*Insights

Real estate market Outlook 2022-2024

Real estate market in recovery, but polarisation increasing

Bouwinvest Real Estate Investors

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Central Park, Utrecht, The Netherlands

After setback, investors are looking for opportunities

With the economic recovery that started in 2021, society seems to be emerging from the Covid-19 crisis in relatively good shape. At the same time, the crisis has triggered a number of structural changes in the real estate market. For instance, if (part-time) home working remains a normal part of working life, this will change the wishes of residents, while the owners of office buildings will have to rethink the function of their offices. Similarly, the retail sector will have to respond to the acceleration of the growth in online sales and hotel operators would be wise to look for alternatives if business the world switches to digital meetings on a larger scale. Meanwhile, the increasing urgency of climate change and the need for greater sustainability will have a major impact on all real estate sectors.

At the time of writing of this Market Outlook, vaccination programmes are progressing steadily across the globe. This is enabling many countries to ease their contact restrictions, although the vaccination rates in developing counties are lagging quite badly. That said, it is still too early to say whether vaccinations will be effective enough against new variations of the Covid-19 virus, or that the economic recovery we are now seeing will be sustained. The increase in the number of travel movements and the easing of restrictions do increase the chance that these new variants will spread, which could in turn lead to new restrictive measures. This makes any economic forecast uncertain at this time.

The Covid-19 crisis has put enormous global pressure on healthcare systems, (home) education, employers and employees. Shops and catering outlets and the cultural sector were forced to close their doors for prolonged periods and we have seen a major decline in global travel. Companies have been forced to invest and make organisational changes. This has had a certain positive impact, for instance in the case of retailers that have now fully integrated online services in their business strategy. However, despite the strong global economic recovery, many companies and organisations are still dealing with the consequences of the Covid-19 crisis. Moreover a number of trends that have been ongoing for years have accelerated.

This crisis has also affected real estate markets. Many companies found themselves in financial difficulties and were not always able to pay their rent in full. A large proportion of these tenants were able to reach payment arrangements with their landlords. At the same time, thanks to persistent low interest rates and other factors the volume of new investment capital has remained high, which has pushed up prices. This has led to a decline in initial yields on various real estate markets, which is making it more difficult for investors to make financially viable investments. Transaction levels have been very low in sectors subject to high levels of uncertainty. New regulations in residential markets and sustainability measures in general have also played a role on this front. In relative terms, however, real estate markets remain an interesting investment category, in terms of yield spread, the expected stability of income streams and the societal impact real estate can have. The fundamentals of the real estate market remain sound, although the Covid-19 crisis will have lasting consequences for certain parts of the market.

Outlook per type of real estate

The Dutch residential market is going through unprecedented times, as house prices keep on rising to new record levels. The biggest drivers of this trend include the scarcity of homes, low interest rates and the ready availability of financing. The downside of these developments is that the affordability of homes for first-time buyers (or renters) has fallen to extremely low levels and housing mobility is now minimal. There is hardly any supply of homes for seniors, which means they do not really have the option of moving to smaller homes. And despite ambitious plans to build more new homes, it is difficult to get new projects off the ground due to delays in the preparation phase, the high costs of building materials and the shortage of skilled workers. On top of this, driven by the rise in home working, residents are looking for extra space in and around their homes. And due in part to the lack of supply in major urban centres, people have now been leaving the larger cities for some time. However, this trend has weakened somewhat, now that both the affordability and supply in areas around the larger cities has declined.

Retailers were badly affected by the forced closures during the crisis. On top of this, bricks and mortar retailers were put under even greater pressure by their online competitors. Driven in part by government restrictions, online sales exploded during the crisis and will remain at a structurally higher level once the crisis is over. This has accelerated the polarisation on the retail market. Retailers active in the high streets of medium-sized cities are being affected by declining visitor numbers and lower revenues. On the other hand, supermarkets and retailers in local shopping centres that remained open have actually benefited from the crisis. Now that restaurants are open again and people are returning to their offices, we are seeing a certain levelling out on various markets. Towns and cities are working hard to inject new life into ailing areas, for instance by transforming retail space into homes. Physical retailers now hardly have no choice but to develop an online strategy.

The office market was also heavily impacted by the crisis. The Covid-19 pandemic has been described as the 'great home-working experiment': huge numbers of employees have been working from home since the spring of 2020. Although many employees are now returning to their offices, it is fairly clear that working from home for part of every week will be the new norm. This could lead to lower occupancy rates on the office market – primarily in less attractive locations – although there are counter trends that will push up the number of square metres office users will require.

Office buildings are in fact competing with home offices. This means they will have to change at least a part of their current function: from collective workplace to a meeting place for employees. We expect offices in the major business centres of large cities to remain in demand, partly because large cities

> "Office buildings are in fact competing with home offices."

Central Park, Utrecht, The Netherlands

are in a good position to attract new companies and talented employees. Offices outside the big cities and in less attractive office locations are facing major challenges.

Despite the pressure on the healthcare system, the healthcare real estate market remained stable during the crisis. The most significant trend for the future of this market remains the double ageing of the population. We are already faced with a major shortage of residential facilities for elderly care and independent senior homes, despite the fact there is no lack of building initiatives. In both the nursing care and curative care segments, the government is looking to maximise the amount of care provided outside healthcare institutions. As a result, nursing homes and hospitals are focusing more on intensive care and are setting up their buildings with this in mind.

Given the virtual disappearance of tourism at the peak of the crisis, the hotel market has been through one of the worst periods in its history. And while (mainly) domestic tourism is now showing signs of recovery, international business travel has largely shut down, as business meetings and events are still taking place digitally. Hotels in tourist areas are set to recover the quickest, while hotels in large cities that primarily cater to business travellers are still facing an uncertain future.

> “It will have to make a major shift toward energy-saving measures and circular principles.”

Sustainable real estate

The Covid-19 crisis has made it even clearer just how important it is to make the real estate sector more sustainable. People are attaching more and more importance to healthy and conscious living and the increasingly alarming reports of climate change are leading to ever tighter laws and regulations. The built environment is one of the biggest emitters of greenhouse gases and cannot escape the impact of the upheaval ahead. Real estate investors that fail to adapt to changing wishes and requirements run the risk of seeing their assets lose value.

For the construction industry as a whole, this means that it will have to make a major shift toward energy-saving measures and circular principles to limit the use of scarce resources and minimise the environmental impact of the current and future built environment. In societal terms, it is important to build affordable homes to combat the growing scarcity on the housing market. We also need to increase the supply of elderly care institutions and senior homes, which would in turn boost mobility in the regular housing market. Meanwhile, companies with offices will have to make an effort to accommodate the broader wishes of their employees.

De Lawet, Wageningen, The Netherlands

“Making the current housing stock more sustainable is a major pillar of the Dutch Climate Agreement.”

Uptown, Rotterdam, The Netherlands

The slippery slope to recovery

Thanks in part to the generous support measures of governments around the globe and the continued expansive monetary policy of central banks, we are now past the low point in the Covid-19 crisis. However, there is still a great deal of uncertainty regarding future economic growth, given the global shortages of raw materials and semi-finished products, the sharp rises in (fossil) fuel prices and disruptions to logistics processes. The Dutch economy is in a relatively good position for continued recovery. However, even in the Netherlands, staff shortages, the scarcity of homes, geopolitical tensions, the climate crisis and widely diverging political views will create a good deal of uncertainty in the coming period.

WTC, Rotterdam, The Netherlands

The global economy is recovering, but the threat of the Covid-19 virus remains. Many emerging economies in particular are being forced to initiate new lockdown measures intermittently, as they are finding it difficult to control the spread of the virus and tend to have low vaccination rates. On top of this, more and more governments are now winding down their financial support measures, while it is still unclear how much various business sectors will be affected by the after-effects of the pandemic.

Local and regional shocks are creating major disruptions on a global scale. Following the Covid-19 outbreak in early 2020, China shut down factories and ports, which led to major global shortages of raw materials and semi-finished products. The international container shipping sector then ground to a halt, which led to extremely high shipping prices. In the spring of 2021, China once again introduced measures following a limited number of Covid-19 infections, and shipping rates rose to record levels.

The after effects of reduced production and logistics capacity in 2020 are still being felt today, mainly due to the fact that it has not always been possible to meet rapidly growing catch-up demand. For instance, since the spring of 2021 we have been faced with continued shortages of various raw materials and computer chips, which have forced car makers and other manufacturers to drastically reduce their production. And global prices for raw materials, fossil fuels and semiconductors have risen through the roof.

In addition to the government support provided by individual states, the European Union (EU) has set up a € 750-billion recovery fund to stimulate the European economy. To finance this package, the European Commission has issued its first bonds on the capital markets. The bond programme will run through 2027 and consists of € 390 billion in subsidies € 360 billion in loans to member states that have been badly affected by the Covid-19 crisis. In June 2021, the EU paid out the initial amount of € 20 billion.

At the same time, governments themselves have ready access to financing. Capital market interest rates on Dutch government bonds were negative in 2019 and the rates on the 10-year bonds of EU member states are still at historical lows. The US Federal Reserve made it clear in August 2021 that it would start to scale back its direct monetary support via the purchase of bonds before the end of 2021. Until recently, it was assumed that that we would not see any interest rate hikes until 2023, but there are now more signs that the Federal Reserve will move ahead with its first interest rate hikes as early as 2022. There are no concrete signs that the European Central Bank (ECB) is also planning to raise interest rates earlier than expected.

While economic forecasts are still fluctuating, following an unprecedented recession in 2020, we are seeing a marked global recovery in 2021. In the base case scenario, the outlook is the same for subsequent years, subject to a good deal of uncertainty.

The table below shows the most recent economic growth forecasts from Oxford Economics:

Economic growth forecasts

Source: Oxford Economics, as at 14 october 2021.

	2021	2022	2023	2024
World	+5.7%	+4.5%	+3.5%	+3.0%
Asia Pacific	+6.2%	+5.1%	+4.7%	+4.3%
United States	+5.4%	+4.3%	+2.7%	+2.1%
Europe	+5.5%	+4.5%	+2.4%	+1.7%
Netherlands	+4.2%	+3.8%	+2.0%	+1.2%

“In addition to the government support provided by individual states, the European Union (EU) has set up a € 750-billion recovery fund to stimulate the European economy.”

The Netherlands

The vaccination programme is making solid progress. By the end of September, the peak in the fourth wave of infections was over and virtually all restrictive measures had been withdrawn. However, despite the signs of economic recovery, it is still not entirely clear how the virus will develop in the near to medium term.

Following an economic contraction of 3.7% in 2020 – relatively moderate when compared with other countries – the outlook for the Dutch economy in the coming years is relatively good and this was recently adjusted upwards once again. Oxford Economics is expecting economic growth of around 4.2% in 2021. In its September 2021 Macro Economic Outlook, the Dutch government's economic think tank, the CPB, went as far as to predict growth of 3.9% in 2021 and 3.5% in 2022. For the three years 2022 through 2024, Oxford Economics is predicting economic growth of 3.8%, 2.0% and 1.2% respectively.

Unemployment was long expected to rise during the pandemic, especially after the contracts of so-called flex-workers were ended almost immediately after the outbreak of the virus. However, unemployment remained fairly stable during the crisis thanks to government support. The most recent forecasts are predicting a very modest increase in unemployment. In its latest Macro Economic Outlook, the CPB said it expects unemployment to come in at around 3.5% in 2022, compared with 3.4% for 2021. In the meantime, an increasing number of sectors, including education, healthcare, construction and the hospitality sectors are faced with severe staff shortages.

Due to rising demand and lagging production, inflation has been on the rise since early 2021, with especially marked rises in energy prices and raw materials costs, the latter driven up by shortages. Oxford Economics expects inflation in the Netherlands come in at 2.4% for the full-year 2021, and expects this to fall back below 2% in 2023. We are currently keeping a very close eye on the movement in prices and the impact of this on inflation and in turn on monetary policy.

One significant overarching theme for the long term is the transition from a linear economic system to a circular economy. Given the collective efforts to create a more sustainable world, this transition will have a major impact on production chains and the manufacturing industry. Research shows that the transition to a circular economy offers a number of benefits. In addition to the reduction of greenhouse gas emissions, this transition could increase the 'market value' of the Dutch economy by some € 7.3 billion a year and create some 54,000 additional jobs. However, achieving this will require some far-reaching societal changes and a new legal and regulatory framework.*

> "The most recent forecasts are predicting a very modest increase in unemployment."

