



# Build Market Update 2022-II

INFLATION, INTEREST RATES AND GOVERNMENTAL  
REGULATIONS

AUGUST 2022

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# 1. Executive summary

The 10 year capital market rate has experienced a substantial decrease over the past years, however, it started to rise again from January 2022. Reason for this are the concerns about sharply rising inflation and tightening monetary policy. This in turn will have an impact on interest rates on new mortgages. Forecasts made by the DNB revealed that the average interest rate on new mortgages will continue to grow, up to the year 2024.

Expats have returned on the mid-rental segment of the Dutch housing market, as a result of relaxed entry requirements with respect to COVID-19 regulations. The trend of expats returning is visible in especially the larger cities of the Netherlands. Expats pay higher rental prices than the average tenant. In addition, 70,000 Ukrainian refugees have entered the Dutch housing market as well, and this amount is likely to increase. This will also lead to an increased demand for houses.

Regarding the price levels on the Dutch Housing market, it can be deduced that both owner-occupied dwellings in general and rental properties in the mid-rental segment have been subject to increases in prices. This indicates that scarcity of homes on the Dutch Housing market remains for the time being. At the same time, the Dutch Government has planned to construct roughly 1 million new residential properties in the Netherlands, up to the year 2030. However, only 36% of this amount are included in 'hard plans'. Uncertainty in constructing the remaining share of properties is closely related to more organizational and political issues, such as delays in Environmental Planning procedures and the nitrogen problem.

In the mid-rental segment, regulation of rental prices is part of the political agenda, in order to help people in finding affordable homes in the mid-rental segment. However, this will negatively impact investment opportunities in the mid-rental segment, since regulation of rental prices in this segment leads to lower market values, and thus lower profitability as experienced by real estate investors. This will likely lead to further delay in construction of new properties.

The Dutch government has adopted a sustainability policy for the urban environment as of June 2022, with the aim of realizing an emission-free urban environment by 2050 and a 60% reduction of CO2 emissions by 2030. Yet, the feasibility of the objectives of environment related policies remains questionable, as government lead times to get from plan to permit often tend to be overlooked.

The abolition of the rental tax increases investment resources for social housing. These extra resources can be used for constructing new properties and for enhancing sustainability and affordability in the social rental segment. Another plan made by the Dutch Government is the adjustment of capital gains in the preliminary bill on Box 3, for the years 2023 and 2024, which might affect the profitability of real estate investments in Box 3. Furthermore, the government wants to increase the stamp duty for BTL buyers as of 1 January 2023.

In summary, there are a lot of developments that could increase pressure on the Dutch Housing market. Especially the governmental developments are most decisive in this respect. Firstly, there is much uncertainty regarding the construction of new properties, due to nitrogen related issues and delays in Environmental Planning procedures. Secondly, governmental instruments such as regulation of prices in the mid-rental segment and adjustment of capital gains in the preliminary bill on Box 3, make investing in BTL properties in this segment less attractive. As a result, private BTL investors invest less in rental properties, and this will hamper constructions of new properties. The national target of realizing 100,000 new homes per year seems therefore rather optimistic, and thus we believe that scarcity in the Dutch Housing market will remain during the coming few years.

## 2. Developments of Interest Rate

### 2.1 Historical development: 10 year capital market rate

The capital market rate is a rate for long-term loans, that is loans with a maturity longer than 2 years. The capital market rate (e.g., 10 year fixed capital market rate) is an important measure for mortgage interest rates of long fixed-interest terms. At Figure 1 below, one can observe the historical development of this rate during the period 2000-2022 <sup>1</sup>.

