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Economic Research Department

Contents

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Summary and conclusions

The Dutch existing homes market is still showing no sign of recovery. In the fourth quarter of 2011 prices continued to drop and fewer houses changed hands. This picture is not expected to change appreciably in the coming quarters. Poor economic performance and uncertainty about a number of long-term variables, such as the future of mortgage relief, make circumstances difficult for house-buyers. Moreover, consumers are faced in the short term with the challenges of poor labour market prospects and planned government cutbacks. Although the effects of both these factors are limited at macro-economic level, for the individual they are a cause of considerable uncertainty, as it is unclear how the effects will pan out.

Amid this lack of confidence, the affordability of buying a house has improved further. This is largely due to the reduction of transfer tax (stamp duty) and lower house prices. Nonetheless, buyers have not been induced to take the plunge. There are still more houses on the market than potential buyers. In the fourth quarter of 2011, a further 5,000 homes came onto the market, and the year ended with over 221,000 houses for sale. Little change is expected in this constellation during the coming quarters. Given the current circumstances, prices will have to drop further for the number of transactions to rise. However, relatively few vendors are under severe pressure to sell and therefore to cut their asking price. This can be deduced from the low number of payment arrears and forced sales. Accordingly, any further price drop will be merely piecemeal.

On balance we expect the price of existing homes to drop by 5% on average in 2012. Half of this price decline will be due to carry-over effects from 2011, resulting from an accelerated price drop in the fourth quarter. The remaining half will be caused by the mismatch between demand and supply in 2012. Price development in the following years will mainly depend on what happens to interest rates, inflation and incomes. Confidence will also play an important role. If confidence is restored, we could see pent-up demand leading to a change in sentiment on the housing market. Furthermore, price development will vary on a regional basis. On balance, the number of houses sold in 2012 will be comparable to that of 2011.

The market for newly completed houses continues to struggle. While we saw building output pick up in the first half of 2011, this did not continue into the third quarter. Moreover, order books shrank and fewer building permits were issued.

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Existing homes

Accelerated house price decline

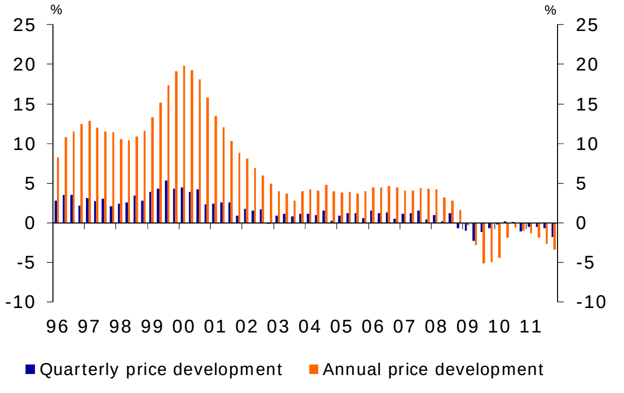
In 2011 second-hand house prices fell for the third successive year. According to the existing homes index (PKB-index) of Statistics Netherlands/Land Registry, the year-on-year price drop in 2011 was 2.3%, with an acceleration in this decline at the end of the year. During the first three quarters, the average price decline was 0.5% on a quarterly basis. By contrast, the drop was 1.7% in the fourth quarter. With the exception of the second quarter of 2009, this was the biggest price drop in a single quarter for a period of seventeen years. Current house prices are 3.3% lower than in the fourth quarter of 2010 (figure 1).

The recent decline also means that the gap between prices at the peak of the index - in August 2008 - and the current level has increased further. This difference currently runs at 10.9%. Corrected for inflation, prices have actually fallen by 15.3%. However, by comparison with 1995, house prices have risen by over 2.6 times, or in real terms by a factor of 1.8 (figure 2).

It is no surprise that second-hand house prices have declined further during the past quarter. House-buyers continue to struggle with economic adversity and with uncertainty about a number of long-term issues, such as the future of mortgage interest relief. And more immediate issues causing anxiety to consumers include the employment situation and proposed government austerity measures. While these latter issues have a limited effect at macro level, they can cause considerable uncertainty at micro level, as it is unclear how the pain will be shared. This climate of uncertainty has a negative impact on the housing market.

