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KEYNOTE INTERVIEW

The €400bn challenge: Investing in Dutch housing

Opportunities and challenges abound as the sector evolves through demographic shifts and sustainable development, says Bouwinvest's Paul van Stiphout

The Dutch residential market is facing a substantial housing shortage and a large funding gap, and Paul van Stiphout, fund manager to the Bouwinvest Dutch Institutional Residential Fund, explains that local expertise and long-term capital are crucial to tackling supply and affordability challenges throughout the sector.

Still, the market is evolving through changing demographics, increasing demand for student and senior housing and the need for sustainable development. Despite regulatory challenges, there is growing optimism as collaboration, sustainability and fundamentals drive the Dutch residential market toward more balanced and resilient growth.

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Q What are the core fundamentals impacting the Dutch residential market's resilience in the face of recent economic turmoil?

The Dutch market faced some turbulence in recent years. While covid disrupted occupier markets somewhat, the bigger impact came from global stimulus measures driving inflation and subsequently higher interest rates.

As a low-yielding sector, residential suffered a correction, but Dutch developers and investors with strong, low-leverage balance sheets proved resilient – unlike Germany, for instance, where corrections were deeper and more damaging.

This resilience is reinforced by strong supply-demand dynamics in a densely populated market with mature operators, resulting in high-quality stock, resilient income, high occupancy and minimal arrears, which are all key strengths of this market.

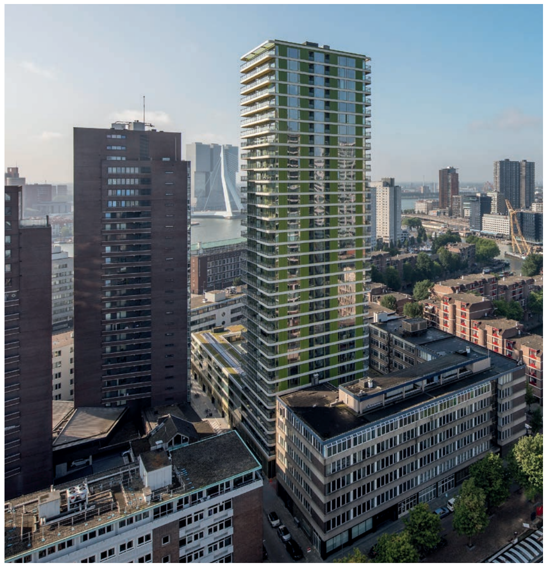
Q How does the Dutch housing market compare with other European markets in terms of supply, demand and regulation?

In the Netherlands, we have a long tradition of renting, with nearly 45 percent of the country's eight million homes being rental properties, unlike many European markets where renting is still less developed. I think this is important because if you look back, say, 10 years, PRS was not something on investors' minds globally.

Here, renting is socially accepted across all segments, from social and non-regulated housing, be it single- or multifamily, to niches like student and senior living. Therefore, Dutch pension funds and insurers are experienced, long-term investors in this field, providing stable capital.

In terms of regulation, it is a natural part of the landscape as it is in many other European and global markets. Navigating changes can be challenging, but it is manageable; recent regulatory shifts are now stabilizing with the implementation of the Affordable Rent Act.

The other point worth mentioning is that the housing shortage in the Netherlands is quite exceptional. We need around one million homes between today and 2034, for which €400 billion in funding is required, give or take. People may think of the Netherlands as a small market, but these volumes stand out. If you put that against a backdrop of a solid economy, a triple-A market, highly transparent and highly liquid, that further sets the Netherlands apart.



SOURCE: BOUWINVEST RESIDENTIAL FUND

Project UpTown in central Rotterdam features 178 apartments on Wijnhaven island in the Netherlands

Q What is driving the increased investor interest in alternative living sectors like student or senior housing, and how are those different segments evolving?

As institutional capital is embracing operational real estate, there is also growing interest in sectors like student and senior housing. These niches are at a point where they have room to expand, fueled by retreating public funding for healthcare and education and shifting consumer preferences toward more tailored living solutions.

With demographics showing the most momentum at the younger and older ends of the population curve, student and senior housing are well positioned for growth. Combined with capital's openness to operational models, this creates strong opportunities, which we are actively exploring through both existing and new partnerships.

Q What is the solution to that shortage? How does the market get to that 'one million homes by 2034' figure?

At its core, the solution is a mix of increasing supply and improving mobility. It is not just about building more homes but building the right types – aligned with rapidly changing demographics as younger people struggle to access housing and older populations remain in homes no longer fit for purpose. Solving this requires a strong platform connected to government and developers. Mobility is also key: getting the right people into the right homes, which may need incentives, either through support or pressure.