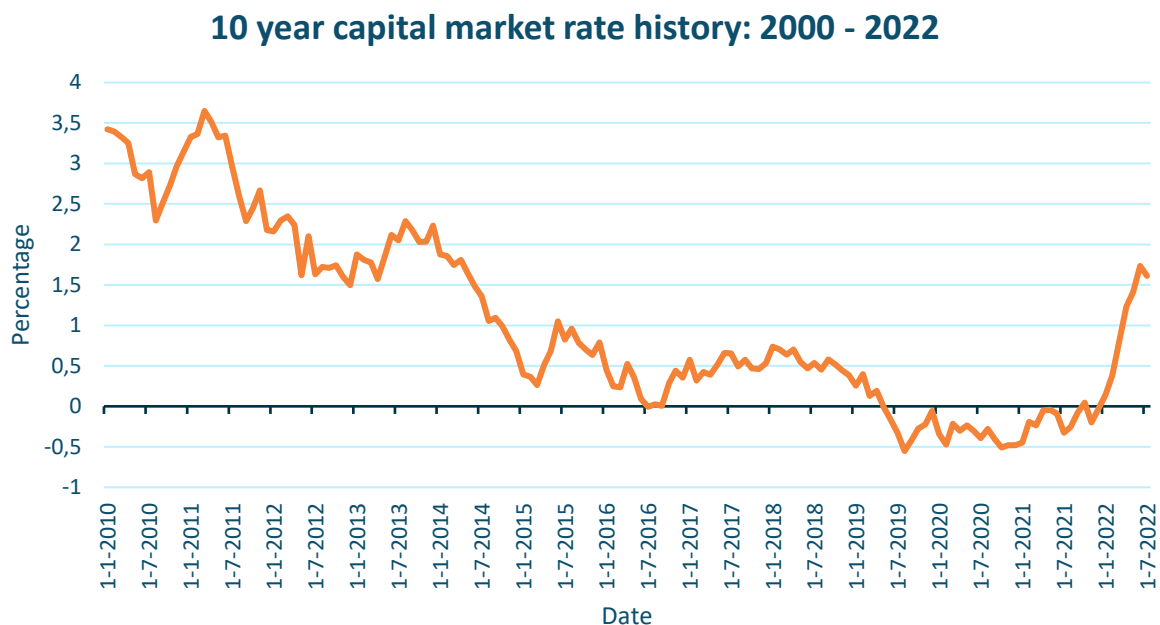


Figure 1: Historical development of 10 year capital market rate: 2000 – 2022 (Source: Investing.com)

From the figure above, it can be seen that the 10 year capital market rate has followed a general downward trend in recent years. In fact, from about mid-2019 to the end of 2021, interest rates have fallen to historically low levels that have been below zero. The 10 year capital rate started rising again from January 2022 on the back of concerns about sharply rising inflation and expectations from the markets that the ECB will also have to further respond to this. On top of that, it can be observed that the 10 year capital market rate has rapidly increased from January 2022 on.

### 2.2 Expectations interest rates

Recently, the capital market rates have increased, due to sharply rising inflation and tightening monetary policy. DNB expects that this in turn will lead to a rise of mortgage interest rates. According to forecasts from DNB, the average interest rate on new mortgages will rise from 1.7% in 2021 to 3.8% in 2024. In particular, the last time the mortgage interest rate have grown with 2 percentage points was during the period 2005-2008 <sup>2</sup>.

# 3. Developments in Mid-Rental Segment

## 3.1 Increased pressure on the housing market

### Expats

Due to improved health conditions regarding COVID-19, and the relaxation of entry requirements as a consequence, expats have returned on the Dutch mid-rental segment. This followed from the report: 'Analyse van de dynamiek op de Nederlandse huurmarkt', which is an annual research report written by Brainbay, commissioned by NVM. The share of expats in the Netherlands who are renting, has reached its highest point over three years. It turned out that expats accounted for a share of roughly 25% of all tenants in the mid-rental segment. This share was only 14% at the beginning of 2021, because of strict COVID-19 regulations in the Netherlands at that time. In Figure 2 on the next page, it can be seen that the share of expats in the mid-rental segment, due to COVID-19, has indeed experienced a substantial decrease, whereas this share started to increase again as of 2021.

When looking at different cities in Figure 3 on the next page, it appears that Amstelveen has the largest share of expats of 70%. The reason is that many expats have a job in Amsterdam but cannot afford a home in Amsterdam due to high rental prices. Another reason is that Amstelveen has an international school which is the Amity International School Amsterdam. Therefore, they choose to live nearby while paying lower rents, making Amstelveen a suitable alternative. From the same figure, it can also be observed that Wassenaar and the Hague have a relatively large share of expats. For the Hague, this large share can be explained by expats feeling attracted to the many international organizations located in the city. For Wassenaar, the share can be explained by the location of the International School Wassenaar.