**Source: Rood & Hanemaaijer, 2017, PBL/TNO.*

Schuytgraaf, Arnhem, The Netherlands

Damrak, Amsterdam, The Netherlands

Real estate markets

On the world's real estate markets, the enormous amount of available capital, a low-interest rate environment and the search for returns have been driving very high investment volumes and pushing down initial yields to historical lows for quite some time now. It is becoming more and more challenging to find investments with returns that are in line with the agreements reached with investors such pension funds and insurance firms.

Transaction volumes in the Netherlands declined dramatically for a time at the start of the Covid-19 crisis, due to high levels of uncertainty regarding pricing and the outlook for real estate assets. Hotels and retail assets saw the biggest declines, as these were the sectors hardest hit by the pandemic. And yet the total volume of € 18.5 billion in 2020 was well within the average of € 18 billion to € 20 billion from previous years. The heavy investment volumes seen in 2020 were largely driven by record investments in residential and logistics real estate.

However, it should be noted that many investors brought forward residential real estate transactions to the fourth quarter of the year, to avoid the increase in the real estate transfer tax as of 1 January 2021. This was raised to 8% from 6% for commercial real estate and to 8% from 2% for residential real estate (non-private). This in turn led to relatively modest investment volumes of € 1.5 billion in the first quarter of 2021 and € 3 billion in the second quarter.

At the same time, initial yields remained stable or declined slightly in almost all real estate segments. This is a clear sign that investors are still very interested in real estate, despite the sharp decline in transaction volumes.

Politics

Following the general election in March 2021, the various political parties were still struggling to form a new government at the end of the summer. The right-wing Liberal VVD and progressive Liberal D66 started work on a draft coalition agreement in June, despite the fact that the other coalition partners were unknown at that point. The fragmentation of the political landscape following the March elections (17 parties in the House of Representatives) means that more and more parties are required to form a majority coalition. Meanwhile, the challenges facing any new government are increasing rapidly. The caretaker government already has its hands full dealing with the Covid-19 crisis. On top of this, increasing climate risks (described in the alarming IPCC report in August, and elsewhere), education, social tensions and the expected influx of refugees as a result of the situation in Afghanistan all need to be dealt with. For that matter, older problems like the nitrogen emissions issue, the pension agreement and the shortages on the housing market have still not been solved.

Almost all political parties agree on the solution for the housing market. We need to build a lot of homes to reduce the enormous shortages. However, the parties differ greatly on the need for additional measures to resolve issues on the housing market. There is still a lot of uncertainty regarding the viability of new-build plans, how quickly the mortgage interest tax relief will be scrapped and the level of the landlord tax. The parties also disagree on the regulation of the liberalised rental sector, for instance by imposing more rules on (private) investors, on where homes can be built and lowering thresholds for first-time buyers.

In such a fragmented landscape, in which every party has its own ideas about how to overcome the major challenges facing the country, it does not look like it will be easy to reach agreement. However, the societal pressure to increase the availability and affordability of homes is now so great that any new government is almost bound to take a proactive approach to these problems. However, there will be no clear drive to come up with a solution as long as we have a caretaker government, while both society and real estate markets are crying out for a long-term vision and a centralised approach.

Economic scenarios

Base scenario

The base scenario for economic developments assumes a sustained recovery from the Covid-19 crisis. While new variants do make this process more difficult, they will have less impact than previous variants due to higher vaccination rates in the Netherlands. Infections may still increase temporarily, but the number of hospital admissions will never be as high as in the previous phases of the pandemic. Thanks to the lifting of lockdown restrictions, social and leisure activities are now increasing. While the government may temporarily impose stricter restrictions in the medium term, these will never be as strict as they were in the early phases of the Covid-19 outbreak.

Positive scenario

The positive scenario is based on the rapid containment of the Covid-19 virus and, more specifically, a catch-up in consumer spending. Savings that have been built up during the various lockdowns are spent in a relatively short space of time. The level of consumer spending rises to the same level as before the Covid-19 period in the medium term. The catch-up in spending drives both inflation and economic growth.

Negative scenario

The negative scenario assumes that vaccinations are less effective than expected. Variants and mutations of Covid-19 emerge repeatedly and more and more quickly, resulting in lockdowns or other stricter measures. This results in lower economic growth or even further economic contraction and rising unemployment. Inflation remains limited in this scenario and interest rates remain low for a more prolonged period as a result of repeated interventions by central banks and national governments, although these prove less and less effective.

State, Amsterdam, The Netherlands

“Both society and real estate markets are crying out for a long-term vision and a centralised approach.”

Real estate sector must make major contribution to increased sustainability

Climate change will have a direct impact on the real estate sector. More extreme weather conditions are increasing risks for investors. The built environment is major user of raw materials and a major emitter of greenhouse gases, due to natural gas and energy use and the impact of building materials and construction. This is why the real estate sector will have to make a major contribution to measures aimed at preventing further global warming. Contractors will have to build more sustainably and focus on circularity and investors will have to stimulate this shift.

The year 2020 was the hottest year on record, with temperatures in many regions as much as three degrees warmer than historical averages. This was paired with both simultaneous and successive extreme weather events. The extreme weather conditions also continued in 2021, and included heat waves in Canada and southern Europe, extreme forest fires in the United States and the coldest parts of Siberia, plus flooding due to heavy rainfall in the Netherlands, Belgium, Germany, Austria, Italy and China. Various studies confirm that these are no longer incidental occurrences, but part of a clear trend with a direct link to climate change. This underlines the growing awareness that the effects of climate change are no longer a concern for the distant future, but something we need to worry about today; we need to act now. For a number of years now, the World Economic Forum has been warning that climate-related risks, such as extreme weather, natural disasters and the loss of biodiversity are the biggest threats to the global economy.

Climate change results in both physical risks and transition risks for investors in the real estate sector. Physical risks are direct risks, such as damage to real estate due to extreme weather conditions, including drought, flooding and subsidence. On top of these risks, we have transition risks, due to the fact that the transition to a fossil fuel-free world will trigger fluctuations in the value of and demand for buildings. The drivers of transition risks include new and stricter regulatory requirements, technical developments and the changing preferences of consumers. What is more, there is a certain level of correlation between these two risks. If we fail as a society to limit global warming to a maximum of 1.5 degrees, the physical impact of climate change on the value of investment portfolios will simply keep on increasing.

> "Various players in the sector have already taken steps in this direction, for instance by signing the Paris Proof commitment of the Dutch Green Building Council."

Real estate will be badly affected by the consequences of climate change. Apart from the direct physical damage it will inflict through for example storms and floods, it is becoming increasingly clear it will also be indirectly affected by financial risks, such as higher insurance premiums or lower insurance cover, more expensive energy use, costs for the installation of emergency generators and falling real estate prices in vulnerable areas. This is why it is so important for society to prepare for climate change; not only by trying to slow it down and reduce the scale of the changes (climate change mitigation), but also by taking measures to minimise the physical and financial damage of climate change (climate adaptation).

The Financial Stability Board, all the major G20 economies and central banks have been warning for some time about the destabilising effects of global warming and are working on methods for the execution of climate stress tests for banks and insurance firms. After all, banks runs the risk of being forced to write down parts of their credit portfolio, while insurers will be confronted by ever-mounting damage claims. These kinds of shocks in the financial industry could disrupt financial markets and put a brake on economic growth.

More legislation and societal pressure

While real estate investors are already raising their sustainability ambitions, we are also seeing increasing pressure to increase sustainability from both legislators and from society as whole. Buildings in the Netherlands account for an estimated 50% of raw materials use, 40% of total energy use and 30% of all water use. On top of this, construction and demolition waste accounts for a major proportion of the country's total waste and the sector is responsible for around 35% of the country's CO_2 emissions. Given this sizeable footprint, it is obvious that we will see sustainability-related legislation that will force the real estate sector to reduce energy use, CO_2 emissions and material use. Various players in the sector have already taken steps in this direction, for instance by signing the Paris Proof commitment of the Dutch Green Building Council.

More and more regulation will be focused on battling 'green washing' and forcing major changes in investment processes and reporting requirements. We are already seeing the first effects of new legal and regulatory requirements on the basis of Environmental, Social and Corporate Governance (ESG) criteria. In a 2020 report, the Global Sustainable Investment Alliance stated that the global share of sustainably managed capital has risen to no less than USD 35 trillion. One striking fact is that the share of sustainably managed capital in Europe has actually fallen, due in part to the tightening of the definition of sustainable investments. For Europe, the ESG criteria will be translated in detail into the next phase of the Sustainable Finance Disclosure Regulation (SFDR).

In July 2021, the European Commission presented 'Fit for 55', an enormous package of proposals to accelerate the energy transition, with the goal of reducing CO_2 emissions by 55% in 2030, compared with 1990 levels and making Europe climate neutral by 2050. These targets have been laid down in the European Climate Law, which came into force on 20 July 2021 and was enacted to comply with the agreements reached in the Paris Climate Agreement. Although these proposals are still subject to negotiations and approval, it does provide a picture of the enormous challenge the European Union is facing. Changes that will affect the real estate sector include stricter

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Hourglass, Amsterdam, The Netherlands

reduction targets for greenhouse gases, the tightening of taxes on energy and electricity use, more ambitious targets for the stimulation of renewable energy sources and adjustments to the rules related to energy efficiency. For the real estate sector, this will make the use of CO_2-intensive building materials, such as steel and concrete, more expensive. This will also make the use of more sustainable alternatives more attractive from a financial perspective.

In addition to new and tightened legal and regulatory requirements, we are also seeing a clear rise in the number of sectoral agreements, in the form of covenants. Private and public parties are using these covenants to take responsibility for their own actions and are using their influence to shift the entire supply chain to more sustainable policies. One example of this is the International Socially Responsible Investment (Internationaal Maatschappelijk Verantwoord Beleggen - IMVB) covenant that was signed by more than 80 Dutch pension funds in late 2018. The aim of this covenant is to prevent any negative impact on people, society and the environment – the so-called Responsible Business Conduct (RBC) risks.

While there is a real need for more sustainability to alleviate the negative impact of the construction industry, there are also opportunities for investors. International studies have shown that highly sustainable and energy-efficient homes and offices result in more stable rental income, more satisfied tenants, higher asset values and improved tradability. We will need future research to ascertain whether this is also true for retail, hotel, healthcare and logistics real estate*.

Circularity still an unused opportunity

Circular building practices can result in a major reduction of the environmental impact of the built environment. This transition can offer protection from the rising prices of resources and reduce dependence on scarce raw materials.

As the IPCC report in August 2021 made clear once again, to keep global warming below the 1.5 degrees Celsius level, we need to reduce the worldwide concentration of CO_2 in the atmosphere. The real estate sector is focusing primarily on reducing energy use and the use of renewable energy. However, research conducted by Skift** shows that two-thirds of all the CO_2 emitted in the construction and use of a building is released during construction and maintenance.

This means that we need to do more than just reduce energy use, as the entire construction process needs to be more sustainable. Production needs to be CO_2 neutral, as does maintenance, demolition and (re)construction. The main way to achieve the latter is to use reusable materials. The real estate sector has taken the first steps in this direction, but we need

**www.finance-ideas.nl (only in Dutch)*
***'The greening of travel', 2019*

"The use of natural materials, such as wood, often referred to as bio-based, is increasingly seen as one of the ways to reduce the carbon footprint of the construction industry."

to apply circular principles much more broadly. The use of natural materials, such as wood, often referred to as bio-based, is increasingly seen as one of the ways to reduce the carbon footprint of the construction industry. Natural materials store CO_2 and are renewable, given that it is easy to plant new trees. For the time being, it is difficult to draw up a complete business case for this approach. Current measurement methods do not yet factor in the benefits of bio-based materials and there is no easy way to value bio-based materials. Factoring in these benefits would create a more level playing field for the assessment of the environmental performance of various building materials. Another problem is that there is still quite a lot we do not know about the operational performance of such materials.

Using circular building principles would also enable us to reduce geo-political dependence. Geo-political relations play a major role in the supply of metals and raw materials. This includes the raw materials needed to produce sustainable technologies (solar panels, charging stations, wind turbines). The European construction industry is heavily dependent on a limited number of countries, which results in heavy geo-political dependence for raw materials that are essential to both our sustainability drive and the need, in the Netherlands, to address the rising shortage of homes. Circularity in the broadest sense could make a significant contribution to reducing this dependence.

