

The importance of urban regions, before and after COVID-19

From a Dutch residential
real estate perspective



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1 Introduction

The COVID-19 pandemic has led to radical changes in how we live our lives. In fact, while lockdowns and social distancing measures will eventually be phased out, the way we look at society and the built environment might change permanently. Prominent in this discussion is the 'urban exodus'. In the Netherlands, large cities saw a drastic decrease in population growth in the last year, but before COVID their population had been steadily growing since the 1980s. On the other hand, real estate brokers in less populated areas saw an increasing interest from urban house hunters throughout 2020. Does this mark a turn of the tides for cities and is urban living decreasing in popularity?

Recent data underwrites this so called 'urban exodus': a record number of households moved away from the Randstad conurbation, consisting roughly of the G4 and connecting municipalities, to other parts of the country during the COVID-19 pandemic in 2020 (CBS, 2021a). However, to a lesser extent, this behaviour was already noticeable as of 2015 but was compensated by international migration to urban areas.

To examine whether the tides are really turning or whether cities are here to stay, this paper will place the recent relocation trend in a historical context and study the current underlying fundamentals of the residential market, and specifically the residential market of the largest cities in the Netherlands.

Is urban living decreasing in popularity?



2 A glance at history: relocation trends in the residential market during the 20th century

The relocation of people and households has seen different stages throughout history and this chapter shortly describes these stages during the 20th century. Until the Second World War, it was economic motives that led people to relocate: they followed job opportunities and, as a result, cities grew significantly. When, from the 1950s onwards, both welfare and mobility increased, households again moved away from the cities and settled in smaller towns with higher living standards. By the end of the 20th century, cities became more attractive again and, with increased global mobility, more international. This resulted in a renewed appreciation for the city. We will describe each phase in a little more detail.

The relocation of people and households has seen different stages throughout history



<1900 - 1960:

People followed work in the large cities

1960-1985:

Higher welfare and increased mobilisation lead to suburbanisation

1985-2015:

Increased livability in cities drives growth

2015>

International growth of cities results in increasing suburban (and rural) growth

<1900 - 1960: People followed work in the large cities

Until the end of the industrial revolution and well into the 20th century, the Dutch economy was roughly divided in industrial employment in a few large cities and agricultural activities in the rest of the country. As people followed work, the larger cities grew rapidly, not particularly in size but mostly in population. This made industrial cities, such as Amsterdam, Rotterdam, but also smaller cities such as Enschede and Heerlen, become increasingly less livable as overcrowding, poor living conditions and air pollution were rather the rule than the exception.

1960-1985: Higher welfare and increased mobilisation lead to suburbanisation

After the Second World War, the Dutch population grew significantly and the welfare of many Dutch households increased, which created higher living standards and increased mobility. As a result the 'suburban sprawl' took flight in the 1960s. Due to governmental planning, this led to several growth regions around the larger cities or at conveniently accessible locations, where some municipalities' population growth boomed. Besides completely new cities and villages such as Nieuwegein, Lelystad and Almere,

existing, smaller villages such as Houten, Zoetermeer, Purmerend and Wijk bij Duurstede, saw their number of inhabitants multiply several times from the 1960s to this date and the daily work commute to and from the city became a new popular concept. As a result, cities, especially the larger ones, saw significant demographic growth in their near surroundings and a clear departure of (middle income to high income) households within their own city limits.

Needless to say this sprawl was not only driven by the pull factors mentioned above: as the Netherlands has been dealing with a housing shortage for decades, suburbanisation was also born out of necessity. There was plenty of space for new housing outside the larger cities, and the larger cities had less room to develop and expand at that time. In addition, the rise of car ownership made cities better accessible from outside.

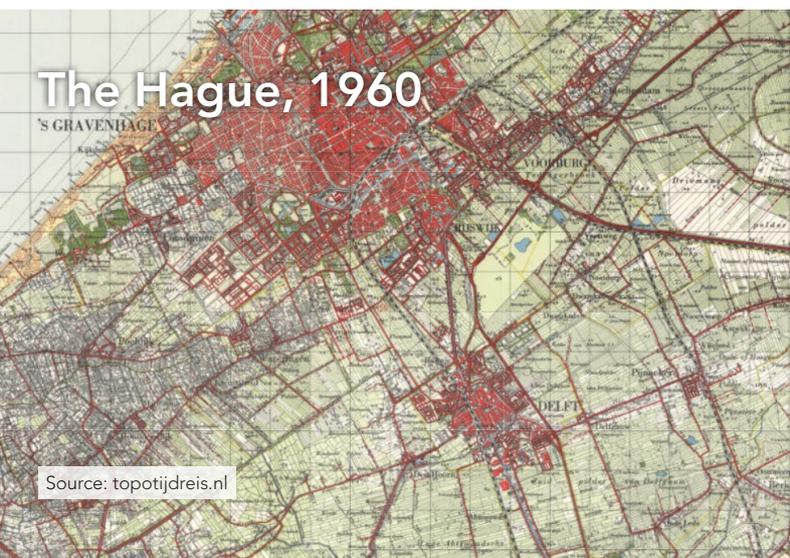
1985-2015: Increased livability in cities drives growth

Since the end of the 20th century, large cities notably became more attractive again. Multiple theories exist, but the most important one is that cities became much more livable since the late 1990s and that increasing traffic congestion around cities and the major highways made households more interested in living closer to their jobs.