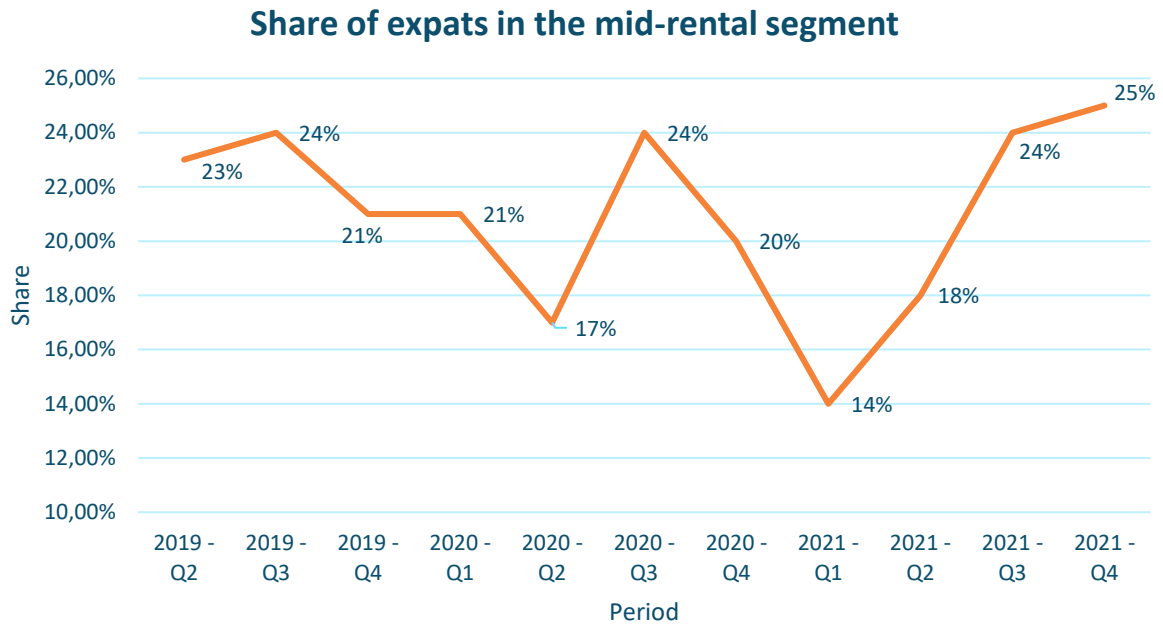


Figure 2: Share of expats in the mid-rental segment per period in the Netherlands (Source: Brainbay & NVM)

