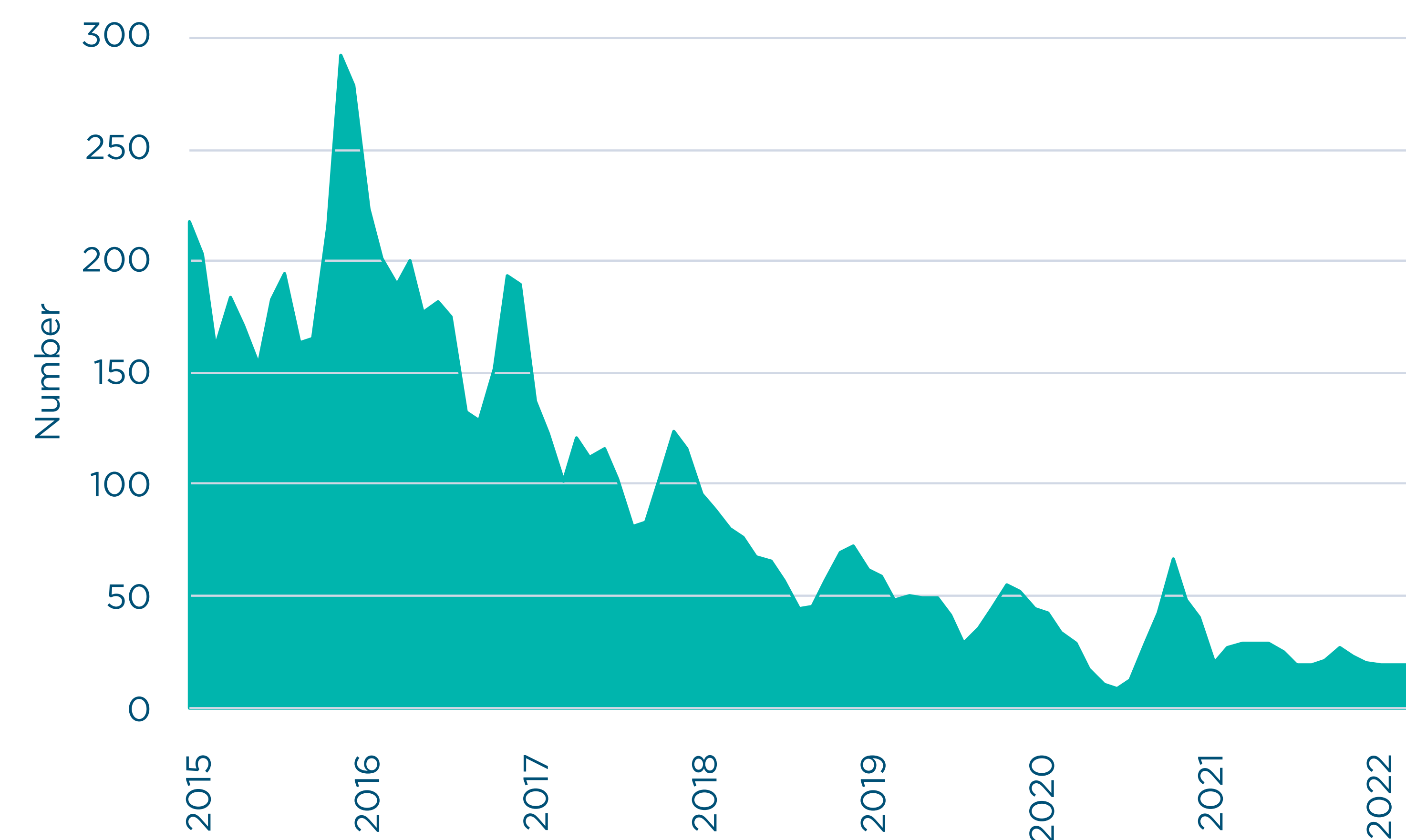


- Banks
- Mortgage funds
- Insurers
- Other parties
- Foreign parties

Source: IG&H, adapted by Syntrus Achmea Real Estate & Finance

In the first half of 2022, the number of **foreclosure auctions averaged only 20 per month**. The average for the whole of 2021 was 23 per month. Source: Kadaster The high payment ethic of Dutch households results in extremely low arrears. This makes the risk of default for mortgage borrowers low.

Number of foreclosure auctions (three-month moving average)



Source: Land Registry (2022) adapted by Syntrus Achmea Real Estate & Finance

Despite repayments on mortgages, total outstanding mortgage debt in the Netherlands increased further last year due to higher sales volumes and higher prices. Total mortgage debt rose to **804 billion** euros, or 89.4 per cent of GDP. Source: Statistics Netherlands (CBS)

OUTLOOK MORTGAGES

DEVELOPMENTS

#1 Higher interest rates depress turnover

Rising mortgage interest rates have significantly changed demand in the residential mortgage market. As a result, the high numbers of existing homeowners wanting an additional mortgage or to refinance their mortgage that drove residential mortgage turnover since the end of 2020 to a peak of €150 billion in 2021 have thus declined. Lenders now have to rely mainly on new mortgage transactions. Turnover is expected to reach around €100 billion in 2022. Mortgage lenders infer this from the decrease in applications for new mortgages. With mortgage interest rates rising, consumer demand for mortgages with long fixed-rate periods is waning: 10-year fixed-rate periods are becoming standard again. The market share of the 10-year fixed-rate period is now almost 47.5%.

The number of new transactions is slightly lower than a year ago. Fewer homes are being sold in large parts of the Randstad area, and the same applies to Noord-Brabant. But more homes are actually being sold on the outskirts of cities. The budget for purchasing a home is being squeezed by rising interest rates, while a sharp hike in inflation and soaring energy costs are also taking bites out of the purchase budget. Consumer confidence has been under pressure for some time, while potential tax measures – acceleration of mortgage interest deduction, home from box 1 to box 3, increase in the notional rental value – could further reduce the home purchase budget, putting more downward pressure on house prices.

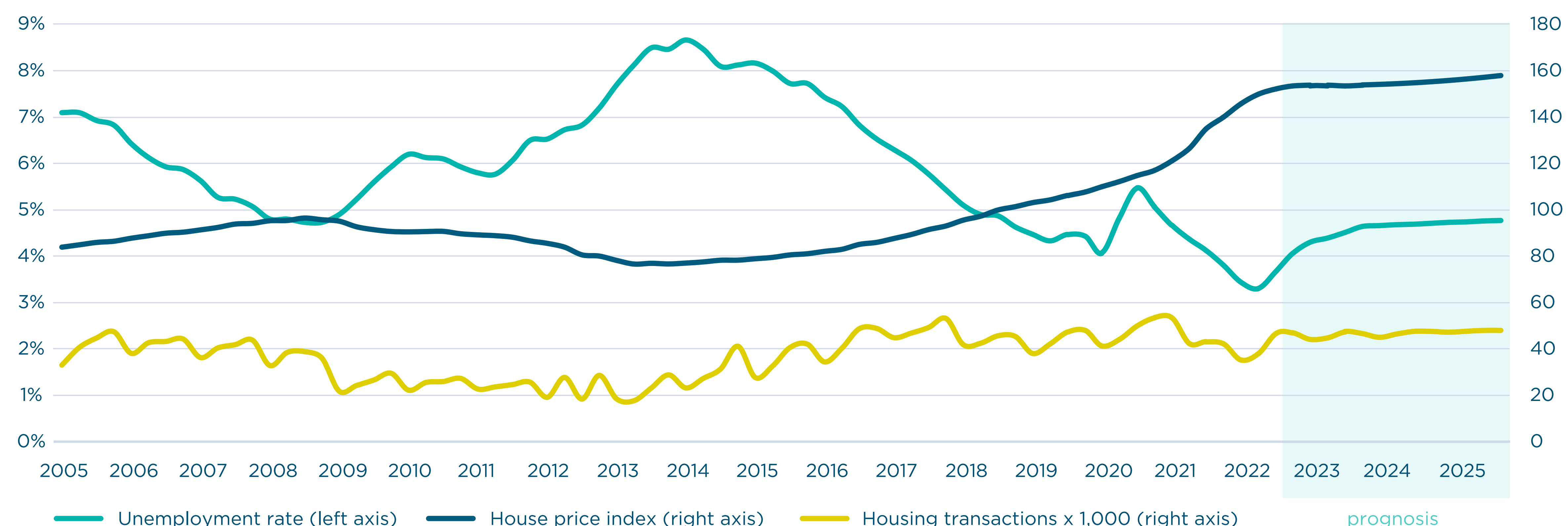
#2 Foundation of the owner-occupied housing market remains solid

The foundations of the Dutch housing market are still solid because of high scarcity, although a deterioration in the economy may lead to a drop in house prices. If arrears increase and more homes are foreclosed, lower house prices could lead to higher credit losses. However, according to mortgage lenders, these concerns are limited. Both arrears and unemployment are extremely low. The labour market seems overstretched rather than in surplus.

Soaring energy prices, a consequence of the war in Ukraine, could lead to mounting arrears among homeowners. On the positive side, affordability is excellent for the large number of homeowners refinancing their mortgage and will not easily lead to arrears because of higher interest rates. Arrears in the market are extremely low at present and would still be historically low even if they doubled. The housing market is moreover at the tail end of the cycle. An economic slowdown would not be felt until late 2023, 2024 at the earliest, although continued rises in interest rates could accelerate this development. >

More homes are being sold on the outskirts of cities

Macroeconomic developments



Source: Oxford Economics (2022), adapted by Syntrus Achmea Real Estate & Finance

#3 Four scenarios for interest-rate movements

The general longer-term expectation is a further rise in interest rates. For its exact course, we look at four scenarios: persistently high inflation, high inflation that falls again after 2023, falling inflation with a cooling economy and – the doomsday scenario – an economic recession.

If inflation persistently rises, interest rates will automatically follow as a means of depressing inflation. If inflation of 10.3% for the second quarter of 2022 turns out to be a one-off event and returns to its old level of 2% in 2023, mortgage interest rates will also return to their old level.

If falling inflation is coupled with a cooling economy, the European Central Bank will cut interest rates again in an attempt to stimulate economic growth. If an economic recession occurs, the ECB will use the interest-rate tool even more strongly.

The course of the war in Ukraine plays a major role in all these scenarios: if Russian leader Putin turns off the gas tap, the ECB will feel compelled to cut interest rates to support the European economy, depending on how this translates to the real economy. ■

ESG

The pursuit of corporate social responsibility (Environment, Social, Governance) is playing an ever increasing role. ‘Without ESG, you simply can’t compete any longer’ say mortgage lenders. That was already the case, but is now playing out in practice. Stirred up by rising energy prices, consumers are also increasingly focused on sustainability, while capital providers are paying closer attention to Net Zero (also known as Paris Proof) by 2050.

