



# Approaches for Institutional Investors in The Netherlands to increase the middle rent segment stock

Ana Luiza Barros  
Master thesis | TU Delft  
4914511

# Content

1. Problem
2. Research question
3. Literature review
4. Empirical
5. Recommendations
6. Conclusion

Problem



Social Rent



Private Rent



Owner Occupied

## Middle income rental segment



- Marginal position in the housing market
- Not eligible for social housing and do not have the means to find an affordable house that is in accordance to their demands

Market factors  
that influence  
the problem

1. Housing shortage
2. Lack of affordability

## 1. Housing shortage



- Increase in demographics
- Competition
- Inability of the construction sector to meet demands

# 1. Housing shortage | Increase in population

Jobs for highly educated

+

Education

+

Natural growth

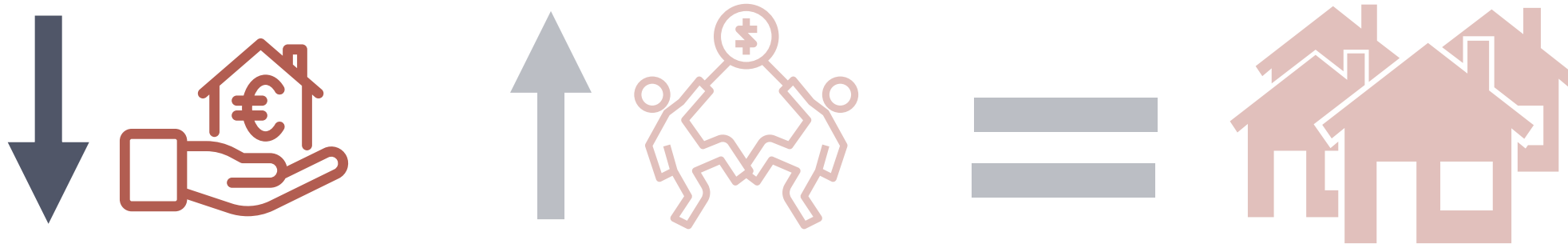
+

Immigration due to opportunities





## 1. Housing shortage | Growth in competition



Low interest rates for investments increased the inflow of foreign capital

Increase in buy to let: turned owner-occupied in rental units

Airbnb, online rental platforms

# 1. Housing shortage | Growth in competition



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# 1. Housing shortage | Supply deficit of construction sector

Construction sector is not able to adapt to the new demand: shortage of labor and material

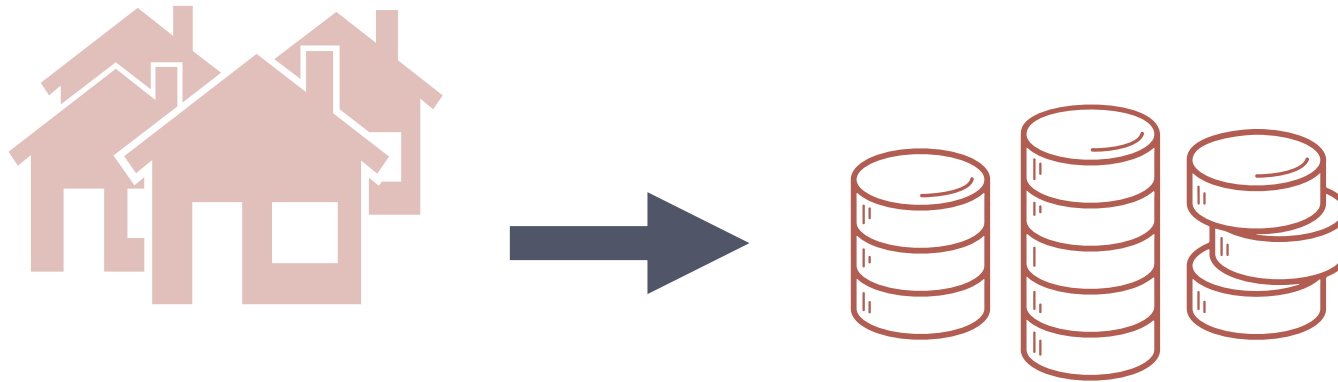
Low construction rates  
+  
Increase in demand  
+  
Low supply elasticity



# The problem

1. Housing shortage

2. Lack of affordability



1. Increase in demographics
2. Competition
3. Inability of the construction sector to meet demands

## 2. Affordability | Price-to-income ratio

Annual price or rent paid for housing consumption

Rents: Increase 2,5% per sq. m. (2019)

House prices: Increase of 5,7% (2019)

Income spent on rent has increased 2%

Income of middle segment spent on rent has  
increased 3%



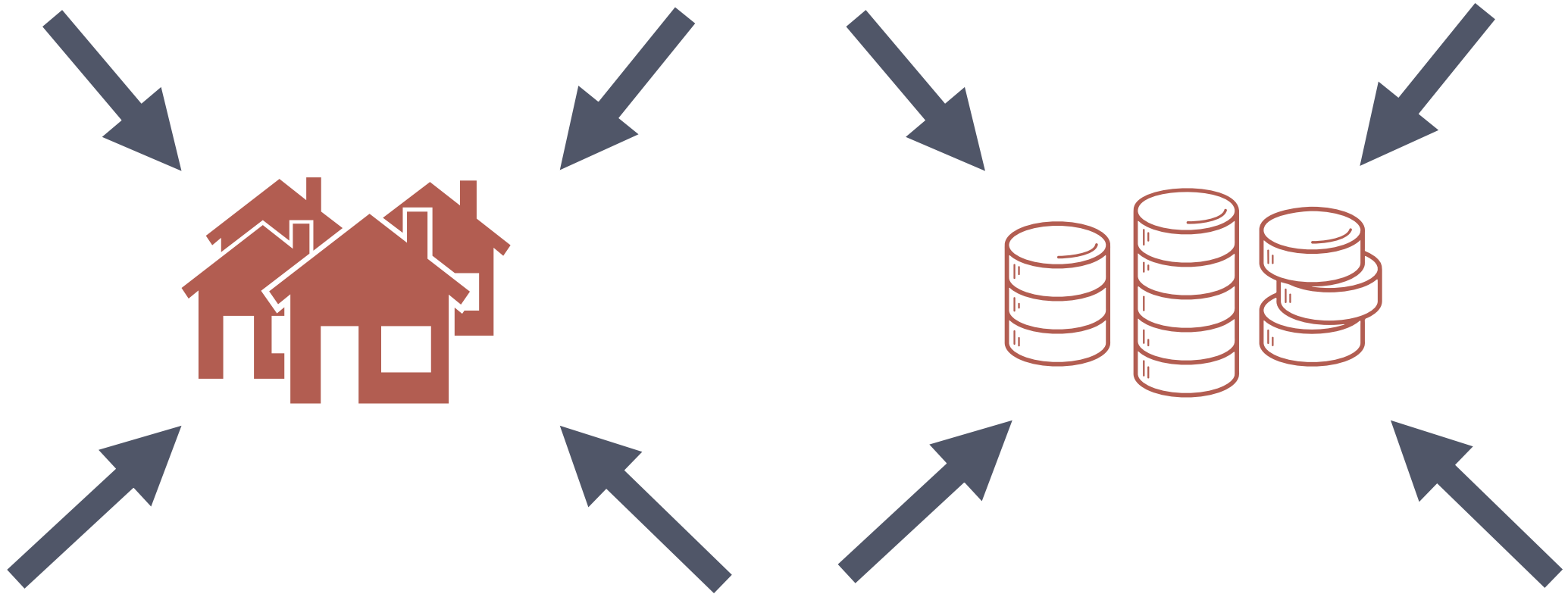
## 2. Affordability | WOZ

Value of a property determined by the municipality

- Increase of about 50% on the average WOZ values of homes since 2014.
- Wages increased annually between 1.2% to 2% (less than the increase in WOZ).