Socially responsible investment a prerequisite for stable long-term returns

The real estate sector can play a central role in the sustainable development of society and contribute to a circular economy. The fact that everyone is directly and continuously affected by real estate makes it the perfect investment category for the realisation of positive social impacts. While new and tightened legal and regulatory requirements are focused primarily on the

“The real estate sector can play a central role in the sustainable development of society and contribute to a circular economy.”

Move, Amsterdam, the Netherlands

prevention of negative environmental impact, we are seeing a shift towards a greater focus on the positive impact companies and organisations can have.

One way of placing the emphasis on positive impact is to invest in assets that make a direct contribution to the United Nations' Sustainable Development Goals (SDGs). The aim of the SDGs is a better and more sustainable future for everyone and they cover 17 themes, including combatting poverty and climate change and the stimulation of sustainable cities and communities. Practical examples include the creation of liveable, diverse and inclusive cities and human settlements, striving for affordable homes and appropriate healthcare real estate and homes for seniors. For instance, liveable areas attract talent and businesses and grow faster than countries as a whole. Size of the area was certainly an important factor during the Covid-19 crisis, but liveability is becoming more and more essential. Liveable, affordable and inclusive cities offer a better guarantee that investments will retain or increase their value. Research shows that people want to live, work and spend time in these areas and will continue to do so in the future. This provides the best chance of long-term stable returns from rental homes.

Dutch pension funds are ready and willing to invest in Dutch senior homes and healthcare real estate, due to the stable financial returns and their social impact. Institutional investors are now faced with the challenge of finding suitable investment opportunities that offer a good balance of financial and social returns.

Technology

Technology is creating opportunities to make buildings more future proof, to develop secondary services for various stakeholders and to improve how buildings are built and managed. Combined with the availability of institutional capital, emerging technologies, such as robotics, artificial intelligence and the Internet of Things (IoT), are helping to create new solutions for the construction and real estate sector. And not just in numbers, but also in terms of scale. This is leading to real change in real estate markets. However, the construction sector is still one of the least digitalised sectors. The share of manual work is still very high and the sector is faced with a severe shortage of skilled workers. The use of robots and other new production technologies should result in more standardised but adaptable products, faster production, lower costs, new jobs and betting working conditions. Compared with those in other countries, Dutch and Belgian construction firms are front-runners in the use of robots.* The supply of industrial prefab residential concepts by construction firms is on the rise, plus these concepts devote more attention to limiting environmental impact.

The ongoing digital transformation of society is changing consumer behaviour and creating new expectations. For instance, how we shop, bank and use devices is changing almost beyond recognition. In concrete terms, this has led to falling demand for conventional retail real estate and growing demand for logistics warehouses much closer to customers. Tenants are getting used to more and more intelligent devices, that offer an increasing number of options by connecting with each other, which improves user experience. This in turn is raising expectations with regards to the 'smartness' of buildings, including comfort (heating, cooling and ventilation), health, energy use and digital user interaction.

Landlords and owners of property will have to use new technological solutions to keep their buildings future proof, to provide additional services in line with changing stakeholder expectations, and to optimise the management of their buildings.

"Compared with those in other countries, Dutch and Belgian construction firms are front-runners in the use of robots."

**ING Economic Research Bureau – May 2020*

“We need to build a lot of homes to reduce the enormous shortages.”

Tudorpark, Hoofddorp, The Netherlands

Building for more people, especially in cities

The impact of global demographic trends differs per region, but in the long term many of these trends are running parallel with each other: a growing population, urbanisation, the double ageing and dejuvenation (a rise in the median age) of the population and (more) smaller households. The real estate sector can respond to these trends by actively building in urban areas and by providing suitable homes for seniors.

Foto: Ossip van Duivenbode

Little C, Rotterdam, The Netherlands

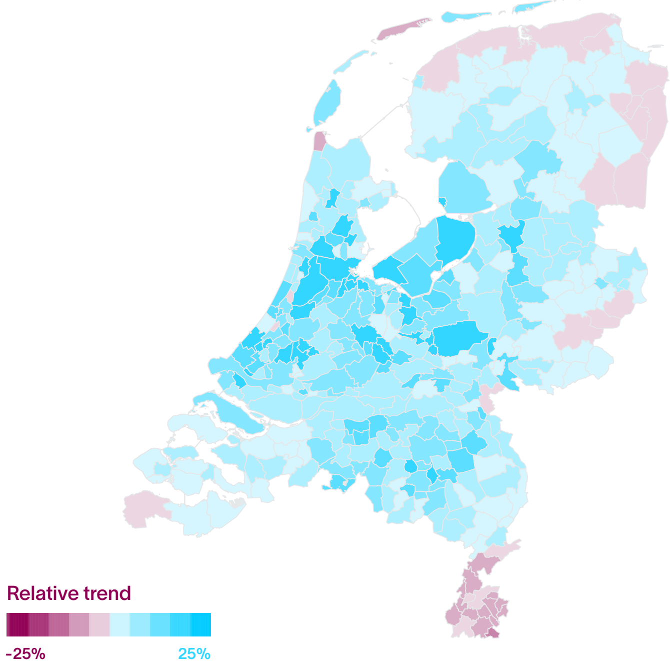
According to the United Nations, the world's population will increase by some two billion people in the next 30 years. This will take the population from the current 7.7 billion to 9.7 billion in 2050. India is expected to displace China as the world's most populous country. In the developed world, most population growth will be driven by immigration.

Covid-19: migration to or away from the city?

For many years now, there has been trend of people - mainly families – leaving the big cities and moving to the nearby towns and villages. Since the outbreak of the Covid-19 pandemic, this trend has accelerated quite noticeably, although the big cities are continuing to grow, partly driven by the arrival of people from other countries. If home working becomes more standard, it is likely that people will attach more importance to having enough room in and around their home. On top of this, since early 2020 we have seen a steep decline in the number of expats and foreign students coming to the big cities, especially Amsterdam. We have also seen a decline in demand for rental homes in the higher segment due to the absence of expats. But now that the government has lifted its restrictive measures, expats are returning to the country. And since the start of the academic year, we have seen a sharp rise in the number of international students, who are now looking to live in the cities. Students face a lot of competition in their search for homes; the demand for student accommodation is much higher than the supply and (former) students are finding it remarkably difficult to move to regular homes. The demand for independent living space is especially high among international students, while domestic students frequently opt for shared accommodation.

Dutch household trends 2021-2040

Source: Bouwinvest R&SA and ABF research, 2021



"The highest concentration is in the cities of the Holland Metropole, followed by the Brabant conurbation, Zwolle and the Arnhem/Nijmegen region."

Due to the continued popularity of urban areas, most new-build homes are being built in the more densely populated areas of the country. The highest concentration is in the cities of the Holland Metropole, followed by the Brabant conurbation, Zwolle and the Arnhem/Nijmegen region.

Although it is too early to say precisely what impact the pandemic will have on people's housing needs, it is generally assumed that the larger cities and their surrounding towns and villages will remain in demand in the longer term. This is clear from the net gains from the movements to and from the cities. Some years back, the UN predicted that by 2050 some 68% of the world population would be living in urban areas, compared with 55% in 2018. In Europe, this figure is 84%, compared with 74% in 2018. In the face of this ongoing urbanisation, cities will have to remain liveable, affordable and easily accessible. If cities fail to meet these conditions, they will be less attractive to live in. These cities will then grow less quickly than those that remain more liveable.

The cities of the Holland Metropole offer a wide variety of living options, with a high quality of life. However, if this is to continue they will need to add affordable homes of the right size for current needs. Whether they will succeed will depend partly on local councils' land allocation and pricing policies.

The ageing of the population

The number of elderly people is on the rise in most countries around the world, and these people are on average living for longer; the so-called double ageing of the population. An ageing and dejuvenating society will result in drop in the working population, which will in turn put a brake on economic growth. The working population will be faced with the ever-growing costs of maintaining the elderly and government finances could come under pressure. We will also see an increase in the demand for elderly care institutions and senior homes. An ageing population will also have different spending patterns in terms of retail and leisure spending and will have a greater need for special and decentralised services.

“In the face of this ongoing urbanisation, cities will have to remain liveable, affordable and easily accessible.”

Ivens Studio, Amsterdam, The Netherlands

The Dutch residential real estate market remains very much in demand. Institutional investors are faced with the challenge of finding sound investment opportunities in new projects.

Residential market 2022-2024

The Dutch residential real estate market remains very much in demand. The huge demand for living space and the lagging supply are creating housing scarcity. Occupancy rates for rental homes are high, while low interest rates and the ready availability of financing are driving steep price rises for owner-occupier homes. And it is proving difficult to get plans for considerable increases in new homes off the ground. Institutional investors are faced with the challenge of finding sound investment opportunities in new projects.

De Werf, Amsterdam, The Netherlands

ABF Research is predicting that in the period 2020-2040 the number of Dutch households will increase by 13% or more than a million households. The biggest growth will be in the number of one-person households, many of which will be 65+ households. In that same period, the number of people aged 75 or older is set to increase by around 80%.

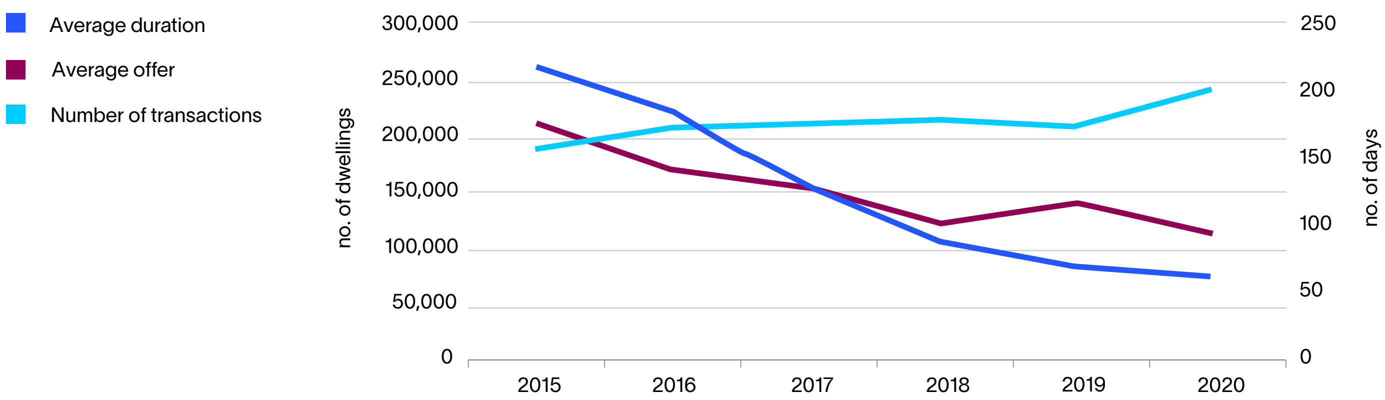
The Netherlands is facing a significant shortage of homes; in 2021, this shortage had risen to around 280.000 homes or 3.5% of the housing stock. ABF Research expects the shortage to increase in the coming years due to the lag in new-build production, rising to a peak shortage of 316.000 homes in 2025. This means the country is facing a considerable shortage of homes for many years to come.

The scarcity, the historically low interest rates and favourable lending conditions are significant drivers of continuously rising house prices. This has put home ownership beyond the reach of many households. First-time buyers and middle income households in particular are finding it difficult to buy homes. Due in part to this difficulty, these people have little choice but to rent. However, the number of rental homes in the liberalised rental sector is fairly limited and in 2021 amounted to around 567.000 homes, or some 7% of total Dutch housing stock. The majority of these homes are in the mid-rental segment, which accounts for 360.000 homes or around 5% of the total housing stock.

And the biggest shortage in rental homes is in this mid-rental segment, with monthly rents of between € 753 and € 1,060. This segment is crucial for mobility in the housing market. After all, high-quality mid-rental segment homes can provide an incentive for people living in social housing who earn above the maximum income level for social housing to move to private sector homes, which then frees up government-regulated social housing for lower income groups. Another reason for the lack of mobility in the housing market is the fact that many older people – in both the owner-occupier and rental markets - are living in homes that are too large for their needs. The problem is that they do not have the option of moving to smaller, lifecycle-proof homes due the severe shortages on the market, plus some simply do not wish to move.