The ECB conducted a climate risk stress test among banks. This has put climate change high on the agenda among capital providers. Mortgage lenders are now making efforts to inform and activate clients to become more sustainable. A next step could be an interest-rate discount for sustainable homes or on the portion of the loan used for sustainability. But this would create a divide in the housing market: mortgages with and without interest-rate discounts. Government policies aimed at a minimum energy label for homes could accelerate this trend.

OUTLOOK MORTGAGES

INVESTMENT FOCUS 2023-2025

Investing in private mortgages

The Dutch residential mortgages market has a wide variety of mortgage types based on loan to value (LTV), fixed-interest periods, and loans with or without an NHG. The interest rate and ultimately the risk-return ratio for an investor is determined based on these variables. The LTV and NHG, in particular, determine the risk profile.

Although high LTV mortgages (greater than 80% in new mortgage lending) still have positive risk-adjusted returns compared to low LTV mortgages, the uncertain outlook calls for a review of the investment strategy. Since the Dutch economy bottomed out in 2013, it has been a favourable segment of the mortgage market. A more defensive attitude suits a strategy that focuses on mortgages with a low LTV (below 80%) possibly supplemented by NHG mortgages. If a strategy with more credit risk is chosen, the mortgage segment with an LTV greater than 80% still has value.

As a rule, residential mortgages with a term of twenty to thirty years are a good match for the investment horizons of institutional investors. In recent years, this has been successful because of the high consumer demand for long-term mortgages. Given higher mortgage interest rates, consumer demand will shift towards 10-year fixed-rate mortgages. The market share of this segment will thus rise sharply in 2022 compared to 2021 when 20-year fixed-rate mortgages held the highest market share. It might also be necessary to start providing shorter-term mortgages to be able to provide enough mortgages as a mortgage lender.

ESG is also becoming the guiding principle for mortgage investments. Investors are asking for documented ambitions, objectives and a concrete approach to aspects such as the sustainability of the homes on which the mortgage rests. SFDR legislation (see Current Situation & Perspective section) is stimulating this development. This is given practical shape with energy labels and ways of reducing carbon emissions.

Mortgage lenders can encourage energy efficiency and climate proofing of homes with interest rate discounts for a mortgage on a sustainable home or extra lending capacity and sustainability campaigns for existing mortgages. Mortgage lenders can use this as a way to stand out from the crowd. ■

Encouraging energy efficiency and climate resilience in homes

OUTLOOK RESIDENTIAL

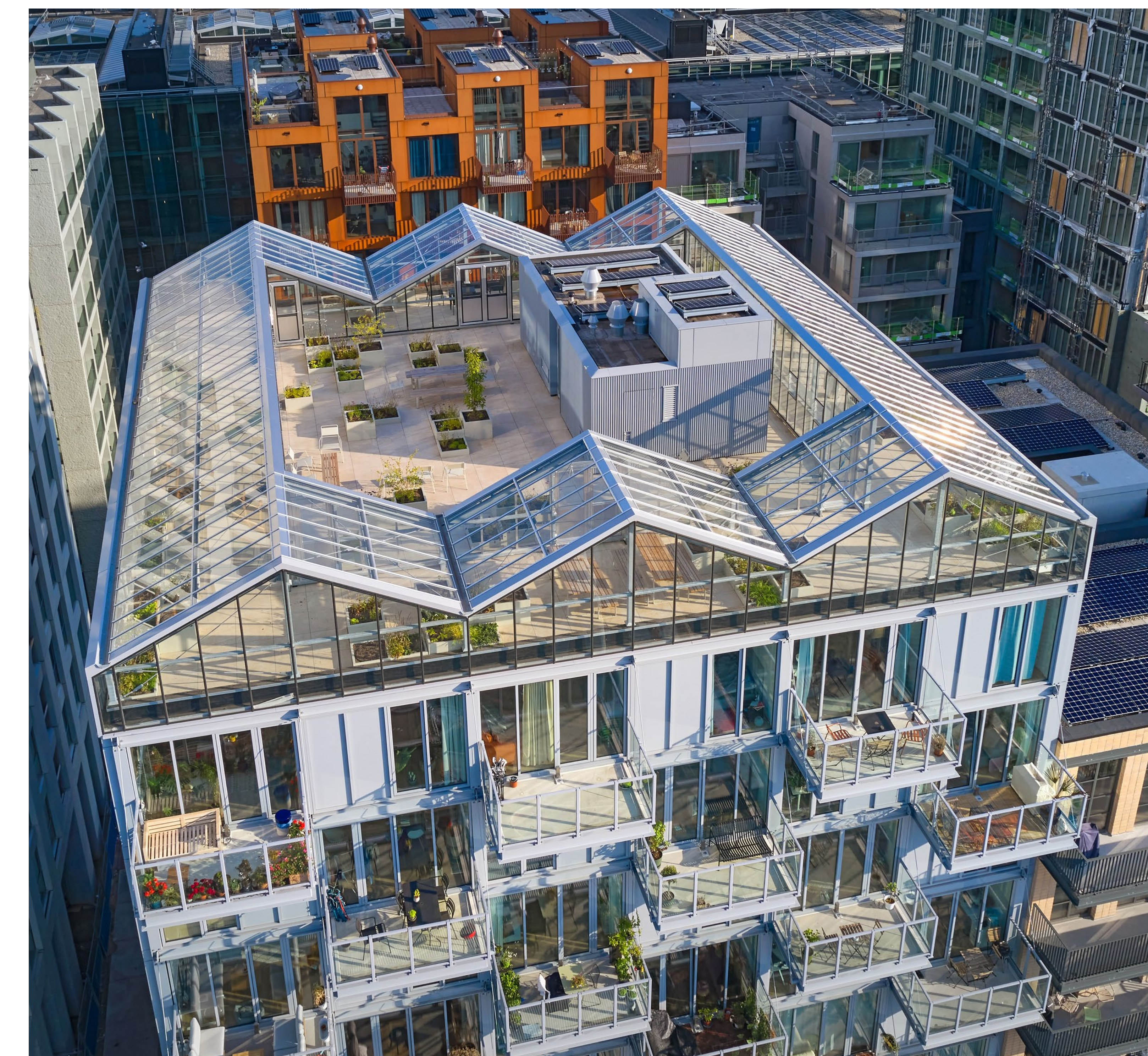
RESIDENTIAL INVESTMENTS

The Netherlands faces an ongoing shortage of affordable housing with trailing housing production. Institutional investors can play a vital social role in reducing the housing shortage by investing in affordable and sustainable rental properties. But this is not without challenges. Because of rising mortgage interest rates, the days of significant value increases for the coming years are over. A shortage of sites for development, delayed land-use planning procedures and rising energy and construction prices are hampering the completion of housing projects. Lastly, increasing regulation is causing investor uncertainty.

Investments in residential properties

The foundation for the Dutch residential property investment market is strong. The high demand for rental properties across almost the entire country limits the vacancy risk. This makes it one of the sectors with the lowest risk profile in real estate portfolios. Residential investments are also an excellent match for institutional investors' growing desire to make a social impact with their investments, in terms of affordability, quality of life and sustainability. The market could change dramatically. Rising mortgage and other interest rates are putting pressure on capital growth after years of jumps in value and the spread with the risk-free interest rate is narrowing. Announced regulations, such as rent regulation plans that affect the level of future rental income, create uncertainty for investors. Rising energy and construction costs, higher transfer taxes and delays in planning procedures complicate portfolio expansion. Despite these challenges, Dutch residential properties still offer many opportunities to make investments with impact and a good risk-return ratio. ■

OKU House - Amsterdam



Oostenburg - Amsterdam

OUTLOOK RESIDENTIAL

FACTS & FIGURES

The number of homes with rents above the rent-control ceiling has increased sharply in recent years. While the number of homes in this price range owned by housing corporations fell from 149,000 in 2018 to 139,000 in 2021 **(-7%)**, the number of homes owned by private landlords rose from 354,000 in 2018 to 509,000 in 2021 **(+44%)**. There was a sharp rise in homes with rents from €1,000. The number of homes owned by private landlords in this price range increased from 136,000 in 2018 to 239,000 in 2021 **(+76%)**.
Source: Ministry of the Interior and Kingdom Relations

Young households are more likely to rent from private landlords (rental properties not owned by housing corporations). From 2009 to 2021, the percentage of households up to the age of 25 renting homes in the private sector rose from 24 to **52%**, while this percentage rose from 12 to **30%** for households aged between 25 and 34. Young households usually cannot compete with older households and investors in the owner-occupied housing market and do not qualify for social housing.
Source: Ministry of the Interior and Kingdom Relations

The average rent ratio – the percentage of income spent on rent – for households in the segment from the rent-control ceiling to one thousand euros rose from **29.5%** in 2018 to **30.9%** in 2021, for households in the segment from one thousand euros and above from **37.0%** to **37.8%**.
Source: Ministry of the Interior and Kingdom Relations

Households in the regulated and mid-range rent segment stay in their homes longer on average than households in the expensive rent segment. The average length of residence for regulated rent is **14.5 years**, **9.4 years** for mid-range rent and **5.5 years** for expensive rent.
Source: Ministry of the Interior and Kingdom Relations

Of those households actively seeking a rental property and likely to move, **9%** preferred a deregulated rental home in 2021. This is a slight increase from the 8% in 2018, but still well below the 12% in 2015.
Source: Ministry of the Interior and Kingdom Relations

At **almost €5 billion**, investment volume was substantially lower in 2021 than in previous years. With hardly any portfolios entering the market, volume was driven mainly by transactions with individual new-development properties, but these are increasingly difficult to complete because of high construction costs and lengthy planning procedures. Investment volumes were also low in early 2022. Uncertainty about the economy and regulation kept activity limited. Source: RCA

In June 2022, construction costs for new homes were **9 per cent** higher than a year before. Building materials, in particular, rose in price but wages in construction also increased. During the Covid-19 pandemic, households and business owners started to refurbish en masse. The war in Ukraine has led to steep price increases in energy-intensive materials such as steel and aluminium. Higher sustainability requirements are also causing costs to rise. This makes new construction projects more expensive, which reduces returns. Source: Statistics Netherlands (CBS)

After years of declining initial yields, signs of **rising initial yields** for investments in rental properties returned for the first time in mid-2022. Because of the higher financing costs, the increases centre mainly on high value-add investments. Initial yields for prime investments remain almost stable. Source: C&W

OUTLOOK RESIDENTIAL

DEVELOPMENTS

#1 Interest-rate hikes change the investment climate

Initial yields in the residential investment market have dropped sharply in recent years. The housing market is meanwhile being hit at several points by rising interest rates in the capital market. Higher interest rates make real estate financing more expensive. Institutional investors and other equity players are less affected by this development. Even so, it does lower the demand for real estate investments, because parties using significant loan capital withdraw. This has a negative impact on values on the one hand, but also creates more investment opportunities for institutional investors in the market.