Cities became more vibrant as work, study and recreational activities were available within city limits, as well as a wide array of other amenities such as diverse sport and healthcare facilities. Furthermore, the quality of the residential stock had improved significantly between the late 1970s and 1990s.

From a demographic point of view, the increasing educational level of the Dutch population and the changing position of females within society also led to this reinvention of city living. The latter went hand in hand with a decline in births (as shown in figure 2) and couples' decision to postpone the start of a family as study and a working career became more important for both men and women. As a result, the generational trend to start a family in a more spacious environment outside the city became less important and cities themselves also offered sufficient room for the less demanding households in terms of space.

Although this period has shown a clear growth of cities after multiple decades of contraction, smaller cities and less urbanised areas kept growing as well. See figure 1: the total population of the Netherlands has increased significantly since the Second World War and, as a result, total built-up area increased as well: from only 1.9% of the country's land in 1900, to 14.2% in 2015 (CLO, 2018).



Visualizing urbanisation and suburbanisation

Figure 1 shows the annual population growth in the Netherlands since 1960 and of all Dutch municipalities categorised by a municipality's current degree of urbanisation.¹⁾

Between 1960 and the 1980s only the extremely urbanised municipalities, roughly the 16 largest Dutch cities supplemented

with five small, but densely populated municipalities around Amsterdam, Rotterdam and The Hague, showed a decrease in population, whereas all other municipalities saw their number of inhabitants increase.

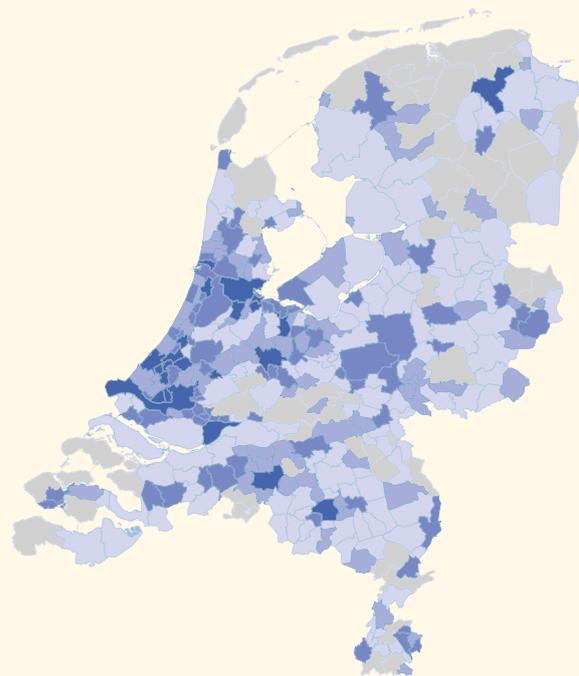
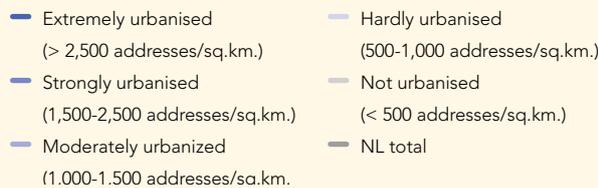
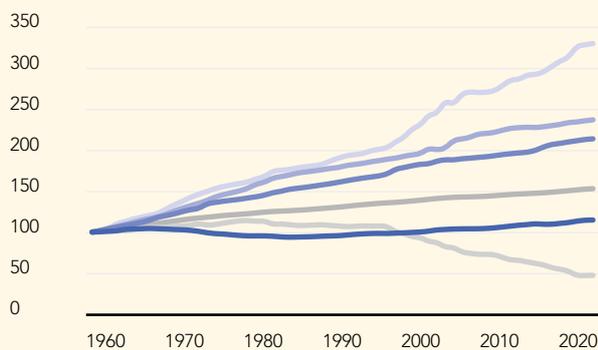
Since the 1980s, the extremely urbanised municipalities started to grow again, but the largest growth

was still recorded in all other municipalities except for the non-urbanised areas in the Netherlands.

These non-urbanised municipalities saw their population decrease significantly since 1995 but showed stabilisation as of 2018 when population grew by 0.5% for two years in a row.