# The problem



Housing shortage and lack of affordability



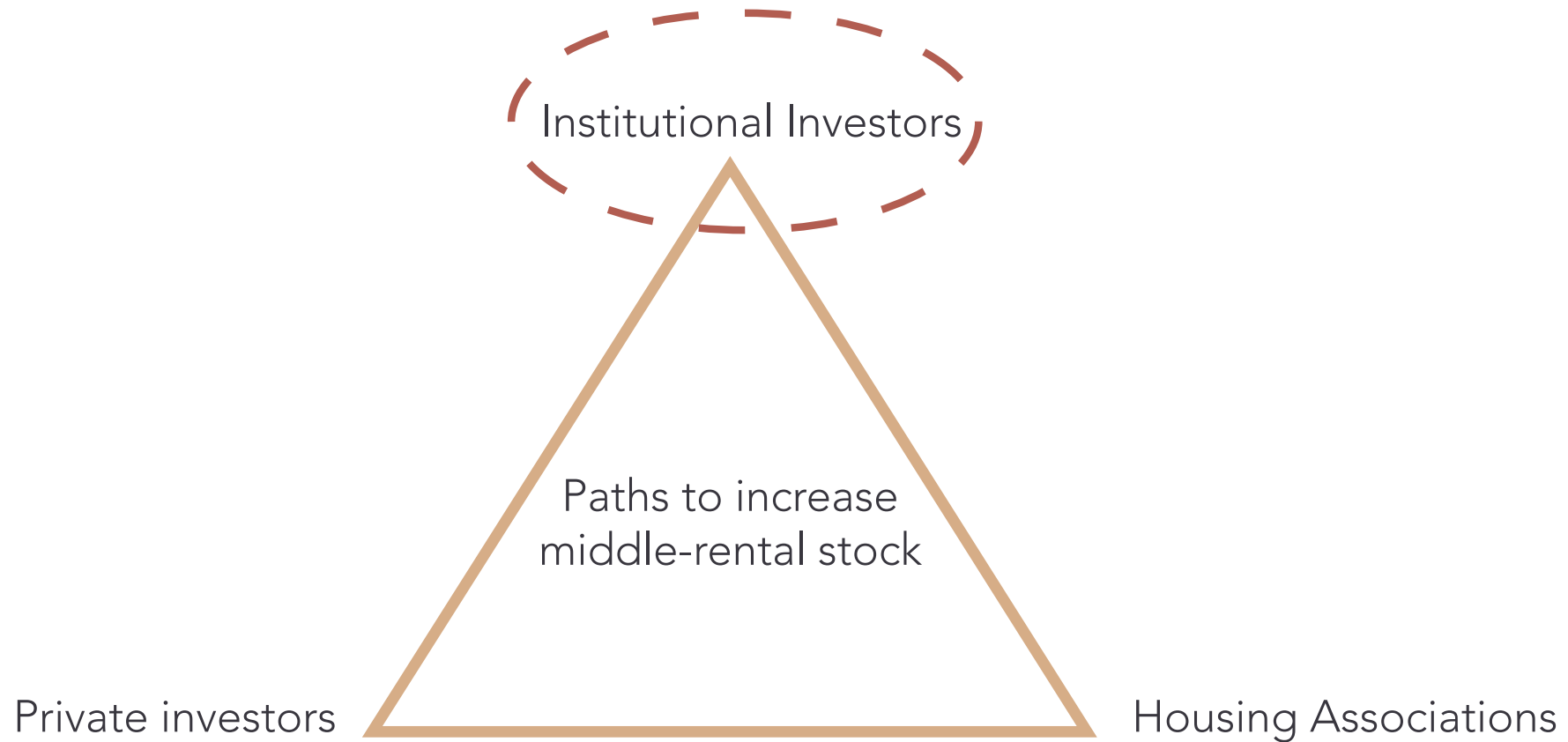
# The problem

Middle-segment: marginalized position

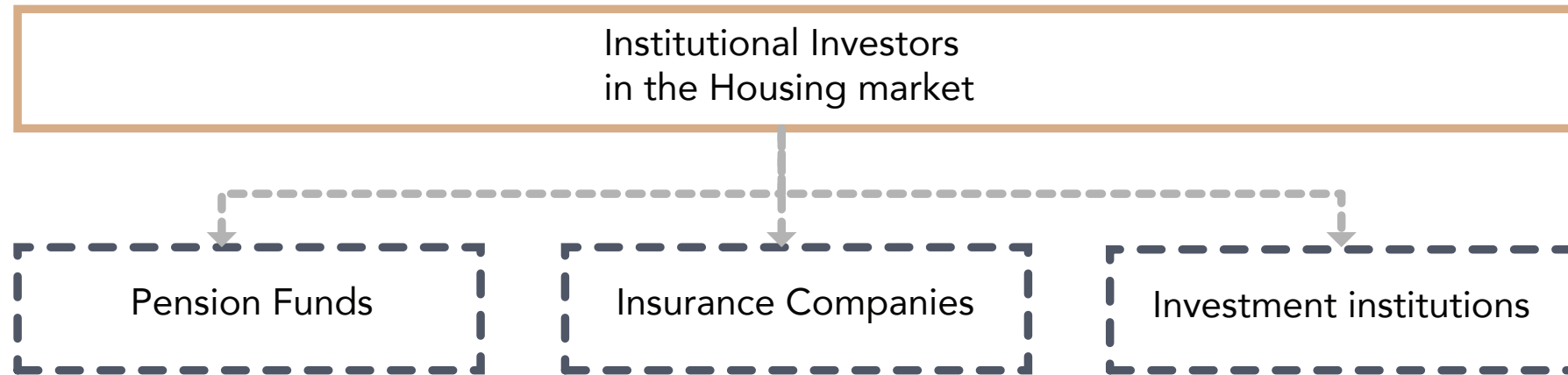


- Non eligible for social housing
- Cannot find an affordable and suitable house
- Settle further or/and in low quality homes

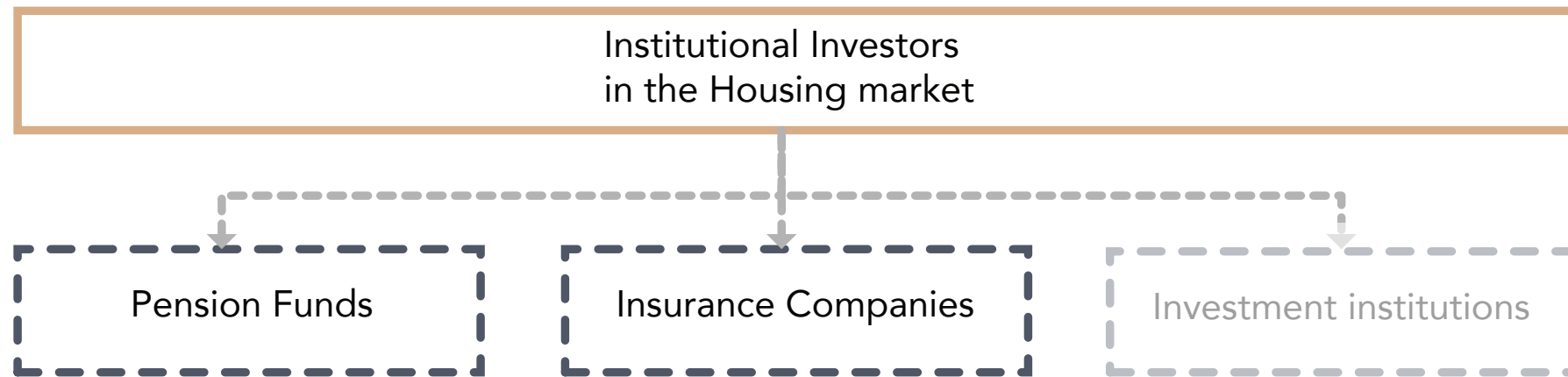
## Problem | Who can solve it?



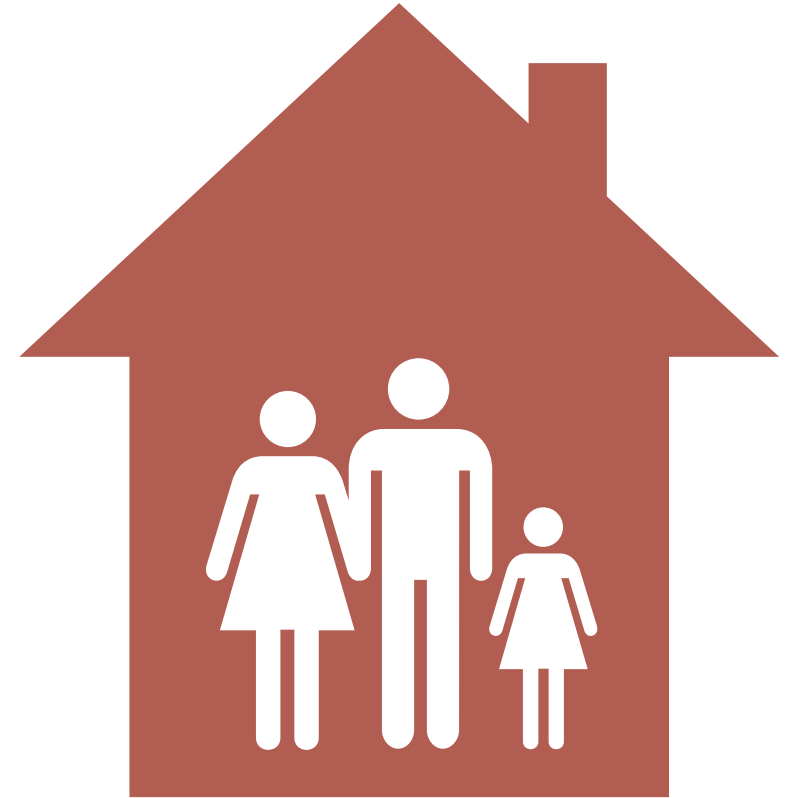
## Problem | Who can solve it?