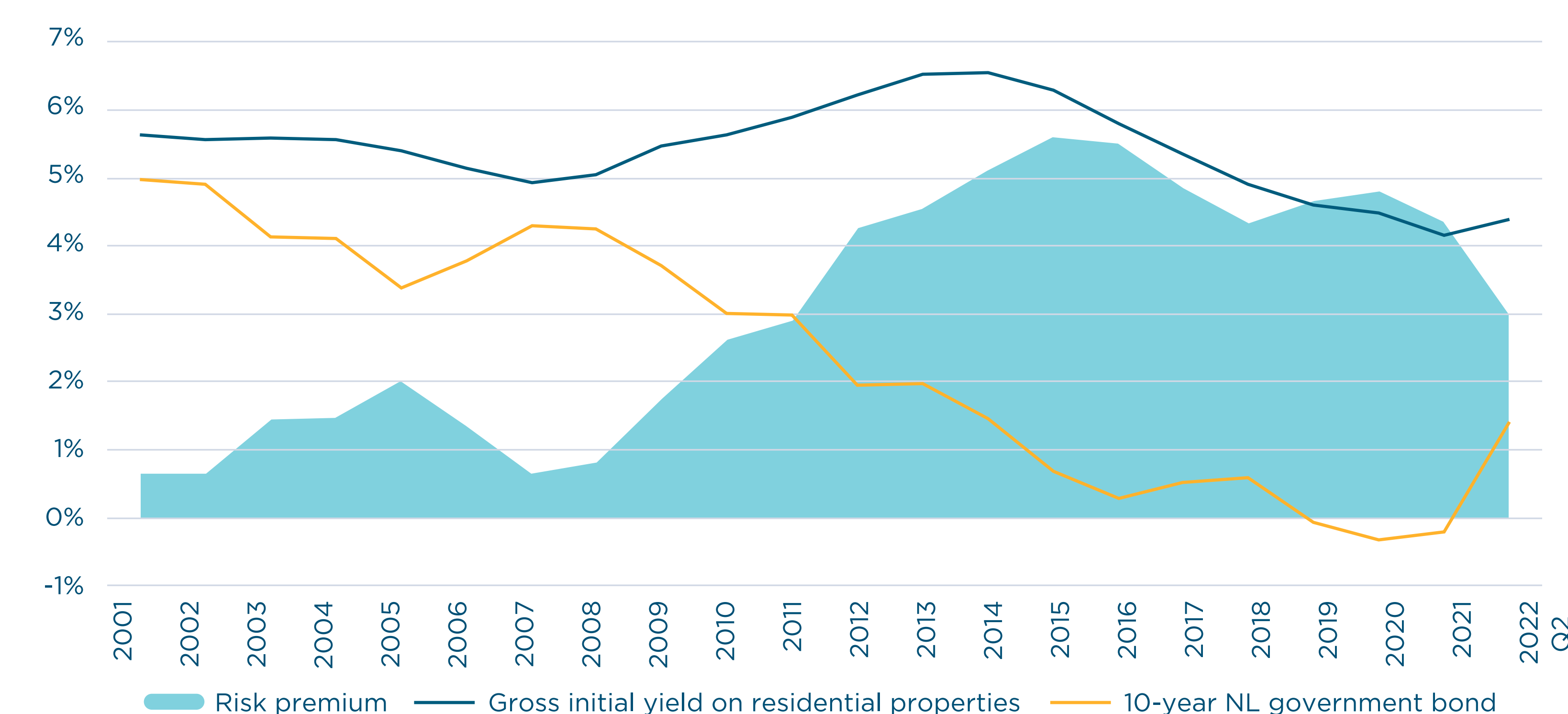
Rising mortgage interest rates are another consequence of the changing interest-rate environment. Mortgage interests' rates were about two percentage points higher in mid-2022 than at the start of the year and a further rise has not been ruled out. This lowers household borrowing capacity and thus reduces the capital growth on residential investments. The days of steep rises in house prices thus seems to be over.

Similarly, the increase in risk-free, long-term interest rates is causing the risk premium of residential investments to fall. Although risk-free interest rates have risen since early 2022 and lowered the spread, the spread is historically still high. If this spread remains small over the long term, it creates higher initial yields. Investor interest in residential and other real estate nevertheless remain high, so high interest rates have no direct impact on returns. Signs of a sharp correction in initial yields by mid-2022 therefore do not exist.

Although capital growth is falling, residential investments maintain stable income return and remain attractive for institutional investors' long-term strategy. Demand for rental properties remains high, especially in the affordable segment. This requires an active asset management strategy that pays attention to speed of letting and sustainability. Because sustainable and affordable rental properties are an excellent fit for a socially responsible investment strategy, they remain attractive even at higher interest rates. >

Impact investors: factor in lower capital growth in the short term, but long-term prospects remain good.

Risk premium initial yield on homes and 10-year NL



Source: MSCI, Oxford Economics (2022) adapted by Syntrus Achmea Real Estate & Finance

#2 Announced rent regulation causes uncertainty

Governments try to keep rental properties affordable with new rules. Many municipalities are limiting the maximum rent for mid-range rental properties in new housing developments. National regulations have also been introduced. For instance, there has been a sharp increase in the transfer tax on investment homes, the share of the value under the Valuation of Immovable Property Act (‘WOZ value’) in the housing valuation system (WWS) has been capped, and annual rental growth has been legally restricted until at least 2023.

The government is making plans to improve affordability in the housing market in the coming years. The main proposed measure for institutional investors is the extension of the housing valuation system (WWS) to a score for a rent to be determined between €1,000 and €1,250. Smaller properties – depending on the chosen cap and the location, these are homes of up to around 70 m² (usable area) – will be affected by this as they may fall within the regulated system in terms of their score. As this will probably only apply to new lettings, the effect on existing portfolios will be gradual through changes. New developments might have to be let below market rent, which will depress yields. Many institutional investors already adopt a conservative rent policy from a social perspective. Landlords who rent at or above market rent are more affected. Lower rents also create even lower vacancy risks because tenants stay longer.

As many details – such as the cap – are still unclear, there is mostly short-term uncertainty, possibly causing investors to postpone investment decisions.

Impact investors: factor in changing rental regulations that could affect the return and viability of residential investments.

#3 Rising building costs frustrate construction agenda

The Netherlands still has a major housing shortage. Almost all regions have a shortfall totalling hundreds of thousands of homes. Construction output has lagged behind demand in recent years, and the number of new homes and granted building permits is declining. The government has made plans to speed up housing construction, including investment in infrastructure and subsidies to expedite planning for housing development locations.

Building costs have meanwhile risen sharply: by mid-2022, they were 11% higher than a year earlier. As a result, several construction plans are no longer feasible and have been postponed. A shortage of building materials and staff shortages in land-use planning are also delaying new development plans. Lastly, the nitrogen case is still not closed. While these issues might improve in the coming years, it seems unlikely that the target of 100,000 new homes a year will be met. It remains difficult for institutional investors to find suitable new development acquisitions. Good cooperation with area and other developers, municipalities and housing corporations remains vital to have a seat at the table early for new development projects. Innovations such as industrial construction, timber construction or temporary housing can speed up construction, but housing quality must also be guaranteed. The possibility of adding homes to the portfolio through redevelopment combined with making homes sustainable can be explored in the existing building stock. ■

Impact investors: continue to seek cooperation with market and other parties and be receptive to innovations in housing construction that help reduce the housing shortage.

OUTLOOK RESIDENTIAL

INVESTMENT FOCUS 2023-2025

Rental properties can be categorised by price range. For each segment, we determine the geographical focus based on our opportunity map. This shows how the demand and attractiveness of rental housing per municipality will develop over the next ten years. The premise for all rental properties is that they will be built as sustainably as possible, for example by using bio-based materials such as timber and low-energy installations. The latter lowers the cost of living for our tenants.

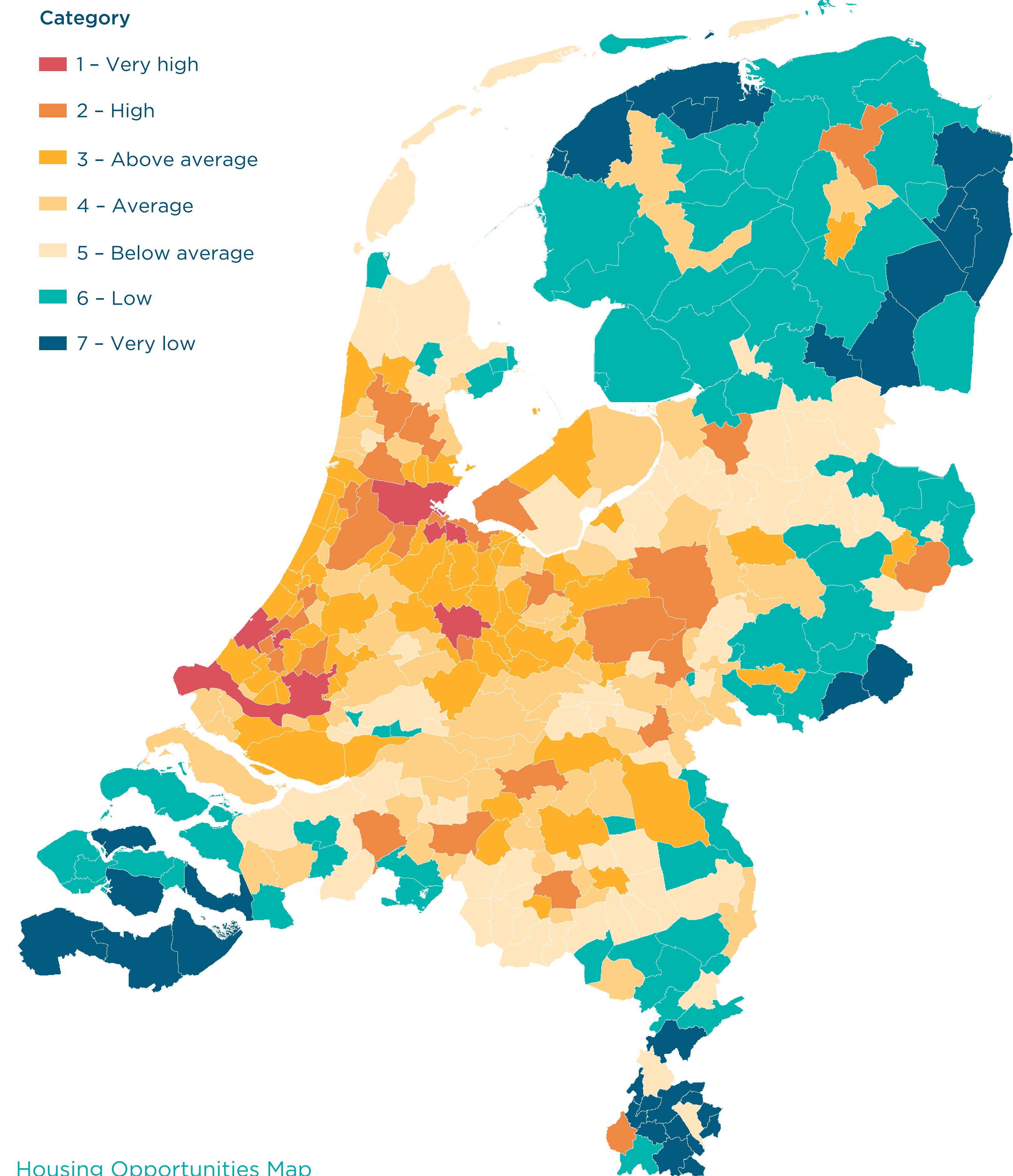
Extending rent regulation (see developments) will largely regulate mid-range rent in addition to social rent. As the landlord levy is abolished, the boundaries between social rent (up to €763.47 in 2022) and mid-range rent (up to around €1,100) become blurred for investors. As a result, the location, floor area and energy efficiency of homes increasingly determine the rent. The rent for new investments must be in line with the maximum reasonable rent based on the housing valuation system (WWS) score. This reduces the risk of a sharp drop in rental income.