Figure 1 Population growth by municipality's degree of urbanisation

Index (1960 = 100)

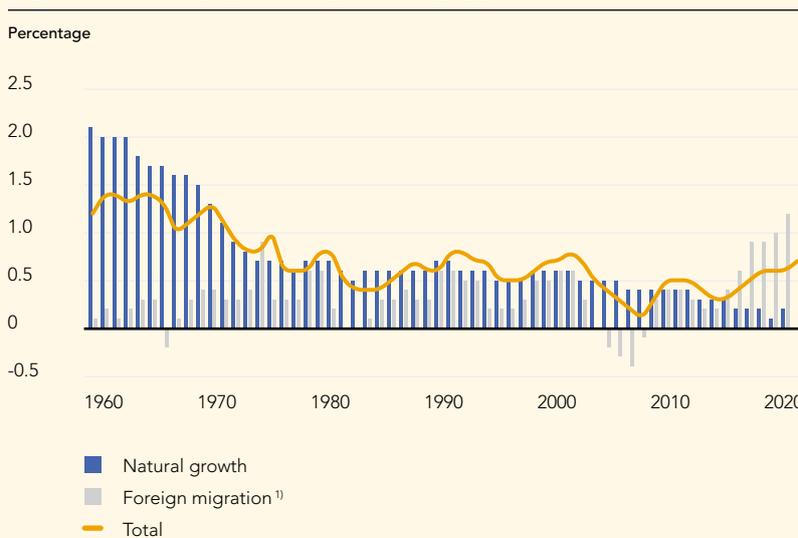


Source: CBS, 2021b & CBS, 2021c

1) Cities that have grown in the last sixty years from, for instance, moderately urbanised to strongly urbanised cities, have been categorised in this graph as strongly urbanised from 1960-2020. Data does consider municipal reorganisations throughout the years.

Figure 2 gives context to the different stages of (sub)urbanisation by showing the population growth from natural causes and by foreign migration.¹⁾ The figure shows that the suburban sprawl after the Second World War and well into the 1980s also accelerated due to a relatively high population growth until the mid-1970s, mostly driven by a high number of births, the so-called “baby boom generation”. After that, the number of births minus deaths remained stable until the 21st century when the annual natural growth percentage slowly decreased. Due to a significant excess mortality in 2020, the natural growth of the Dutch population was negative for the first time in recent history. Since 2014, population growth mainly relied on an increasing (foreign) migration balance.

Figure 2 Annual population growth, by type



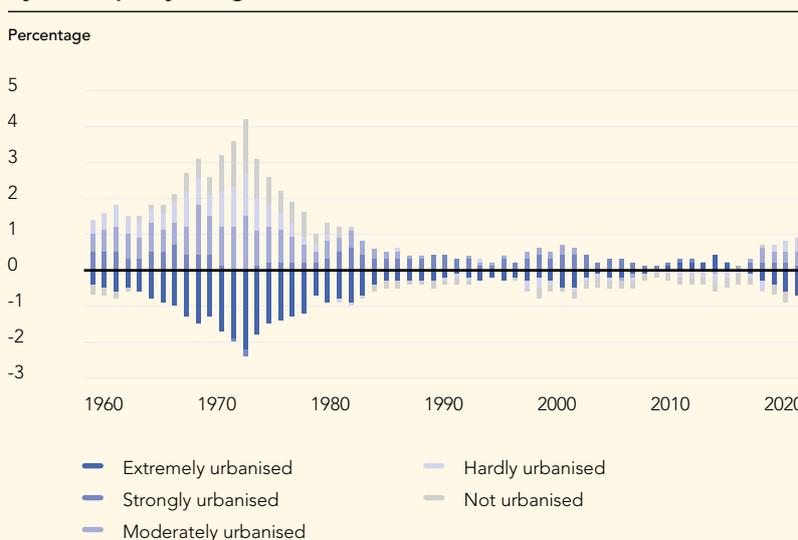
Source: CBS, 2021b

Figure 3 shows the history of the domestic migration balance as a % of the total population, again broken down by the degree of urbanisation of a municipality. The suburban sprawl was by far the most prominent in the 1960s and 1970s as moderately urbanised to non-urbanised areas grew significantly in (domestic) population and extremely urbanised areas emptied out. For example, Amsterdam saw its population decrease by more than 20% between 1965 and 1985. Only since last year (2020) has Amsterdam recovered from this decline as the population surpassed its last peak of 866,000 in 1966.

in favour of the less urbanised municipalities. However, this trend was short-lived and since 2015, the hardly urbanised, moderately

urbanised and strongly urbanised municipalities again absorbed most of the domestic migration.

Figure 3 Annual domestic migration balance as % of population, by municipality’s degree of urbanisation



Source: CBS, 2021b

Throughout the years, the strongly urbanised municipalities (mostly smaller cities) showed steady domestic growth until the mid-2000s. Between 2009 and 2014, extremely urbanised municipalities started to show domestic growth for the first time since 1960,

1) This includes all forms of foreign immigration and emigration. A study showed that between 2008 and 2018 forms of immigration were work (31%) family reunification (28%), study (18%), asylum seekers (7%) and other/unknown (16%) (CBS, 2020)

3 Urbanisation and suburbanisation since the mid-2010s and its underlying drivers

Since 2014, foreign migration became the main driver of population growth in the Netherlands, increasingly outpacing natural growth. While large cities were the main absorber of foreign migration, their domestic migration balance contracted significantly. As a result, many less urbanised areas have shown considerable domestic growth in the last five years and this growth was observed not only in smaller cities and large villages, but also in the least urbanised areas of the country. In fact, the least urbanised areas combined reported two years of growth, for the first time since the early 1990s, in 2019 and 2020. What has driven these movements? Did foreign demand and increased housing shortage drive up prices to such extent that domestic households started to look elsewhere? We will first take a closer look at the impact of foreign migration on urbanisation, followed by the contrary domestic suburbanisation. Finally, the supply of housing will be touched upon and the possible impact of the affordability of housing.

