Q2

JLL

The Netherlands | Q2 2023

Residential Market Quarterly Report

Government collapse adds on to many already existing uncertainties, further obstructing investment and new development activity

Based on the Q2 figures from NVM, housing market tightness seems to be accelerating again. According to NVM, 20% more existing homes and 12% more new build homes were sold compared to previous quarter. Meanwhile, the number of homes for sale seems to have stabilized at around 31,500 homes, and the average sale time has decreased. The average purchase price has risen again, by 4% compared to Q1 to €409,938.

However, when comparing Q2 to the same period in 2022, the picture looks quite different. Year-on-year the number of existing homes sold is down 5%, new build transactions are down 13%, and the average purchase price decreased by 9%. Most forecasters still foresee a fall in average house prices for 2023 and 2024. Rising mortgage interest rates have put further pressure on affordability, which has not yet been sufficiently offset by a fall in house prices. Furthermore, new housing construction falls increasingly behind. Scarcity of available building plots, high construction and financing costs and policy uncertainty are the main reasons for this. The latter is further aggravated by the collapse of the government, which puts additional restraints on policy changes necessary to get new housing construction up to par with rapidly growing demand.

Market Fundamentals

Owner-occupier transactions	34,120
Average purchase price	€409,938
Average rent per sq m	€15.8
Investment volume H1	€1.3 billion
Prime NIY (June 2023)	3.9%

Figure 1: Owner-occupier transactions and supply

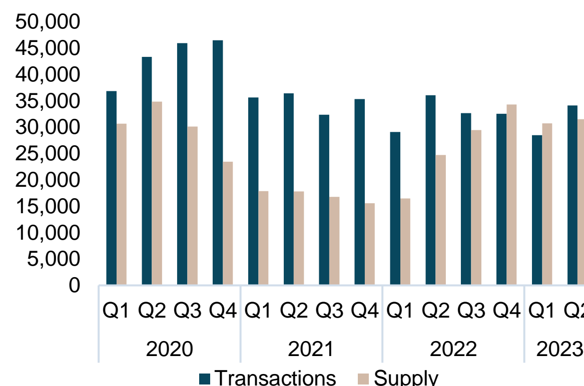
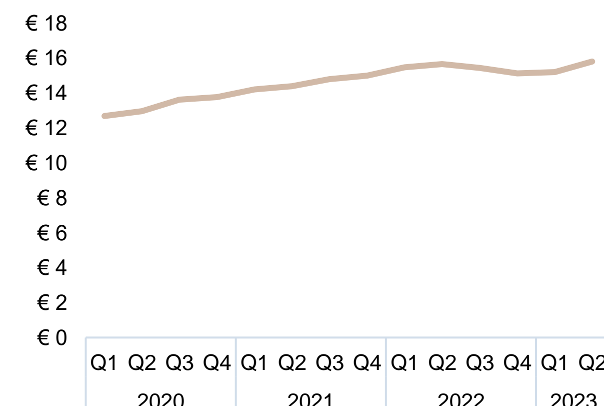


Figure 2: Average rent in the Netherlands*



*per sq m per month for unfurnished dwellings above the liberalisation level

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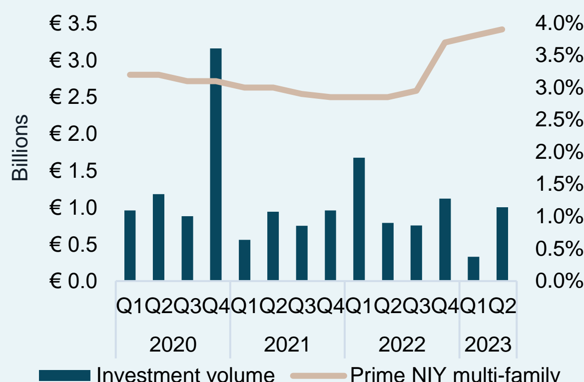
H1 investment volume is down 46% year-on-year

Total residential investment volume came to almost €1 billion in the second quarter of the year, pushing the H1 total to just over €1.3 billion. Although this quarter's investment volume is double the amount which was invested in the Dutch housing market in Q1, the 2023 H1 total decreased by 46% compared to the same period in 2022. Again, this was mainly driven by risen interest rates and regulatory uncertainty, as many investors are reassessing their investment strategies.

Figure 3: Investment volume and prime yield



Investment climate remains challenging as uncertainty persists

There is an increasing gap in pricing between new, sustainable investment product and existing, energy inefficient assets. The latter is experiencing greater price reductions in the face of tightening sustainability regulations. Especially with the sharply risen construction costs, it is increasingly challenging to upgrade existing product to the current sustainability standards. New build product is currently very scarce, due to delays in new developments as a result of increased costs of constructing, rising interest rates, and lengthy procedures.

With the collapse of the government, uncertainty regarding further regulation of the Dutch housing market is on the rise again. Many pending policy proposals, such as the regulation of the mid-rent segment, are put on hold until after the elections of this November. Uncertainty prevents both investors and developers from forming an effective strategy for investing in the Dutch housing market. As a result, investment and development activity in especially rental properties has come to a standstill. Many investors have already been selling off individual units to the owner-occupied market, further eroding the already small private rental segment. Clarity is needed, otherwise construction will continue to fall further.

Prime net initial yields moved out once again, driven predominantly by risen interest rates. Although it looks like financial markets are settling, another interest rate hike is to be expected in the coming months. Moreover, interest rate cuts are unlikely until at least the second half of 2024. As a result, further prime yield decompression is not yet ruled out. Once interest rates come down, yields are expected to follow with a slight delay. Uncertainty persists, but market predictability is expected to gradually return during the second half of the year.

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