Social rental

The abolition of the landlord levy removes a compelling reason not to invest in social housing. Social housing is moreover ideally suited to achieve social impact. The long waiting lists at housing corporations mean that young people, for example, have no chance of getting a home in this segment.

There are mainly opportunities for smaller self-contained apartments for students and first-time buyers in the social rent sector with 20 m^2 or more in or near university towns. Leasing to operators limits the rental risk. Although full residential service concepts with shared facilities such as workspaces, laundries and fitness rooms contribute to rentability, they should not create exorbitant service costs.

Regular social housing might also be an attractive option, either independently or combined with other types of rental properties. Independent social housing has similar yields to deregulated properties, but the risk is also lower because of rents below the rent-control ceiling and high demand in this segment. >



Housing Opportunities Map

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Mid-segment

The mid-range rental segment runs from the rent-control ceiling to around €1,100. In part of this segment, mainly new complexes, rents are now regulated by mid-range rental provisions that apply in almost all major municipalities. Especially in markets where the market rent is well above this regulated mid-range rent, the rental risk is low, as in opportunities map 1 (major four cities). Mid-range rental housing also plays an important role in movement in the local housing market. For example, by renting homes to middle-income people working in key professions, it has a social impact.

Both apartments from around 60 m² and small single-family houses are an attractive option in the mid-range rent segment. The homes must suit the intended target group. For example, single-family homes ideally have at least three bedrooms. Within apartment blocks, consideration needs to be given to a workspace in an extra room. Offering shared facilities such as shared mobility, collective workspaces or common amenities is also promising at these properties.

High segment

Investing in the high segment from around €1,100 to €1,400 often translates into a higher initial yield than mid-range rental homes. It has a higher vacancy risk that is strongly determined by local conditions and the economic climate. A possible consequence of regulation and limited supply in the mid-range rental segment is that households are more likely to turn to the high segment, which could reduce this vacancy risk. The high segment involves areas from about 65 m² for apartments and single-family homes from 100 m². It distinguishes itself from the mid-range rental segment by its location in a very tight housing market or its excellent location within a city. Especially in opportunity map categories 1 to 3, demand is high and supply is limited. There are limited investment opportunities in this price category in opportunities map 4 and 5. The higher level of rent should suit the local housing need, and often involves larger homes than in opportunities map categories 1 to 3. Because rents in this segment are relatively high, the reasonable maximum rent must be carefully considered in view of further regulations to avoid a large drop in rental income. >

Meeting space in lobby. One Space - Delft

Top segment

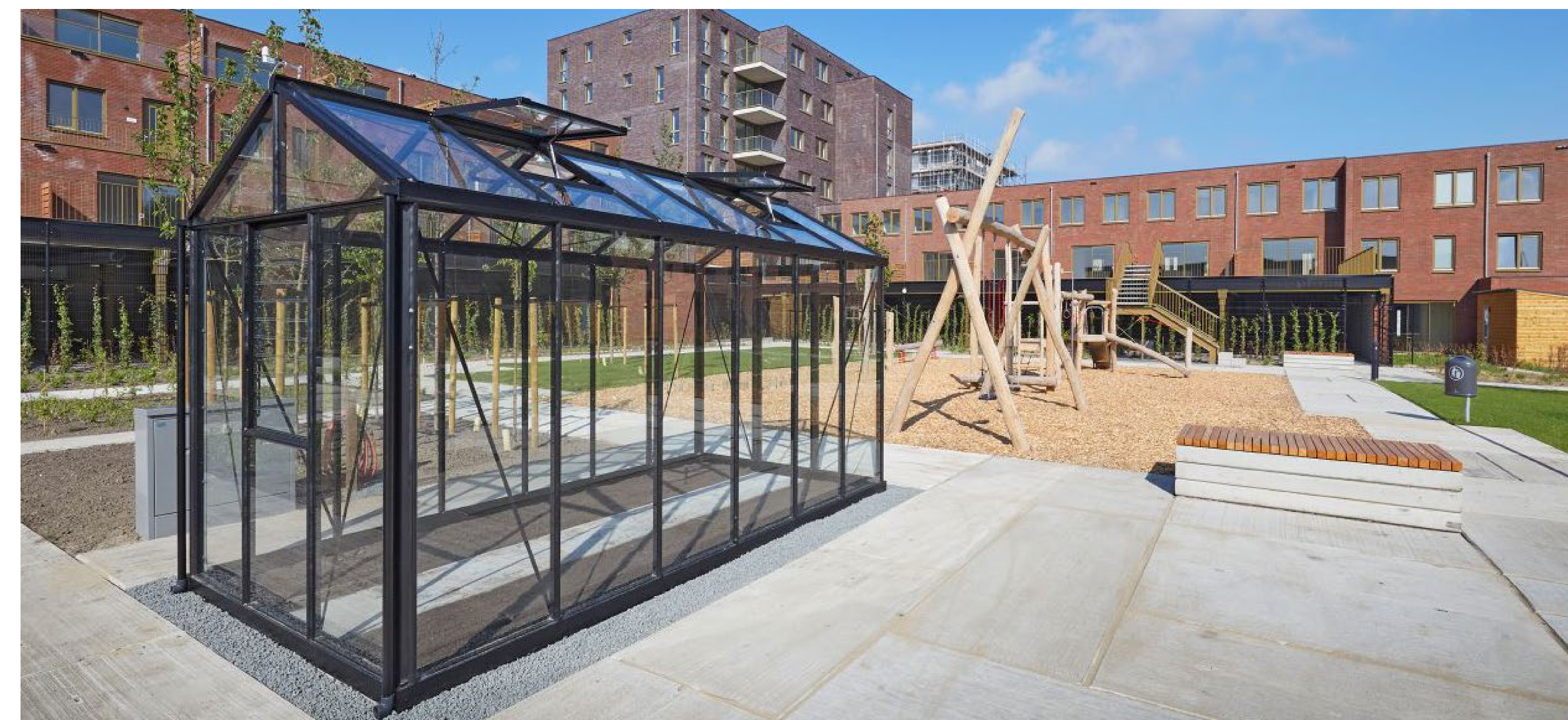
The prime segment from €1,400 has a limited target group due to the relatively high-income requirements and experiences competition from the owner-occupied market. This segment is the most sensitive to a recession and has the highest rental risks. At the start of the pandemic, the prime segment experienced rising vacancy rates. The main cause was limited population growth in the major cities, partly due to the departure of expats. Vacancy rates have now fallen and there are limited investment opportunities in this segment in the major cities. That applies especially to apartments from 80m² or single-family homes in excellent residential locations in opportunities map 1 (major four cities). Examples are inner cities or business districts, or the upper floors of high-rise buildings. Offering luxurious additional services increases attractiveness. In opportunities map categories 2 and 3, demand for the prime segment is limited to spacious single-family homes or niche luxury apartments. The reasonable maximum rent must also be carefully considered in the prime segment in view of future regulations. ■

Investment Focus 2023-2025

Category	Indicative rent	Investment focus	Geographical focus Opportunities map 1, 2, 3	4, 5	6, 7
Regulated	Low segment (< €763)		●●●●○	●●●○○	●○○○○
Nonsubsidised sector	Mid-range rent segment (€763–€1,100)		●●●●●	●●●●○	●●○○○
	High segment (€1,100–€1,400)		●●●●○	●●○○○	●○○○○
	Prime segment (€1,400+)		●●○○○	●○○○○	●○○○○

Low High

●●●●● Attractive
●○○○○ Not attractive



Indoor garden with play facilities. Remisehof - Rotterdam

OUTLOOK HEALTHCARE REAL ESTATE

INVESTMENTS IN HEALTHCARE REAL ESTATE

For many real estate investors, healthcare real estate has outgrown its niche status. High user demand, appealing investment characteristics and opportunities to make a social impact make it attractive. Despite its huge potential, growth in this investment market has so far been limited. Supply is the limiting factor here: most existing healthcare real estate is either qualitatively not future-proof or not available on the market, and there is still too little construction of new healthcare real estate. Fortunately, the importance of healthcare real estate is moving ever higher on the policy agenda. As economic uncertainty increases, the potential of healthcare real estate for investors remains undiminished.

