Bouwinvest doubles down on niche and growth sectors

The Dutch investment manager has been weathering the storm and is steadfastly sticking to its strategic focus on investments that create a sustainable, liveable and accessible urban environment.

BY ADAM BRANSON

It has already been a long hard winter in Europe and we are only at the half way mark. The Covid-19 pandemic has come roaring back, inflicting both societal and economic pain and dysfunction. The Netherlands, sadly, is no exception. There, the economy is once again in lockdown, something that is likely to be extended as the country wrestles with getting its vaccination programme up and running.

Vast swathes of the property industry continue to be hit by the pandemic as a result, with all but essential retail outlets shuttered and offices closed to all but the most essential workers who are unable to fulfil their duties from home. In the hardest-hit segments such as hotels and retail, some tenants are unable to pay their rents, reducing market pricing levels in the short term.

The very fact of workable vaccines holds out the promise of an end to the crisis, however. There is a chance, whisper it, that things could look very different by the time the tulips begin to bloom in April. So, what might the recovery hold in store for real estate? PropertyEU caught up with Marleen Bosma-Verhaegh, head of research and strategic advisory at Dutch institutional investor Bouwinvest Real Estate Investors, to find out.

Recap on 2020

The situation was incredibly fast moving and unpredictable at the start of the pandemic, but Bosma-Verhaegh says she and her team did their best to keep their investors as up to date as possible. 'What we were doing was closely monitoring markets because we got questions from our investors,' she says. 'And what we did in the beginning was send out investor memos at least every month.'

Residential value surprise

Sometimes, Bosma-Verhaegh admits, they were surprised at their findings. In the residential market, Bouwinvest had expected values to fall, but the opposite happened. 'We were wrong about the residential market, but the same was true for advisory organisations and even the Dutch central bank. Valuations just kept going up. In my opinion, that shows just how large the housing shortage in the Netherlands actually is.'

Retail and hospitality pain

Some of the impacts from the pandemic were more predictable, however. Retail and hotels, for instance, nosedived as operators were forced to shut down. But again, there were exceptions. 'Grocery-anchored retail, for example, did very, very well,' says Bosma-Verhaegh. 'Turnover figures were very high and much stronger compared to previous years, reflecting the fact that more people were working from home, going to the supermarket and spending money there and not at restaurants near or at their offices.'

Retailers in the Netherlands are – for now - enjoying generous government support and the country hasn't endured the bloodbath on the high street seen in the UK, for instance. Bosma-Verhaegh is concerned, however, about what will happen once that support is ultimately – inevitably – withdrawn. 'We have seen quite substantial government spending and support,' she says. 'So, we are very keen to know what will happen in a few months' time because you don't know what is actually going on beneath the surface. That's fairly hard to assess.'

Tenant negotiations

Bouwinvest is doing what it can to keep the heads of its tenants above water, however. 'Of course, we are in very close contact with them,' says Bosma-Verhaegh. 'We try to negotiate and discuss things with open books as much as possible so we can reach tailor-made solutions for each tenant. Our aim is to find out how we can deal with a problem and what kinds of measures we can take and how we can negotiate to help them. It requires a big effort and is very time consuming.'

Each retailer has unique circumstances, of course, hence the need to conduct such detailed conversations. For Bosma-Verhaegh it is clear, however, that those retailers in the best locations with a strong online presence have been best placed to weather the storm. 'They were able to adapt fastest,' she says. 'Non-food retailers dependent on local or regional demand whose websites weren't good or below average have suffered the most because they were far behind in terms of having a digital e-commerce channel. That has been the biggest problem.'

Office research

As for the office sector, Bosma-Verhaegh says the flexible office market was, inevitably, hit the earliest and hardest, given the work from home mandate and short lease terms that prevail in this segment. She adds, however, that Bouwinvest research indicates the long-term impact on traditional offices at primary locations will be minimal.