Duration, offer and transaction

Source: Bouwinvest R&SA and Watson + Holmes MVGM, 2021



In the period 2020-2040, the number of residents aged 75 or older will grow by

80%

Political interference

Politicians at both national and municipal level have a clearly stated goal to build more – and more suitable – homes to solve the housing shortage in the longer term. At the same time, it seems that concrete action takes time and the regulatory measures taken in the meantime are actually proving to be counterproductive.

For instance, in 2021 the government restructured the real estate transfer tax (RETT) to improve the position of first-time buyers vis-a-vis investors on the housing market. First-time buyers up to the age of 35 now pay no transfer tax, while all


De Meester, Haarlem, The Netherlands

other buyers pay the usual 2%. For investors that acquire homes to rent out are now subject to a rate of 8%. This change has so far failed to have the desired result. House prices rose to record heights in the first months of 2021, while it has become more difficult for investors in rental homes to acquire projects that meet the financial targets of their clients, mostly pension funds or insurance firms. This will put more pressure on housing production and mobility in the longer term. Some large cities are actually planning to close the housing market completely to private investors.

In addition to this, price rises are also being fuelled by the easing of lending conditions since 21 January 2021. Banks have been given more room to grant mortgages, while a number of local authorities are actually stepping in to help first-time buyers get mortgages. The Dutch Financial Markets Authority (AFM) and the Dutch Central Bank (DNB) have been critical of these measures. They point out that young people in particular run the risk of taking on too much debt when they buy a home, while the Netherlands already has the highest per capita mortgage debt in the world.

In addition, national and local governments have introduced a series of new measures that could help renters, but the actual impact of these measures is still unclear. March 2021 saw the adoption of a law that set the maximum rent increase in the liberalised rental sector at inflation plus 1% for the next three years. The rents in the government-regulated rental sector were frozen for 2021.

The government has set a target for the construction of around 900.000 new homes between now and 2030. This will require intensive cooperation between local authorities and market players to start a sufficient number of construction projects. The government is looking to achieve this via the so-called housing deals (Woondeals)* it has closed with various urban regions. It has also said it will provide financial support for specific projects to make these feasible. These housing deals are primarily focused on the construction of homes for starters and middle-income households due to the huge shortage of homes for these two groups. However, the construction of new homes is clearly lagging the government's own annual targets, due in part to increasing regulation, which is reducing the viability of projects for institutional investors. These include prolonged permit procedures, limitations on locations for environmental reasons, rising construction costs and a shortage of skilled workers in the construction sector.

The national government wants to gain more control of the country's ongoing urbanisation and has selected 14 large-scale area developments. These will involve the construction of around 580.000 new homes, mostly in the cities of the Holland Metropole, which includes Amsterdam, Rotterdam, The Hague, Eindhoven, Utrecht and the areas in between. The plan is for local authorities and market players to work together, in line with the National Environmental Vision (Dutch: NOVI). Given that these locations are in the peripheral areas around the cities, they will include significant investments in public transport and other infrastructure. However, the G5 cities have said that this will require more investment than the amount the government has earmarked .

**www.woningmarktbeleid.nl/onderwerpen/woondeals (only in Dutch)*

Improving sustainability

Making the current housing stock more sustainable is a major pillar of the Dutch Climate Agreement. This will certainly apply to homes with a C or lower energy label, which are generally homes built before 1975. Most new-build homes already meet ever-stricter sustainability requirements.

The government tightened the environmental performance requirements for new homes as of 1 July 2021, and these will now have to be built according to more environment-friendly and circular principles. The goal is to keep tightening these requirements in phases. The Dutch government wants to have a fully climate-neutral and circular built environment by 2050. To aid this effort, the government has defined the parameters of an energy transition, which local authorities are supposed to use to develop a heating vision. The government is currently focusing on various labels, rather than targeting the actual energy use of tenants. In addition, the Netherlands is dealing with (environmental) limitations related to PFAS and nitrogen emissions issues.

Residential market popular with investors

Residential real estate has been the largest investment category on the Dutch real estate market in terms of volume since 2018, and demand remained stable during the Covid-19 crisis. Thanks to the enormous need for homes and the drive among investors to invest responsibly, investors are expected to continue to invest in residential real estate in the years ahead. These investments will primarily be in the mid-rental segment, with additional interest in social rental homes and lifecycle-proof homes.

The competition from international investors is getting fiercer on the Dutch housing market. While international investors previously focused on existing homes with a stable cash flow, they are now more and more likely to acquire new-build projects. By using leverage and working with equity transactions, they can often bid more than Dutch pension funds. In 2021, the government made it easier for housing corporations to build mid-segment rental homes. Corporations are expected to build these homes in locations avoided by market players.

The continued strong demand for investments in homes is putting downward pressure on initial yields. Gross initial yields in Amsterdam has been relatively stable for several quarters, but there is still a chance that we will see a further slight decline in yields in other cities. The decline in initial yields is the result of the continuing rise in house prices combined with stabilising rental prices. The latter is primarily due to the limitations on rent increases for mid-rental segment homes. These developments are making it more and more difficult for investors to achieve their targeted returns.

“Thanks to the enormous need for homes and the drive among investors to invest responsibly, investors are expected to continue to invest in residential real estate in the years ahead. These investments will primarily be in the mid-rental segment.”

"While international investors previously focused on existing homes with a stable cash flow, they are now more and more likely to acquire newbuild projects."

Tuinen van Sion, Rijswijk,The Netherlands

Both 2020 and 2021 saw periods of extremely strict lockdown measures that had serious consequences for the retail trade. One surprising fact is that overall retail spending increased by 5.8% in 2020.

Retail market 2022-2024

The retail trade was badly affected by the restrictive measures introduced to combat the spread of the Covid-19 virus. At the same time, the pandemic accelerated the growth of online sales, which made life even more difficult for many retailers. Retailers that managed to find a good balance between physical sales and online sales have the best chances of survival. Local shopping centres for daily goods remain popular among investors.

Ridderstraat, Breda, The Netherlands

The growth of the population in general and the number of households in particular will have a positive impact on consumer spending, which will in principle boost spending in shops. However, the growth in the population is being driven primarily by the ageing of the population and an increase in life expectancy for older people. The number of 65-plussers is expected to increase by 1.4 million in the period 2020 to 2040. This group tends to spend less in shops than younger consumers and also spends more locally. This means that population growth will not directly benefit large city centres, and is more likely to boost spending in retail and food & beverage outlets in local shopping centres. At the same time, population growth will be concentrated in large cities, which are also less affected by ageing. In these cities, the 15-64 age group will continue to grow in absolute terms, which provides a solid basis for the shops in these city centres.

Covid-19: temporary or structural consequences?

Both 2020 and 2021 saw periods of extremely strict lockdown measures that had serious consequences for the retail trade. For some parts of 2020 and 2021, all non-essential shops and food & beverage outlets were closed completely. On the other hand, the government offered the retail and hospitality sectors generous financial support. Thanks to this support, the number of bankruptcies have remained extremely limited and companies in these sectors were able retain most of their employees, which in turn kept any rise in unemployment to a minimum.

One surprising fact is that overall retail spending increased by 5.8% in 2020. Last year saw a steep rise in spending on food via supermarkets (7.1%) and specialty shops (5.8%), on home improvements via home furnishing shops (7.9%), DIY stores (19.4%) and building centres (19.7%), on consumer electronics (8.6%) and on leisure items (5.4%). A significant portion of these extra sales were spent via online channels; webshops recorded the highest growth in sales (28.5%). At the other end of the spectrum, clothing stores recorded a very steep decline in sales (21.3%), as did shoe stores (18.7%) and food and beverage outlets (33.9%).

Trend in retail spending in 2020

Source: CBS, 2021

Increase in overall retail spending in 2020
5.8%

Food via supermarkets
7.1%

Furniture stores
7.9%

DIY Stores
19.4%

Building centres
19.7%

Food via specialty shops
5.8%

Consumer electronics
8.6%

Leisure items
5.4%

Webshops (biggest increase in turnover)
28.5%

food and beverage outlets (biggest drop in turnover)
-33.9%

Fashion stores
-21.3%

Shoe stores
-18.7%

The overall growth in retail sales was driven by three separate factors: the lack of opportunities to travel, which led to people spending their (holiday) money elsewhere, a shift in spending driven by home working and a rise in the number of house sales.

The various lockdowns led a sharp rise in online shopping and some major quality improvements in the online channels of physical retailers. Well-known retailers like Action and Flying Tiger have recently started offering their products online for the first time, while others have made major improvements to the interconnections between their online channels and physical stores. Retailers that manage to combine physical sales and online sales – multi-channel retailers – tend to be most future proof.

Vacancies on the rise, retail rents under pressure

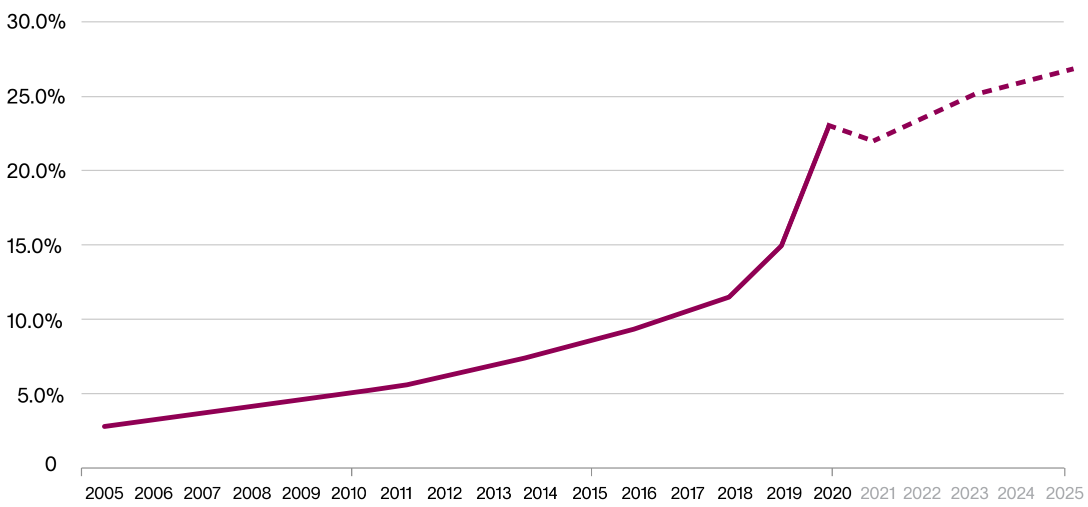
The majority of the entrepreneurs in the retail trade are currently focusing more on the optimisation of their store portfolio than on its expansion. This trend is being driven by the continuing growth of online sales, demographic trends and changing consumer preferences.

Despite these trends, the retail vacancy rate only increased slightly in 2020: to 7.5% from 7.3%. In the first half of 2021, the vacancy rate actually fell back to 7.3%. However, vacancy rates are expected to increase in many places over the next two or three years, including the city centres of the largest cities. It is primarily the seemingly unstoppable growth of online shopping and the aftermath of the Covid-19 crisis that are pushing retailers into a corner. But shop relocations and zoning changes will push vacancy rates down again, and the most attractive retail locations will emerge the strongest.

Retailers that switch their focus more towards online sales will have to take a long hard look at the extent to which they want to close their stores. After all, physical stores offer consumers an experience that is impossible to reproduce online; they are an essential part of the total brand experience and a retailer's ability to maintain market share. On top of this, stores are important links in the delivery and return of packages. It is also true that webshops that are allied with physical stores have relatively high market shares. This means closing stores can cost you more than just your store sales.

Share online retail spend

Source: PMA, 2021



We are also seeing innovation in online channels. Picnic is a perfect example of a clearly different strategy than regular supermarkets with an online channel. Another recent trend is the emergence of so-called flitskoeriers, or virtually instant grocery deliveries. These delivery services are mostly based in larger cities and deliver groceries to your home within 10 minutes, for a fee.

Despite the enormous gains made by online retail, we can assume that physical retail will win back some of the ground it has lost once Covid-19 is under control. At the same time, the share of online sales is expected to remain at a higher level than before the pandemic and that this share will continue to increase as we move forward. After all, in the Covid-19 period many people who had never visited a webshop before were forced to order goods online. There is a good chance that this has tapped into a new group of customers, who have now seen the benefits of online and can no longer do without it. Online sales will continue to grow in the coming years and the retail market will have to find a new balance, with fewer but better shops.