Living with care in green surroundings. Elisabeth Park – Lage Vuursche

> **Healthcare real estate should have a place in every institutional real estate portfolio.**

Green outdoor space. De Makroon – Amsterdam

The healthcare real estate market for investors

The various segments in the healthcare real estate market have attractive investment characteristics that are compatible with a diversified investment portfolio. The high occupancy rate of lifetime homes ensures stable rental income. Private nursing and care homes, where more demanding care is provided, often have long-term leases with healthcare operators. At health centres and second-line healthcare real estate where insured care is provided, demand and occupancy rates are high. Long-term compensation for inflation through indexation applies in all cases. High underlying market demand and limited sensitivity to trends in the economic cycle reduce risks, leading to an attractive risk-return profile. The growing demand for real estate investments with impact can be met with an investment in healthcare real estate. ■

OUTLOOK HEALTHCARE REAL ESTATE

FACTS & FIGURES

By 2031, the **labour market shortage** of health professions in the 'nursing and care' sector will have increased from 12,900 to **40,400**. There will be a labour market shortage of **140,000** in the healthcare sector as a whole by 2031. Source: ABF Research
New residential care concepts offer opportunities to organise care more efficiently.

By 2040, the number of informal care recipients will increase by **70%** , while the number of informal caregivers will increase by only **7%**. The ratio between informal caregivers and recipients will deteriorate from 5:1 to 3:1. Source: PBL
Less **informal care** means more home care or greater self-reliance. Investing in residential care concepts can solve some of these problems.

By 2040, the **population** in the Netherlands will increase by about **1.6 million** people. That is roughly the current joint population of Rotterdam, The Hague and Utrecht. Many of them are older than 75.
In the same period, the number of over-75s will increase by **more than 1 million**, which is comparable to the current joint population of Eindhoven, Groningen, Tilburg, Almere and Breda. The future demand for suitable housing for the elderly is substantial. Source: ABF Research, adapted by Syntrus Achmea

'Living at home for longer' has a downside. Opportunities to meet are dwindling. Technological developments and e-health mean that healthcare consumers hardly leave home now and lose touch with society. This can increase feelings of **loneliness**: **56%** of over-75s feel lonely, with 12% experiencing serious loneliness. The problem is even greater among the over-85s: **66%** feel lonely and 14% are to a serious degree. Source: VZinfo, RIVM
Clustered residential care concepts can help reduce this loneliness problem.

Movement of senior citizens offers opportunities to first-time buyers and younger people moving up the housing ladder. For senior citizens – with or without care needs – there is inadequate suitable supply. This explains the low willingness among senior citizens to move. The potential is substantial: **51.5%** of over-75 households live in owner-occupied homes, while **12.8%** of all owner-occupied homes are occupied by an over-75 household. Investing in healthcare real estate boosts the movement of these senior citizens.

At over **€500 million** in the first six months of 2022, the **transaction volume** in healthcare real estate remains at the same level as previous years. Investors would be keen to invest multiples of this amount. Over the next three years, they have a further **€7.5 billion** available to invest in healthcare real estate. Source: Capital Value

Completing new healthcare real estate projects is becoming more challenging. Increased housing demands, sustainability requirements and rising **building costs** are making construction projects more expensive. In June 2022, building costs for new homes were **14%** higher than in January 2020. Source: Statistics Netherlands (CBS)

Rates for the normative housing (NHC) and inventory component (NIC) will be reduced as from 1 January 2024. The lower cost of capital results in an NHC rate decrease of around **8%**. The NIC will be reduced by **2.5%**. Healthcare institutions are being squeezed on the revenue side. So far, there is no prospect of compensation for the rising costs.

Nursing homes, care homes and home care institutions are experiencing **financially** challenging times. Operating expenses increased by **3.7%** in 2021, while turnover increased by only **3.5%**. The result ratio was still positive at **2.4%**. Source: Intrakoop Personnel, maintenance and energy costs will remain high in the coming years.

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OUTLOOK HEALTHCARE REAL ESTATE

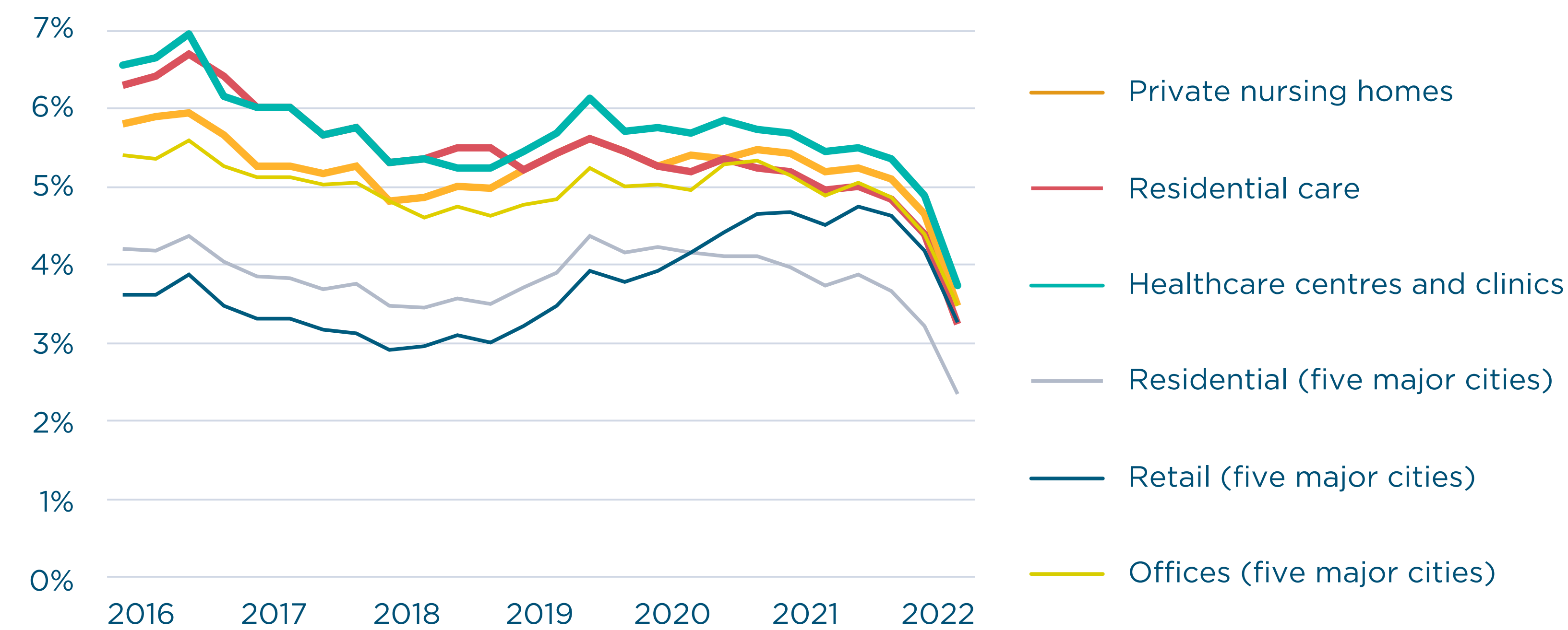
DEVELOPMENTS

#1 Improvements in healthcare property returns

Healthcare real estate has featured more on investors' radars in recent years. With rising popularity and limited availability, initial yields have fallen faster than for other real estate. Spreads of different real estate segments against 10-year government bonds are closer than ever by mid-2022. Because of rising interest rates, real estate spreads have now fallen significantly. Although another fall in initial yields seems unlikely in the short term, there are no signs of sharp increases. Rent regulation in rental housing makes investors cautious.
The demand from users and investors of healthcare real estate is so strong that this real estate class will continue to present itself as a strong and inflation-proof investment in the coming years.

Impact investors: healthcare real estate retains a strong position in the investment portfolio.

Spread of top-yield real estate segments with an interest rate of 10-year Dutch government bonds



Source: Cushman & Wakefield, Oxford Economics (2022), adapted by Syntrus Achmea Real Estate & Finance

#2 Impact of healthcare real estate is high for investors

Socially responsible investing and an ESG strategy are high on the agenda at institutional investors. Some of these objectives can be achieved through investing in real estate. For example, not only by building in a circular, climate-adaptive and energy-efficient way, but also by raising the quality of life in neighbourhoods and districts and keeping housing affordable.

Common room. Molenstraat – Zevenaar

Investments in healthcare real estate also contribute positively to social issues surrounding vulnerable groups in society. Loneliness and prevention are social issues that the real estate helps to improve by encouraging social interaction with attractive residential care concepts. Healthcare real estate reduces the rising social costs of ageing and contributes to movement in the housing market. >

Impact investors: more institutional assets invested in healthcare real estate provide a significant social return in addition to an attractive financial return.

Living with care. De Nieuwe Sint Jacob – Amsterdam

#3 In person if possible, at home if possible and digitally if possible

Healthcare is at risk of becoming unaffordable and unfeasible in the long term because of an ageing population and staff shortages. The government thus supports the trend towards more outpatient care with the Housing, Support and Care for the Elderly (Wozo) programme. Healthcare has to be organised differently, which means meeting the rising housing need of people in need of care almost entirely as outpatient care. This means: as much and as long as possible at home, using technology and social concepts. In this way, nursing and care homes remain available to those who need it most. There is thus much demand for lifetime homes where more demanding forms of care can also be provided. This care is funded from what is known as the full home package (VPT), with housing at the resident's expense. For residential care concepts this means it must be possible to live in them independently and they must be suitable for separating living and care. ■

Impact investors: the demand for housing where elderly people can receive appropriate care at home will increase significantly in the future. Residential care concepts must thus be functionally and physically suitable for separating living and care.

