

Real Estate Strategic Outlook: Netherlands

Political factors to play an important role

New right-wing government

Following six months of intense negotiations, four political parties reached a provisional governing agreement in mid-May. The coalition aspires to very strict immigration policies, in part to solve supply-demand imbalances in the residential sector.

Not much detail has been given about policies directly impacting the residential markets. Building more houses, rent regulation, affordable rents, more social housing, and investment climate have all been mentioned. But for investors, a stable and predictable residential market is key for new investments and business plans. Given the uncertainties, we prefer the logistics sector in the Netherlands.

Real estate sector strategy: what and where?

Logistics: significant price correction and fundamentals

Dutch logistics is forecast to be one of our top-performing markets, with virtually no vacancy for modern units and a limited supply of zoned land constraining speculative development. The recent repricing of prime assets – a value decline of around 20% has created an appealing opportunity for (re)entry.

Where we have seen prime assets brought to market, particularly in logistics, evidence is already suggesting a growing number of bidders. We might even see some yield compression in the logistics sector this year as the market gains momentum, supported by further interest rate cuts.

Additionally, with stringent planning controls, such as the limitation of greenfield development in certain areas, and a scarcity of high-quality space, there is a potential for development-led strategies. This includes transforming outdated light industrial assets through redevelopment or repositioning into last-hour logistics.

Residential: living sectors supported by notable undersupply

The residential real estate market continues to exhibit robust fundamentals, especially with low structural vacancy rates and a decline in new supply. However, several challenges persist. High construction costs, rental regulation, and tight financial conditions have restrained new construction projects. Additionally, the imminent implementation of

stricter rent controls and elevated transfer taxes have dampened the appeal of traditional multi-family residential investments. Selling individual units to owner-occupiers is currently the most appealing strategy given the new rental regulation, lack of capital for rental stock and higher capital values in the owner-occupier segment.

Our focus pivots towards operational residential assets, including student housing, senior and co-living. These properties tend to yield higher returns compared to traditional multi-family and experience robust, often unregulated, rental growth.

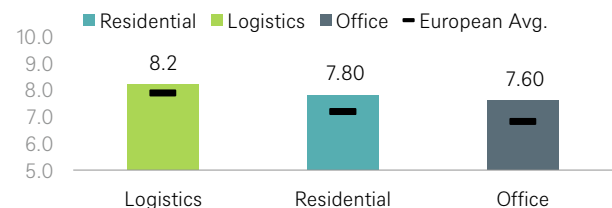
A pronounced supply scarcity, particularly in Amsterdam, coupled with the increasing presence of international students makes investments in student accommodation highly promising. The Netherlands stands out for its high-quality universities, a multitude of English-language courses and a relatively affordable cost of study.

A swiftly ageing population and the deficiency of suitable, high-quality senior living options create investment opportunities. The Netherlands boasts one of the strongest growth rates in the elderly population in Europe, complemented by strong purchasing power among pensioners.

Office: repurpose to meet the demand for housing

On paper the office-to-residential conversion makes a lot of sense, turning depreciating and obsolete office buildings into much-needed living space. However, the low-hanging fruit has largely been picked, and the cost of the remaining conversions is often too high. Instead, we would focus on residential refurbishments and renovations.

Prime Gross Total Return Forecast*, 2024f-2033f (% p.a.)



*Gross total returns minus capital costs
Source: DWS, June 2024

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Real Estate Research Team

Office Locations

Frankfurt

Mainzer Landstrasse 11-17
60329 Frankfurt am Main
Germany
Tel: +49 69 71909 0

London

45 Cannon Street
London, EC4m 5SB
United Kingdom
Tel: +44 20 754 58000

New York

875 Third Avenue
26th Floor
New York
NY 10022-6225
United States
Tel: +1 212 454 3414

San Francisco

101 California Street
24th Floor
San Francisco
CA 94111
United States
Tel: +1 415 781 3300

Singapore

One Raffles Quay
South Tower
15th Floor
Singapore 048583
Tel: +65 6538 7011

Tokyo

Sanno Park Tower
2-11-1 Nagata-cho
Chiyoda-Ku
18th Floor
Tokyo
Japan
Tel: +81 3 5156 6000

Sydney

Level 16, Deutsche Bank Place
Corner of Hunter and Phillip Streets
Sydney NSW 2000
Australia
Tel: +61 2 8258 1234

Teams

Global

Kevin White, CFA

Global Co-Head of Real Estate Research

Simon Wallace

Global Co-Head of Real Estate Research

Americas

Brooks Wells

Head of Research, Americas

Liliana Diaconu, CFA

Office & Retail Research

Ross Adams

Industrial Research

Sharim Sohail

Self-Storage Research

Europe

Ruben Bos, CFA

Head of Real Estate Investment Strategy, Europe

Tom Francis

Property Market Research

Rosie Hunt

Property Market Research

Martin Lippmann

Head of Real Estate Research, Europe

Asia Pacific

Koichiro Obu

Head of Real Estate Research, Asia Pacific

Seng-Hong Teng

Property Market Research

Hyunwoo Kim

Property Market Research

Matthew Persson

Property Market Research

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AUTHOR



Ruben Bos, CFA
Head of Real Estate Investment Strategy, Europe

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