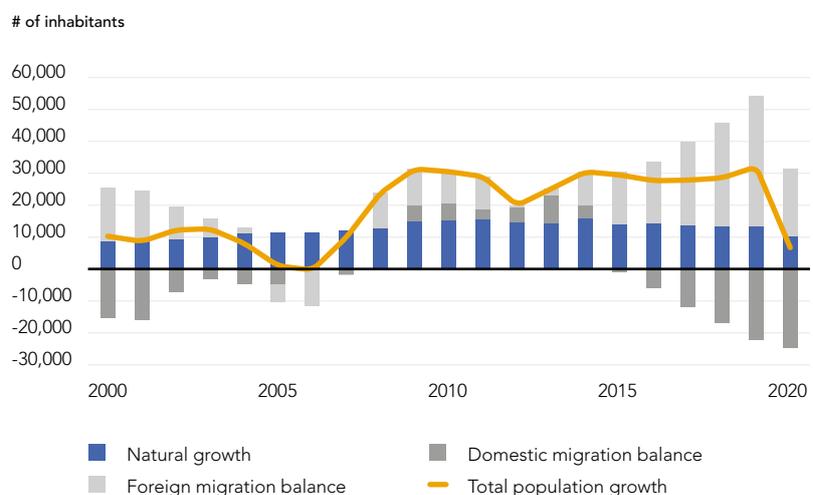
The impact of foreign migration on large cities

Based on only domestic migration data, the rediscovered appreciation of the city seemed to have come to a standstill as of 2015. As of then, the population growth in the five largest cities, Amsterdam, Rotterdam, The Hague, Utrecht and Eindhoven, is relying heavily on foreign migration. Figure 4 shows that these cities can annually report a growing population, mostly because of foreign migrants settling in these cities and – to a lesser extent – a positive natural growth (births minus deaths). Contrarily, the five cities combined are reporting a domestic depopulation since 2015. As shown in figure 2, the non-extremely urbanised areas largely absorbed domestic migration from 2015 until 2020, meaning that more people migrated to a less densely populated municipality from an urbanised municipality within the Netherlands than the other way around.

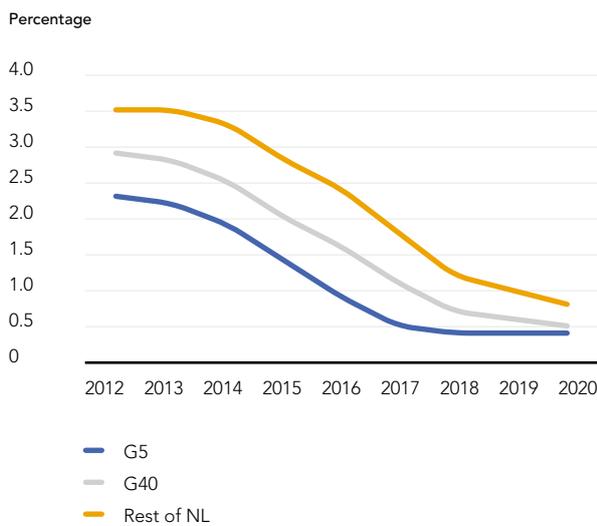
Large cities are more and more seen in a wider perspective, making them European/international cities instead of ‘just’ large Dutch cities. Together with an overall favourable appeal, increasing

knowledge-intensive employment opportunities in the Netherlands resulted in a growing arrival of foreign migrants, especially in Amsterdam, Eindhoven and The Hague.

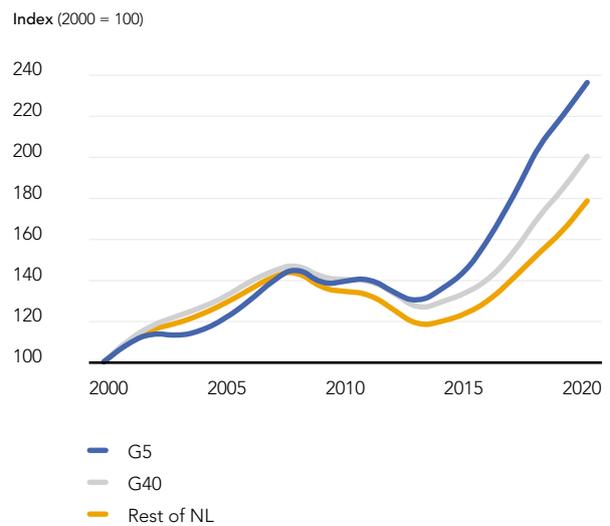
Figure 4 Annual population growth in the G5 by type