Investors opting for local shopping centres and the best shopping streets

Despite the headwinds in a part of the retail market, the total volume of investments in retail assets came in at € 2.3 billion in 2020, comparable to total investments in the previous year. Local shopping centres and supermarkets accounted for a significant share of this volume. Given that there is still a great deal of uncertainty regarding future vacancy rates and rental levels in the main shopping streets, there have been few transactions for assets in these locations. The risk premium for these types of store are on the rise, especially for assets in medium-sized cities. On the other hand, returns have remained robust for local shopping centres and supermarkets.

In the medium term, cities with the largest catchment areas will continue to offer retailers the best sales opportunities and the best chance of getting their heads back above water. However, city centres in smaller towns and cities will have to actively think about the best way to optimise their supply of stores and how to remain attractive with fewer retail square metres. Local authorities, working with all stakeholders, will have to come up with a clear vision for the future.

Despite the challenges in the retail market, thanks to the persistent low interest rate environment, retail real estate will continue to provide attractive direct and indirect returns, as well as diversification benefits. Investor interest in local shopping centres for daily goods is expected to remain high and this will continue to increase for retail real estate in the best locations in large cities.

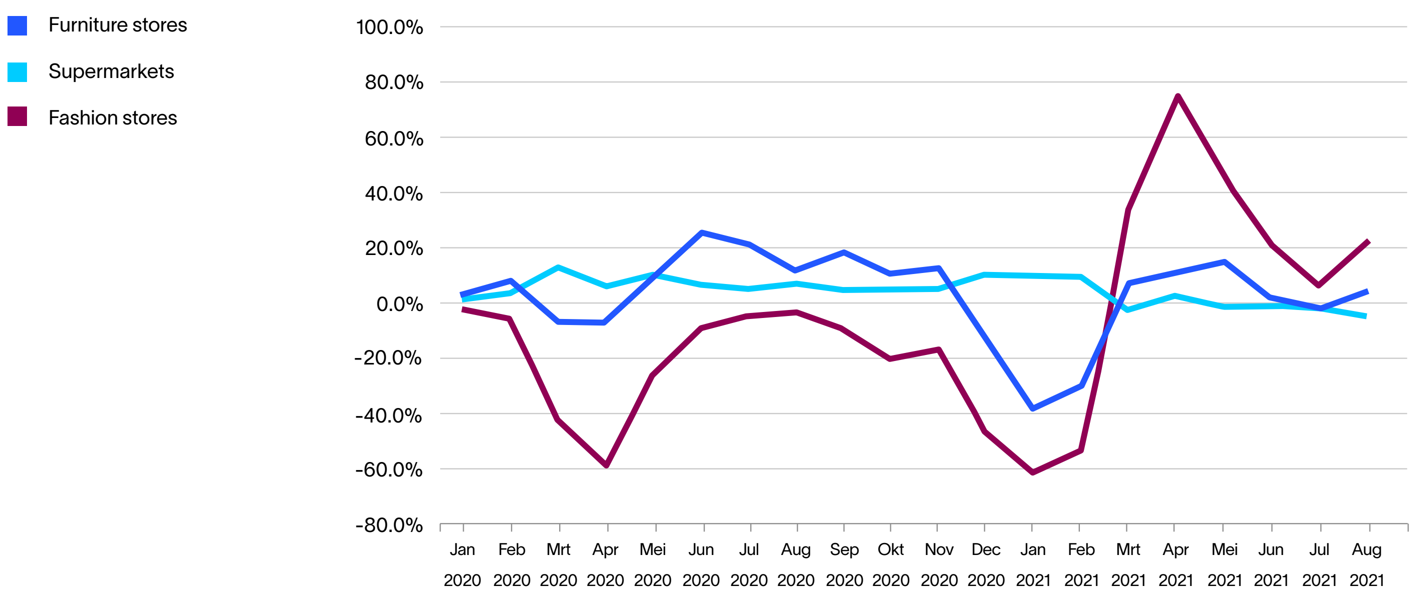
total volume of investments in retail assets in 2020

2.3 billion euro

"On the other hand, returns have remained robust for local shopping centres and supermarkets."

Trends in retail sales at furniture, supermarkets and fashion stores

Source: CBS, 2021



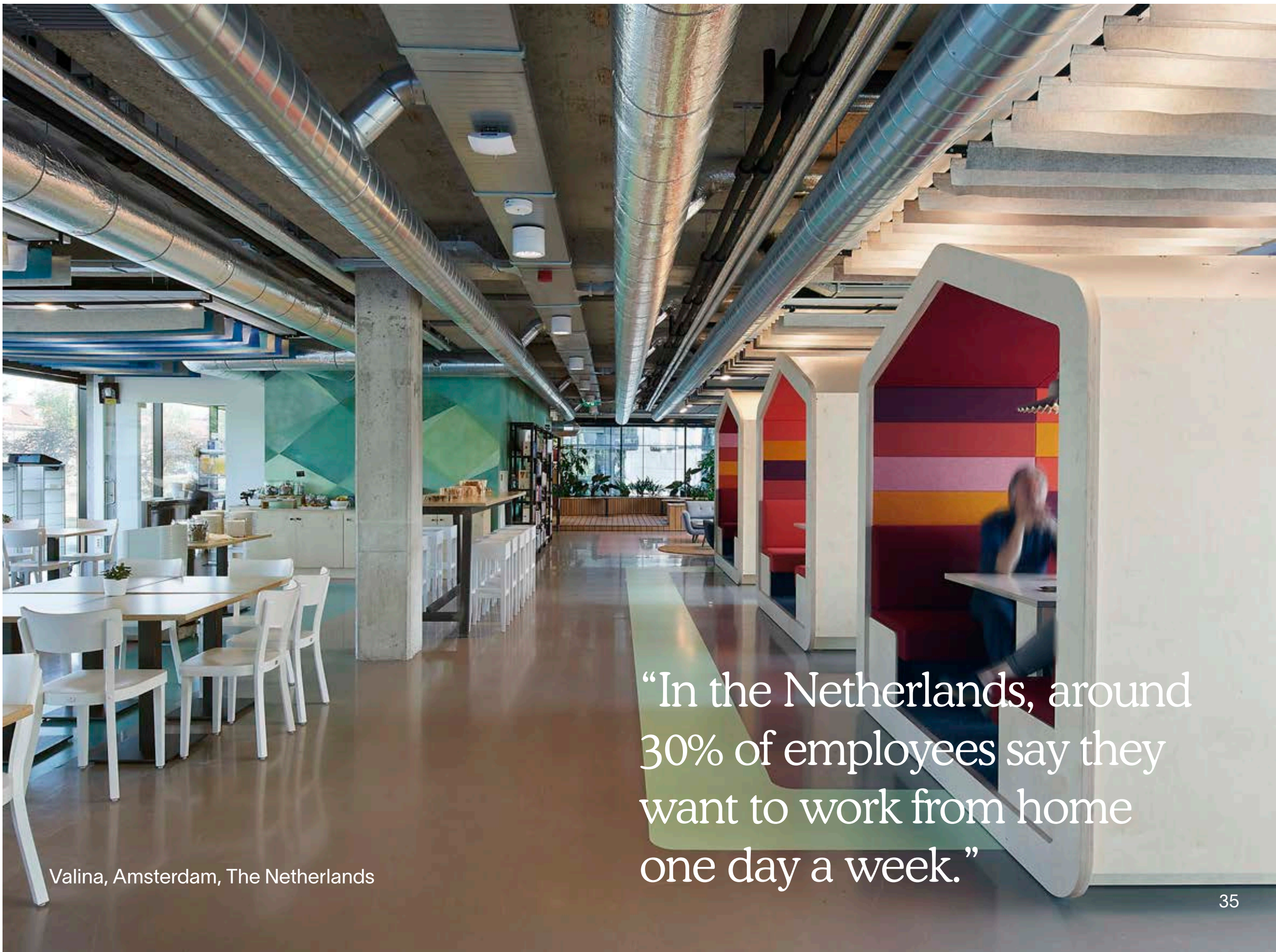
“Despite the challenges in the retail market, thanks to the persistent low interest rate environment, retail real estate will continue to provide attractive direct and indirect returns, as well as diversification benefits.”

Jumbo, Rijssen, The Netherlands

Offices will transform from collective workplaces to meeting places for employees.

Office market 2022-2024

The polarisation that has marked the office market for some time has been made even more evident by the Covid-19 crisis. Offices in the best locations in the large cities are benefiting from the arrival of companies and the presence of talented personnel. Less attractive offices in smaller towns and cities are now also competing with home offices, given that home working has really taken off and is now expected to increase structurally in the long term.



Valina, Amsterdam, The Netherlands

"In the Netherlands, around 30% of employees say they want to work from home one day a week."

Following the Covid-19 outbreak in March 2020, home working increased enormously. Many office-based companies followed government recommendations to allow staff to work as much as possible from home. According to the government's mobility policy think tank* and research of Bouwinvest, 70% of the Dutch workers saw the positive side of working from home.

One thing that many national and international studies agree on is that the majority of employees would like to continue to work from home for between one and three days a week, once the situation is back to normal. In the Netherlands, around 30% of employees say they want to work from home one day a week, while slightly more than 20% want to do this for two days a week and another 20% say three days a week. Home working has become much more popular since the outbreak of the pandemic, but people's wishes have remained fairly stable since then.**

Home working does have its limitations, certainly when it is as prevalent as it had to be during the Covid-19 crisis. Young employees found it particularly difficult; they miss contact with fellow employees more, are less able to gain know-how from their colleagues, are more likely to have bad home offices, feel less productive and that they do not get enough support from their company. This is why just 40% of young employees see home working as positive and why no less than 30% suffer from psychological problems as a result of home working.***

Vacancies on the rise, but by how much?

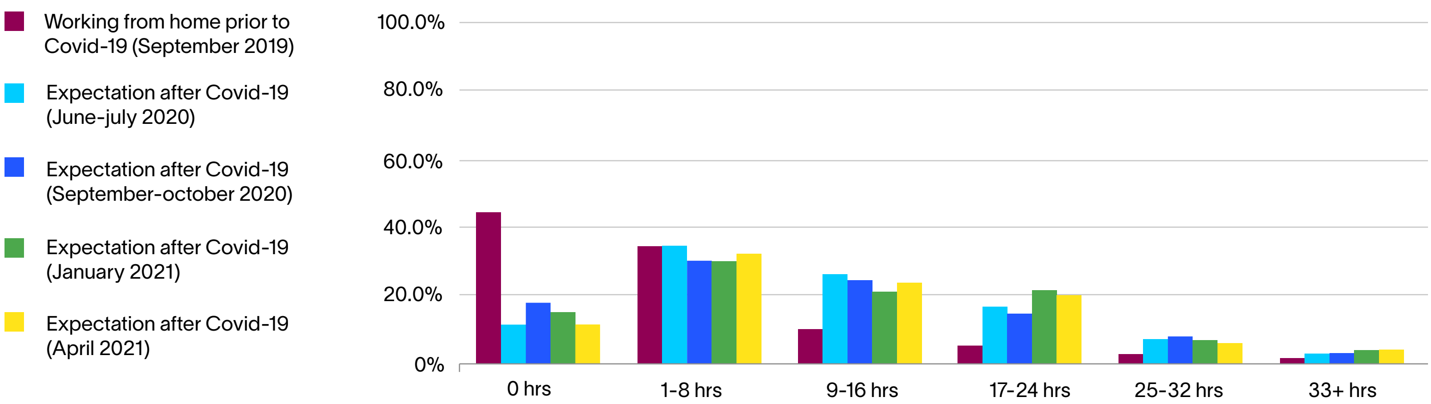
Bouwinvest has conducted its own analyses of the impact of home working on office market needs. On the basis of external research into the wishes of service sector employees, Bouwinvest expects to see the number of 'office hours' decline by 15% to 20% compared with the situation before the outbreak of the virus. However, that does not mean that the same percentage of office square metres will fall vacant, because there are various counter trends that will result in a relative increase in the amount of office space per work station or employee. For instance, companies are expected to do their utmost to make their offices as attractive as possible, to safeguard their corporate culture and to increase collaboration. As a result, office lay-outs will be improved to make them better meeting places or places to collaborate, and that will require extra space. At the same time, they will have to offer a sufficient number of individual work stations for work requiring concentration.

This is why we believe that the trend that has seen offices become more and more densely populated is now more likely to go into reverse than continue. In addition, offices will have to maintain sufficient basic capacity for peak moments. And there is still the question of whether employers will actually allow their employees to work so much from home, or will exert pressure on employees to work in the office more than they actually want to.