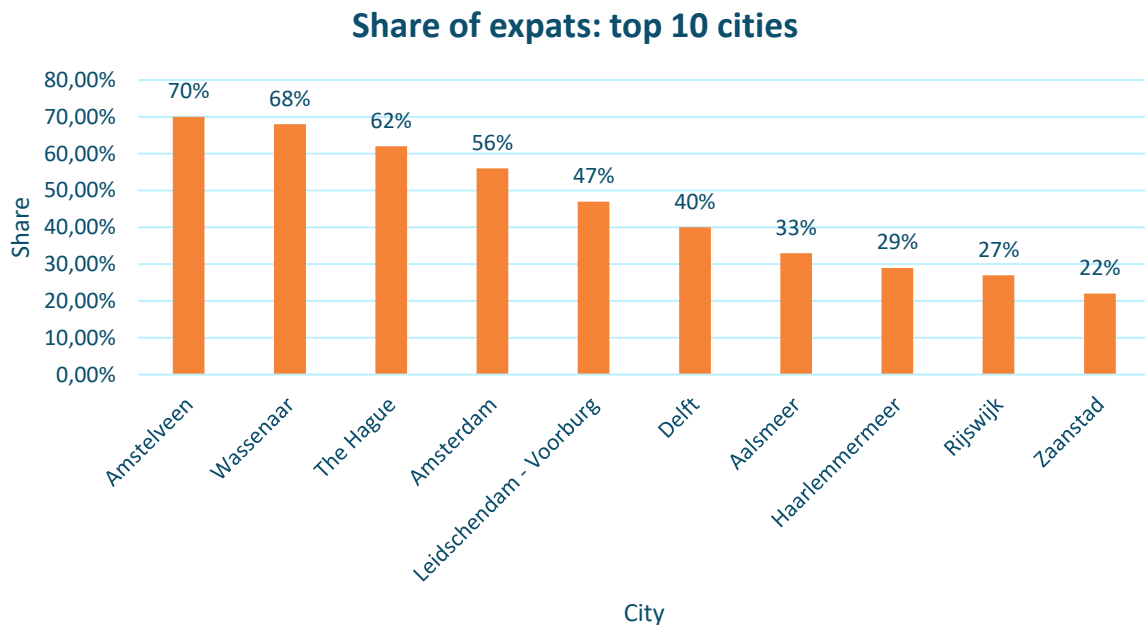


Figure 3: Share of expats in the mid-rental segment per city in the Netherlands (Source: Brainbay & NVM)

The houses being rented by expats have higher rental prices than the average rental price paid in a municipality. The reason is that expats often rent upholstered and furnished houses, from which rental prices are higher. Moreover, these types of houses are usually located in the more popular areas of a city. Furthermore, expats are willing to spend more money on renting in comparison to the average tenant in the mid-rental segment <sup>3</sup>.

### Ukrainian refugees & flex homes

Over the past few months, more than 70,000 Ukrainian refugees have been registered in the Netherlands <sup>4</sup>. It is expected that this amount will continue to increase. The Ukrainian refugees are entitled to housing, healthcare, education and can apply for jobs as well. The flow of refugees from Ukraine to the Netherlands will result into an increase in demand for houses. In order to expand the housing stock, the Dutch Government have made plans to transform existing real estate, such as vacant office buildings. Moreover, the Dutch Government has a positive view towards realising more flex homes as these types of homes are easy to renovate and to move. The minister of Housing and Spatial Planning has established 'Taskforce versnelling tijdelijke huisvesting' in order to realize a more 'flexible' supply of houses. This taskforce tries to accomplish this by supporting municipalities and other real estate organizations. An amount of €100 million is made available by 'Woningbouwimpuls' (Wbi) to financially support residential building projects <sup>5</sup>.

## 3.2 Price levels

### Price levels of owner-occupied dwellings:

From price monitoring by Statistics Netherlands (CBS) and the Netherlands' Cadastre, it appeared that in June 2022 owner-occupied dwellings were 16.6% more expensive than in June 2021 <sup>6</sup>. Moreover, the average transaction price of existing owner-occupied dwellings equals €428,932 as of June 2022 <sup>7</sup>. In addition, from the end of 2020 onward, the year-on-year percentage change in price experienced a rapid growth. However, this growth has softened a little bit during the year 2022. This can be observed in Figure 4 below.

