



# Market Update Build Finance

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# 1. Executive summary

After many years of strong price increases, housing prices for owner-occupied dwellings in the Netherlands have declined 4,8% year-on-year. These prices serve as a proxy for buy-to-let properties, however we have seen reduced activity in transactions resulting in larger discounts for buy-to-let properties versus owner-occupied properties. Rental prices per square meter vary across cities, but have experienced only a minor increase of 1,4% (versus the previous year). Overall, throughout the entire Netherlands, it is expected that house prices will increase by 2.4% on average during 2024, as a result of increased nominal wages and thus more borrower capacity among potential homebuyers.

The Ministry of the Interior and Kingdom Relations (BZK) calculates a shortage of 390,000 houses in The Netherlands which is expected to remain high in the upcoming four years. Existing construction projects have been hampered by higher costs and unfavourable upcoming regulation. As a result, the shortages could come out higher than currently expected. In addition, the Ministry of BZK expects the housing shortage to grow even further during the upcoming years, due to the worse than expected number of building permits that have been granted so far. Even after a building permit has been granted, it usually takes a few years for houses to become completed.

The combined impact of higher interest rates, increased stamp duty, fiscal measures and upcoming regulation have impacted buy-to-let investors. Especially the rental point system plans can impact the time horizon these investors have for their portfolios. Rental houses where rents are expected to drop dramatically once tenants change, are expected to be sold in the owner-occupied market. At the same time it seems sentiment against buy-to-let investors is softening and it is up to a new Cabinet in 2024 to determine which measures to implement so buy-to-let investors can contribute to solving the housing shortage in a responsible way.

From a credit investor perspective recently originated buy-to-let loans by Build have become even more resilient as a result of recent developments:

- Interest rates have risen to ~ 6%, a generous absolute return
- Loan-to-value ratio's ~ 65%
- Average monthly rents ~ € 800 per month (low risk of not finding a new tenant)

In terms of loan volumes we saw a short lived slow-down in April, which has since picked up back to our normal inflow of loan applications. We currently focus on refinancing loans of one of the 568k privately owned buy-to-let properties in our target market of non-institutional owners with more than 5 properties. This group encompasses an annual refinancing market of 15 billion euros.

Build performed a survey with 12 market participants during the summer to find out what gaps they currently perceive in the buy-to-let financing market. We found a need for more financing towards commercial properties, lower amortizations, construction finance, lower rates for strong energy labels, higher leverage and loan volumes between 7,5 and 25 million euros.

More detailed information can be found in our report and of course we are happy to answer any questions you may have.

## 2. Housing market

### 2.1 House prices

From price monitoring by Statistics Netherlands (CBS) and the Netherlands' Cadastre, it appeared that in July 2023 owner-occupied dwellings were 5.5% less expensive than in July 2022<sup>1</sup>. This decline has come after years of strong price increases and seems to have stabilized. Moreover, the average transaction price of existing owner-occupied dwellings equals €416,595 as of August 2023<sup>2</sup>. This can be observed in Figure 1 below.