## Problem | Who can solve it?



IVBN (2015) : Free rental  
sector properties poses an  
opportunity



IVBN (2016) : 5 to 6 billion € were available for Dutch and foreigner institutional investors

They missed out on the opportunity



IVBN (2019) : + 20 billion  
€ available for  
investments

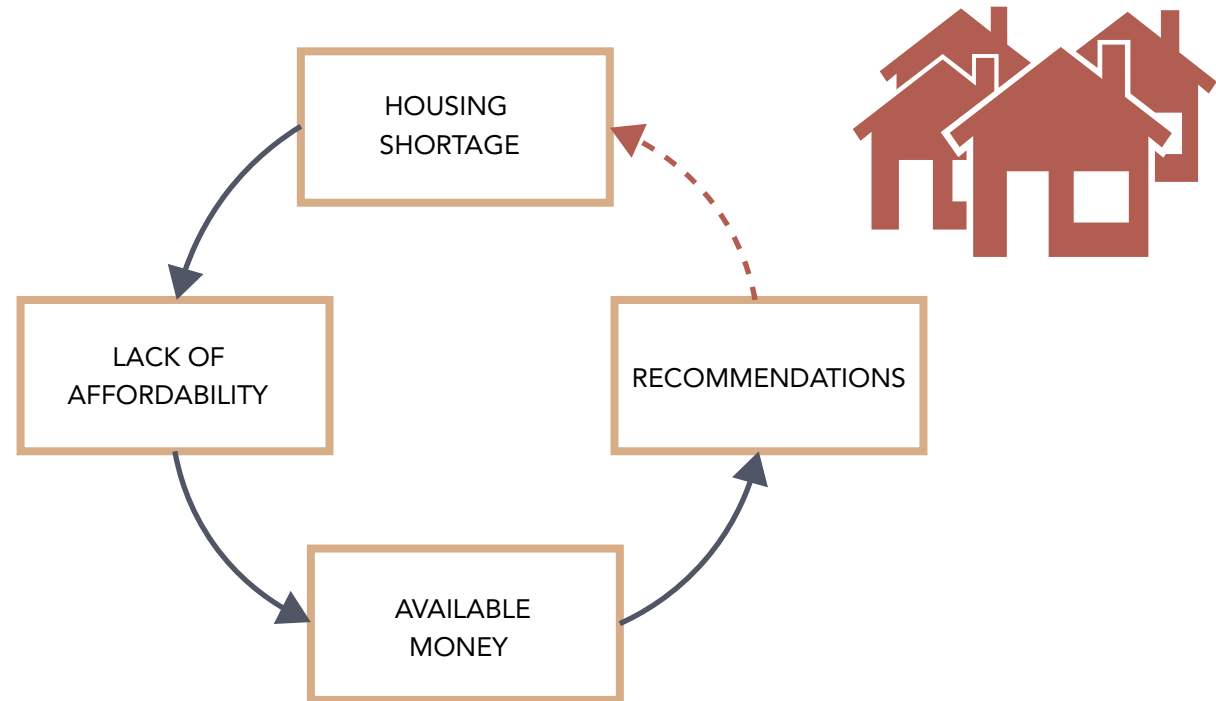
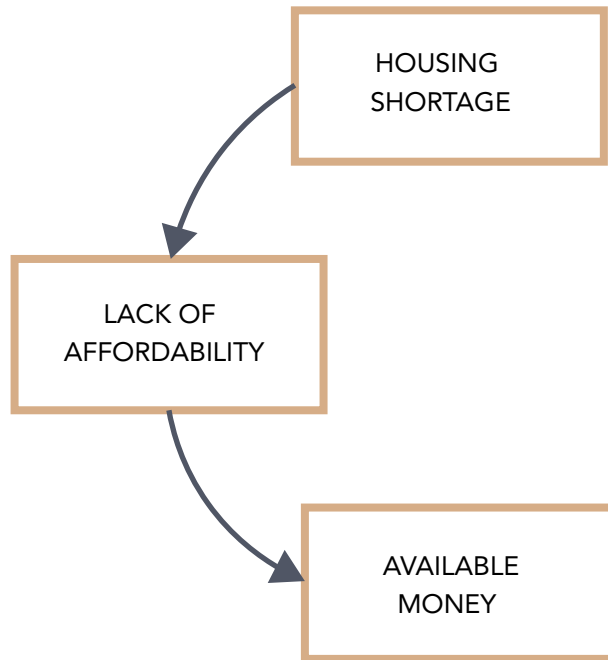


Research question



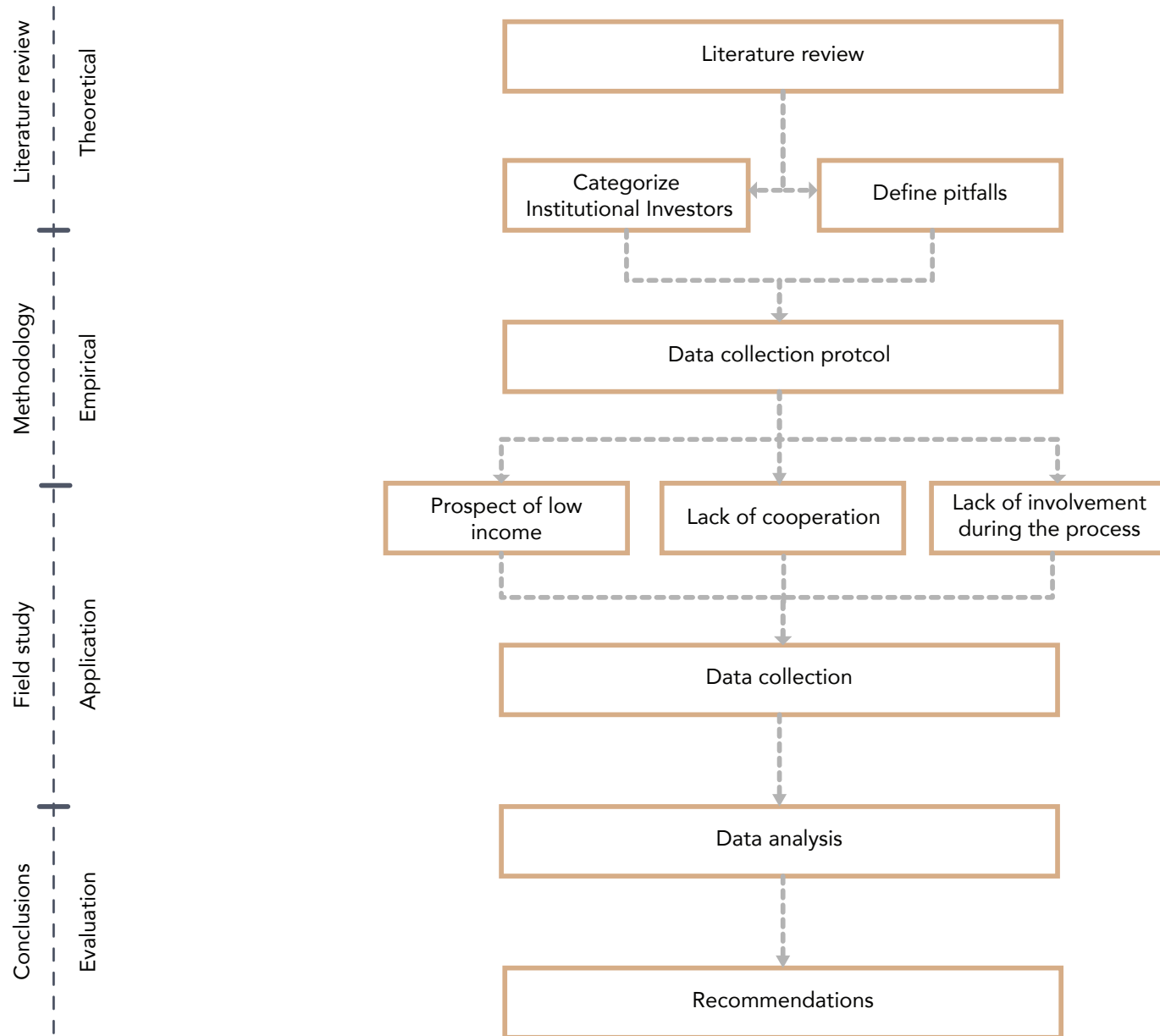
How can institutional investors increase the delivery of the middle rent segment?