Source: CBS, 2021b

Figure 5 Market tightness¹⁾ owner-occupied housing

Source: Huizenzoeker.nl, 2021

Figure 6 House price development²⁾

Source: CBS, 2021d

However, when the outflux of migrants increased in 2020, due to the implications of COVID-19 on travel, and the net balance halved, as shown in figure 4, the total annual population growth decreased to almost 6,500, after a consistent 30,000 more inhabitants per year since 2014, resulting in the alarming message of an 'urban exodus'. As the outcome of the COVID-19 crisis and its impact on the economy, employment opportunities and the subsequent demand for expats is still uncertain, the Netherlands Bureau for Economic Policy Analysis (CPB) has forecasted that it might take the labour market five to ten years to fully recover (CPB, 2020). As a result, the influx of expats and foreign students might remain on a low level during this period which could lead to multiple years of slow population growth in urban areas.

The influence of housing shortage and availability

An important aspect of a healthy residential market is choice, meaning that a healthy availability of housing, i.e. a balanced supply and demand, keeps prices at a competitive level. Therefore, the availability of housing is an important factor as a tight market situation could lead to continued pressure on a regional residential market pushing households away.

In general, the Dutch residential market has always faced a structural housing shortage, especially since the Second World War when population grew significantly. With the rapid increase of (suburban) housing from 1950 to 1970, this shortage decreased significantly but remained around 2 to 3% of

the total housing stock (DNB, 2020). More recently, it increased to more than 4% as a result of lagging newly-built developments and an increasing population due to a migration that was larger than expected. Until 2030, this shortage will further increase indicating that a house, in whatever form, will remain a scarce commodity (ABF Research, 202).

As a result of the structural shortage, the tightness¹⁾ of the residential market increased and is currently at a historic low level in almost every municipality in the Netherlands. Where the G5 has shown a tightness (supply to stock) ratio of 0.4% since 2018, the rest of the Netherlands' residential markets are still seeing further tightening, as shown in figure 5.

1) Average annual house supply (for sale) as a percentage of the total stock

2) Based on average transaction prices per municipality

House price development in relation to local supply and demand

Since 2014, when the housing shortage increased and the market became considerably tighter throughout the Netherlands, house prices increased significantly, especially in the G5, as shown in figure 6. Where the annual price development for all Dutch municipalities was – on average – generally in line between 2000 and 2013, a strong divergence is seen since 2014 with prices in the G5 increasing with 84% in seven years, in the G40 with 60% and in the rest of the Netherlands with 52%.

A closer look at general price movements in the last twenty years compared to the different migration movements shows us, that in times of lower annual house supply for sale and subsequent price increases in the G5, domestic migration was negative, meaning that more households move out of a city to another municipality in the Netherlands instead of the other way around (see text box below).

Currently, regional differences in price development are following the ‘ripple effect’, meaning that the large cities as front runners at the start of this upcycle are currently reporting one of the lowest price increases throughout the country.

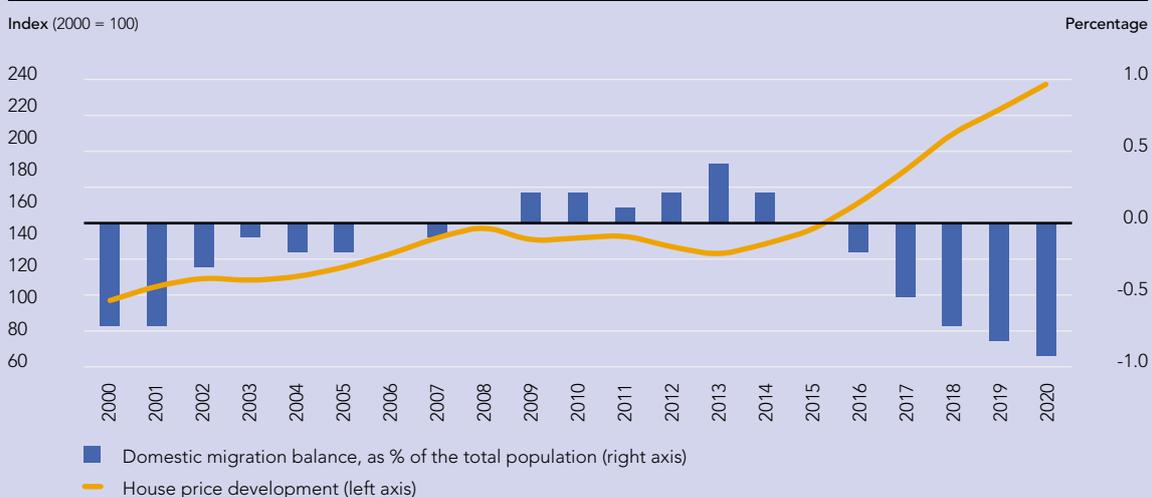
Conversely, peripheral regions such as Groningen, Drenthe and Overijssel are showing the highest increases. Interestingly enough prices also more or less followed a general domestic migration movement: while large cities are seeing domestic contraction and peripheral areas domestic growth, the regional house price development follows suit.

Is the G5’s domestic migration an indicator of house price development of the last twenty years?