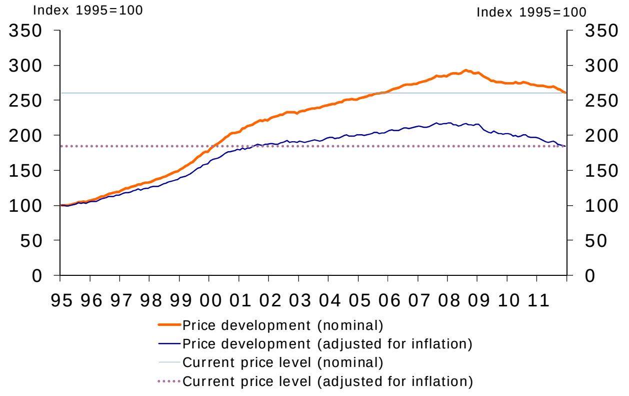
Figure 3 shows that consumers have become more negative in recent months about the economic situation; and the market indicator of the Dutch Home-Owners Association (VEH) confirms that this also applies to the residential

Figure 1: House price changes



Source: Statistics Netherlands (CBS)

Figure 2: House prices and inflation



Source: Statistics Netherlands (CBS)

property market. According to the indicator, the number of people who gave a negative answer to the question "is this a good time for a large purchase" remains unchanged, however.

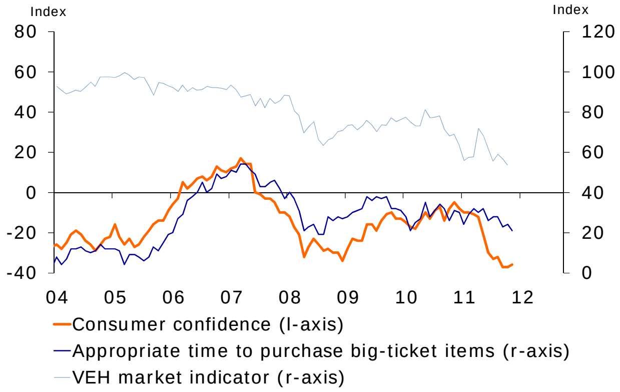
Finally, the reduction of transfer tax (stamp duty) has not induced potential house buyers to take the plunge: this is reflected in the further drop in the number of houses sold (see paragraph ‘Transaction numbers'). The combination of declining prices and fewer houses changing hands indicates a deterioration of the existing homes market. After all, a decline in prices ought to make purchasing more attractive to potential buyers. We await a rise in the number of houses sold as a first sign of recovery in the housing market.

Expected price development

Based on the index of Statistics Netherlands, second-hand house prices are expected to decline by a further 5% in 2010. Over half of this percentage (2.6%) can be attributed to carry-over effects from 2011 (figure 4). The remainder is due to demand being lower than supply. As in 2011, potential house-buyers will be reluctant to enter the market. The main reasons for this caution will be the ongoing uncertainty caused by the euro crisis, government cutbacks and the poor economic climate.

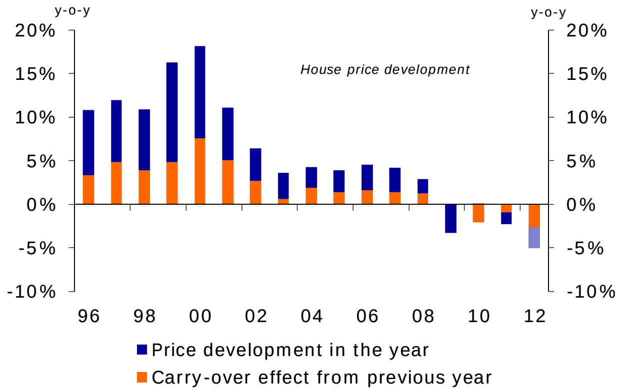
In contrast to this low level of demand, we see a rise in the supply of houses coming onto the market. This increases competition between vendors, which will put further downward pressure on prices. Nonetheless, we do not expect a major acceleration in the declining trend; relatively few households are under severe pressure to sell. This is borne out by the low level of mortgage repayment arrears and forced sales (see paragraph 'forced sales').