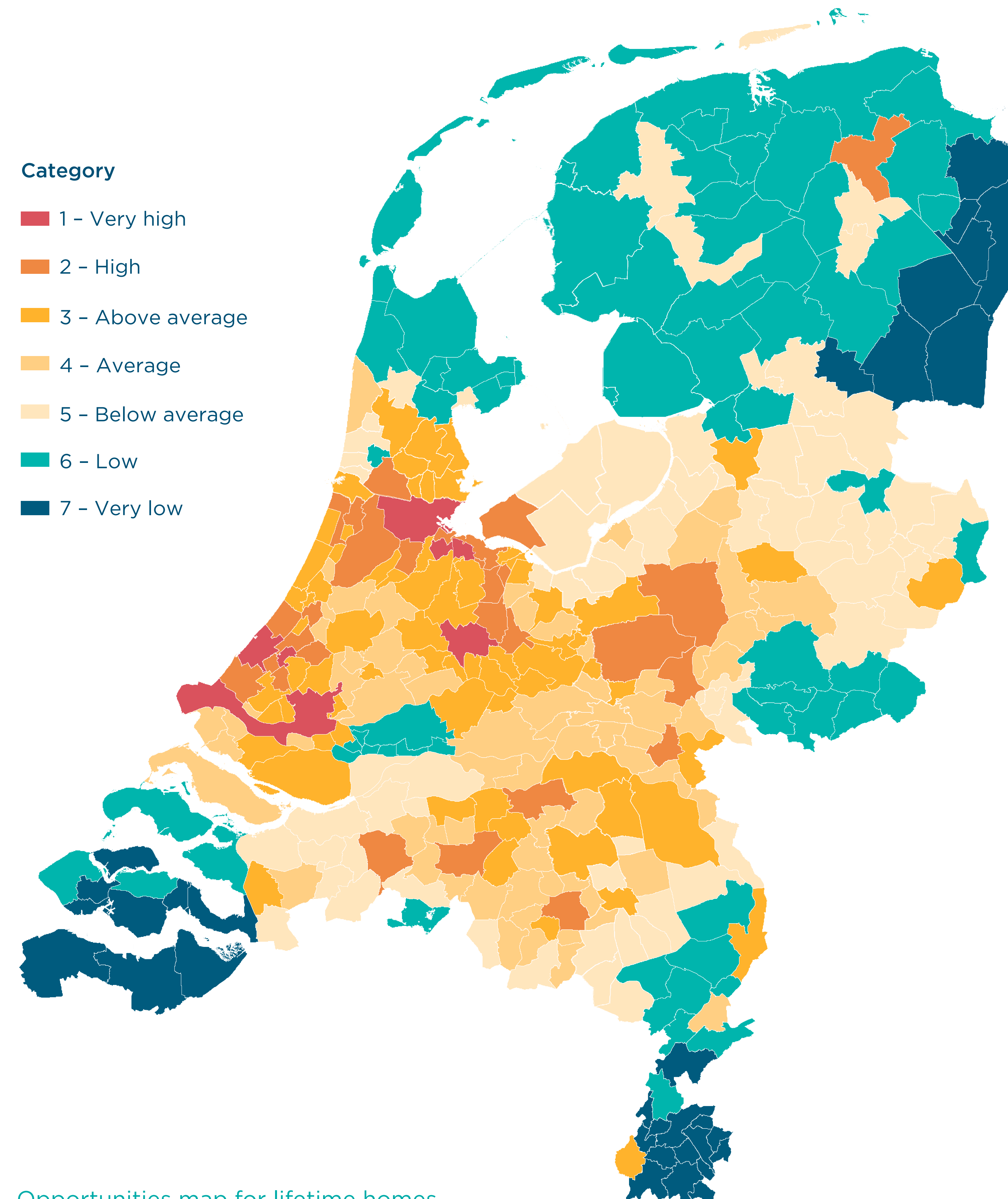
OUTLOOK HEALTHCARE REAL ESTATE

INVESTMENT FOCUS 2023-2025

Healthcare real estate remains attractive as an investment. The different segments all have attractive investment characteristics and demand is high in all parts of the Netherlands.

Lifetime homes

The demand for homes in which residents can receive care is high. The dual effect on ageing of the population – i.e. the fact that the elderly form an increasingly large portion of Dutch society and the average age of this group is getting progressively older – and the financial and social need to organise care more efficiently offer opportunities for clustered residential concepts close to care that encourage self-reliance, social interaction and cohesion. This has a significant social impact. The expected demand for the deregulated mid-range rental segment up to around €1,100 is high. Affordability remains a key issue. As with regular residential investments, additional regulations for initial rents and indexation need to be taken into account, but even so, these properties remain stable, inflation-linked investments with a good risk-return profile.



Opportunities map for lifetime homes

Residential care and private nursing homes

Because of the dual effect on ageing of the population, the target group for housing in which more demanding care can be provided is growing, not only in the elderly, but also in the disabled and mental health sectors. This firstly involves care and nursing homes for people with severe 24-hour care needs who can no longer live at home, and secondly, lifetime housing concepts where more demanding care is provided if necessary. Funding is increasingly through the full home package (VPT), causing a rising share of private nursing homes. Affordability of living with care is important not only for individuals renting a private nursing home, but also for healthcare institutions as main tenants. Rental income can be considered stable and the risk of vacancy and loss of value is limited. The attractive risk-return ratio results for narrowing spreads between lifetime homes and residential care and private nursing homes. Properties with a mix of residential and care functions are attractive. Geographically speaking – given sufficient local demand – there are opportunities for attractive investment propositions. >

Health centres

The rising demand for care caused by an ageing population is putting increased pressure on health centres. The relative importance is also increasing due to the trend of decentralising from second-line to primary care. General practitioner practices of sufficient size, combined with a pharmacy and supplemented by other primary and second-line functions from insured care are important 'anchors' in health centres. Important factors for an attractive investment with a good risk-return ratio include operational scale, a market-based rent and a technically and conceptually viable building are important.

Scala Medica Health Centre – Bunschoten

Investment Focus 2023-2025

Segment	Investment focus	Geographical focus – Opportunities map: 1, 2, 3	4, 5	6, 7
Lifetime homes		●●●●●	●●●●○	●●●○○
Residential care and private nursing homes		●●●●●	●●●●○	●●●●○
Health centres		●●●●●	●●●●○	●●●●○
Secondary care		●●●●●	●●●●○	●●●●○
Other healthcare real estate		●●●●○	●●●○○	●●○○○

Low – High

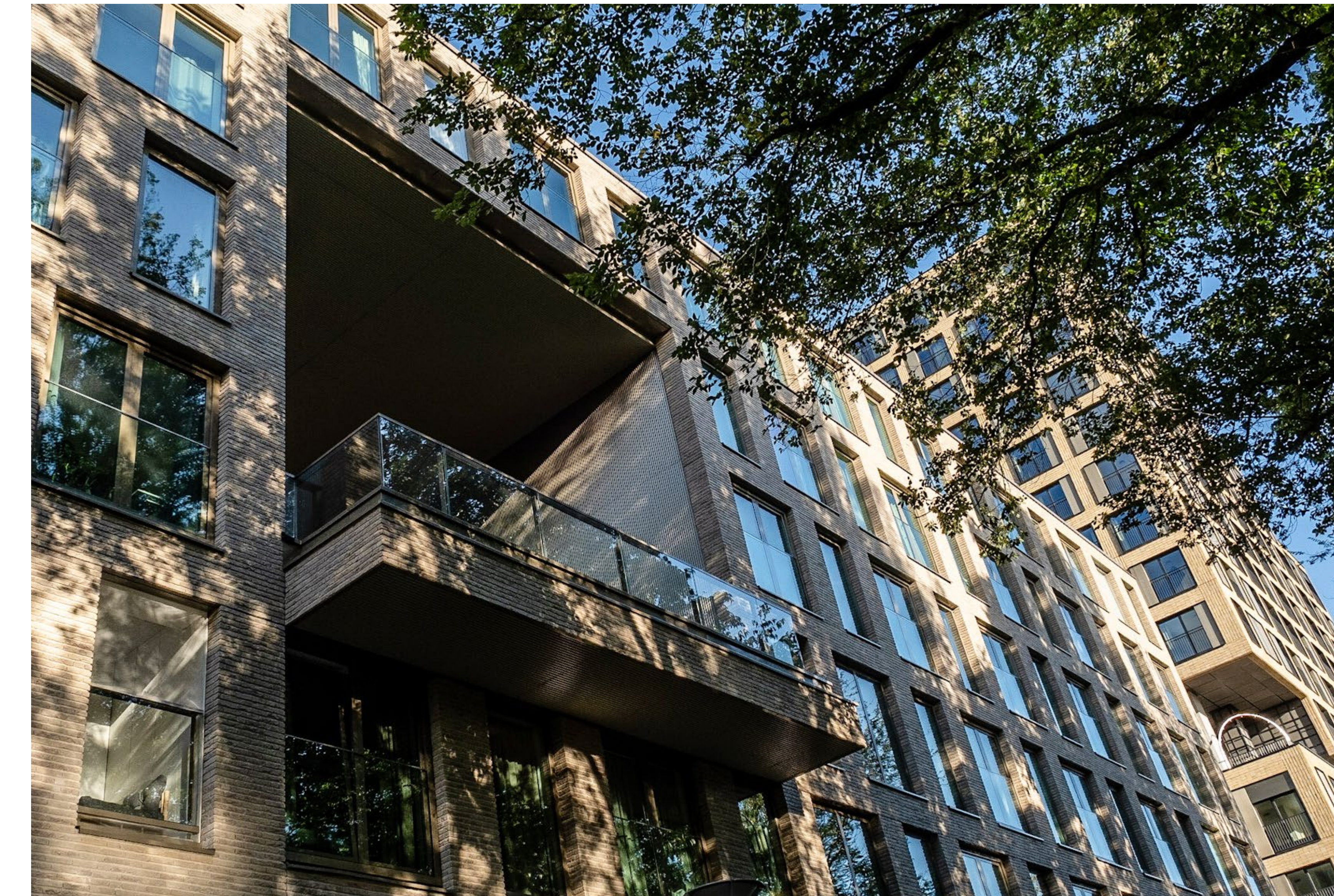
●●●●● Attractive
○○○○○ Not attractive

Second-line care

Insured specialist, predictable second-line care is provided not only in hospitals, but increasingly also in clinics, independent treatment centres or other clustered second-line functions. Due to its scope and specialism, second-line care can offer attractive investment opportunities. Accessibility and parking are important, as are good tenants. Parts of distinctive regional hospitals, such as short stay, rehabilitation care and primary care functions could also offer perspective, depending on the local situation.

Other healthcare real estate

Several niches still exist in healthcare real estate, which – when combined with other residential or care functions – could appeal to investors. These include healthcare hotels, Municipal Health Service functions, offices of healthcare institutions or municipal welfare functions ■



Living with care. De Buurt – Utrecht

RETAIL INVESTMENTS

The coronavirus crisis is not completely over yet, but new uncertainties are piling up. The war in Ukraine, rising inflation, interest-rate hikes and falling purchasing power are examples. Like other sectors, retail is not immune to these developments. Falling purchasing power and retailers' deferred tax payments are the main risks in the coming period.

Nonetheless, retailers are increasingly emphasising their sustainable business practices and this is driving strong green growth. Real estate owners can also make an important contribution in this regard, for example by making buildings more sustainable, reducing energy costs, upgrading the appearance of buildings and making them better able to cope with more extreme weather conditions, such as extreme temperature changes and heavy rainfall. Owners can also help to make shopping areas greener and commit to sustainable mobility by installing charging stations for electric cars and choosing locations that can be easily accessed by public transport. But making retail buildings more sustainable is no easy task.

