As we look ahead to the new year, Europe Watch would like to take this moment to wish our loyal readers a fun-filled and happy holiday season! 2017 may or may not bring about Fillon’s free market revolution, Merkel’s fourth term, May’s relief for the JAMs, better employment prospects for Spain’s youth or Renzi’s bold effort to move Italy forward. But we do know that the chestnuts will soon be roasting, the Jack Frost will be nipping, the Yuletide carols will be sung and the Mistletoe will be hung. And if Jaguar and Land Rover can deliver on their promise to build new electric cars in the UK and create 10,000 new jobs then we might not need to dash through the snow in that one horse open sleigh. This month we turn our focus to the Netherlands and our favourable outlook for the Dutch residential market – so let us all start hosting those parties, toasting those marshmallows and decking those halls! ♫ ♫ The rhetoric in 2017 may continue to be frightful – but recent property returns are so delightful – and since we’ve no place to go – Let GDP grow! Let vacancy stay low! Let rents grow! ♫ ♫

TRUMP’S ELECTION LEADS TO A SPIKE IN THE ‘FEAR INDEX’

Because the Brits voted for Brexit, Christmas shopping in the UK hasn’t been this cheap in a long time for the non-British. Thanks for that Nigel and Boris! Another historical event this year was the US presidential election, probably one of the most remarkable battles in history. Donald Trump’s win was a great surprise, wrong-footing investors around the world and defying the Republican and Democratic mainstream with his populist messages. Financial markets responded very quickly, evidenced by the increased volatility as shown in the volatility index (‘fear index’). The V2X measures the volatility of the EURO STOXX 50. Several large Dutch companies such as Unilever, Philips, ASML and ING are in this ‘basket’. High V2X readings mean investors see significant risk that the market will move sharply and are therefore increasingly interested in risk adverse investments.

VOLATILITY INDEX

Source: Chicago Board Options Exchange
SHOCK AND SURPRISE

Government bond yields initially tumbled in the US as investors sought safety but then rose sharply hours later as many concluded that the new president would win support for fresh spending, eventually stoking inflation. The 10-year US government bond yield rose by 50bps to c2.4% by the end of November, an extraordinarily sharp move. On this side of the pond, the government bond market also reacted instantly on Trump’s victory. The spread between Dutch and US Government Bonds increased by 19bps to 175bps in 1 day, meaning that investors are increasingly interested in core investments such as government bonds from safe havens as the Netherlands, with its triple-A rating. As a reaction to Trump’s victory, we expect a preference for core product in prime markets.

10YR-GOVERNMENT BOND YIELD

RESIDENTIAL MARKET IS HEATING UP

Low mortgage rates combined with disposable income growth – from economic growth, tax reduction, low inflation and an improved labour market - drove demand upward in residential markets. There are large regional differences. Both the rental and the owner-occupied market experienced a boost in cities in contrast to rural areas. Prices for owner-occupied dwellings increased by 14% (YoY) in Amsterdam. The average time to rent a dwelling in the Dutch capital decreased by 16 days to less than four weeks. Another indicator that underwrites the skyrocketing owner-occupied market is that transaction prices are increasingly above the original asking price in the sought after markets. Price growth in the owner-occupied market will continue its path in the upcoming period (17-2021) and the same accounts for rental value growth in the urbanized areas. These urbanized areas are sought after prime markets for occupiers, and for investors as well.

PRICE GROWTH OWNER-OCCUPIED MARKET

THE NETHERLANDS IS CORE

The Netherlands is considered to be a prime market in Europe. The story of sustained growth in the Netherlands is one of domestic resilience against a growing number of external risks. In a year with several shocking events (Brussels and Nice), Brexit and increased political uncertainty, even net trade held up well. Due to its well-balanced, innovative and open economy, the Netherlands could absorb these events and continued to expand. Oxford Economics expects the Dutch economy to grow on average by 1.8% pa (17-2021). This is 20bps above the Eurozone average and the Dutch are outpacing France and Germany. In that same period unemployment will decrease to 6% (LTA 6.4%) and the workforce grows by 0.5% pa. The Randstad conurbation is the economic heart of the Netherlands and is most likely the area to largely contribute to growth. This area has a gravitational pull for people and companies.

DUTCH INVESTMENT VOLUME IS PEAKING

Investment volume peaked at EUR 11.5b in 2015 and is already at EUR 10.5b this year, with some large deals hanging over the market. Currently c50% of total Dutch investment volume is invested in the Randstad (33% residential). We expect investors will maintain efforts to deploy a record setting level of capital that has already been raised and allocated towards residential in the Randstad. But a lack of core investable product is lurking in the background. And the impact of international uncertainties? It is tempting to speculate that foreign capital flows may decrease due to Trump being elected and Brexit, as well as with the upcoming elections in France and Germany, but let’s not speculate. Let us stick to the facts and end this year by “Making Dutch Investments Great Again” with a-four-year-in-a-row increase of investment volume.

Since we DO have a place to go – Let Dutch investments GROW! Let it GROW! Let it GROW!