Figure 3: Consumer confidence



Source: Statistics Netherlands (CBS) and VEH

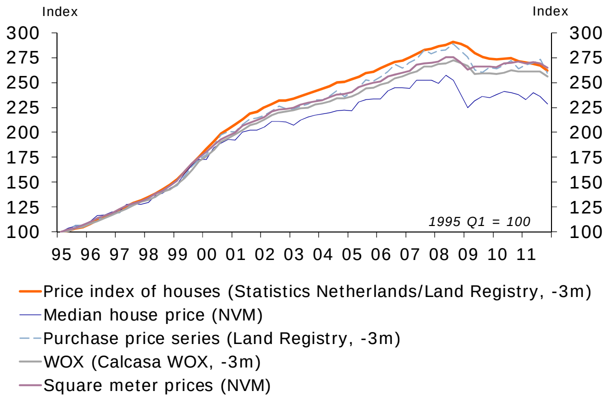
Figure 4: Carry-over effect



Source: Statistics Netherlands (CBS), Rabobank

However, on an increasing basis, prices will be determined by vendors who are under pressure to sell, if they lose their job, for instance or as a result of a divorce. Households that don't have to sell will only gradually drop their price while they wait for the market to improve.

Figure 5: Price development according to five indicators



Source: Statistics Netherlands (CBS), NVM, Calcasa WOX, Land Registry

In view of the ample supply, house prices will remain under pressure in 2013. How far they will drop will greatly depend on the prevailing economic situation, government policy, and inflation and interest rate developments. Consumer confidence will also play an important role. Once confidence is restored, pent-up demand could push prices up.

Various indicators

Besides the PBK-index of Statistics Netherlands/Land Registry, there are four other indicators that measure price development (figure 5). In addition to the index, Statistics Netherlands also publishes the average transaction price. This was 233,229 euro in the fourth quarter of 2011 - 5% lower than the previous quarter. This is the largest quarterly price drop since the start of the economic crisis in 2008. Despite this decline, the average purchase price in 2011 was 0.3% higher than in 2010. This point immediately illustrates the weakness of this series: volatility. A rise or drop in the average purchase price cannot always be explained by the actual price development, since no correction is made for compositional effects. This means no account is taken of the type of houses sold or the region. A breakdown of the transaction numbers shows that these factors play a role (see paragraph 'Transaction numbers: differences in house type').

The Dutch Association of Real Estate Brokers (NVM) has a series for the median house price, which likewise has the disadvantage of volatility, since the NVM does not correct for house type. Another drawback of this series is that it is based on a fluctuating market share of about 70%. On the plus side however, the series is published early, as the transactions are registered between two and three months sooner than is the case with the Land Registry. However, this has its downside in the current market, because house sales fall through more often than usual owing to problems with securing financing. According to the NVM, house prices declined by 1.7% in the fourth quarter of 2011. This represents a drop of 4.1% year on year. The way the NVM corrects for house type is to also publish the transaction price per square metre. This likewise shows a drop of 1.6% on the previous quarter and a decline of only 2.9% compared to a year ago.

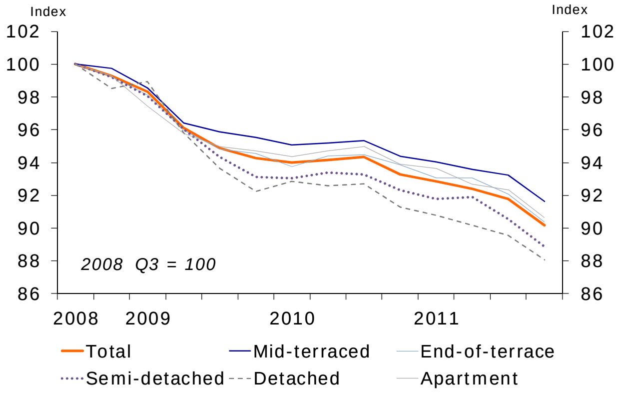
Prices by segment

During the past quarter there was virtually no variation in the price development of the various segments of the market (figure 6). Mid-terrace and detached houses both declined in value by 1.7% compared to the previous quarter. Prices for end-of-terrace houses, semi-detached houses and apartments fell by 1.8%. It is remarkable that the difference between the segments are so small, considering that the price development has been very divergent since 2008. Since that year, mid-terrace houses have declined in value by 8.4%, while the prices of detached houses have fallen by 11.9%. Because prices have fallen more sharply in the more expensive segment, it has been easier to move up the property ladder, since the price gap has diminished. Besides differences in price development per segment, there are also considerable differences in regional price development (see 'Downturn on the housing market').