> **Retail real estate offers good protection against rising inflation and typically performs strongly during economic recessions.**

In city centres and larger shopping centres, ownership is often shared and owners and municipalities will more often have to cooperate with each other on sustainability. Sustainability upgrades will help retailers to reduce rising energy costs and to make shopping areas fit for the future. The positive link between energy consumption and rent has moreover been demonstrated many times in studies. Sustainable initiatives will be spearheaded in real estate investments in the coming years, with retail being no exception.

Despite the uncertainties, the outlook for retail real estate has improved. Following a price adjustment in rent levels and valuations, retail is in relatively good shape. Demand for retail space in good locations has largely recovered and will continue to gain momentum in the coming period. Demand from investors is cautiously picking up again.

Their caution is largely caused by the general uncertainty in the market. As several fundamentals have improved, retail real estate will perform relatively strongly in comparison to other sectors, again highlighting the advantages of retail real estate as an investment.

The retail investment market

In this outlook, Syntrus Achmea outlines its expectations for the retail real estate market for the period between 2023 and 2025. Syntrus Achmea divides the retail market into several segments: high street, district and other shopping centres, out-of-town/large-scale retail outlet locations and other shops. High street are the traditional shops in Dutch city centres. Shopping centres are divided into urban district centres, large district shopping centres and small district shopping centres mainly focused on providing daily necessities. ■

OUTLOOK RETAIL

FACTS & FIGURES

Consumer confidence of -51 has fallen to an all-time low. Consumers are mostly gloomy about the economic climate, and feel now is not the right time especially for major purchases.
Source: Statistics Netherlands – CBS (2022)

There are currently **143 job vacancies** for every 100 unemployed people. Tension in the labour market is at an all-time high as the number of jobs is rising while the number of unemployed is at an all-time low. The retail sector is struggling the most with this and has great difficulty filling vacancies. As a result, the demand for real estate will focus on places not only where consumers come, but also where staff can be found. And this tends to be the larger, growing cities.

The vacancy rate expressed as a percentage of total retail floor space is **6%**. This percentage has fallen sharply in recent years. Vacancy rates are also falling now because of new lettings, while they previously fell mainly due to renovation projects.

The average size of leased retail space in city centres is growing to **285 m²** of retail floor space. Demand for larger retail spaces in the best locations is picking up. The supply of larger spaces is scarce and vacancy rates are zero. A larger and more visible space better suits the broader function of a modern shop and is often strategically important to retailers.

The investment volume of retail real estate increased by **3.2%** compared to the same period in 2021. Investors are cautiously looking at opportunities in the market again and the share of foreign investors is rising. Foreign interest mainly focuses on shopping centres.

Clothing shop sales increased in the second quarter of 2022 by **19.5%**. As volume rose by 16.8%, part of the increase came from higher prices. Most retailers expect they will have to raise prices in the coming period.

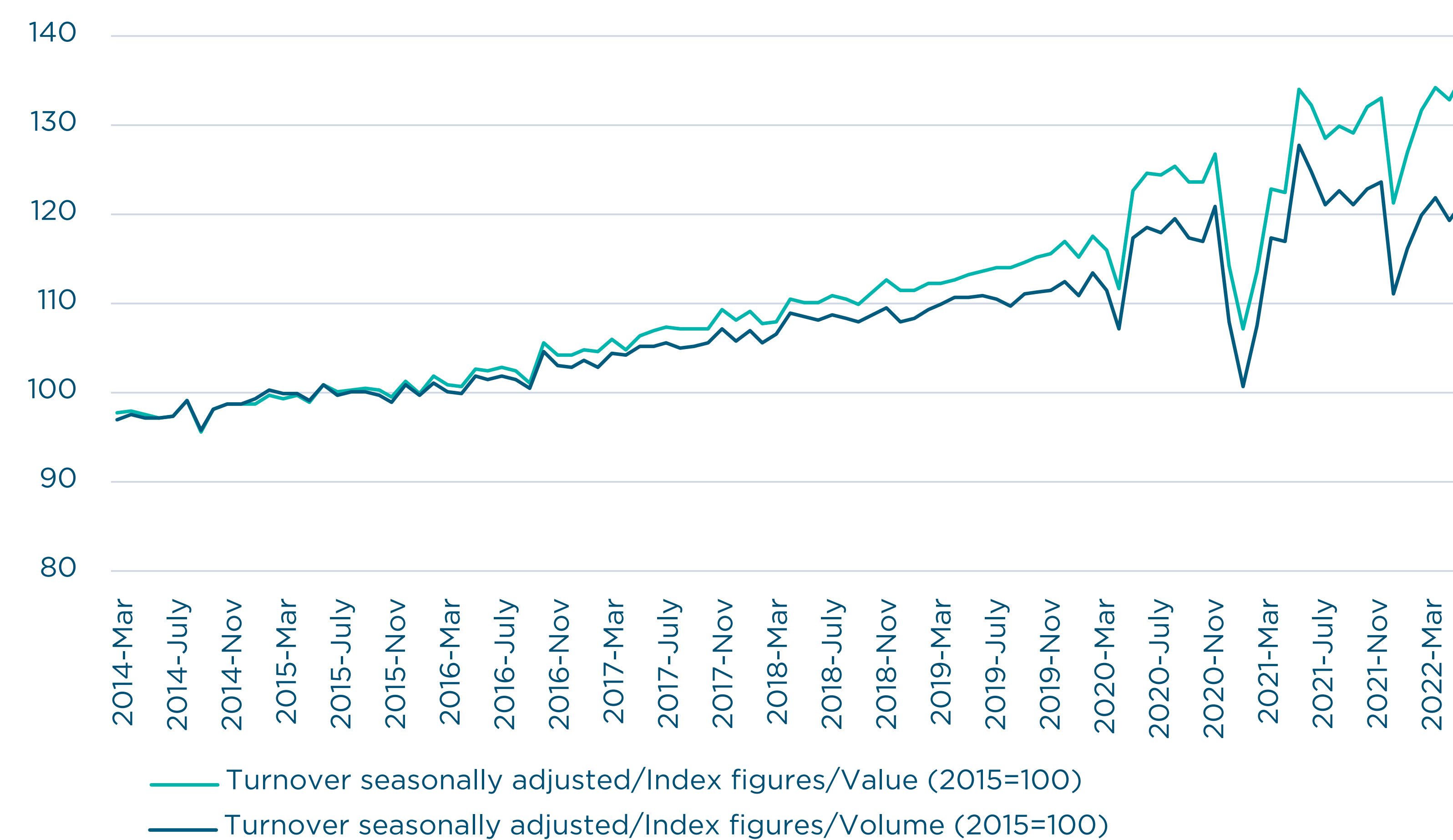
OUTLOOK RETAIL

DEVELOPMENTS

#1 Uncertainty in the economy increases, but retail emerges from its slump

Although the economic outlook for the retail market is mixed, the sector is emerging from its slump. Current uncertainty is no longer caused by coronavirus and related measures, but to a large extent by the war in Ukraine, rising inflation and interest-rate hikes. Purchasing power is under pressure, consumer confidence is at an all-time low and prices are rising. The housing market is cooling down, which might trigger confidence to fall further. Consumers are likely to postpone larger purchases in home furnishings and electrical goods, for example. The effect of this tends to be smaller spending on food, essentials, clothing and shoes. Purchases in these sectors are fairly constant, and cheaper substitutes are often available. Spending on services such as hospitality and leisure is expected to remain flat. Companies will start paying their deferred tax liabilities in the coming period, which could cause some turbulence in the market, especially at the start of the outlook period. Medium-sized hospitality businesses are particularly affected by this. Even so, consumers currently spend a lot and have accumulated a lot of savings on average.

Retail sales: Prices are rising faster than volume



Source: CBS (2022), adapted by Syntrus Achmea Real Estate & Finance

Although this camouflages the current turbulence somewhat, historical figures also show that retail performance is relatively stable in uncertain times. The increased activity is also causing the number of shops to rise again for the first time in years.

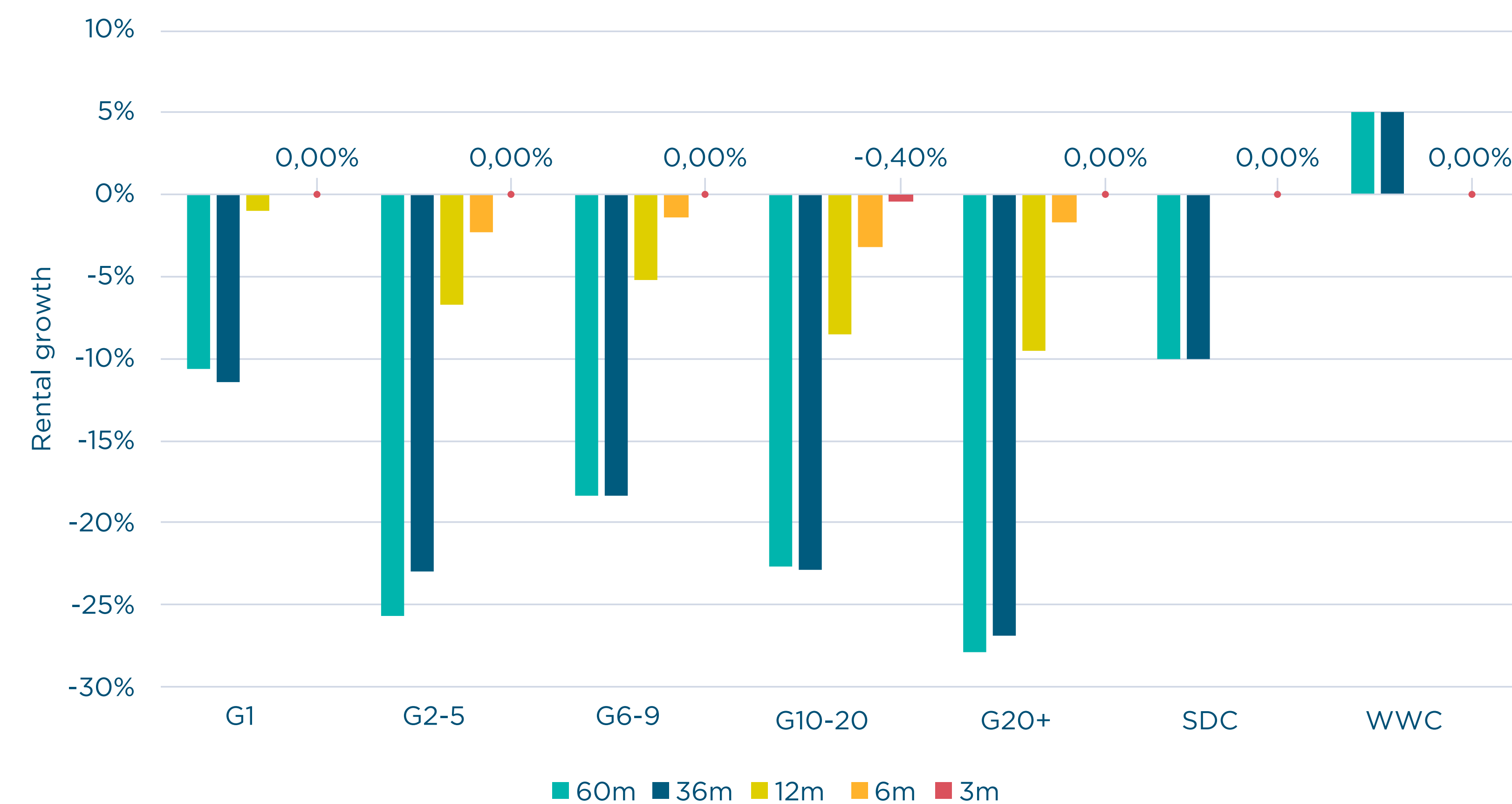
This is observed particularly in the larger 'Corop regions' – i.e. divisions of the Netherlands for statistical purposes – where population growth is strong. Demand for retail real estate will continue to gain momentum in these regions in the coming period. This growth would be stronger if there were no staff shortages. There are now 143 unfilled job vacancies for every 100 unemployed people. The shortage is greatest in the retail sector.