# The problem



## Research sub-question

1. What are the variables that influence the production of the middle rental stock according to the market and development process?
2. What conditions contribute to the prospect of low income when investing in the middle-income rental segment?
3. What conditions halt the increase of middle-income rental dwellings by affecting the development process?



## Literature review

## Literature review



Pitfall 1



Pitfall 2



Pitfall 3

## The process | Pitfalls



1. Prospect of low return  
in investment income

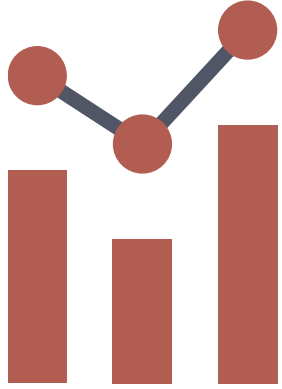


2. Lack of cooperation  
between developer &  
investor

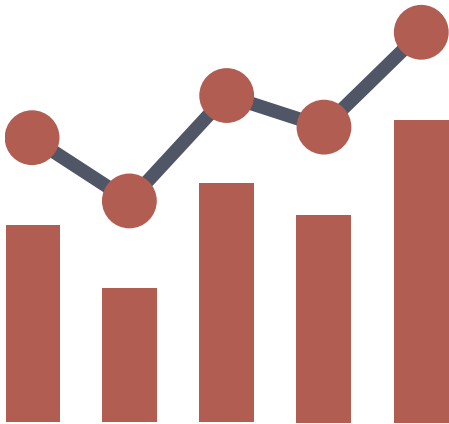


3. Lack of involvement  
during the process

## The process | Pitfall 1



- Short-term investors
- Profit by capital gain
- Indirect yield
- High increase of housing prices is good for returns



- Long-term investors
- Profit by investment income
- Direct yields
- High price level in cities gives a lower direct yield



## The process | Pitfall 1



Direct yields



Exit yields



Success of renting out

## The process | Pitfall 1



Direct yields



Exit yields



Success of renting out

## The process | Pitfall 1

Direct yield: Profit by investment income

$$\text{Yield} = \frac{\text{Annual rent}}{\text{Principle amount}}$$



2,5%  
Rental  
segment



5,7%  
Owner-occupied  
segment

## The process | Pitfalls



1. Prospect of low return  
in investment income



2. Lack of cooperation  
between developer &  
investor



3. Lack of involvement  
during the process

## The process | Pitfalls



1. Prospect of low return  
in investment income



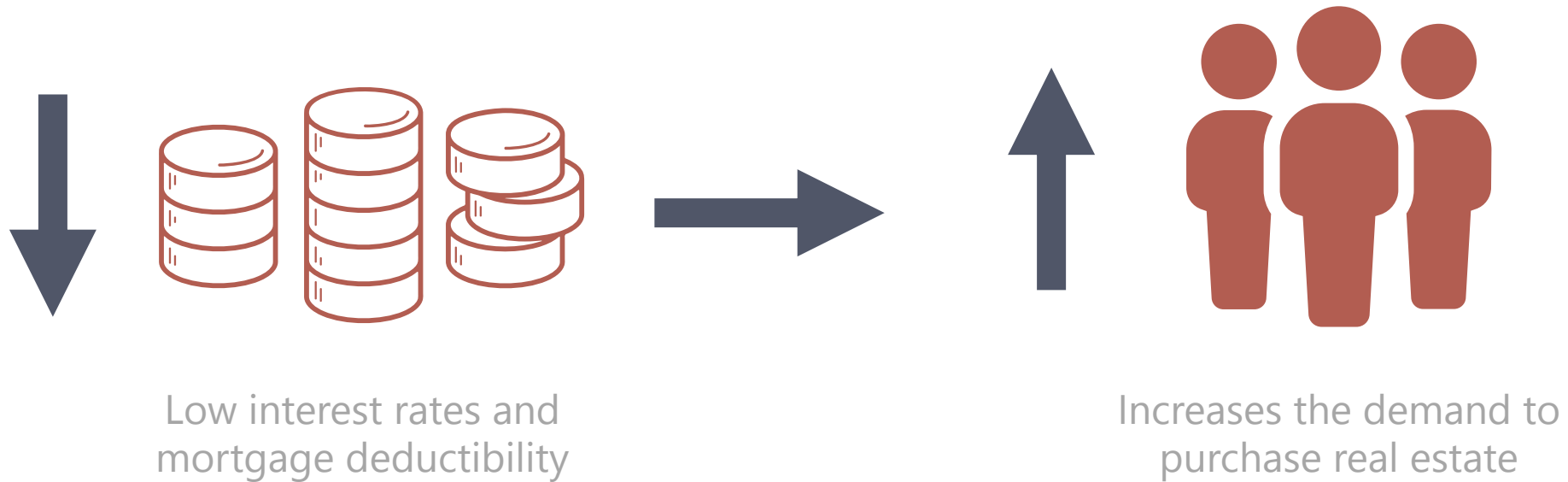
2. Lack of cooperation  
between developer &  
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3. Lack of involvement  
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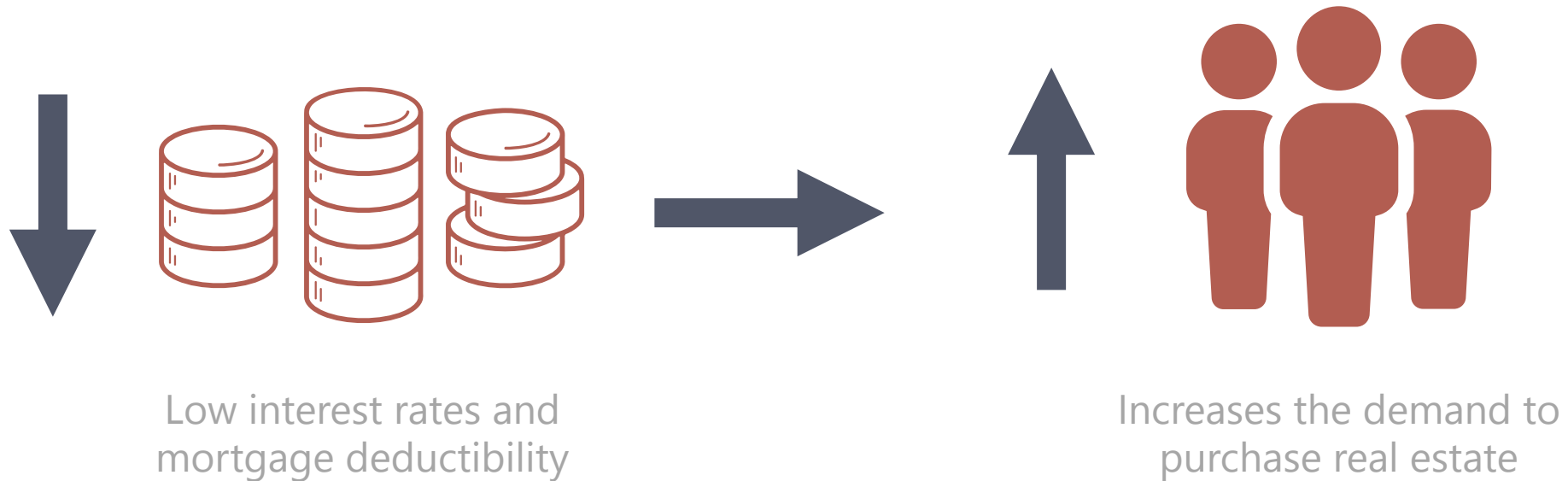
# The process | Pitfall 2

## Mortgage conditions



# The process | Pitfall 2

Developers can achieve a high indirect yield when investing in the owner-occupied market



# The process | Pitfall 2

When investing in the middle rental income segment:





# The process | Pitfalls



1. Prospect of low return  
in investment income



2. Lack of cooperation  
between developer &  
investor



3. Lack of involvement  
during the process

# The process | Pitfalls



1. Prospect of low return  
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2. Lack of cooperation  
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investor