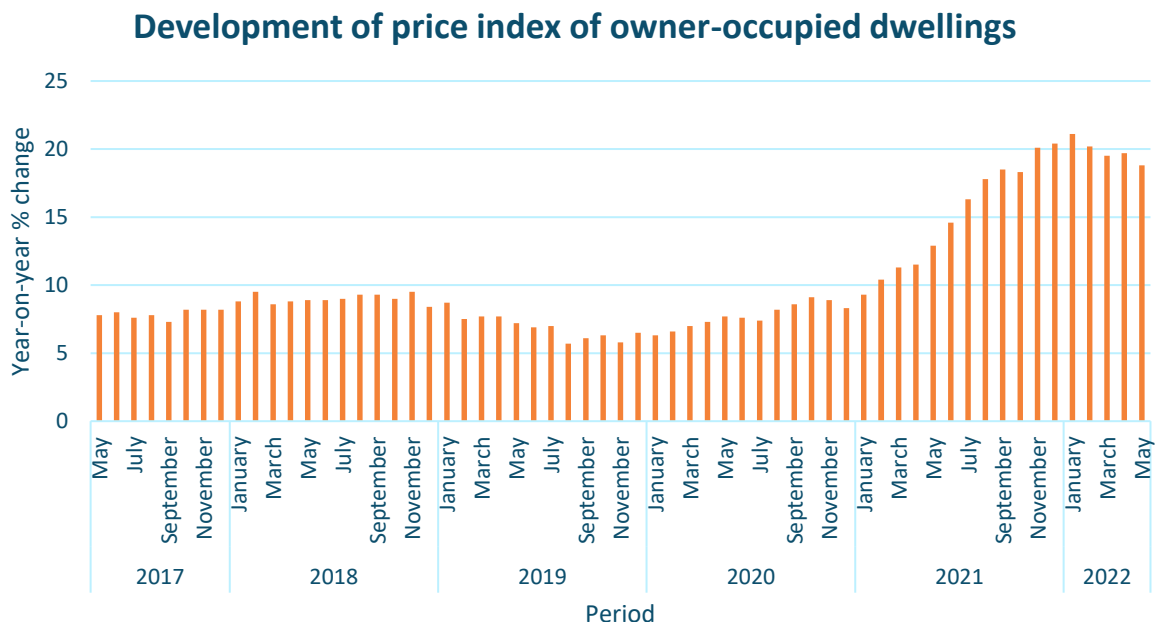


Figure 4: Development of price index of owner-occupied dwellings in the Netherlands (Source: CBS & Kadaster)



### Price levels of rental homes in private sector:

In Figure 5 below, it is depicted what the percentage differences are in average rental prices in the large municipalities in the Netherlands, when comparing Q1 2021 and Q1 2022. From this figure, it appears that all municipalities have been subject to increases in average rental prices <sup>8</sup>. In particular, it appears that the municipalities of Eindhoven, Amersfoort and Almere have experienced the largest increase in average rental prices: all above 10%. On the other hand, in the more popular municipalities of Amsterdam, Utrecht and The Hague, the average rental prices have increased less rapidly.