Since 2000, the domestic migration balance within the G5 was only positive in periods when house prices were decreasing, including in 2014, as shown in figure 7. This could indicate that when prices increase and the market is in an upcycle, domestic households are tempted to leave the large cities and find more value for money outside the large cities. On the contrary, home buyers might see their chances increase in the large cities

when house prices start to decrease. In general, it could be an indicator for a market turnaround: when domestic migration ‘peaks’ positively in the G5, the residential market in general becomes more dynamic and starts to move upwards again. Still, this has only been observed in this century’s development of house prices and migration movements.

Figure 7 G5’s house price development index vs. annual domestic migration



Source: CBS, 2021b & CBS, 2021d

So where does this all bring us? Are cities increasingly becoming less popular? And how does this still relate to COVID-19?

Although its exact impact on the residential market in general, and the G5's residential market specifically, has yet to be seen, COVID-19 currently seems to be a relatively short-lived incident (PBL, 2021 & Rabobank, 2020). Foreign migration movements have halted for more than half a year, resulting in just a minimal growth in population in the G5 in 2020. In the meantime, the residential market did not show any signs of a turnaround and, like the years before, many households living in the five largest cities chose another home in other, smaller municipalities.

This time around, in many cases, pressure on the affordability of housing is presumed to be the main driver of the urban domestic outflux which is already going on for more than five years. Cities have become increasingly attractive, as described above and this increasing demand has driven prices upwards (Ruimte + Wonen, 2020)¹⁾. As foreign households are more and more willing to accept these rising prices, domestic households are increasingly relocating.

This underwrites the incorrectness of the statement that cities are becoming less popular, mostly due to COVID-19, as mentioned in the introduction. In fact, both the increased domestic and foreign popularity of the five largest cities in the last ten years have caused the currently observed demographic trends. As a result, both urban and suburban living are expected to thrive in the coming years.

Both urban and suburban living are expected to thrive in the coming years

1) On a relative basis: G5 cities compared to other municipalities, therefore excluding general (financial) market conditions such as decreasing interest rates.