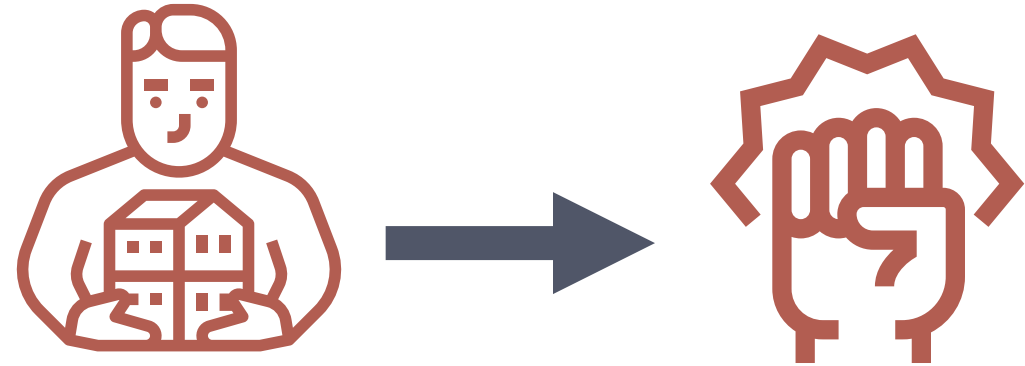


3. Lack of involvement  
during the process

# The process | Pitfall 3

Lack of involvement during the development process

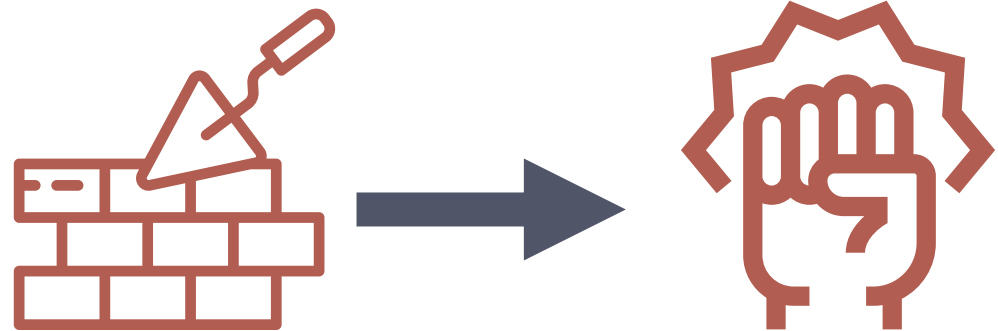
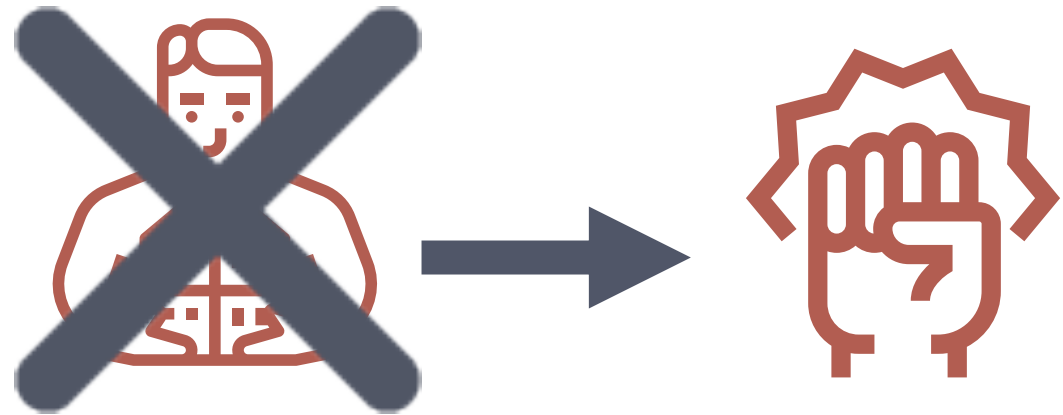
Long-term investors gain control in the ownership phase



# The process | Pitfall 3

Lack of involvement during the development process

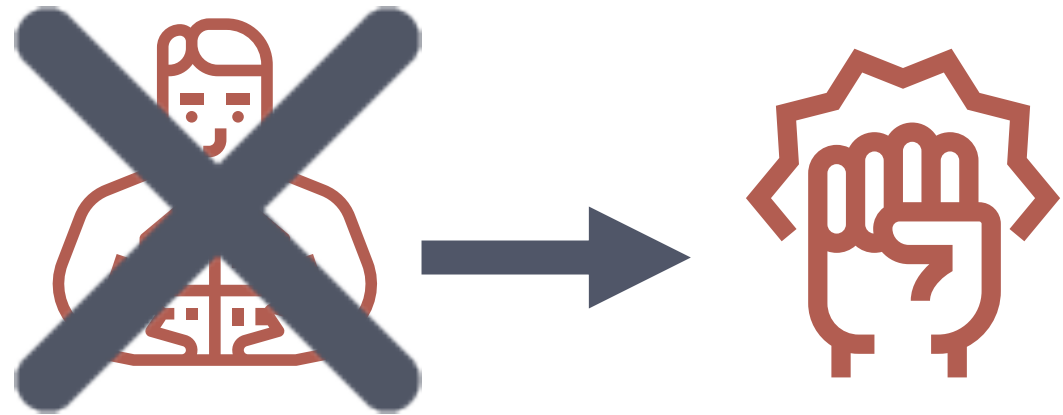
Long-term investors gain control in the ownership phase