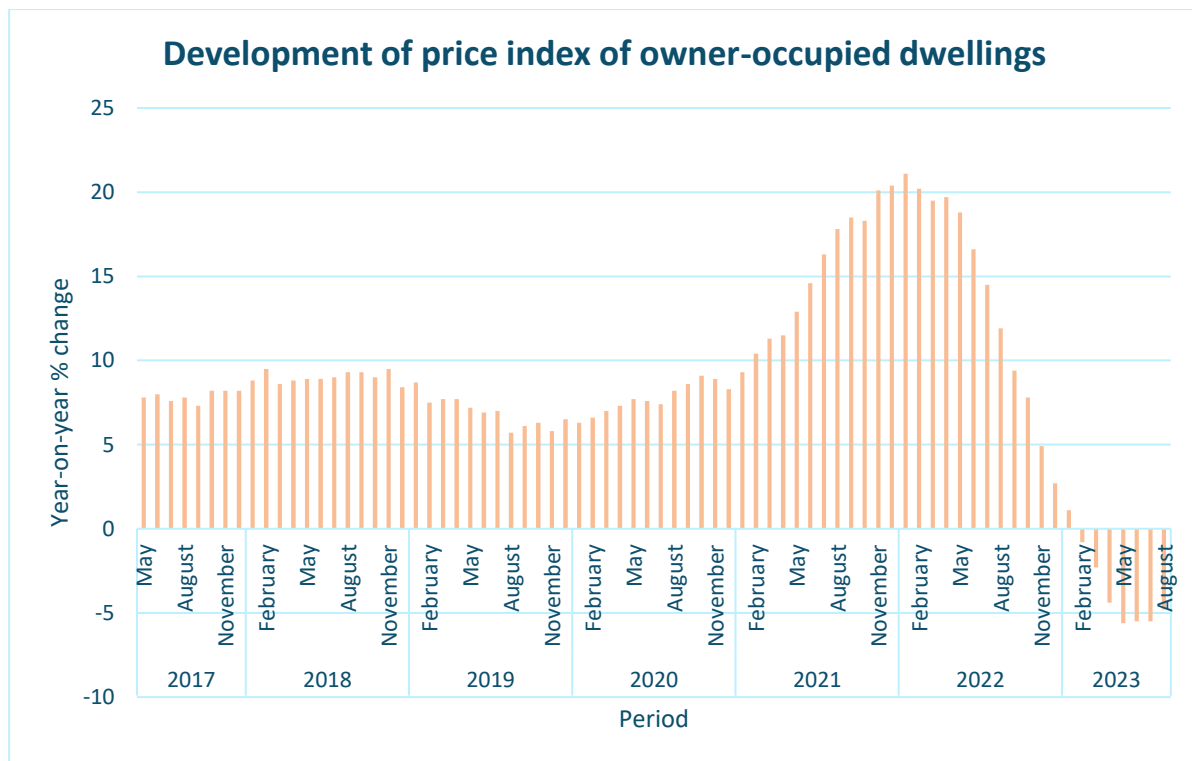


Figure 1: Development of price index of owner-occupied dwellings in the Netherlands (Source: CBS & Kadaster)

### 2.2 Rental prices

In Figure 2 on the next page, it is depicted what the percentage differences are in average rental prices per square meter in the private sector in the larger municipalities in the Netherlands, when comparing the most recent data from Q1 2023 with Q1 2022. The rental prices should be interpreted as basic rents ("kale huurprijzen" in Dutch), according to NVM and VGM. From this figure, it appears that most of these municipalities have been subject to increases in average rental prices<sup>3</sup>. However, in the municipalities of Utrecht and Eindhoven, rental prices have decreased a bit. Nevertheless, the average rental price per square meter in the Netherlands has increased with an overall percentage of 1.4% from Q1 2022 till Q1 2023, and thus reflects only a minor increase.