### Average rental price per square meter: 2021 vs 2022

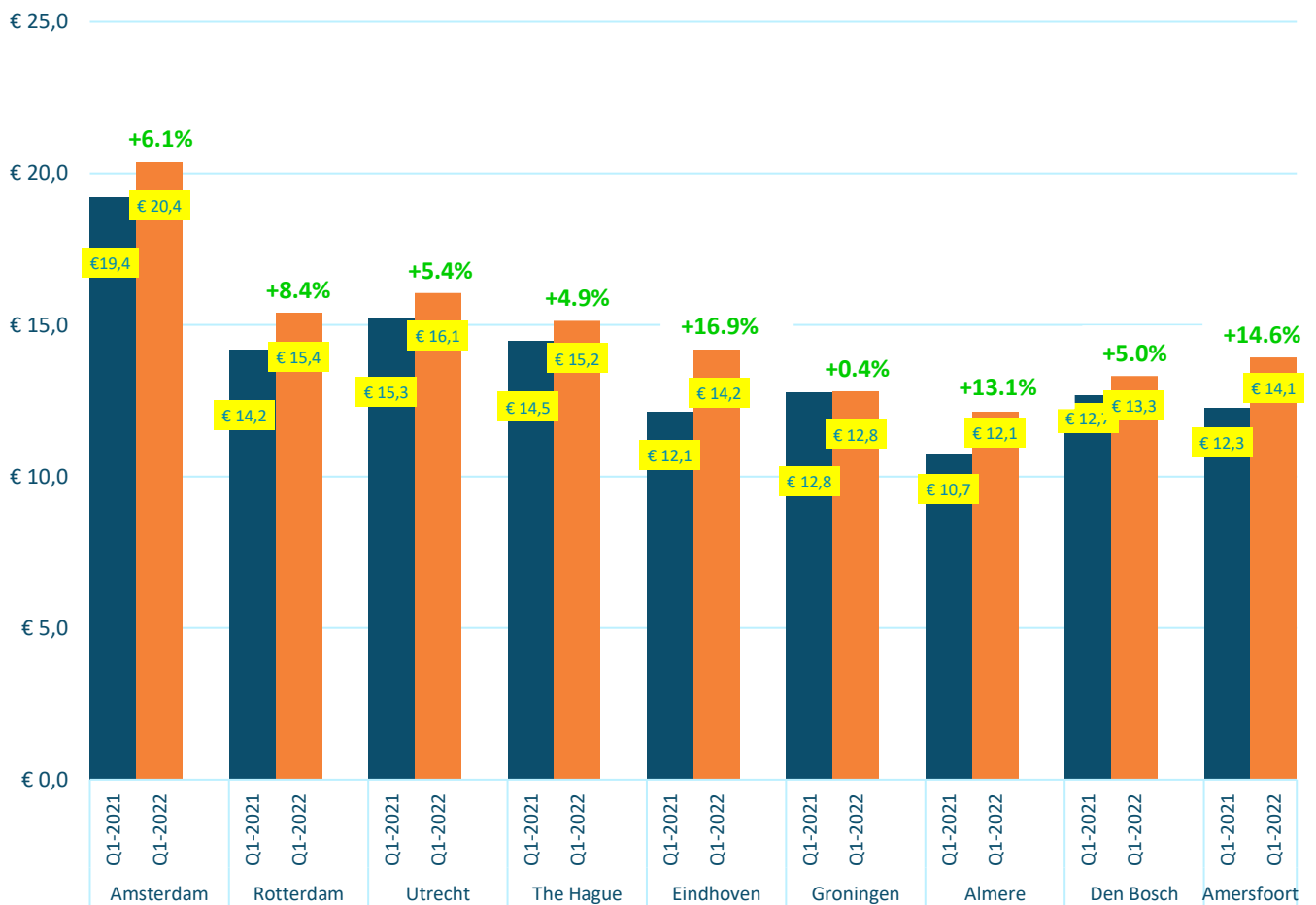


Figure 5: Average rental price of large municipalities in the Netherlands: 2021 – 2022 (Source: NVM & VGM)

## 3.3 Construction goals

### Long term construction plans

The Dutch Government has assessed, up to the year 2030, a net planning capacity of 1.044.500 new residential properties in the Netherlands <sup>9</sup>. This net amount represents the difference between new developments and demolitions of properties, according to ABF Research. However, from this same amount, only a total of 372,300 properties (i.e., 36%) are included in 'hard plans' up to the year 2030. Hard plans are plans that are irrevocable and have also been established by a municipal council, whereas 'soft plans' have the chance of not being executed at all.

### **Construction plans: role of the government**

In the coming five years, the annual demand for residential properties comprises roughly 1.3 million households on average. From the annual demand, 46% of the households is looking for a rental home. From this group, 75% is looking for a regulated rental home and 25% is looking for a private rental home. The remaining demand consists of 54% of the households. This group is looking for owner-occupied dwellings.

It remains to be seen to what extent the plans made by the government can be realized, and to what extent delays in Environmental Planning procedures and the nitrogen problem affect new developments of properties. The governmental measures that can have a direct impact are listed below <sup>10</sup>:

- Better coordination of national and local regulations in order to avoid contradictions within these regulations.
- Increasing availability of building plots, and where necessary, enhancing the development of infrastructures as well.
- Controlling construction and land costs by collaboration between the government, contractors and other market participants.
- Abolition of the rental tax (verhuurdersheffing).
- Optimal use of capital available by investors and housing corporations.



# 4. Governmental Measures

## 4.1 Governmental measures in mid-rental segment

### **Regulation of rents in mid-rental segment: rationale**

The minister of Housing and Spatial Planning, Hugo de Jonge, has announced plans to help more people in finding affordable homes. The solution proposed was the regulation of the mid-rental segment. The rationale is that people from the mid-rental segment have incomes that are too high for the social sector, but too low for renting in the mid-rental segment. This new regulation should therefore protect tenants and first time buyers in the housing market. The maximum rent level in the mid-rental segment is currently expected to fall between €1000 and €1250. In 3 municipalities in the Netherlands (Utrecht, Zwolle and Doetinchem), the effects of different types of regulations on the development of houses in the mid-rental segment are currently being monitored.

### **Regulation of rents in mid-rental segment: consequences**

A direct consequence of regulation in the mid-rental segment is that maximum rent levels are set, and thus there will be more affordability of mid-rental properties in the short term <sup>11</sup>. The exact upper limit on rental prices still need to be specified by the Government, but it will probably fall between €1,000 and €1,250 <sup>12</sup>. However, it should be noted that regulated rental prices, and thus often lower rental prices, will lead to lower property values and lower profitability. This in turn leads to lower supply of mid-rental properties, which would not necessarily have been the case if there was no regulation. Lower market values and lower profitability as a result of the regulation, make investments in properties in the mid-rental segment less attractive. It is expected that this will happen, in particular to real estate investors who have planned to invest in new constructions. As a consequence, delay in construction of new properties is expected.