Fewer sales despite stamp duty cut

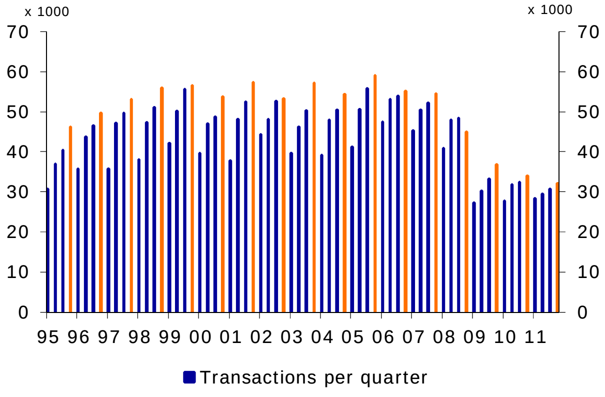
In the fourth quarter of 2011, 32,080 house sales took place - an increase of 4.3% on the previous quarter. However, this number is far from being a confirmation that the reduced stamp duty led to more sales. After all, fourth quarter sales are virtually always higher than in the first three quarters of a year (figure 7). The one exception to this is the fourth quarter of 2008. The true picture emerges when we see that transaction numbers fell by 5.9% compared to the fourth quarter of 2010. As a result of this decline, the annual total of house sales was 4.3% lower than a year earlier, at 120,739. This brings house sales to a new low of 40% below the pre-crisis level.

Figure 6: House price development by segment



Source: Statistics Netherlands (CBS)

Figure 7: Transactions always higher in 4th quarter



Source: Statistics Netherlands (CBS)

House sales are registered two to three months earlier with NVM estate agents than with the Land Registry. Based on NVM data from the fourth quarter we can estimate the trend in Land Registry figures in the first quarter of 2012 (figure 8). At the same time, account should be taken of the fluctuating market share of the NVM, which averages around 70% of the market. An increase in market share would mean that we overestimate the Land Registry transaction numbers for the first quarter and vice versa.

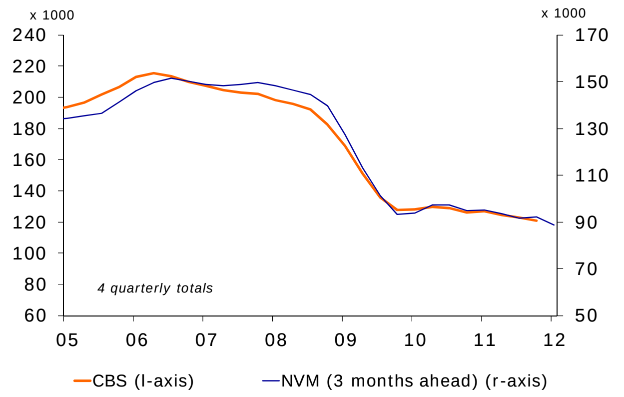
The NVM data lead us to assume a further drop in transaction numbers during the first quarter of 2012. In the fourth quarter, NVM estate agents registered 22,202 transactions, which represents a drop of 1.4% compared to the third quarter. By comparison with the same quarter a year earlier, the decline was 13.0%. This was also the worst fourth quarter since 1994. We don't expect to see a further drop in the coming quarters. This assumption is based on the fact that pressure to sell is increasing among a certain share of vendors. On balance, we expect the number of transactions for the year to equal that of last year (see 'Expected transaction numbers').

Transaction numbers: differences per type

The decline in transaction numbers is not equally distributed across the various house types. Accordingly, we see that on an annual basis 7.4% fewer apartments and 4.0% fewer mid-terrace houses were sold in 2011, whereas the number of detached houses sold rose by 4.3%. Typically, houses that declined the most in price are now selling relatively better than a year ago. The reason is that the larger price drop means these houses have become relatively more attractive (figure 9).