Regulation plays a major role here and sometimes unintentionally slows progress, making navigation between short- and long-term goals complex. We have seen quite a bit of regulation looming over the market as of late. That creates uncertainty. I know there are European markets that are more loosely regulated, but that also brings volatility for landlords.

Funding is another challenge; Dutch institutional investors are already highly exposed to residential, and the €400 billion needed by 2034 will largely require foreign capital. Attracting it depends not only on the strong fundamentals of the Dutch market but also on fair tax treatment. Capital typically flows to where returns are best, and without a level playing field, the Netherlands risks losing out to other markets. Encouragingly, the government's attitude is shifting. Achieving the housing target will demand realism, pragmatism and consistent policy.

Q How are recent regulatory changes shaping investor confidence and strategy locally, and how are investors changing their strategy in response?

Affordability is high on the agenda of the Dutch government. Recent and upcoming regulatory changes, especially around affordability and mid-rental regulations, have created some uncertainty, but clarity has been restored through the Affordable Rent Act. A focus on middle-income housing benefits and rent control does not necessarily pose an issue, especially when it rewards high-quality, sustainable housing.

For us, navigating regulation is part of the process, and we are optimistic about the Dutch government's shift toward collaboration to accelerate housing development. While the market may seem unpredictable to international investors, I feel the direction is shifting toward facilitating capital rather than adding more regulation. With that, I am actually quite optimistic that the Dutch residential market should be of appeal to institutional investor capital from abroad and obviously in the Netherlands.

Q How is the dynamic between global investors and local expertise playing out?

International capital is increasingly recognizing the need for local expertise to access European residential markets, moving away from earlier attempts at a one-size-fits-all, pan-European approach, which proved difficult to scale due to local market conditions.

In the Netherlands, international investors had previously entered more opportunistically, but today – given the funding gap and diverse opportunities – the market is more suited to long-term capital. Regardless of strategy, local operating partners are essential. The rise of operational real estate as a recognized subsector also supports this trend. Overall, conditions are positive, but solving tax treatment issues remains key to fully attracting foreign investment, an area where we actively deploy our local expertise and public affairs efforts to drive change.

Q A lot has been said about the challenges in housing affordability and supply. What role can private capital play in addressing affordability and sustainability?

"Affordability is a complex and often subjective issue, but long-term capital can play a key role"

Affordability is my favorite topic, and one that means many different things to many people. With that, affordability is a complex and often subjective issue, but long-term capital can play a key role by focusing on middle-income housing, which aligns both tenant and investor interests for sustainable returns.

A critical factor in addressing affordability is increasing supply. However, given the limited capacity of Dutch pension funds, foreign capital must also play a role. A long-term horizon is essential for creating new supply and managing long-term risks, including climate change.

While we aim to meet Paris-proof goals by 2045, investing in environmental improvements is not just about balancing sustainability with financial returns. We believe it must be a driver of long-term value and an essential part of securing strong financial performance.

Sustainability and returns are not mutually exclusive; we have intentionally and explicitly committed to both. It is not either/or, but and/and. Capital allocated to Paris-proof investments must therefore contribute to financial performance; it is not spending for the sake of it. Sustainable investments are treated as strategic decisions that must stack up financially, just like managing any other investment risk.

Q For investors looking at Europe more broadly, why should they take a closer look at the Netherlands in the next few years?

The Dutch housing market has already responded to interest rate changes with a solid recovery last year, following a 12 percent correction peak to trough in 2022-23, indicating now is a good time to invest. Regulatory uncertainty has decreased, and interest rates have stabilized, making this an opportune moment to focus on the fundamentals.

The market offers a solid economy, favorable demographics, transparency and high-quality investment opportunities, along with a severe supply shortage. It is a great time for investors who can take a long-term view, and I encourage them to look beyond the headlines and explore the details.

Q Looking ahead, how is the Dutch residential market expected to change, and what are the biggest trends and priorities for investors?

The thing we can't argue with is demographics, which will continue to drive demand in the Dutch residential market. While politics and regulation may fluctuate, the national government is increasingly acknowledging the need for change, focusing on pragmatic regulation and accommodating capital.

Over the next five to 10 years, sustainable, energy-efficient housing will grow in importance due to volatile energy prices and climate risks. The housing shortage will persist, but with long-term capital, new supply will improve mobility and better match people with suitable homes. Capital is crucial for this to happen, and the opportunity is there for international capital to grab. The stars are aligned, I would say. ■

PODCAST: Paul van Stiphout at Bouwinvest will sit down with PERE's Evie Rusman and the team at Van Lanschot Kempen to discuss the future of the Dutch residential market for an upcoming special episode available at perenews.com/podcast