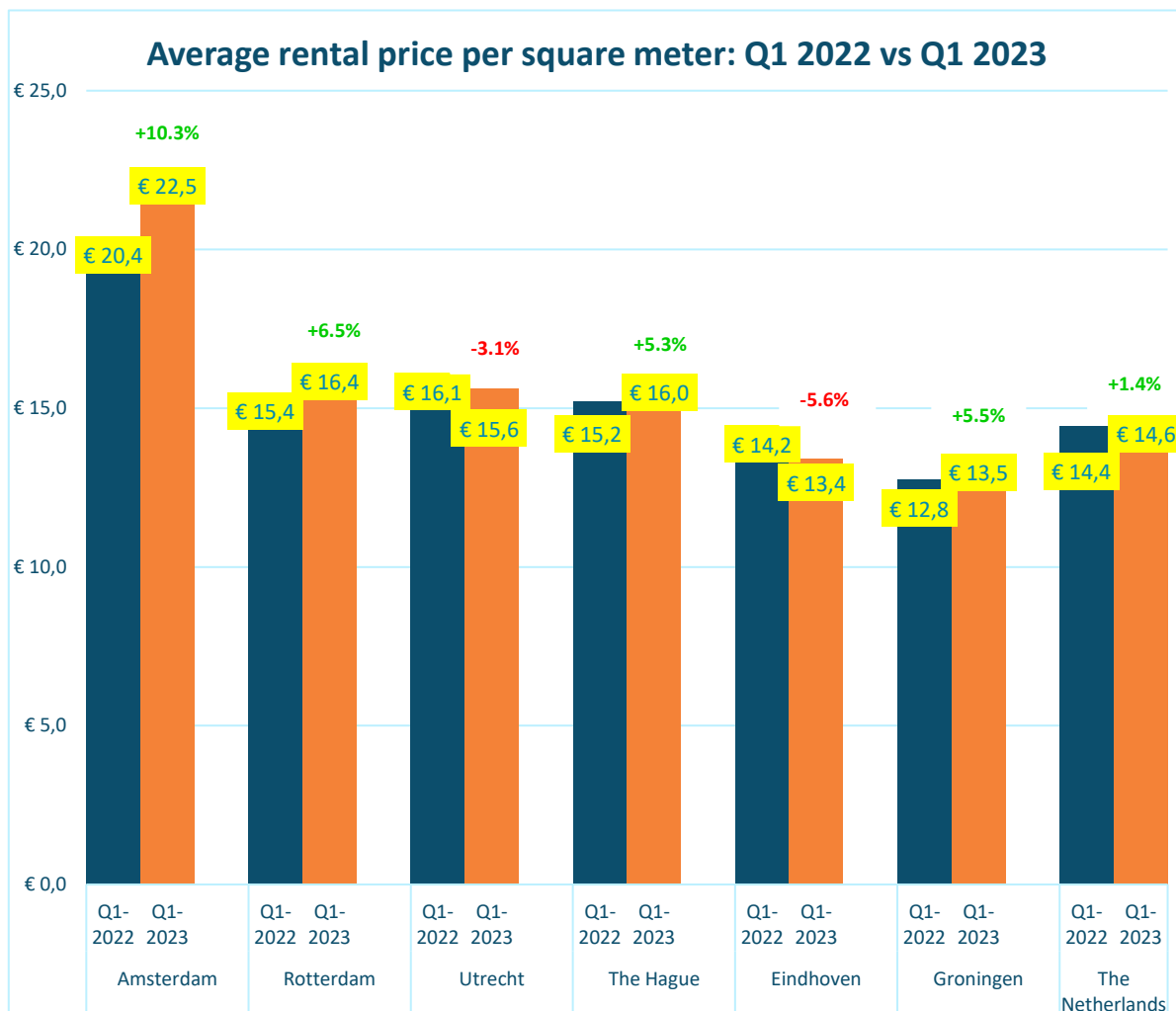


Figure 2: Average rental price of large municipalities in the Netherlands: 2022 – 2023 (Source: NVM & VGM)

### 2.3 Expectations house prices

After July 2022, house prices have declined relatively fast, but from June and July 2023 onwards, the house prices have more or less stabilized. This is reflected in Figure 1 on the previous page as well. A possible reason is that the nominal wages have increased more than anticipated, creating more borrower capacity among potential homebuyers<sup>4</sup>. In a tight housing market, this in turns leads to increased pressure on the house prices. The Rabobank has therefore adjusted their prognoses for house prices in an upwards manner, and expects that house prices will increase by 2.4% on average during 2024.

### 2.4 Supply and demand

During the year 2022, the total housing stock in the Netherlands has grown to roughly 8 million houses, according to housing stock data from CBS<sup>5</sup>. From this amount, 57% of the houses were owner-occupied dwellings and 43% were rental houses, according to research conducted by Capital Value<sup>6</sup>. From the group of rental houses, roughly two-third of the houses were owned by housing corporations and one-third by investors such as private landlords, institutional investors or pension funds.

From data analyses performed by the Ministry of the Interior and Kingdom Relations (BZK), it appears that in the Netherlands, the total housing stock has grown to 8.125 million houses <sup>7</sup>. It also appeared that in the Netherlands, 320,000 households are looking for a home of their own. Together with a growth of households equal to 117,000, this yields a total housing demand of 320,000 + 117,000 = 437,000.

Regarding the supply of houses in the Netherlands in 2023, it appears that 7.712 million houses have already been occupied. From this, it follows that 8.125 million – 7.712 million = 413,000 houses are not (permanently) occupied. However, this number comprises 135,000 houses that are subject to short-term unoccupancy due to relocations and construction projects. In addition, 231,000 houses are not available as they are second residences or institutional households. This leaves a net amount of 413,000 – 231,000 – 135,000 = 47,000 houses available for living.

Since there is a total housing demand and supply of 437,000 and 47,000 houses, respectively, it can be concluded that there is currently a housing shortage of 390,000 houses in the Netherlands. The Ministry of BZK expects the housing market to become even tighter in the next few years, as it appears that less than desirable building permits have been granted. Furthermore, it usually takes a few years for houses to become completed. It is expected that the housing shortage will attain high levels until the year 2027, after which the housing shortage will decrease steadily. This is illustrated in Figure 3 below <sup>7</sup>.