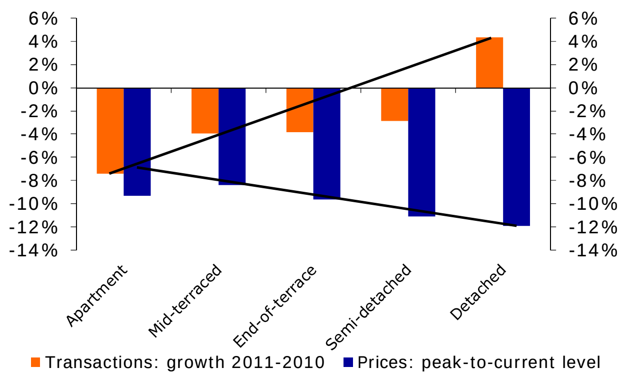
Apartments are the exception here. Although sales numbers for apartments showed the largest decline during the past year, their price drop was not the

Figure 8: Comparison of transactions CBS vs NVM



Source: Statistics Netherlands (CBS) and NVM

Figure 9: Correlation between price and transactions



Source: Statistics Netherlands (CBS)

biggest. A possible explanation is that there is considerable divergence in the prices of apartments and that here too, the most expensive segment experienced the largest price drop. However, we do not have the data at our disposal to analyse this category further.

Based on the changed composition of transaction numbers we may also be able to explain the difference between the price development of the Statistics Netherlands index and the average transaction price listed by the Land Registry. This difference is probably largely due to the changing nature of the type of houses being sold. Another explanation could be that more houses are being sold in regions where houses are cheaper. However, this association does not appear to be very sound.

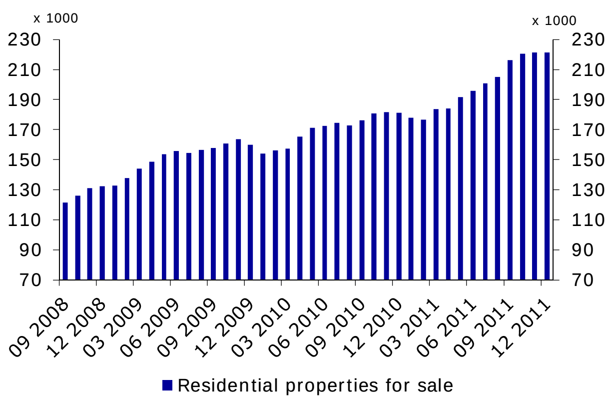
Marginal increase in supply

Between October and December the number of houses for sale increased by 5,371, bringing the total number of houses on the market to 221,516 (figure 10). This rise is modest compared to the increase in the second and third quarters of 2011, when the supply rose to 12,000 and 20,000 homes respectively. In November only an additional 706 homes came onto the market, and in December as few as 142. In the last months of the year activity on the housing market is always subdued.

Duration of selling period

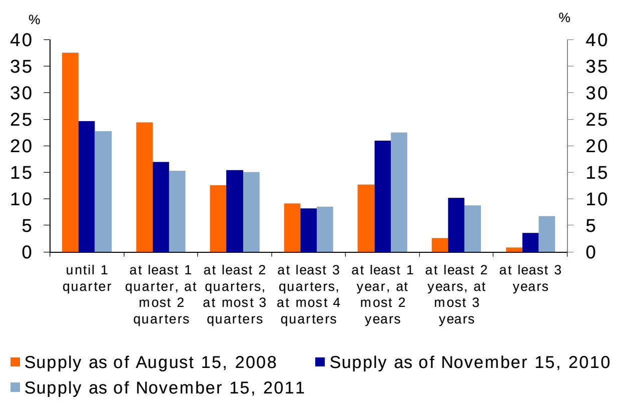
In the fourth quarter of 2011 a 'for sale' sign was up for an average of 271 days – three days longer than in the previous quarter. However, there are large differences in the selling time for the various house types. It takes an average of 350 days to sell a detached house, compared to 224 days for mid-terrace houses. However, for detached houses, the number of days on the market has dropped from 357 in the previous quarter, whereas it has increased by an average of 12