CBRE does not have a positive view towards new constructions of properties in the Netherlands this year. It expects that the combination of regulations in the mid-rental segment and higher constructions costs will hamper new projects. The reason is that these construction projects often end up financially infeasible. As such, a decline in construction volumes might be expected <sup>13</sup>. From data regarding new constructions, as collected by Dutch Association of Real Estate Agents, it turns out that during the second quarter of 2022 the number of new properties sold has decreased with 48% when compared to the previous year. This implies an increased scarcity of such properties, which has therefore resulted into an increase of 12% of the corresponding property prices <sup>14</sup>.

### **Protection of tenants and home buyers: other measures**

Tenants need to be protected. This is accomplished by means of a national standard to deal with tenants in a responsible manner. Municipalities could improve rental price regulations with the help of so called area-specific rental permits under the condition that maximum rent levels are being respected. A next step would be that landlords in the regulated sector respect the maximum rent levels imposed by the Residential Assessment System (WWS). In addition, the purchasing process should be accompanied by real estate agents making use of a logbook to keep track of the different offerings. This way there will be more transparency in the purchasing process, and consequently, real estate agents are forced to act with integrity <sup>15</sup>.

# 5. Sustainability

## 5.1 Sustainability policy for the urban environment

In June 2022, the Dutch government adopted a sustainability policy for the urban environment <sup>16</sup>. (homes, utility buildings and social real estate). The objective of the policy is an emission-free urban environment by 2050 and a 60% reduction of CO2 emissions by 2030.

The policy paper consists of 5 themes:

- neighborhood free of natural gas
- sustainability approach for homes
- sustainability demands for utility buildings
- infrastructure improvement
- industrialized construction

Some examples of policy proposals for the rental sector:

- by 2030, 2.5 million homes should be insulated and 1 million hybrid heating boilers should replace the old natural gas boiler.
- there will be a national insulation program for 675,000 social rental homes and 325,000 private rental homes.

Poverty as a result of energy costs must be prevented among tenants. The costs of the improvements in the rental sector will therefore be largely borne by the landlord. The landlord is encouraged and sometimes obliged to make his properties more sustainable. Tenants are given a right of initiative to ensure that the housing is made more sustainable.

The policy program is ambitious but relies on a legislative program that has not yet been completed. There is an intention to pass 13 laws on the subject between July 2022 and July 2025. In addition, this policy plan completely disregards long government lead times to get from plan to permit. For example, network operators complain about the time it takes to get permits for new or additional infrastructure (up to 8 years for a permit application, and 2 years till realization). Infrastructure improvements on the congested electricity grid are hardly possible to reach before 2030 <sup>17</sup>.

The feasibility of the objectives of the policy for the urban environment is for this reason questionable.

# 6. Effects of Fiscal Measures

## 6.1 Abolition of the rental tax (verhuurdersheffing)

With the abolition of the rental tax, investment resources are available for social housing. Corporations and other large landlords have, as a consequence of the abolishment of the rental tax an extra capacity to invest € 5 billion until 2025. This can be spent on new construction, sustainability and affordability.

The exact allocation of funds is laid down in performance agreements and in the Social Rental Agreement.

If a third of the funds are used to improve sustainability, almost € 2 billion is available to make social housing more sustainable. For smaller (private) landlords, a subsidy scheme was opened on 1 April 2022 for making social housing more sustainable. Through this scheme, approximately € 120 million is available until 2025 <sup>18</sup>.

Government investments in sustainability will therefore be approximately € 2 billion until 2025.

## 6.2 Preliminary bill for Box 3: capital gains tax

The government has announced that in the preliminary bill on Box 3 it wants to adjust the capital gains tax for the years 2023 and 2024.

For residential property, the so-called 'vacant value ratio' will no longer be taken into account for the valuation of homes. In the preliminary bill, 5.53% (2022) of the WOZ value is taken into account as taxable income. From 2025 onward, it is the intention to use the actual return on investment. It is still not clear how to implement these new fiscal rules. There is still much uncertainty about the definitive outcome of the new legislation.

As a result, real estate investments in Box 3 become less profitable. It will be more difficult for the smaller investor to achieve an interesting return on rented residential property.

## 6.3 Stamp duty

On 1 January 2023, the government wants to increase the stamp duty for buy-to-let house buyers from 8% to 10.1%. An increase to 9% had already been announced, but it now looks like the stamp duty will go up even further.