#2 Demand for retail space stabilises, rental growth on the horizon

Since 2020, top rental levels have fallen by more than 25% in several markets. During this period, the market was afflicted by coronavirus. To avoid loss of rent, rent levels were adjusted based on the very negative sentiment, while strong references failed to materialise because of a lack of transactions. Because many leases were amended, the number of insolvencies ended up being less than expected. Vacancy has even declined in recent quarters. While vacancy rates previously fell mainly due to premises being renovated for other uses, they are now also falling due to new leases and extensions. This is reflected in rent levels, which remain stable after falling for several quarters. >

Larger spaces are especially in demand. The average space used in city centres is over 280 m². In A-locations, the average size of a rented space is even larger. Current rental activity also shows that a further decline in rent levels is unlikely; the good locations seem to have bottomed out. Sentiment for district and other shopping centres was already favourable and will remain stable in the coming period because of strong demand from the user market.

After falling sharply, top rent levels stabilised in Q2 2022

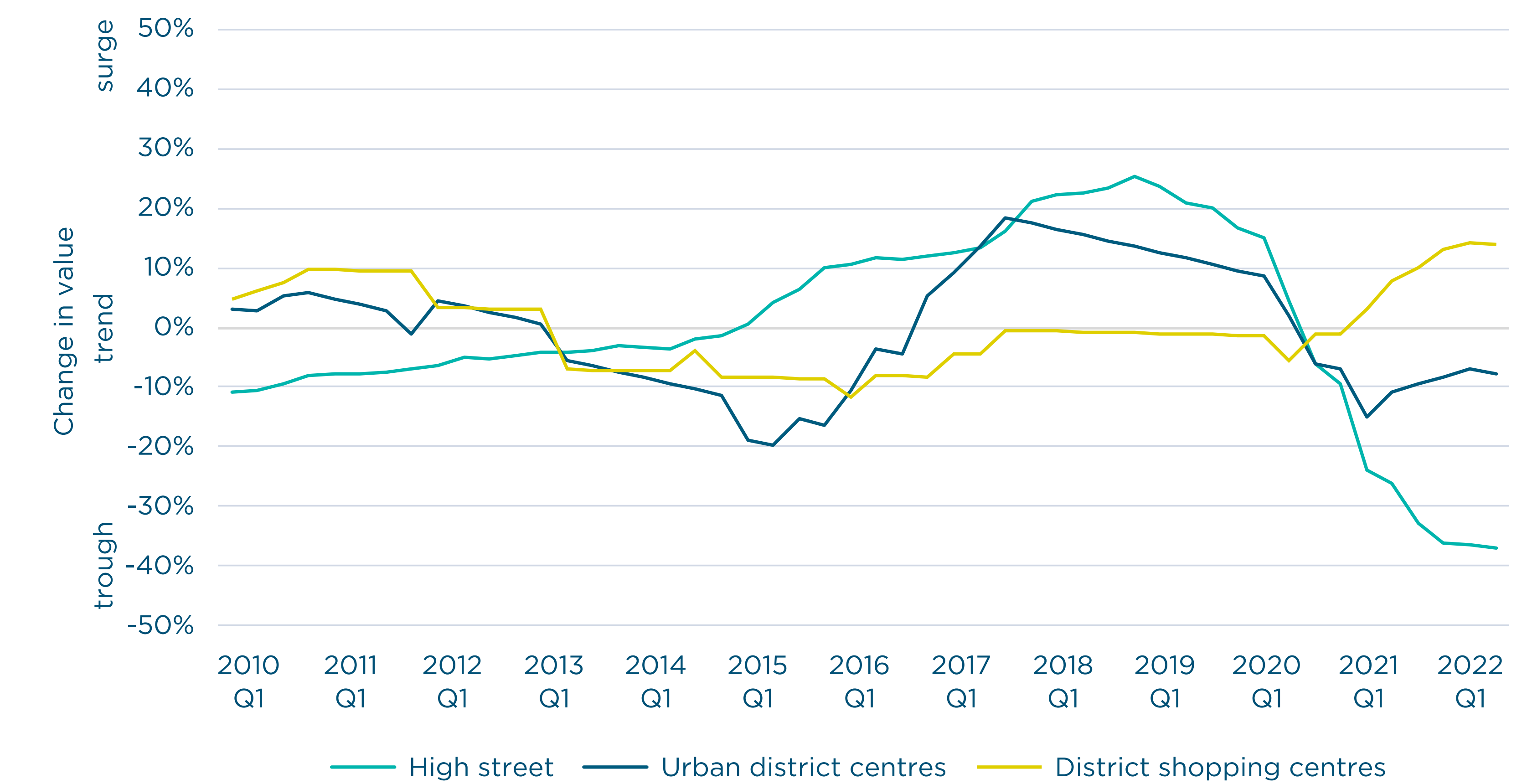


Source: C&W (2022), adapted by Syntrus Achmea Real Estate & Finance

Good time to invest for retail investors

The improved sentiment in the investment market is reflected in the movement of initial yields combined with the development of rent levels. Initial yields stabilised in 2022 and are not expected to rise further. High-street initial yields are moreover at higher levels than those of other sectors, allowing them to better absorb high interest rates in the risk premium. Rent levels have bottomed out and are expected to grow slowly. But the dynamics vary greatly in the different sub-segments of the retail market. The high-street segment is in a trough, while the district shopping centre segment is peaking. This is reflected when a change in value is derived from the movement in rent levels and initial yields. It is clear from the result of this analysis that high-street valuations are well below average and will most likely recover. This recovery is strongly driven by positive rental growth and stable or slightly declining initial yields. Pressure on district shopping centres is expected to continue with no significant adjustment expected. Suitable investment products are in short supply while demand from both the user market and investment market is strong.

Change in value by segment



Source: C&W (2022), adapted by Syntrus Achmea Real Estate & Finance

Investment focus

Larger city centres have a more dominant core shopping area than smaller cities because they have a larger catchment area and attract more visitors. The number of retail businesses is growing in the larger cities and in the coming years, the major cities and suburbs are expected to grow faster. Rent levels and valuations have had a sharp adjustment, with the market currently in a trough. District shopping centres are actually experiencing a surge as demand for these products has held up and even gained momentum. ■

OUTLOOK RETAIL

INVESTMENT FOCUS 2023-2025

Investment Focus 2023-2025

Segment	Investment focus	Geographical focus		
Shops in city centres		Primary locations	Secondary locations	EN
G1		●●●●●	●●●●○	
G2-5		●●●●●	●●●○○	
G6-9		●●●○○	●○○○○	
G10-20		●●○○○	●○○○○	
G20+		●●○○○	●○○○○	
Shopping centres				
Urban district centres				●●○○○
District shopping centres (large)				●●●●○
District shopping centres (small)				●●●●●
Other				
Other daily clustering		●●●●○	●●○○○	
Traffic locations		●●●●○	●●●○○	
Commercial levels		●●●●○	●●●●○	

Low – High

●●●●● Attractive
●○○○○ Not attractive

Risk profile is determined for each property

Recent market developments have shown that a choice of location alone is insufficient. Syntrus Achmea therefore monitors market developments at street level. The risk profile is determined for each property. A property must match the requirements of the sector concerned – so that the lessee risk is as small as possible – and be marketable enough to adapt it to a new tenant if necessary. In addition, the location and the property must align with the lessee's strategy.

Core Shopping Areas

When investing in retail property, the focus is on the core shopping areas of the Netherlands' largest cities with a large catchment area and an attractive profile for foreign tourists. This is because of their wide range of facilities such as culture, restaurants and the historical setting. Syntrus Achmea expects shops in these retail areas will benefit most from returning tourists and rising consumer spending. >

City centres

District shopping centres are at greater risk because of their size and relatively high proportion of non-daily. Urban district centres are also a very heterogeneous product. If they meet a number of conditions, they can fit into the portfolio. The most important preconditions are:

- a dominant position in the catchment area;
- sufficient diversity in terms of branching and number of lessees;
- presence of supermarkets;
- Sufficient renovation possibilities or functionally adaptable;
- clear ownership ratios.

District shopping centres (large)

Demand for larger district shopping centres is increasing because they occupy a strong position in the catchment area and accommodate different retail formats and functions that reinforce each other.

Larger district shopping centres must meet the following preconditions:

- 7,000 to 14,000 m² with at least 40% food;
- the district shopping centre must occupy a dominant position in its catchment area;
- at least two supermarkets;
- complementary functions in the neighbourhood such as healthcare, education and sport;
- limited or greater renovation options.

Lijnbaan Rotterdam with Forum in the background

District shopping centre Kerkelanden - Hilversum

District shopping centres (small)

District shopping centres (food) aimed at providing daily essentials have strong ties with the immediate catchment area. District shopping centres should preferably have:

- 2,000 to 7,000 m² with at least 60% food;
- at least one, but preferably two supermarkets;
- a stable or growing catchment area. ■

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