Number of hours working from home before and expectation after Covid-19

(For home workers in April 2021 at various measurement moments)

Source: Bouwinvest R&SA, 2021



Kennisinstituut voor Mobiliteitsbeleid - KiM
***Source: KiM, 2021*
****Source: KiM, 2020*

Given all of the above, Bouwinvest believes that the demand for office space in the Netherlands is likely to decline by between 5% and 10%, and even then this will largely be confined to secondary locations. The impact on the best locations will be marginal. For that matter, real estate consultancy Savills expects the impact on the Dutch office market to be more limited than in many foreign metropoles. This is due to shorter commuting times in the Netherlands, the on average lower office costs for employers and the fact that Dutch office users were already working from home a fair amount before the Covid-19 crisis.

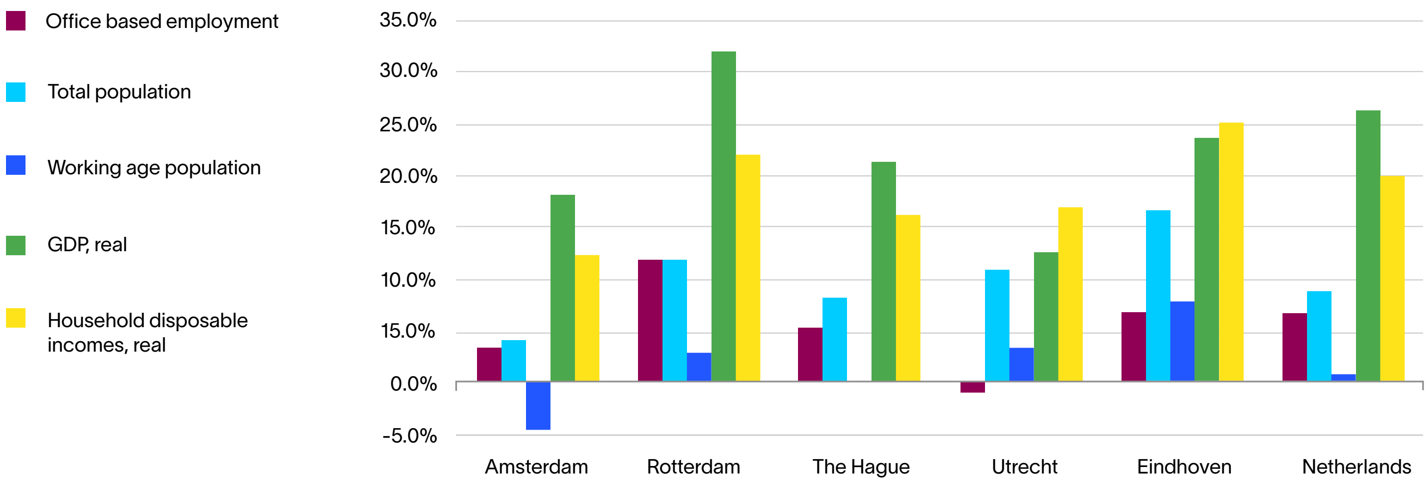
Polarisation is increasing

In the period to 2013 office vacancy rates were high in the five large cities of the Holland Metropole, but have declined consistently in subsequent years. Thanks to their ability to attract both companies and employees, these big cities reaped above-average benefits from the economic recovery in those years. Locations close to stations and city centres proved the most popular and, partly due to Brexit, these locations will remain popular in the future. In addition, large cities are also the most attractive locations for other functions, which is why a lot of vacant office space in these cities has been converted to other uses. The polarisation between the large cities and the rest that this triggered will only increase in the years ahead.

"This is due to shorter commuting times in the Netherlands, the on average lower office costs for employers and the fact that Dutch office users were already working from home a fair amount before the Covid-19 crisis."

Expected growth of demographic and financial indicators in the Netherlands (2021-2035)

Source: Oxford Economics and Bouwinvest R&SA, 2021



A recent study by Greenstreet underlined the enormous demand for high-grade office centres. The market research and advisory firm expects total demand for office space in the likes of London, Paris and Berlin to decline by 5% to 15%, but also expects the demand for high-grade offices in good locations in these cities to increase by 20%. This means that the resultant rise in vacant office space will be confined to B-quality offices, generally located in B locations.

In the longer term, the biggest cities will also see their populations grow more and faster than other places. These cities are able to attract young professionals, making them the logical base for domestic and international companies.

Polarisation in sustainability

This polarisation is also increasing on the sustainability front. In 2050, all office real estate will have to be Paris Proof, which means pretty much climate neutral. New projects are already close to this standard, so the main challenge will be to upgrade existing offices. In the Netherlands, all offices (with the exception of listed buildings) will have to have at least a C label in 2023, and we expect an A label to be the minimum requirement for all offices in 2030. In mid-2021, real estate consultancy Colliers estimated that around 25% of offices does not yet meet C-label requirements. At this moment, the larger cities tend to score better than medium-sized office cities, where it is more difficult to earn back any sustainability-related investments. This is another indicator of the ongoing polarisation in the office market.

The upgrade to a C label generally requires a modest investment, but the upgrade to A label and Paris Proof is much greater, which will lead to major changes in the office market in the coming decades. The sustainability drive is most likely to benefit the best locations. They have the lowest vacancy risk and the highest user demand, making these locations the easiest for owners/investors to earn back their investments. Given the trend of the past decade, which has seen larger cities consistently outperform medium-sized town and cities, and the top locations in those large cities outperform all other locations, most experts agree that the biggest cities and the strongest locations in those cities will emerge the strongest from the upcoming transition.

Qualitative requirements the deciding factor

Partly driven by the attractiveness of home working, employers will probably devote more attention to the quality of their offices. The office will have to become a real pull factor; employers will have to want to come to the office because it is a pleasant and inviting place to work. Offices that are easily accessible and offer the best experience will be the best positioned to win this war. This could be due to the special or historical image of the building, or to the other functions in the immediate vicinity, such as shops, cafes and restaurants, other amenities and green areas.

The structural increase in home working will put poor-quality offices at an even greater disadvantage. Unattractive and non-sustainable office buildings located on a motorway will do little to tempt employees to go to the office. Companies based in these kinds of building will find it more difficult to preserve their identity and to retain talented employees.

Centre Court Den Haag, The Netherlands

Another pull factor is health, a theme that is gaining a lot of traction in the real estate world, especially in the office market. The health of an office generally depends on a number elements, such as design, the materials used, safety, air quality, temperature, daylighting, green areas, noise levels and the overall user experience. As a result of the Covid-19 crisis, certain health aspects have become even more important, including ventilation. Many of these factors are covered in sustainability labels and certificates for certain systems.

Offering quality will be key

Despite the Covid-19 crisis, office market fundamentals are better than they have been for a long time. This puts the office market, especially the top office locations, in a good position to remain relatively resistant to value fluctuations. Recent uncertainty has led to a slowdown in new-build and redevelopment office projects and decisions for office premises. The continued rise in building costs is making it more and more challenging to realise projects. Although these factors could benefit sitting investors, they will limit potential acquisition opportunities in the future.

In terms of the qualitative aspects of the office market, most experts agree that growth will be found in offices that offer flexible rental conditions, that are fitted with the latest technologies and that are healthy, sustainable and inviting.

"Another pull factor is health, a theme that is gaining a lot of traction in the real estate world, especially in the office market."

WTC, Den Haag, The Netherlands

“In terms of the qualitative aspects of the office market, most experts agree that growth will be found in offices that offer flexible rental conditions, that are fitted with the latest technologies and that are healthy, sustainable and inviting.”

Nieuwe Vaart, Utrecht, The Netherlands

Driven by the double ageing and dejuvenation (increase in the median age) of the population, the demand for healthcare real estate is and will remain strong.

Healthcare market 2022-2024

The double ageing and dejuvenation of the population and structural changes in how healthcare is provided will be the main drivers behind the stable development of the healthcare real estate market in the coming years. The enormous need for homes suited to elderly people, more demand for buildings equipped for specialist care and the replacement of old and outdated buildings offer investors solid diversification opportunities in this category.

Villa Verde, Harderwijk, The Netherlands

The primary fundamental driver behind the demand for healthcare real estate is the double ageing of the population. The growth in the number of people aged 65 or over in the Netherlands has been higher than the growth in the population of people below the age of 65 for some time and this trend is expected to continue until 2040.

The Covid-19 pandemic has had very little impact on this trend, despite the fact that life expectancy did decline in 2020 as result of the excess mortality due to the Covid-19 pandemic. However, the Dutch Central Bureau of Statistics (CBS) compares this with the Spanish Flu, which only lowered life expectancy in 1918. This means the Covid-19 pandemic is not expected to influence life expectancy in the longer term.

According to ABF Research's Primos forecast, the number of elderly people in the Netherlands will increase by 25% in the period 2021 to 2031 and by 39.5% in the period 2021 to 2041. This equates to growth in the number of people aged 65 or over of 865,000 in the next 10 years and 1,365,550 in the next 20 years.

In the period 2021 to 2041 the number of elderly people in the Netherlands will increase by

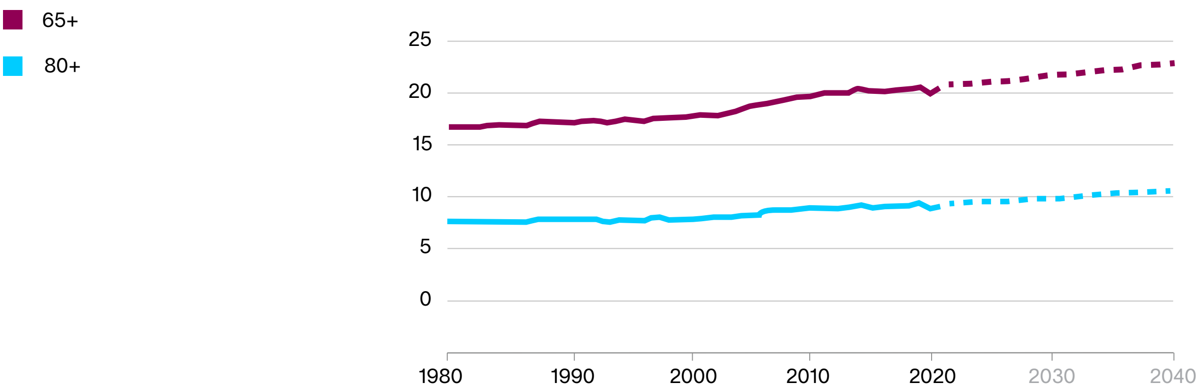
39.5%

Healthcare Real Estate

Cure			Care	
Primary care	**Secondary care**	**Tertiary care**	**Extramural**	**Intramural**
Primary health centres	Hospitals (acute care)	Academic Hospitals	Independent (elderly) housing	Nursing care facilities
	Specialised clinics (non-acute care)		Private Care homes	Disability care facilities
				Mental health services

Development of life expectancy for the elderly

Source: CBS, 2021



Driven by the double ageing and dejuvenation (increase in the median age) of the population, the demand for healthcare real estate is and will remain strong. Other drivers behind this demand include the badly outdated stock of buildings and the changing living wishes of elderly people. The current and future generations of elderly people have more varied living requirements and expect high-quality healthcare accommodation. This trend is driving strong demand for quality that goes beyond the quality of the care home or healthcare facilities themselves. This includes the likes of new residential concepts with a focus on meeting like-minded people, personal attention, luxury and experience, alignment with various lifestyles and combatting loneliness.

From intramural to extramural care

Since the spring of 2020, policy makers have been focused on combatting the Covid-19 pandemic. Although we do not yet know the new government plans in detail, we are more likely to see a continuation of the current healthcare policy than any change. In effect, this will mean the continuation of the 'extramuralisation' of care, or the shift away from care in hospitals and other specialised institutions to care in the immediate environment, at home and by care givers, and away from the separation of care and living. This creates an opportunity for specialised healthcare real estate investors. They can anticipate this trend by targeting lifecycle-proof homes suited to the provision of care and by developing new, attractive residential concepts for elderly people. On the curative care front, there are opportunities in the development of independent treatment centres and polyclinics close to hospitals.

At the same time, the intensive care provided in institutions requires suitable buildings. Because the extramuralisation of care also means that people generally only receive intensive care when they are seriously ill, often with multiple age-related disorders at the same time. This means that care in institutions is by definition more intensive, while this form of care also needs to be more efficient. Modern and well-designed buildings can contribute to this efficiency drive.