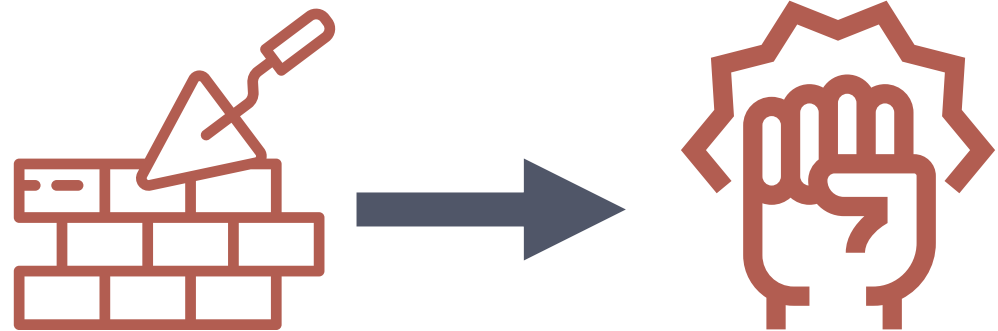
# The process | Pitfall 3

Lack of involvement during the development process

Long-term investors gain control in the ownership phase



Long-term investors should gain control in the development phase



# The process | Pitfalls



1. Prospect of low return  
in investment income



2. Lack of cooperation  
between developer &  
investor



3. Lack of involvement  
during the process

## The process | Pitfalls



Prospect of low return  
in investment income



Lack of cooperation  
between developer &  
investor



Lack of involvement  
during the process

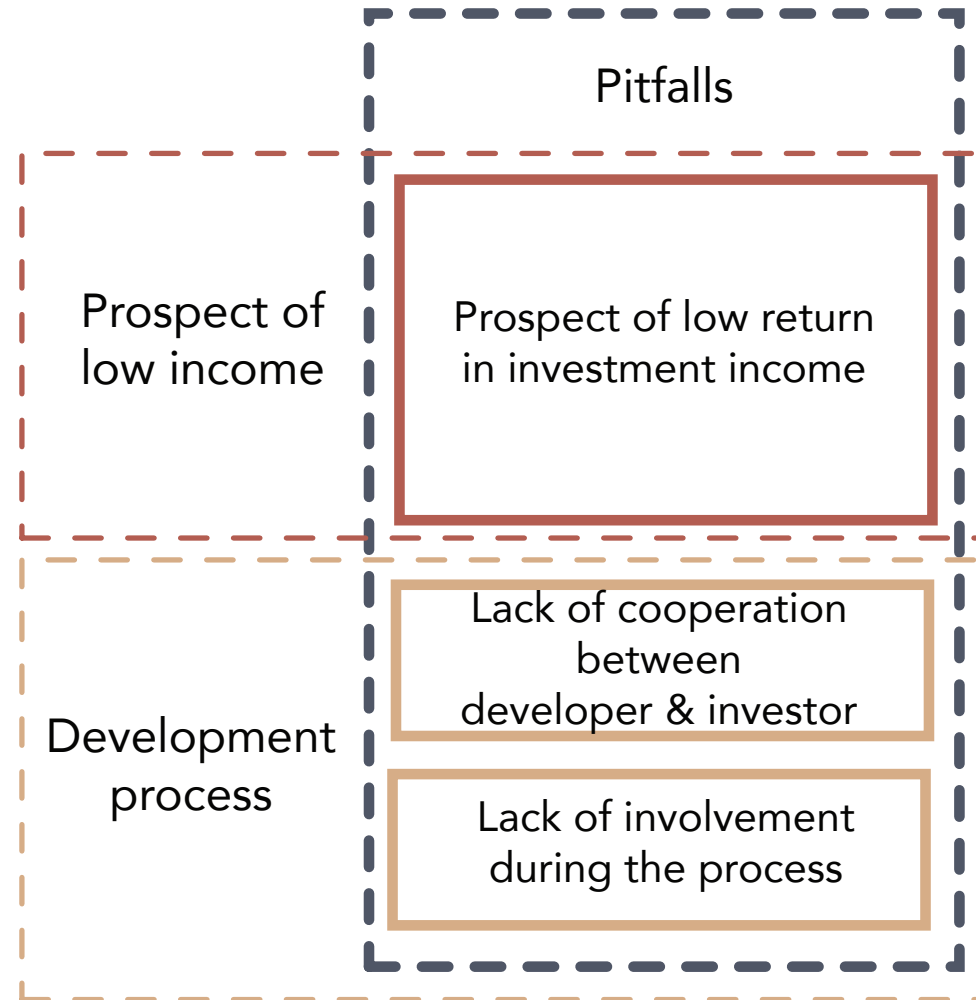
Empirical



Empirical

Semi-structured interview with institutional investors and advisors

## Empirical

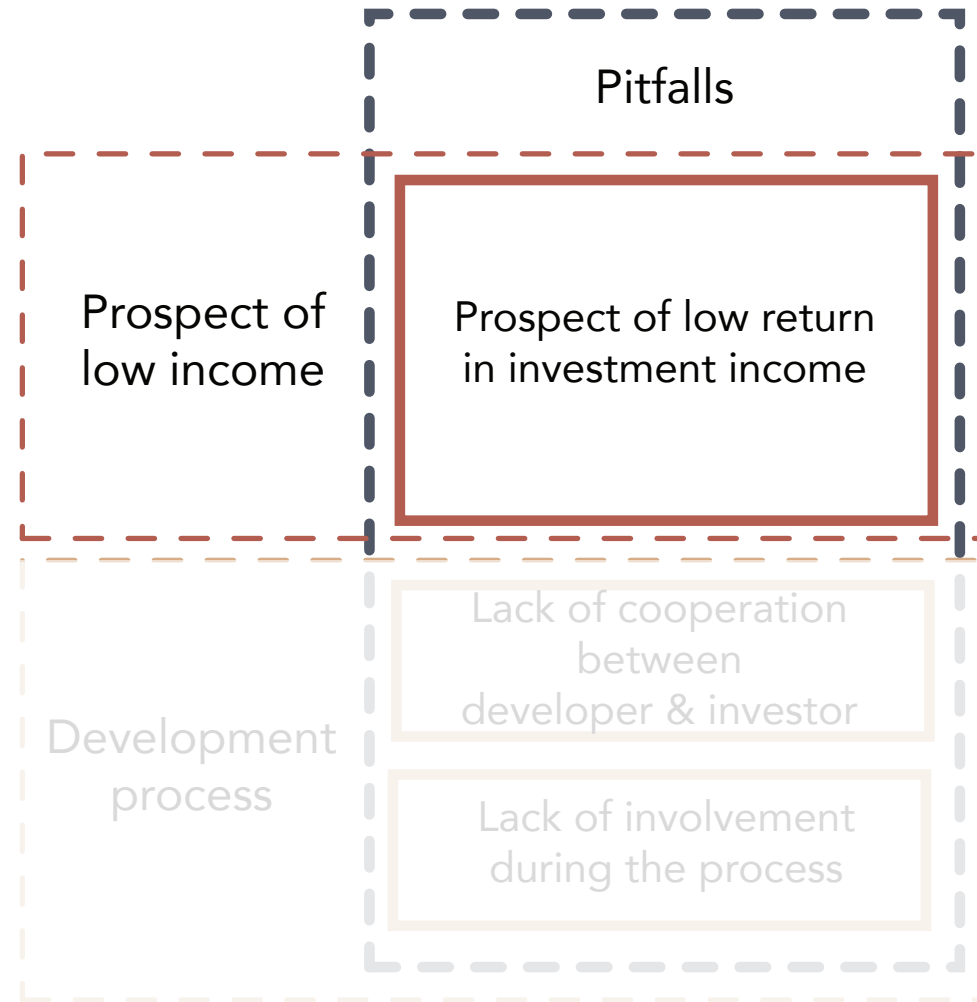


## Interviewees

Type of organization	Type of Institutional Investor		
	Pension Fund	Insurance company	Investment Funds
Institutional Investors	X	X	
Institutional Investors	X	X	
Institutional Investors	X	X	
Institutional Investors	X	X	
Institutional Investors	X		
Institutional Investors			X
Advisor			
Advisor			
Advisor			
Advisor			

## Pitfall 1

# The process | Applications



## Revisiting pitfall 1

Internal Rate of  
Return (IRR)



Direct yields



Exit yields

# Revisiting pitfall 1

Internal Rate of  
Return (IRR)



Direct yields



Exit yields

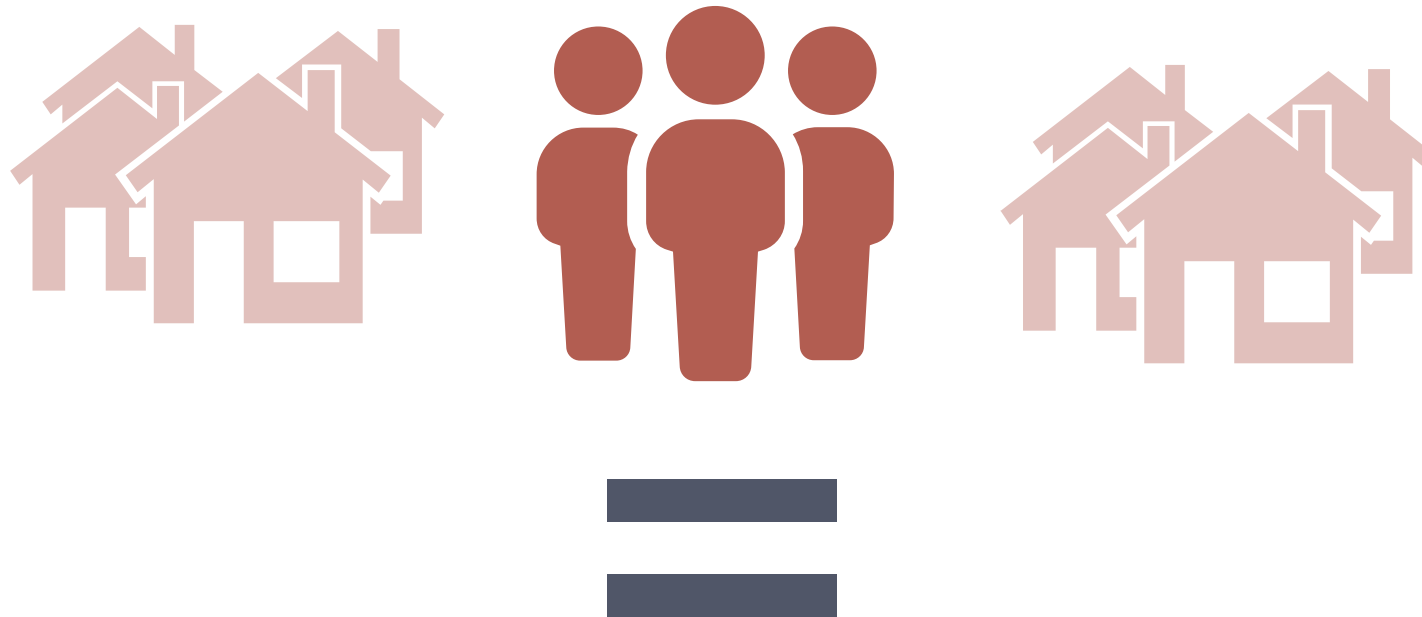
## Revisiting pitfall 1



Biggest  
target  
audience



## Revisiting pitfall 1



## Revisiting pitfall 1



Not volatile  
and secure

## Revisiting pitfall 1

Stability



Low risk  
investment



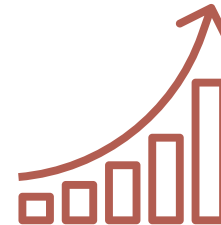
Low yields

# Revisiting pitfall 1

Act as bond investors



Stability of cashflows



Inflation protection  
characteristics

# Revisiting pitfall 1



- Stability of cashflows
- Inflation protection

# Revisiting pitfall 1

Internal Rate of  
Return (IRR)



Direct yields



Exit yields

- High prices of dwellings
- Strong investment position

# Revisiting pitfall 1

What can negatively affect yields:

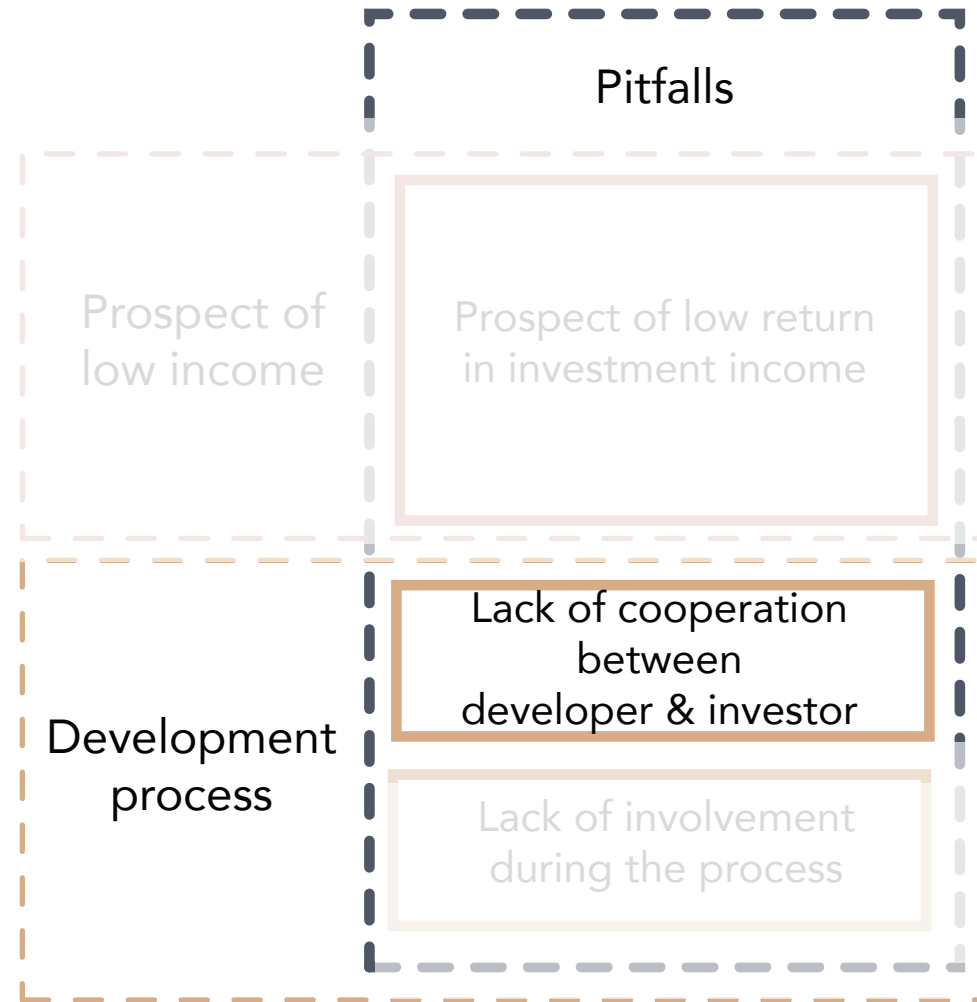


- Restriction of municipalities and national government
- City location: G4 x G40
- Size of dwellings

## Pitfall 2



# The process | Applications



## Revisiting pitfall 2

Developers:



Higher yields



Owner-occupied sector

## Revisiting pitfall 2

Developers:



Restrictions



Assist cooperation

## Revisiting pitfall 2

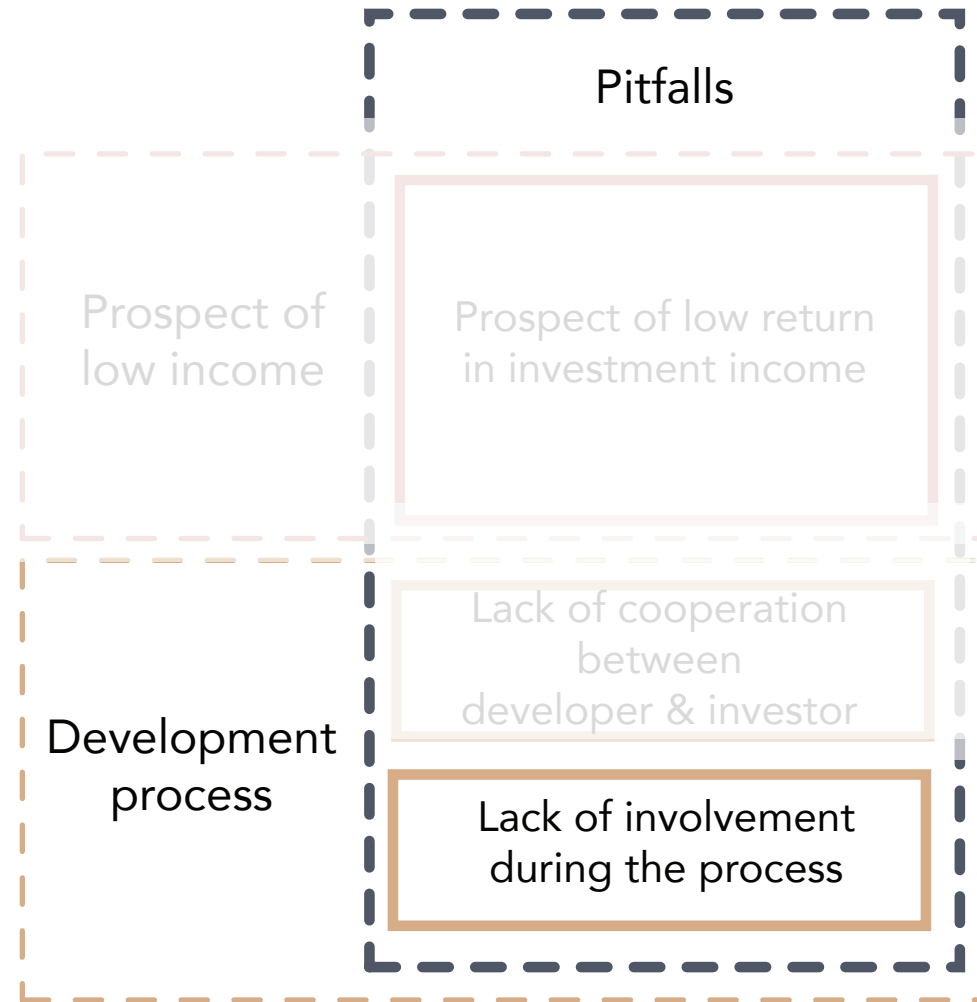
- Cooperation is efficient
- Developer makes the business case



Cooperation

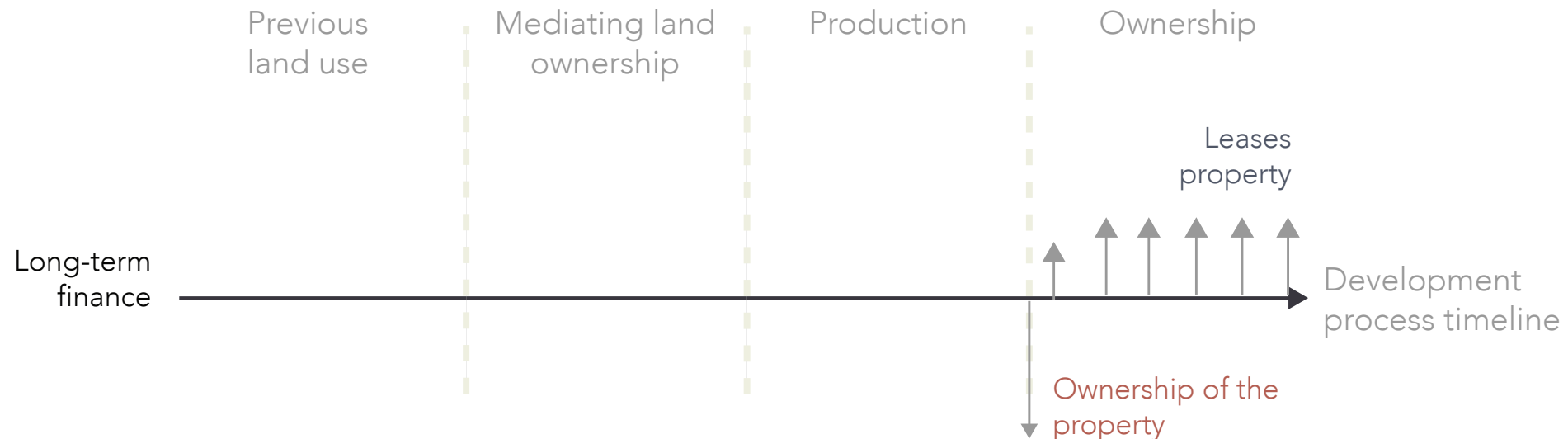
## Pitfall 3

# The process | Applications



## Revisiting pitfall 3

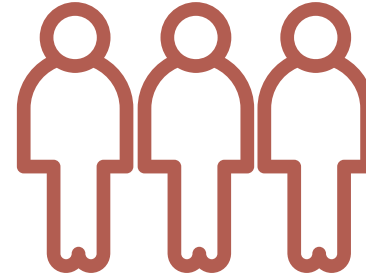
- Lack of capital injection of institutional investors in initial stages
- Institutional investors not willing to inject money upfront