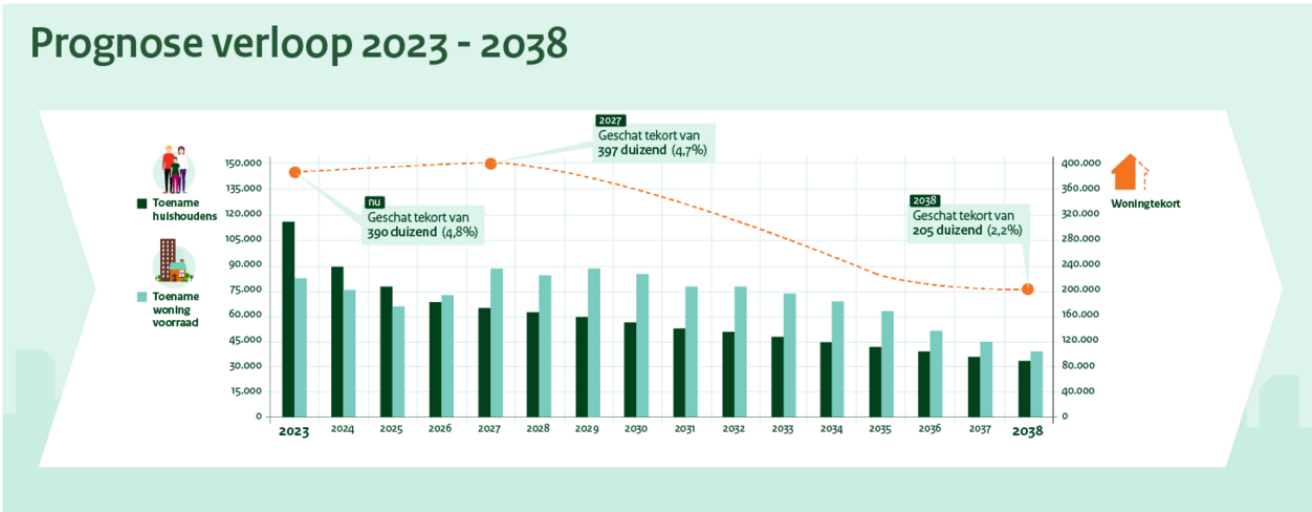


Figure 3: Development of housing shortage in the Netherlands until the year 2038 (Source: Ministry of the Interior and Kingdom Relations).

# Political developments

## 2.5 Rental points system

During the year 2022, the Dutch minister of Housing and Spatial Planning Hugo de Jonge introduced plans to regulate the mid-rental segment, in order to prevent tenants in this segment from paying excessive rental prices. The regulation boils down to extending the housing valuation system from 142 to 186 rental points. More specifically, newly rented homes that have up to 186 points, could then be rented for at most €1100 per month, as of July 2023 <sup>8</sup>. As of now, only the rental houses that have up to 142 points are regulated. The law of regulating the mid-rental segment was initially planned to come into effect as per 1 January 2024. However, this plan has become uncertain, due to the fall of the government. The minister still wants to realise the regulation of the mid-rental segment, however, this has led to strong criticism among private investors. Earlier this year, there were already signs that private investors would sell their properties when their rental prices would be subject to the new regulation.

So far, The BIZA ("Commissie voor Binnenlandse Zaken" in Dutch) has not declared any law "controversial", including the law regarding regulation of the mid-rental segment <sup>9</sup>. As of now, this law is being discussed by the Council of State but it is still unclear how long this procedure will take. Even when the Council of State has made a decision, the Minister might introduce adaptations to the law and send it to the House of Representatives afterwards. This is a time-consuming process and there is not a lot of time left before the Dutch Elections start as of November 2023. It is expected that the Minister's plans could still continue, but the exact form remains unknown, as it depends on the political affiliation and principles of the new Cabinet.

## 2.6 New constructions

The Dutch Government has introduced a couple of measures to reduce the housing shortage in the Netherlands. For example, the Dutch Government can provide project developers with the necessary financial assistance, if new construction projects come to a standstill as a result of high costs <sup>10</sup>. For this goal, an amount of €250 million euros has been earmarked by the Dutch Government. In addition, Minister de Jonge wants to reduce the objection procedures in order to start new construction projects earlier. However, this plan is still uncertain because of the currently outgoing Cabinet.