Figure 10: Decline in growth of housing supply



Source: Huizenzoeker.nl

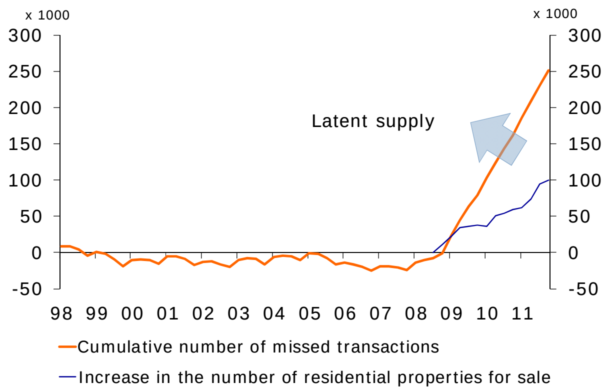
Figure 11: Houses taking longer to sell



Source: NVM

days for mid-terrace houses. The data on houses that are longer than three years on the market also shows that the selling duration has increased. Halfway through the fourth quarter this was 6.8% of houses for sale (figure 11), which corresponds to just over 15,000 houses. Three and a half years ago, only 1,100 houses were in this category.

Figure 12: Latent supply rises further



Source: Statistics Netherlands (CBS)and huizen-zoeker.nl

Latent supply

Not all homeowners who wish to move house actually put their house up for sale. The difference between the cumulative number of missed transactions and the increase in the number of residential properties for sale, represents the size of the group who might otherwise have sold their house - the latent supply. This figure has now reached a total of 151,000 houses. However it should be borne in mind that an overestimation of the 'normal' number of house sales leads to a overestimation of the latent supply.

Furthermore, during a prolonged period of low transaction numbers, the likelihood of overestimating the latent supply increases. This is because houses that would previously have been sold on after a few years are now being counted twice. Additionally, the current low prices may induce a number of households to skip a rung on the property ladder, in order to cut down moving expenses. This means that some of the 'missed sales' would not in fact have taken place.

Expected transaction numbers

For the year as a whole we expect that a total of 120,000 houses will change hands.[1] Increasing pressure to sell on some home-owners will push up sales numbers. Pressure has mounted following the discontinuation from 1 January of the double mortgage relief facility for households that had been paying dual mortgage costs since 2008. Most potential vendors won't experience this pressure, however, so they will likely be reluctant drop their asking price to any great extent. And this may be insufficient to induce potential buyers to take the plunge; with so much uncertainty on the housing market and elsewhere, buyers will be very reluctant to raise their bid.

[1] We are assuming that stamp duty will remain at the current level of 2 percent after the expiry date of 1 July 2012. However, this has not yet been settled by the cabinet. Should stamp duty be raised again, there will be fewer houses sold in the fourth quarter, as it will be more difficult for vendors and buyers to agree on a price.

Negative equity not a reason for anxiety

According to a study by the Dutch Central Bank[2] it is mainly home-owners who purchased a house after 2002 who are in 'negative equity'. Taking account of the savings balance in savings-based mortgages then this mainly involves houses purchased after 2004 (figure 13). In absolute numbers we are talking about some 300,000 to 500,000 households. As such, this number need not be a problem. As long as these home-owners don't want to move house and are able to meet their mortgage repayments, all will be well.

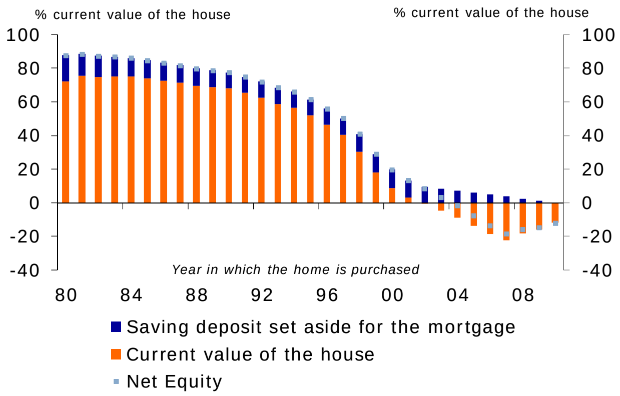
No further increase in mortgage repayment arrears ...