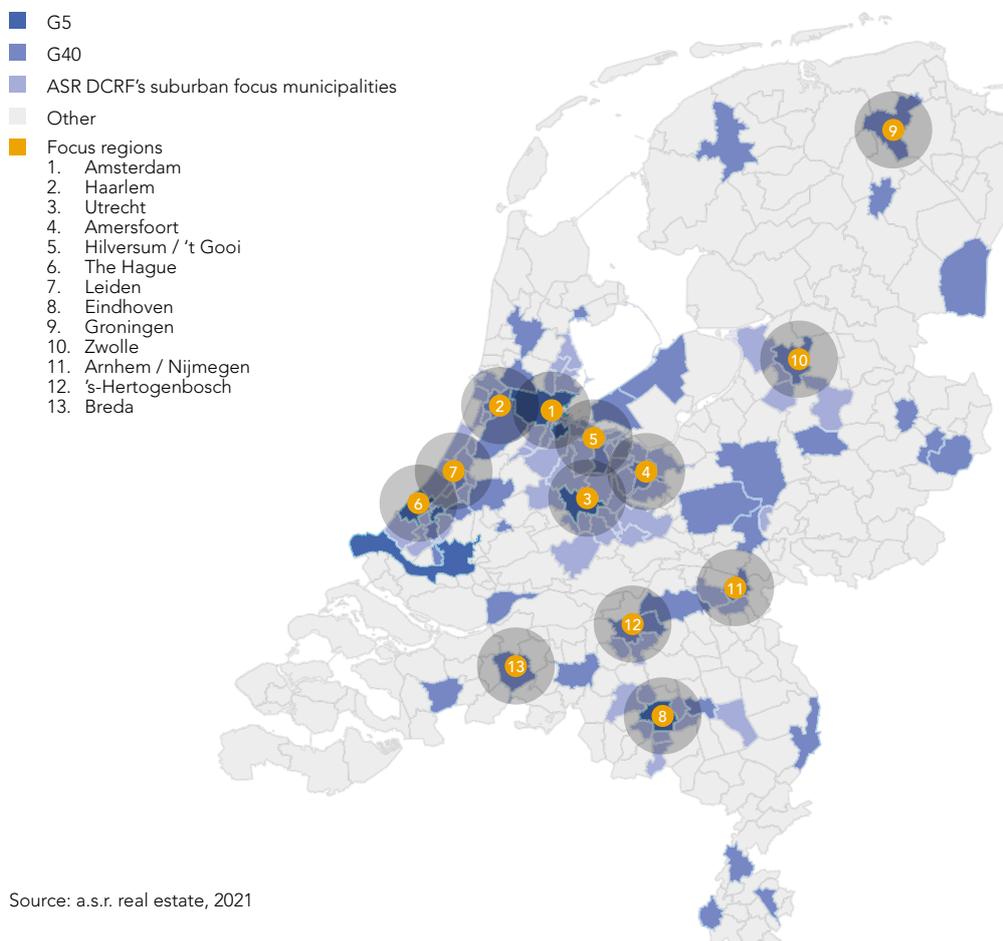


Maaswijk, suburban neighbourhood in the Rotterdam conurbation

4 Focusing on larger conurbations: ASR Dutch Core Residential Fund's resilient strategy

With its research-driven approach the ASR Dutch Core Residential Fund annually identifies its investment's focus regions, being the strongest economic and demographic regions and cities in the Netherlands. The Fund has a strategic focus on both urban and suburban locations. Currently, thirteen focus regions are identified, consisting of large to mid-sized cities (urban) and their 71 surrounding (mostly suburban) municipalities, as shown in figure 8. These focus regions offer an attractive combination of demographic growth and pleasant living conditions while also benefitting from positive regional economic developments and stable residential investment market performance indicators. In addition, the focus on larger conurbations has also shown to be more resilient in times of changing demographic trends, which will be described below.

Figure 8 ASR DCRF's focus regions



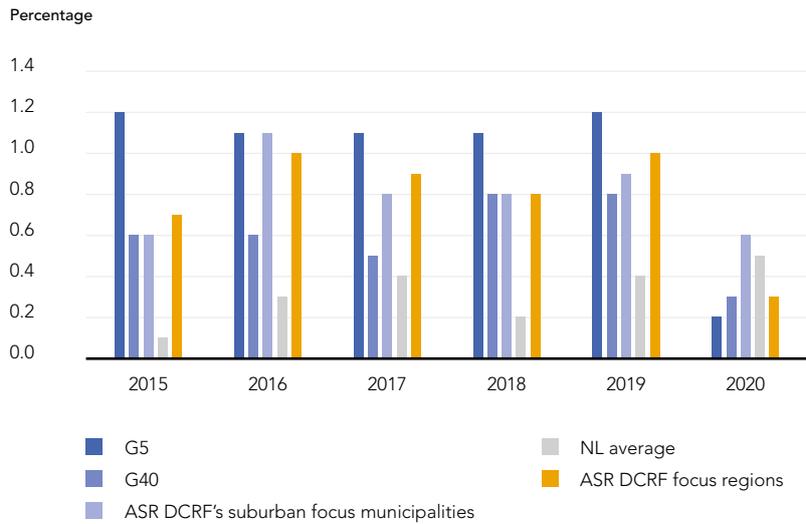
Demographics – resilient growth in 2020

While the pandemic reduced demographic growth all over the Netherlands (on average), the thirteen identified focus regions of the ASR Dutch Core Residential Fund showed balanced growth throughout the years, including 2020, keeping the middle between the cities and the rest of the Netherlands as shown in figure 9 (yellow bars). This is mostly due to the Fund's suburban focus municipalities that show higher growth over 2020 compared to all other Dutch municipalities on average.

This growth has been largely driven by a positive domestic migration balance compared to all other Dutch municipalities, further substantiating the suburban movements from the last couple of years.

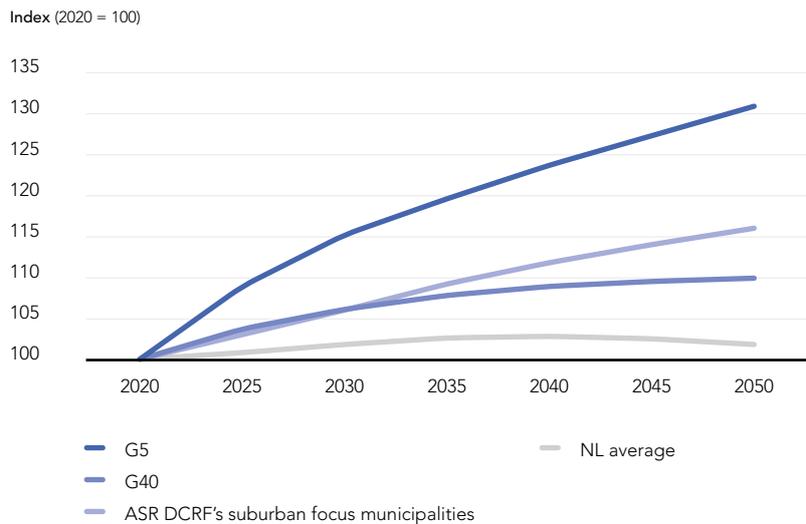
Still, as shown in figure 10, it is expected that the five largest cities keep growing the fastest in the coming thirty years, followed by the Fund's suburban focus municipalities.