In our opinion, these measures reduce the liquidity and dynamics of the market. Fewer rental properties are being sold. Investments becomes less attractive. If private landlords invest less in rental housing, it will be even harder to achieve the national target of 100,000 new homes a year.

# 7. Construction Costs

## 7.1 Inflation prognoses

The war in Ukraine is affecting the construction industry through high purchase prices of building materials and uncertainty in the supply chain. In particular, the prices of steel, aluminium, wood and concrete have risen by tens of percentage points.

Due to high inflation and the limited availability of skilled labour, labour costs are expected to rise sharply.

The research bureau BNN expects construction prices to rise by 4 to 6 per cent in 2022 and by 3 to 4 per cent in the following years <sup>19</sup>.

Investors should be extra careful with large commitments for new construction and transformation of properties into homes. Rising investment costs and rising interest rates are a dangerous combination for affordability

# Appendix: Glossary

TERM	DEFINITION
ABF Research	Research institution that supports decision-making within clients through provision of statistical information, consultancy, software and research.
Brainbay	Subsidiary of the NVM holding, providing the property market with the best data and information products.
Capital Value	Specialist and market leader on the Dutch residential investment market, providing transaction, valuation, consultancy and asset management services.
CBRE	The global leader in commercial real estate services and investments.
Dutch Association of Real Estate Agents (NVM)	Largest Dutch association for real estate agents and appraisers in the Netherlands.
Kences	Dutch knowledge centre for student housing.
Ministry of Housing and Spatial Planning	Dutch ministry responsible for policies on public housing, and the housing of national government agencies.
Primos Prognosis	Prognosis of the Dutch population and households per municipality and neighbourhood, arranged by gender and age.
Residential Assessment System	An instrument which determines the quality of rental dwellings in the Netherlands.
Statistics Netherlands (CBS)	Dutch Central Bureau of Statistics.
The Netherlands' Cadastre (Kadaster)	Land Registry and Mapping Agency: collects and registers administrative and spatial data on property and the rights involved.
VGM	Dutch trade association for real estate and Association of Owners (VvE) managers.

# Sources

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- <sup>3</sup> [nvm-huurcijfers-2021-v4-220310.pdf](#)
- <sup>4</sup> [Cijfers opvang vluchtelingen uit Oekraïne in Nederland | Opvang vluchtelingen uit Oekraïne | Rijksoverheid.nl](#)
- <sup>5</sup> [Voortgang huisvesting en werk voor vluchtelingen uit Oekraïne | Nieuwsbericht | Rijksoverheid.nl](#)
- <sup>6</sup> [Woningmarkt \(cbs.nl\)](#)
- <sup>7</sup> [StatLine - Bestaande koopwoningen; verkoopprijzen prijsindex 2015=100 \(cbs.nl\)](#)
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- <sup>11</sup> [\(4\) Regulering van middenhuur, goed idee of toch niet? | LinkedIn](#)
- <sup>12</sup> [Meer betaalbare woningen voor middeninkomens | Nieuwsbericht | Rijksoverheid.nl](#)
- <sup>13</sup> [Investeringen in huurhuizen ingestort: 'Woningbouw stil door plannen minister' | Financieel | Telegraaf.nl](#)
- <sup>14</sup> [kwartaalcijfers-nieuwbouw-2022-2.pdf \(nvm.nl\)](#)
- <sup>15</sup> [De Jonge wil regulering middenhuur en 40% nieuwbouw voor middeninkomens - Vastgoedjournaal.nl](#)
- <sup>16</sup> [Beleidsprogramma versnelling verduurzaming gebouwde omgeving | Rapport | Rijksoverheid.nl](#)
- <sup>17</sup> [Netbeheerders publiceren landelijke capaciteitskaart voor producenten duurzame energie - Netbeheer Nederland](#)
- <sup>18</sup> [Subsidieregeling Verduurzaming en Onderhoud Huurwoningen vanaf 1 april open voor private verhuurders | Nieuwsbericht | Rijksoverheid.nl](#)
- <sup>19</sup> [Verwachte stijging bouwkosten in 2022 tussen 4,0% en 6,0% - bbn adviseurs](#)





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