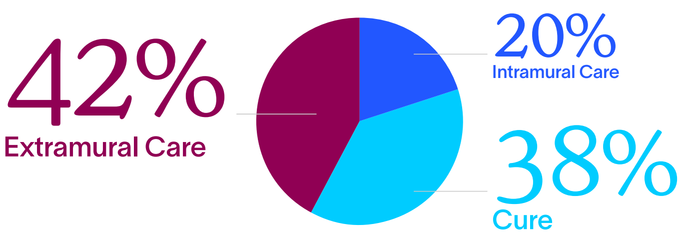
> "This is creating opportunities from an investment perspective, mainly in locations that act as 'care centres' in existing neighbourhoods. For instance, in neighbourhoods built in the 1960s and 1970s that now have lots of elderly people, where we find already outdated healthcare institutions."

Local authorities are devoting more attention to new healthcare concepts and are now allocating more land to healthcare-related projects. In January 2020, only 10% to 15% of local authorities had any kind of vision on residential care, but by July 2021 this had risen to around 50%. Although this means that residential care can count on more attention from policy makers, far from all local authorities have drawn up a vision and many of the existing residential care visions are still not concrete enough. The number of new locations for residential healthcare is still much too low to meet burgeoning demand.

A large part of the demand for elderly care is currently provided in existing, but unsuitable homes. Given the rapid ageing of the

Market potential per healthcare real estate category

Source: Economic Board for the Building Industry (EIB) and MSCI, 2021




Woonpaviljoen Voorzorg , Gouda, The Netherlands

population, this situation will only get worse, and in the future more elderly people will be living in homes that are unsuitable for the provision of care. This is creating opportunities from an investment perspective, mainly in locations that act as ‘care centres’ in existing neighbourhoods. For instance, in neighbourhoods built in the 1960s and 1970s that now have lots of elderly people, where we find already outdated healthcare institutions. In these locations, redevelopment as an investment strategy could create good opportunities, thanks to the confluence of quantitative and qualitative demand and outdated real estate. An additional advantage is that these projects do not require new land grants and time-consuming zoning plan changes.

Staff shortages at healthcare institutions

Thanks to the various government support measures, healthcare institutions are emerging from the crisis in good financial health. However, the after effects of the Covid-19 pandemic due to overworked healthcare staff and potential flare ups in infections will put pressure on their finances in the years ahead. The ongoing pressure on healthcare costs combined with the phasing out of Covid-19-related support is a risk for the nursing care sector, as this is financed via the Dutch Long-term care Act (Wlz).

Due to the Covid-19 pandemic and specific relevant measures, the occupancy rate of nursing homes was relatively low in 2020 and early 2021. That said, the waiting lists for nursing care remained stable and in mid-2021 there were around 20,000 people on the waiting list, 16% of total capacity in 2020. In view of the slow pace of capacity expansion, this waiting list will continue to grow strongly.

Increased work pressure, the higher absenteeism rates after the intensive Covid-19 period, the recent outflow of personnel in combination with the tough recruitment of sufficient qualified personnel are the biggest challenges facing healthcare institutions today. This challenge is the most severe for traditional healthcare institutions, most of which are fairly large. At the same time, smaller and more entrepreneurial private healthcare institutions are also finding it difficult to recruit qualified staff in sufficient numbers. One reason for this is that they demand more creativity and responsibility from their staff. Unfortunately, digital solutions and the so-called roboticisation of healthcare is not yet providing sufficient relief or concrete alternatives.

Healthcare institutions are already postponing or cancelling plans for new-build facilities or expansion due to staff shortages. This will happen a lot more frequently in the years ahead. And this shortage of places in healthcare institutions will increase the demand for suitable homes in which people can independently for longer, as well as for alternative residential concepts. However, the greater complexity of these projects is putting a brake on the growth of new-build real estate with a combined living and care function. This market is also facing the same challenges as the housing market in general: rising building costs, affordability requirements and (environmental) limitations related to the PFAS and nitrogen emissions issue.

“The waiting lists for nursing care remained stable.”

Professionalisation, consolidation and internationalisation on the horizon

The tension on the labour market is not preventing professional healthcare players from launching expansion plans. Over the past year, various players in this market have acquired new locations for the provision of private healthcare. The market has also seen numerous equity deals and takeovers.

More parties are expected to enter the Dutch healthcare market in the coming years and we are likely to see healthcare providers launching new (private) healthcare formulas. Given that the easily exploited higher-end healthcare segment is gradually becoming saturated, these initiatives are likely to focus primarily on the lower and mid-priced segments of the market. These segments still have a lot of room for new formulas and the acquisition of existing healthcare players. This will ensure the continuation of the previously observed professionalisation and consolidation drive in the healthcare landscape.

Opportunities for financial and social returns

The Covid-19 pandemic has had little impact on the healthcare real estate market. Unlike other sectors, it saw virtually no decline in investment volumes. Initial yields continued to decline and the demand for new healthcare real estate remained high. We expect this trend to more or less continue in the coming years. Healthcare is a growth market, with heavy demand for both new properties and the replacement of existing properties.

Although we are seeing increasing competition from financial asset managers and from the banks that are financing healthcare institutions – which means real estate can be kept on the balance sheet and under their own management – professional healthcare real estate investors are in a relatively strong position. Not only do they deliver financing; they also provide expertise and assume much of the responsibility for real estate development, enabling healthcare providers to focus on their core business. Due to the enormous interest in healthcare real estate, the number of investors active in the sector also increased during the Covid-19 crisis, both in the Netherlands and abroad. We are also seeing an increase in the number of developers active in this market, which will in turn increase the number of senior homes available.

Healthcare real estate also falls under what a growing number of investors refer to as 'impact investing', and can therefore count on a great deal of attention in the institutional investment world. This is why we expect the capital allocated to healthcare real estate to continue to increase in the coming years. Although it is still a challenge to actually allocate this capital, we expect healthcare real estate investment volumes to keep growing in the future; healthcare institutions are now much better at finding investors and more developers are now active in the healthcare real estate market.

Driven by the heavy demand, we are seeing continued yield compression in the developed sectors, such as extramural care, intramural care and private home care. The acquisition of these types of real estate at reasonable returns will therefore be more challenging. First and second-line care is more the domain of a number of highly specialised investors. Although initial yields will also fall in this segment, the more limited availability of the assets in this investment category means any decline in initial yields will less pronounced. However, the interest in this category is on the rise, which means it could gain a bigger share of total investment volumes in the near future.

"Healthcare is a growth market, with heavy demand for both new properties and the replacement of existing properties."

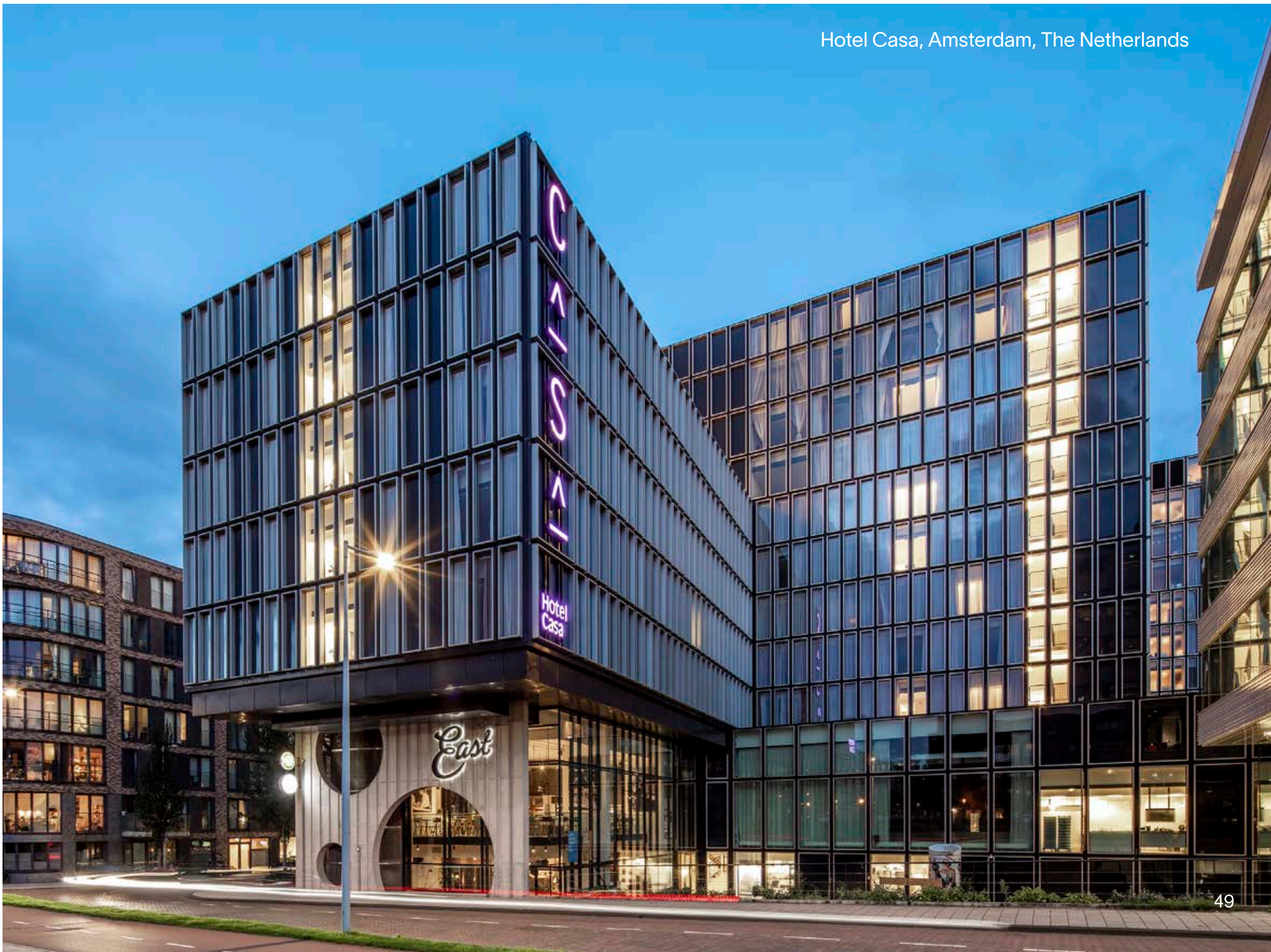
"More parties are expected to enter the Dutch healthcare market in the coming years and we are likely to see healthcare providers launching new (private) healthcare formulas."

Life, Amsterdam, The Netherlands

Rental income from hotels fell sharply during the Covid-19 crisis, largely because many real estate owners reached accommodating rental agreements with their hotel operators.

Hotel market 2022-2024

The hotel market was hit hard by the global measures taken to contain the spread of the Covid-19 pandemic. Tourism has since picked up again, but international business travel is still very limited for a number of reasons. Hotels with a strong focus on international business travellers and conference visitors will have to adapt to much lower levels of business travel and switch at least part of their focus to tourists.



Hotel Casa, Amsterdam, The Netherlands

The Covid-19 outbreak resulted in a sharp drop in both international and – to a lesser extent – domestic tourism. Many hotels were forced to close their doors in the spring of 2020 and many were kept closed for up to two months. The summer of 2020 did see a slight pick-up in weekend bookings and this was followed by more mid-week overnight stays.