Figure 9 Annual population growth, as % of the total population



Source: CBS, 2021b

Figure 10 Population growth forecast



Source: ABF Research, 2020

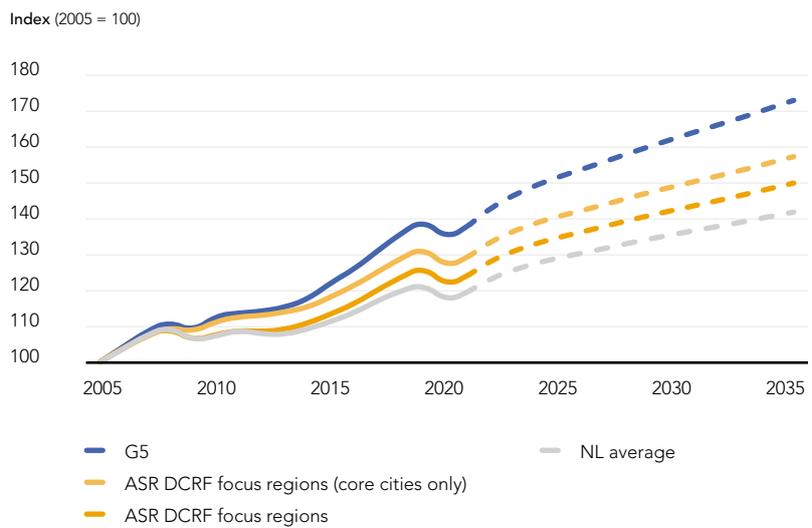


Parkzicht, IJmuiden

Economy – attractive regions with economic cores

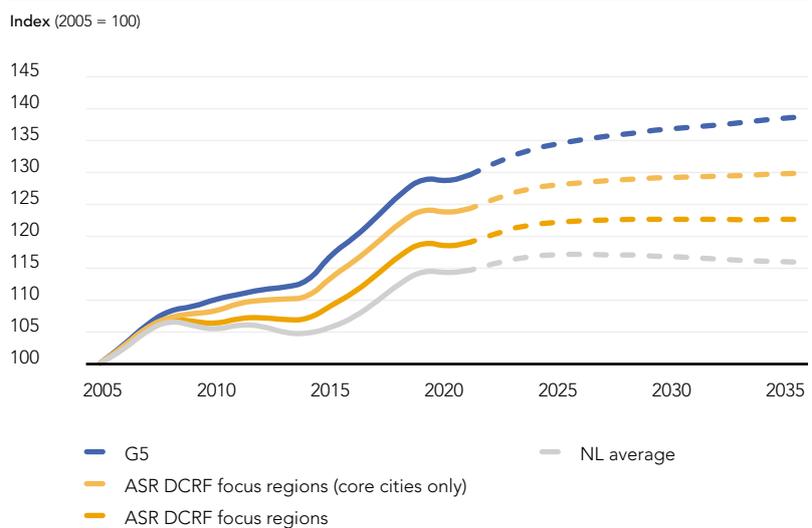
As economically strong and diverse core regions, the thirteen selected large to mid-sized cities of the ASR Dutch Core Residential Fund have shown a considerable outperformance of GDP and employment growth compared to the Dutch average, as shown in figures 11 and 12. Additionally, their 71 surrounding suburban municipalities have also shown above-average growth, benefitting from their respective regional core cities. Between 2005 and 2020, the unemployment rate in the focus regions followed suit with an average of 4.7% while the average unemployment rate in the Netherlands was 5.1% in the same period (Oxford Economics, 2021).

Figure 11 GDP volume growth



Source: Oxford Economics, 2021

Figure 12 Employment growth



Source: Oxford Economics, 2021



Mariënpark, Leidschendam

5 Anticipating on demographic trends with a regional investment focus and affordable housing

Dutch urban and suburban regions have seen different periods of growth and contraction in the last century. Large cities are becoming increasingly international owing to their economic strength, specific employment and educational possibilities. Additionally, their surrounding municipalities have seen accelerating growth, specifically domestic growth since 2015.

During the current pandemic and its – presumed short-lived – impact on demographic trends, a focus on larger conurbations shows a balanced demographic growth in the last decade and, together with an increasing pressure on housing in general and subsequent affordability of housing in the larger cities, offer an attractive mix for multiple target groups.

The ASR Dutch Core Residential Fund's Focus Regions offer a mix of job opportunities and a diversity of amenities in its urban cores (the large to mid-sized cities), which has attracted and will continue to attract a diverse target group, such as young professionals, students and expats. Furthermore, the focus regions' surrounding suburban municipalities cater to an even wider array of target groups and respond to current and future demographic trends, making its portfolio more resilient. The long-term investment horizon of real

estate underwrites the importance of a resilient portfolio strategy in periods of different demographic and generational trends.

In the coming decades, the Dutch population is expected to grow considerably, despite the 2020 trend change due to COVID-19. To accommodate growth, urban areas need to expand as room within city limits is limited. As a result, urban agglomerations will grow and the already dense cluster of cities and surrounding villages will increase, causing urban and suburban regions to become more and more interwoven. Affordable living within and at accessible locations around cities will be key to anticipate on continuous relocations of households and accommodating these households at different stages of their lives. Larger conurbations are therefore becoming more important in the future, both from a demographic and economic perspective.

The ASR Dutch Core Residential Fund has a proven strategy focusing on both urban and suburban living. Besides its geographical focus, the Fund has a clear strategy, based on a nine grid with product/market subsegments, to cater the identified target groups in its focus regions. To meet the long-term customer demands of these target groups and to build a well-lettable portfolio, the Fund focuses on investments in the mid-priced rental segment. The Fund has developed an impact investment strategy, focused on the addition of affordable dwellings to the portfolio.

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