## Revisiting pitfall 3



Municipality identified as party  
that does not cooperate



Capacity problem



Lack of trust

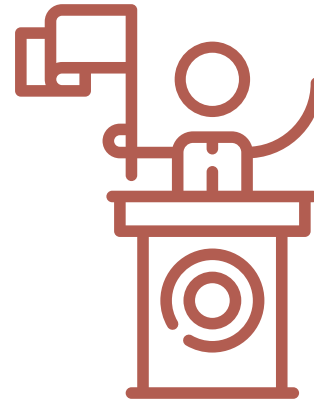


## Recommendations

# Recommendations



Investors



Municipalities

# Recommendations



Investors



Shaping instrument

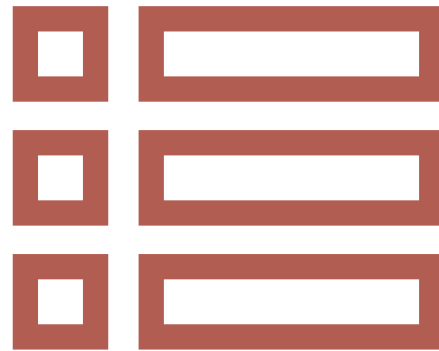
Diversifying instrument

# Recommendations

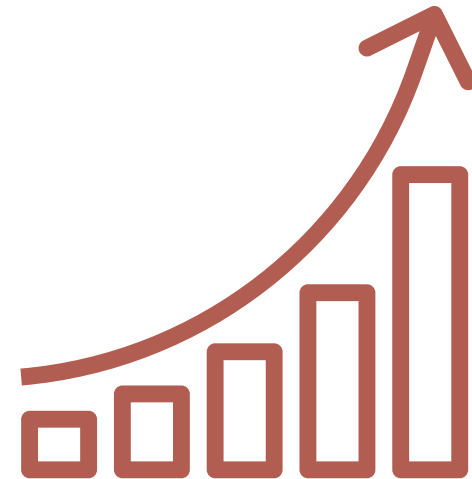
## Shaping instrument



Program of requirements



Public state of intentions



Sell dwellings after the holding period to an actor that will keep it in the middle rental segment

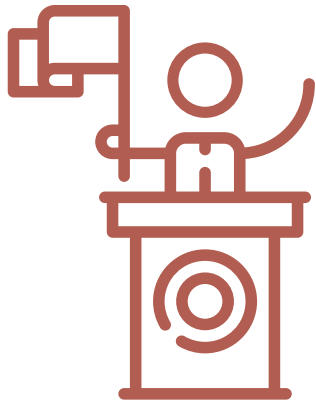
# Recommendations

## Diversifying instrument



Investors should diversify their investments and invest in different cities

# Recommendations



Municipalities



Stimulus instrument

Shaping instrument

Capacity-building instrument

# Recommendations

## Stimulus instrument



Tax break for  
investments in the  
G4 cities



Allowance to  
keep a portfolio  
in the segment  
for more than 15  
years



Ground lease



Tender focusing  
on quality



Tax break for  
developers

# Recommendations

## Shaping instrument



Development framework to guide  
investors



# Recommendations

## Capacity-building instrument

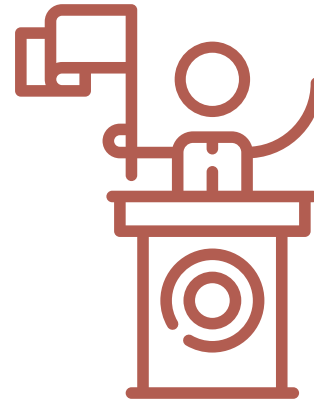


Increasing skills and  
capability

# Recommendations

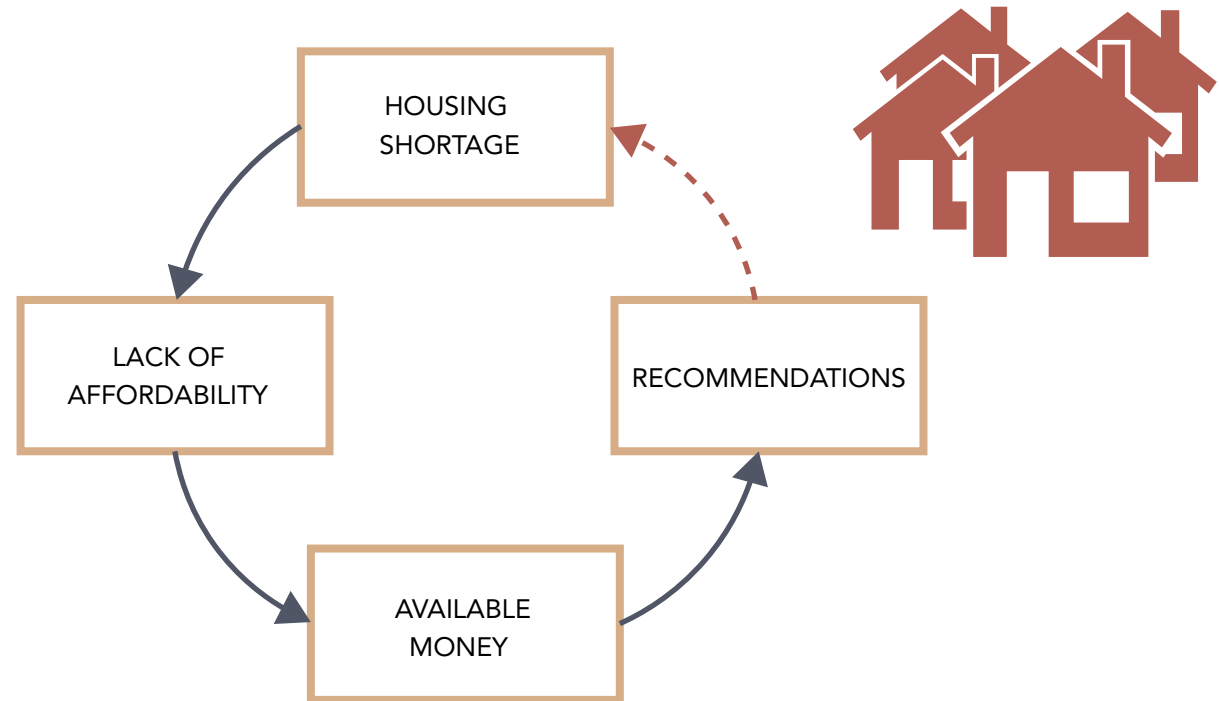
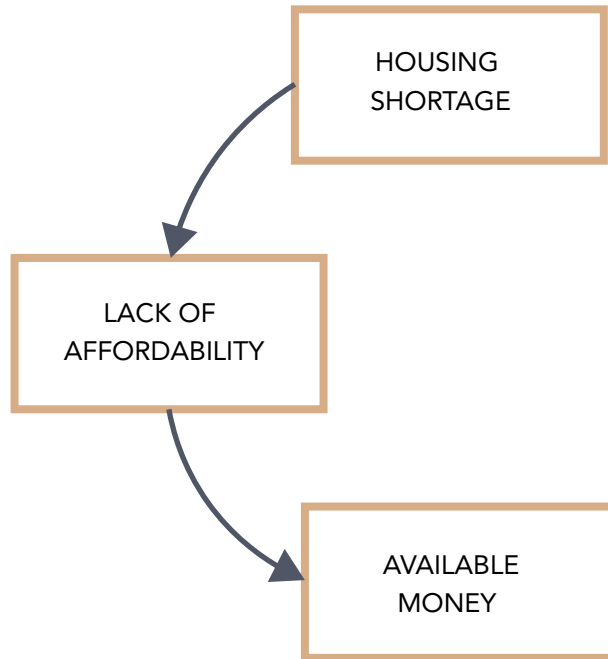


Investors



Municipalities

# Recommendations



## Conclusion

# Conclusion



Investors

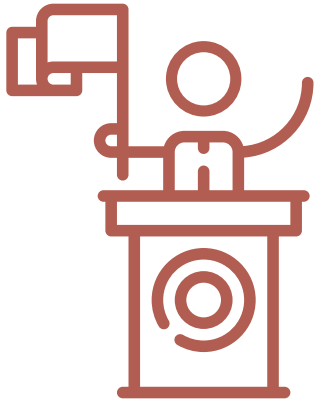
Limited influence on the development process

Tax regulation

Low risk activities

Not interested in injecting money in early stages

# Conclusion



Municipalities

Larger scope of instruments

Subsidy is necessary



Social Rent



Private Rent



Owner Occupied