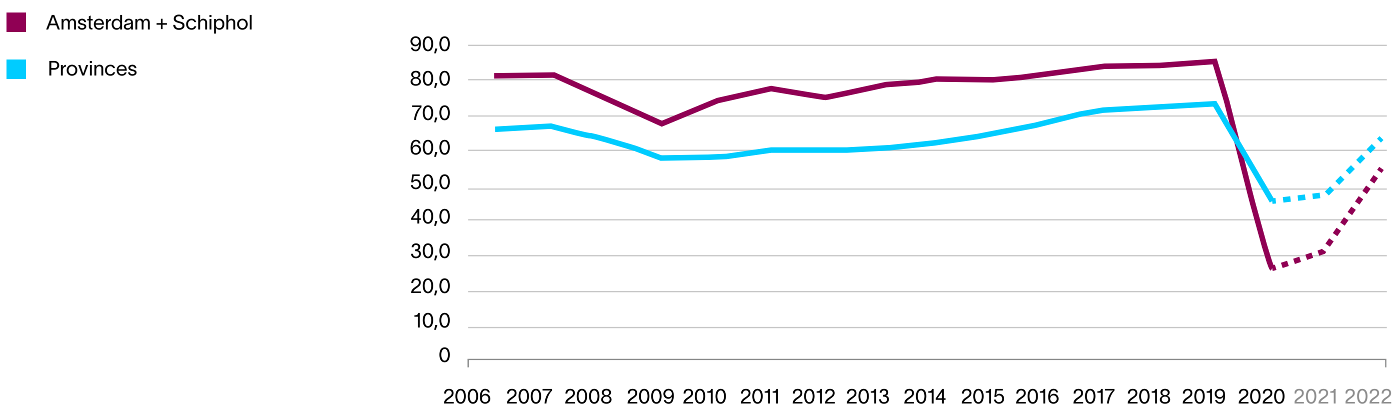
Rental income from hotels fell sharply during the Covid-19 crisis, largely because many real estate owners reached accommodating rental agreements with their hotel operators. Due to the absence of guests from outside the Netherlands, hotels in Amsterdam and around Schiphol Airport performed considerably worse than hotels on the coast or rural areas, where domestic tourism picked up relatively quickly.

Tourism provides the first boost

Tourism is expected to recover completely in the medium to long term. This is because the decline in the number of bookings is not so much due to a lack of demand as it is to the restrictive measures to combat the spread of the pandemic, and that means the market could recover quite quickly. This recovery will depend very much on how quickly and the extent to which the Covid-19-related measures are eased and tourists feel sufficiently safe. The main long-term drivers of demand for hotels are the ongoing globalisation, the growth of the world population, the growing middle class, mainly in Asia, and finally people's growing need to gain new experiences.

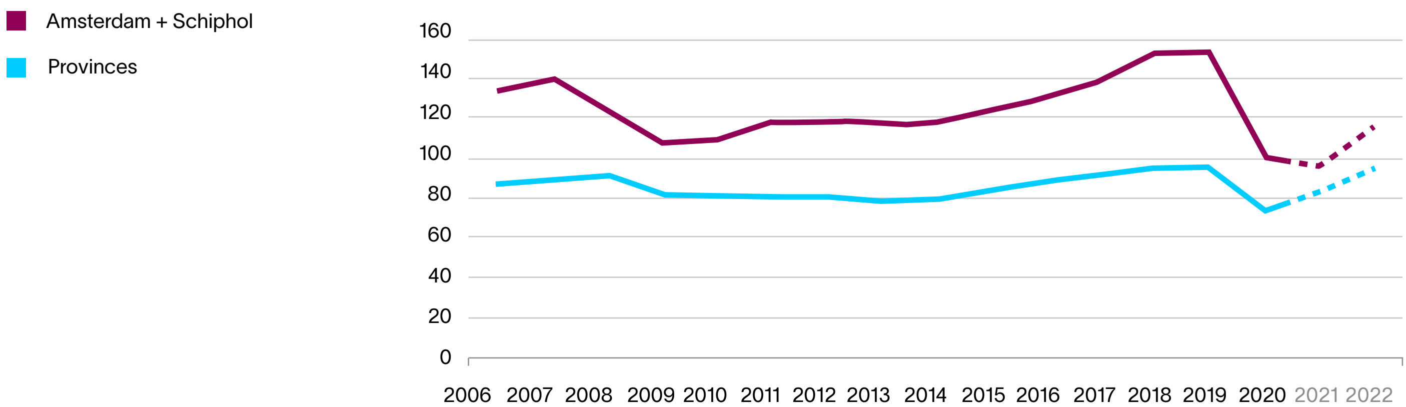
Occupancy rate hotels

Source: Horwath HTL and Bouwinvest R&SA, 2021

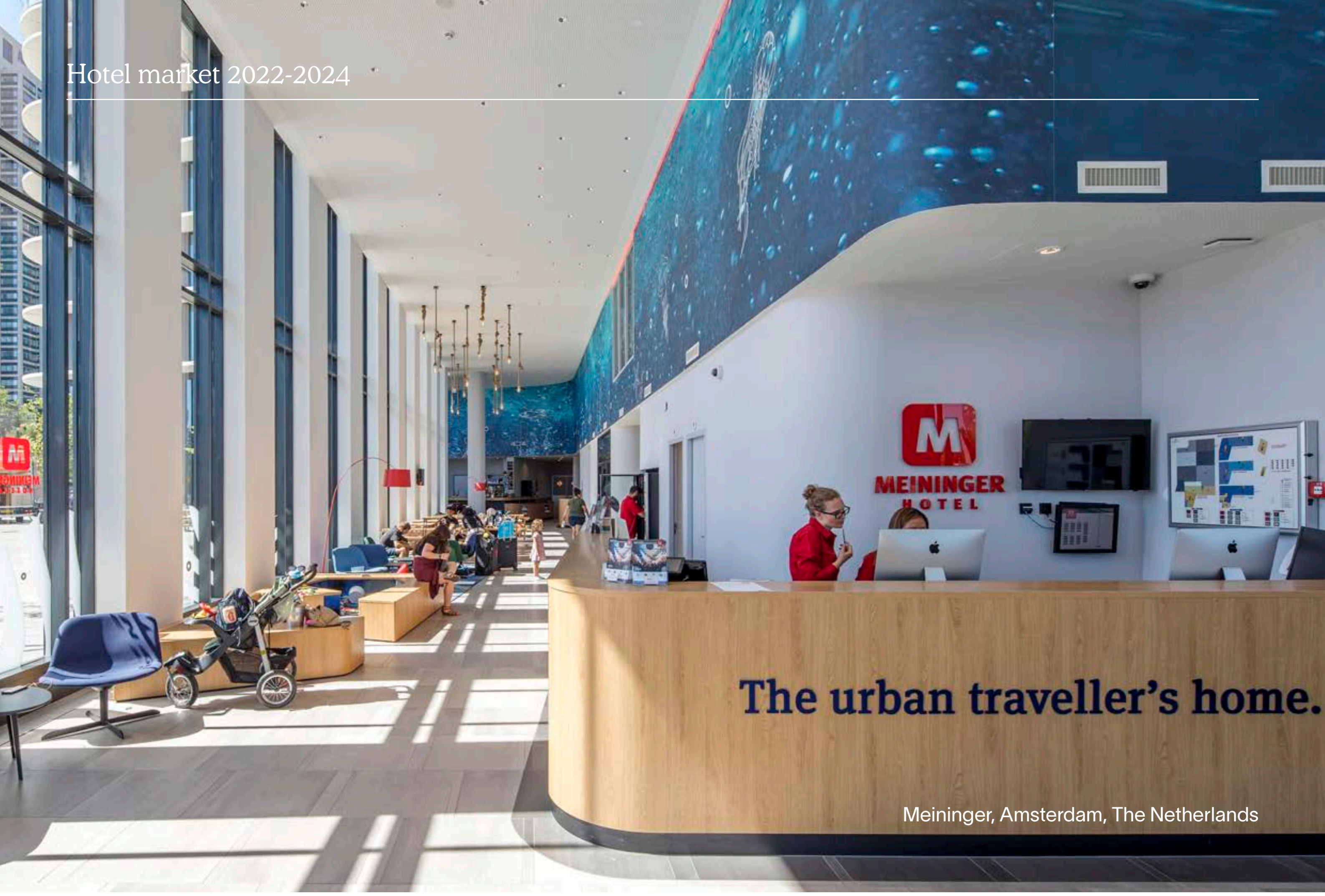


Average room rate

Source: Horwath HTL and Bouwinvest R&SA, 2021



"Tourism is expected to recover completely in the medium to long term."



Meininger, Amsterdam, The Netherlands

At the same time, not all hotels will benefit equally from the recovery of tourism. Hotels that by their nature and their location are mainly dependent on tourism will recover more quickly than hotels that are primarily dependent on business travel. However, tourist hotels that are more dependent on long-haul international tourists should expect a longer period of recovery.

Business travellers are working from home

The return of business travellers will be later than the return of recreational travellers. Since the outbreak of the pandemic, it has become quite normal for business meetings to be held digitally. If the use of digital meeting options remains at the same high level as it was in mid-2021, this will have a major impact on the travel industry. In 2019, business travellers accounted for no less than 39% of all overnight stays in the Netherlands, and 32% of all overnight stays in Amsterdam.

A second reason for the continued absence of business travellers is the business world's ongoing efforts to reduce international travel for sustainability considerations. In addition to the obvious reduction of travel costs and travel times, more and more companies are choosing to cut back on business flights to reduce their greenhouse gas emissions, according to Anders Reizen, a coalition of 70 large Dutch companies that have set themselves the goal of halving their CO_2 emissions from business travel by 2030, compared with 2016.

Responsible and sustainable business practices are also gaining in importance in the hotel sector. Both tourists and business travellers set more and more store in the sustainability of their hotel. Research shows that 53% of travellers are prepared to pay more for a sustainable product*. On top of this, consumers find it increasingly important that producers conduct business in an environmentally and socially responsible manner.

53%

of travellers are prepared to pay more for a sustainable product.

**Source: https://www.andersreizen.nu (only in Dutch)*

Policies against over tourism

Despite the drop in the number of tourists since the outbreak of the Covid-19 virus, governments in a number countries are taking measures to combat over tourism. For instance, in July 2021 Amsterdam adopted an ordinance to the effect that the city wanted between 10 and 20 million tourists a year. The number of tourists visiting the capital rose from 10.6 million in 2012 to 18.4 million in 2019. If this figure is exceeded, the city council is supposed to take action to quickly get the number of visitors back below the maximum. This 'Tourism in balance' ordinance is a people's initiative to safeguard the liveability of the city.

In addition, there is growing societal and political pressure to move the tourism sector in a more sustainable direction. Travel is the core of the tourism sector, which makes it a fundamental driver for the hotel trade. Now there are countries that are introducing restrictions on the activities of budget airlines and the EU is planning to introduce new measures to tax jet fuel – for at least part of air traffic – which will make air travel more expensive.

A growing number of consumers are already looking more critically at short flights; so-called flight shame is driving a shift away from planes to trains, mainly for shorter distances. However, making train travel a serious alternative to travel by plane or car within Europe will require some serious public and private sector investment and it will certainly not happen overnight.

Even if long-distance travel, certainly by plane, becomes more expensive, this does not necessarily mean it will affect hotels. The Covid-19 period has shown that people continue to travel. If they cannot travel long distances, they will simply choose destinations closer to home. This means a significant portion of lost long-distance tourism will quite simply be absorbed by other tourists. Of course, this does not apply to business tourism: the fact that travel is more expensive will have a clear impact on this segment of the market.

One clearly positive development for the hotel sector is the Dutch law on the letting of private homes to tourists (Wet toeristische verhuur van woonruimte), which in July 2021 was expanded to include stricter rules for holiday rental platforms such as Airbnb. The aim of this law is to prevent excesses in the tourist rental segment. This may mean that Amsterdam will now be able to proceed with its ban on tourist lettings in three city centre neighbourhoods, after the courts ruled that this ban was invalid in March 2021. If the letting of homes to tourists is subject to more restrictions, this law could work to the advantage of hotel operators and make investments in hotels more attractive.

Investments in hotels making a comeback

In the first 18 months of the Covid-19 crisis, the number of investment transactions in hotels was marginal at best. This was completely due to the different perceptions of the expected recovery of the hotel market and the resultant pricing mismatch between potential buyers and sellers. Given the high levels of uncertainty, potential buyers were pricing in a discount on prices from before the crisis, while potential sellers were largely unwilling to accept this and preferred to wait until the market recovered.

In the second half of 2021, buyers and sellers reengaged on more level terms. In the meantime, we have already seen the first major hotel transactions and more transactions are expected to follow soon. The owners of sustainable hotels, both in terms of their operations and their real estate, will be in the best position to charge a premium.

> "Responsible and sustainable business practices are also gaining in importance in the hotel sector."

"Both tourists and business travellers set more and more store in the sustainability of their hotel."

Boat & Co, Amsterdam, The Netherlands

About Bouwinvest

Bouwinvest Real Estate Investors B.V. specialises in managing real estate portfolios for institutional investors. We invest for the long term and manage €14.1 billion (HY 2021) of assets in the various real estate sectors. Together with our partners, we are committed to creating sustainable and liveable urban environments that generate stable income for our pension fund and insurance clients. We call that emphasis on societal and financial returns '*Real value for life*'. For more information, please visit our website:

For more information

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