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It's the Economy ...

The credit crisis promised to be a game changer. The global financial system's foundations were shook. There was even talk of fundamental reform. After seven years we can say: some rules may have changed, but the game is still on. Yet, there are things happening and developing that show game change on a relative small scale. AirBnB and Uber are but the most well known examples. So, what about real estate and housing? Volume set down with Friso de Zeeuw, professor of practice in Area Development at the TU Delft and Director New Markets at BPD, Real Estate Development; and Léon Heddes, director Project Development of Amvest, Real Estate Development and Investment Management.

As indicated in the editorial, the credit crisis struck exceptionally hard in The Netherlands, particularly in real estate. That makes it curious to hear from the world of real estate if this led to changes in their profession and if alternative ways to develop emerged. Although this *Volume* focuses on signs of change and experimentation, both men we spoke to are explicit in their answer that from their perspective nothing fundamentally changed. There were some smaller shifts and adjustments, but the basic principles rule like before. This being said they agree that the decade and a half preceding the crisis was exceptional and that, if one overlooks the post-war period, things are currently getting back to normal.

According to the Zeeuw the combination of three factors were responsible for the extreme effects of and after the crisis. Before the crisis, trees grew to the sky. It led to ever more exuberant plans and projects: expensive foreign architects were brought in who came up with expensive proposals and programs not really geared to the Dutch market, such as plans with a lot of green space, underground parking and a high percentage of apartment blocks. And to pay for all this luxury, an abundant retail program was often included. Also, development costs were high. But as long as prices were rising, such plans were affordable and even miscalculations could be easily compensated for.

Still, in hindsight, it is surprising that hardly anyone warned about the overproduction of offices, one of today's bigger problems to solve. It looks like there are some perverse stimuli in play. De Zeeuw confirms this assumption and explains that if you look at office building production, it can be characterized as a hog cycle market: when prices are low and investment rates cheap, offices are being produced in stock, awaiting future clients. When the clients show up and prices start rising, more offices are being produced and so on. That is, until the bubble bursts. It is a speculative game in which the last in line, usually the investor, gets stuck with unsellable or unrentable office space. But this continued for as long as there was money in it for the developer and municipality. Today, in the Netherlands alone, there is almost nine million square meter of vacant office space (over 90 million sqf). This situation is aggravated by new developments like the flex office and working from home. To properly deal with this situation, some developers say office buildings should be handed over for free to those that have a nice idea for their reuse. Others say that this won't solve the problem and that massive demolition (downsizing of the stock) is unavoidable. The photos accompanying this article show a spectacular example of the latter. In the outskirts of Amsterdam, an office park consisting of eleven office buildings (100,000m² of office space) from the 70s and 80s is being demolished to be replaced by a housing quarter of 3,000 dwellings. The size of the operation is unprecedented in the Netherlands, yet the project is also telling of a regained confidence among developers that the market is on the rise again. Although this project is being done by a colleague of Heddes, he also confirms the experience of a milder climate for development that came into being almost overnight. At the start of 2014 there were still not many signs of improvement, but a few months later things started moving again.

The causes of the problems in shops and housing are of a different nature, De Zeeuw explains. Commercial vacancies have more to do with changing customer habits (e-commerce) than with overproduction. The problems of the housing market have a combined source: inflated

prices, stimulated by tax credits for mortgages, and, after the crisis started, the difficulty to get a loan from the bank. The banks had become much more prudent after the (sub)prime mortgage interest rate disaster in the US. And, Heddes adds, 2011's Basel III Accord made them even stricter, requiring banks to maintain larger financial buffers when it comes to financing real estate. Another reason why banks had become more cautious was that prices weren't going up by default any longer. The consequence of all this was and is that projects need more private money to start with. All these aspects led to an almost complete standstill in house production and also in the sale of existing stock. People couldn't move because they couldn't get credit, but also because their house had been devaluated by 20% or more, often creating a situation of being 'underwater' – owing more debt on the house than its actual value.

Change?

So, is chipping in more private money the only consequence of the crisis so far? According to Heddes, the developer is still the intermediary between parties in situations where the end user is unknown. In other words, even if the picture of 'who develops' has become somewhat more diversified, this hasn't really brought anything new.

De Zeeuw notes that some 12 percent of Dutch housing is developed by individuals or groups and he predicts that this will not change drastically in the near future. The 'Self Building City' is a niche, not a mainstream current. Heddes sees more of a role for the individual house builder, but that the bottom line of area and project development is land. Land is still the crucial element for any development and will continue being so. And land is a scarce commodity in a small yet densely populated country like the Netherlands. De Zeeuw points in this context at what he calls 'errant innovations'. According to some, we would be heading for the sharing economy, but that is beyond his frame of realism. In his view, the developer stays as the main player in 'building the city' that they currently are. Heddes is less categorical and points out that it is also profitable for municipalities to put individual plots on the market, because they yield the highest land price. And he sees many situations where there is no need for a developer, where the classic model of client and architect will do just fine. But in larger projects or situations that require more rhetorical play, the role developer cannot be overlooked. De Zeeuw adds that projects with a level of complexity like water safety projects cannot be addressed in small-scale, piecemeal developments.

Whether development is done by a developer or by a more dispersed group of initiators, it is clear that the municipality has a pivotal position. But with regard to self building, before the crisis, municipalities were reluctant to reduce their control of the end result. They didn't want so called 'Belgium realities', referring to urban sprawl without aesthetic control. A future with half completed houses, a mix of all sorts of styles and typologies, seemed like a bad idea. Developers weren't supportive either, Heddes admits, because they feared that such a messy neighborhood would devalue their neighboring projects. And although they probably wouldn't express this openly, developers with their own construction firm were not happy to see this volume of building go to smaller companies. In that sense, Adria Duivestijn's Homeruskwartier in Almere forced a breach in this



Photos: Alex Retegan

Office park Bergwijkpark Noord in Diemen under demolition to make way for Holland Park, a 3,000 dwelling development by Snippe bv, designed by Soeters van Eldonk and to be completed within five years.



bulwark of developers, municipalities and builders, as Maarten Hajer called it (see the interview with Hajer on page 64).

Looking to the future, de Zeeuw sees a growing influence of ICT. Not only in the way the house is equipped, but also in the way the process of developing and building is organized. In area development, all sorts of assessments have to be made to show the impact of the project, like an environmental impact assessment. With sensor networks and online data collecting, insight into such conditions will be a matter of pushing a button, so to speak. And it can be done continuously. Today these assessments are being done once, at the start of a project. And even though extrapolations of future developments have to be included, they are outdated by the time the project is realized. A more flexible and continuous process of adjustment and readjustment comes into view. And that can help to allow for experiments and new ideas because they can be monitored; not every possible consequence needs to be tested beforehand.

He presents an impressive list of factors that influence real estate development and ask for adjustment or response from the developer. But for change to happen he relies on good laws and regulations. For energy transition, sustainability and other major transformations under discussion, the government has to set the norms. Also for a notion like 'permanent change' or 'permanent temporariness' (temporariness as a condition, not as exception) he sees no big consequences for the developer, other than making use of such mechanisms to create value. In his view, it is either a way to earn some bucks during the 'in between' period or a method for place making, but in both scenarios the process is geared towards classic development at the end of the day.

Heddes' conception of the future seems to be more mixed, seeing the role of the developer primarily as the financially strong partner in operations on a bigger scale.

This text is written based on two separate interviews with Léon Heddes and Friso de Zeeuw, respectively. All wording is the author's responsibility.