'We conducted a survey among employees asking how much they expected to work from home going forward and what came back was one to two days a week,' she says. 'We calculated that back to square metres of space and expect there will be a decrease of two to three percent. So that's very little, actually. The worst-case scenario would be a decline of six to seven percent.'

She adds: 'People expect to work from home 1 to 2 days per week, but employers will also need a little bit more average space for each staff member in the office. The central office function will be a meeting place for people with specific rooms to brainstorm together, so more creative spaces. That will shore up demand as well. There is definitely a future for offices.'

Bouwinvest strategy

Bouwinvest's strategy therefore remains pretty much the same as it was a year ago, when Covid-19 was merely a potentially worrying phenomenon occurring on the other side of the world. The strategy has shifted in recent years in response to longer-term macro-economic trends, but these changes were made before the crisis kicked in.

The investment manager remains active in Europe, North America and Asia Pacific, running a combination of niche strategies together with a core focus on 'beds and sheds'. Interwoven is a 'Real value for life' approach targeting investments that create a sustainable, liveable and accessible urban environment. ESG initiatives are omnipresent across its three regional mandates for Europe, North America and Asia, as well as its five Dutch property sector funds.

In the Netherlands, Bouwinvest manages the Dutch Residential Fund, Retail Fund, Office Fund, Hotel Fund, and Healthcare Fund. During December alone, it announced an investment in 61 assisted-living mid-range rental apartments in Katwijk aan Zee, two further assets in Eindhoven, 212 apartments in the former Binkhorst business park in The Hague, and the Schuytgraaf shopping centre in Arnhem for its Retail Fund.

One of Bouwinvest's most recent international investments was a $60 mln injection into life science office buildings on behalf of its North America Mandate via participation in Blackstone's recapitalisation of BioMed Realty. These strategies have been in place for several years, Bosma-Verhaegh stresses.

The company's Dutch retail focus has already shifted from a broader range of the biggest urban areas in the country to the 15 to 20 biggest cities in response to the continuing rise of e-commerce which is increasingly making smaller retail centres less relevant.

'We have sharpened our investment strategy, but that already happened pre Covid,' she says. 'So, I would say our investment strategy was already set for the impact of the Covid pandemic – and we don't really need to change it. The crisis has basically just accelerated the trends we had already seen.'

'We already sharpened our investment strategy pre-Covid; the pandemic has just accelerated the trends we had already seen'

MARLEEN BOSMA-VERHAEGH, HEAD OF RESEARCH & STRATEGIC ADVISORY, BOUWINVEST REAL ESTATE INVESTORS

Sharper focus

The pandemic has, if anything, amplified Bouwinvest's strategic investment focus. The company is doubling down on growth sectors such as logistics and healthcare segments, such as medical offices, that have become even more prominent during the crisis. However, it is also boosting its exposure to some of the sectors hardest hit, not least student accommodation. 'We do expect a bounce back there in the longer term,' Bosma-Verhaegh says.

The underlying causes of the current economic slump are vastly different to the 2008/09 global financial crisis (GFC) and require a different response, Bosma-Verhaegh points out. Essentially, the real estate picture that will emerge after the pandemic will be the same as the one apparent at its onset.

'If you look back at the GFC, the real estate and financial markets were really the source of the crisis,' she says. 'Now, of course, it's different: it's a healthcare issue. It's governments placing restrictions on their citizens and introducing lockdowns that is having an effect on retailers and spending patterns.'

She adds: 'But once the pandemic is under control, we will go back to the previous situation and perhaps there may even be a strong rebound in the short term because people will want to do the things they couldn't do for months. So, it hasn't really changed the fundamentals. I think that's an important difference with the GFC. There are some issues and uncertainty, but if you have well-located assets new tenants will want to be there for sure.'

Macro force

Given that interest rates aren't likely to go up any time soon, real estate remains a far better bet for investors than, say, government bonds. 'In this low interest rate environment, investors like pension funds or insurance companies have quite a big task to allocate money,' Bosma-Verhaegh points out. 'Real estate is an interesting play because of the yield spreads compared to other alternatives.'

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