The construction of new houses in the Netherlands appears to be more difficult than expected. The Dutch Government assumed that roughly 900,000 extra houses should be constructed up to 2030. However, from calculations performed by ABF research, this number should be increased to 980,000 houses. Especially in the Dutch "Randstad" more houses should be constructed, as the population in this area will grow quickly in the upcoming years. The additional expected population growth will mainly be caused by migration. In addition to status holders, labour migrants and foreign students are in need of homes as well. The Dutch Government has fallen a few months ago, since government parties could not come to an agreement regarding migration regulations. After the upcoming Dutch elections and the formation of the new government, it will probably become more clear which rules and regulations will be implemented regarding migration to the Netherlands. As soon as this becomes more clear, this will result into a better estimation of the Dutch housing shortage in the upcoming years.

# 3. Interest rates

## 3.1 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 4 below, one can observe the historical development of this rate during the period 2010-2023 <sup>11</sup>.

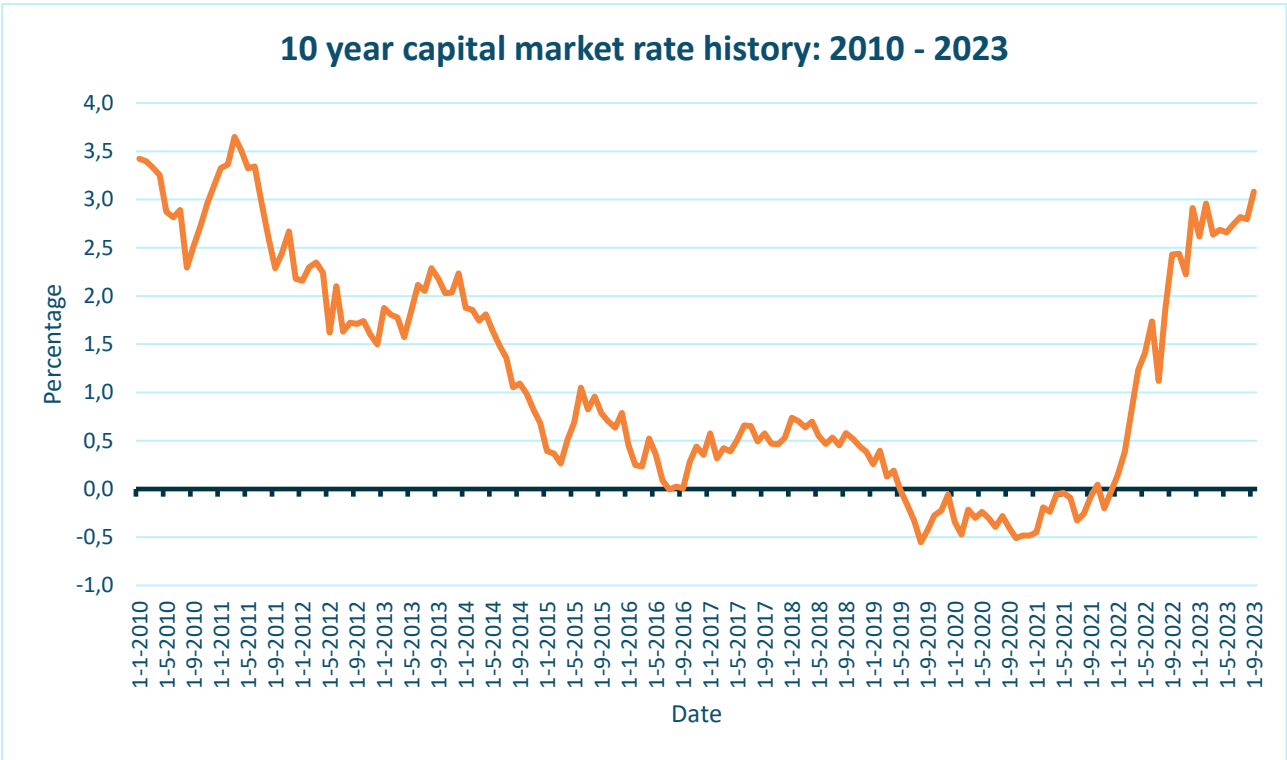


Figure 4: Historical development of 10 year capital market rate: 2010 – 2023 (Source: Investing.com)

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 market rate started rising again from January 2022 on the back of concerns about sharply rising inflation and expectations from the market that the ECB would also have to further respond to this. Nowadays, traders are afraid that the strong labour market in both Europe and the United States maintain the high levels of inflation, resulting in the European Central Bank to further increase the interest rates <sup>12</sup>. At the same time major central banks have indicated that interest rates are close to their desired level.



# 4. Survey results

## 4.1 About Build`s market survey

In light of rising interest rates, inflation, and regulatory pressures in the Dutch housing market, Build conducted a comprehensive market survey with 12 market participants. Initially, we listened closely to funder concerns in the Dutch real estate lending market. We then formulated key question areas:

- Current market deficiencies?
- Identifiable gaps?
- Competitors' offerings and market opportunities for Build?
- Establish a concise product offering to expand market share

Build engaged with intermediaries, bankers, direct real estate investors, and consultants to find common ground, not exhaustive details.

## 4.2 What did we learn?

From the survey, we've identified six pivotal findings, outlined below. Build presents an avenue for investors interested in the Dutch Buy-to-Let/Commercial Real Estate lending market to collaboratively create products that can effectively address the identified market gap.

1. Strong demand for €7.5 million to €25 million loans with higher Loan-to-Value (LTV) ratios than mainstream banks (typically capped at 50%).
2. Opportunity to attract business by offering competitive rates up to 50% LTV, along with an equity rate for the remaining 20-30%.
3. Desire for a larger share of Commercial Real Estate assets, targeting 35% to 45% plus.
4. High demand for redemption-free loans, especially up to 75% LTV, and loans with high leverage and reduced redemption requirements.
5. Increased demand for construction project financing, including pre-occupancy financing at an initial higher rate, with the possibility of rate reduction upon project completion.
6. Premium residential properties with strong energy efficiency ratings are in demand, providing a competitive edge when competing with conventional bank rates and finance above 50% to 65% LTV, with spreads ranging from 2.4% to 2.6%.

If you require a more comprehensive insight into the survey results, kindly get in touch with us, and we would be pleased to provide you with a concise presentation slide deck.

# Appendix: Glossary

TERM	DEFINITION
ABF Research	Research institution that supports decision-making within clients through provision of statistical information, consultancy, software and research.
Capital Value	Specialist and market leader on the Dutch residential investment market, providing transaction, valuation, consultancy and asset management services.
Dutch Association of Real Estate Agents (NVM)	Largest Dutch association for real estate agents and appraisers in the Netherlands.
Ministry of Housing and Spatial Planning	Dutch ministry responsible for policies on public housing, and the housing of national government agencies.
Ministry of the Interior and Kingdom Relations (BZK)	One of the ministries of the Dutch central government, responsible for formulating policy and preparing regulations and legislation.
Statistics Netherlands (CBS)	Dutch Central Bureau of Statistics.
The Netherlands' Land Registry (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

- <sup>1</sup> [Woningmarkt \(cbs.nl\)](#)
- <sup>2</sup> [StatLine - Bestaande koopwoningen; verkoopprijzen prijsindex 2015=100 \(cbs.nl\)](#)
- <sup>3</sup> [vgm en nvm-huurcijfers Q1-2023-factsheet 1.0](#)
- <sup>4</sup> [Huizenprijzen stabiliseren eerder dan verwacht, voor 2024 prijsstijging voorzien - Rabobank](#)
- <sup>5</sup> [StatLine - Voorraad woningen; eigendom, type verhuurder, bewoning, regio \(cbs.nl\)](#)
- <sup>6</sup> [1. Woningmarkt en regelgeving | De Woningbeleggingsmarkt in Beeld - Capital Value](#)
- <sup>7</sup> [Het statistisch woningtekort nader uitgelegd | Home | Volkshuisvesting Nederland](#)
- <sup>8</sup> [Wet betaalbare huur | Home | Volkshuisvesting Nederland](#)
- <sup>9</sup> [Woningmarktplannen kunnen door: geen enkel wetsvoorstel controversieel verklaard - Vastgoedjournaal.nl](#)
- <sup>10</sup> [Woningtekort stijgt vooral door hogere migratie | Politiek | AD.nl](#)
- <sup>11</sup> [Nederland 10 jaar Obligatie Historische Gegevens - Investing.com](#)
- <sup>12</sup> [Nederlandse tienjaarsrente weer boven 3% \(fd.nl\)](#)

# Get in touch with us today

**Are you a Private, Institutional or Capital Markets investor interested in investing in secured Dutch Real Estate loans?**

**Contact our Chief Investment Officer or our Head of Business Development:**



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**Are you a Real Estate investor interested in our lending offering for Dutch Real Estate?**

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