The percentage of households in mortgage repayment arrears of 60 days or more has not risen further in recent months, and amounted to 0.9% in September (of securitised mortgages; figure 14). Of the four million mortgages outstanding, this percentage accounts for some 40,000 households. Ultimately we will see between 2,500 and 3,000 forced sales resulting from these arrears. Compared to other countries, the Netherlands scores well. The percentage of mortgage arrears in, for example, Ireland, Greece and the U.K. is significantly higher.

This difference can be explained by the fact that Dutch households often opt for a fixed interest period of at least five years. This protects them from interest rate fluctuations until the time of renewal. However, mortgage interest rates are currently higher than was the case during the 2003 to 2006 period. Consequently, monthly repayments will rise after the renewal date unless (some of) the mortgage has been paid off.

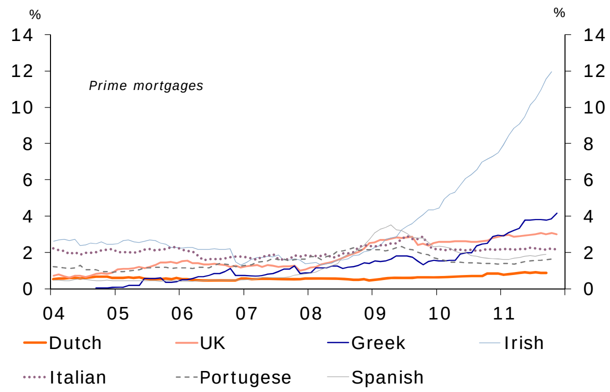
[2] DNB (2011) "Risico's Nederlandse hypotheekschuld sterk geconcentreerd" [Risks of Dutch mortgage debt heavily concentrated], 6 December 2011.

Figure 13: Outstanding debt by year of purchase



Source: DNB (Dutch Central Bank)

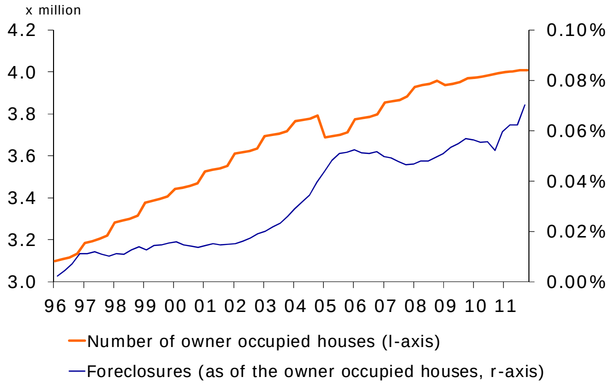
Figure 14: International payment arrears



Source: Moody's

On the other hand, this will be partly offset by a rise in wages during the same period. Another reason for the low percentage of payment arrears is that the percentage of unemployed in the Netherlands has remained relatively low during the crisis. And those who do lose their jobs can claim a relatively generous unemployment benefit - by international standards[3] - which means they don't immediately get in to difficulties. In the Netherlands, mortgage debt lies with the individual and not on the house itself.

Figure 15: Forced sales / private housing stock



Source: Statistics Netherlands (CBS) and Land Registry

Consequently, Dutch households can't just hand their keys over to the bank, as is the case in some states in the US, where people simply walk away from the debt. In periods of declining house prices or rising mortgage arrears, this might be a solution for the individual; however, on a national basis the consequences could be disastrous. House prices would come under further downward pressure, making this option more attractive to increasing numbers of people. This in turn would create problems for banks, as they would end up with a growing number of houses with a value lower than the debt on them.

... but a rise in forced sales

The fourth quarter of 2011 saw 891 forced sales, bringing the total for the year to 2,811 - a rise of 34.8% compared to 2010. While this increase is considerable, it still represents a very low level. In terms of the total housing stock in the residential property market, this accounts for only 0.07% of homes (figure 15).

The low level of mortgage arrears by international standards and the relatively small number of forced sales explain why house prices in the Netherlands are declining so gradually. By comparison, prices have fallen much more steeply in countries such as Ireland, Spain, the U.K. and the United States.

[3] Koen Caminada & Olaf van Vliet, "Nederlandse werkloosheidsuitkering nog altijd riant" [Dutch unemployment benefit still very generous], www.mejudice.nl, 23 January 2011.

New Housing

Recovery in the first half of 2011 not sustained

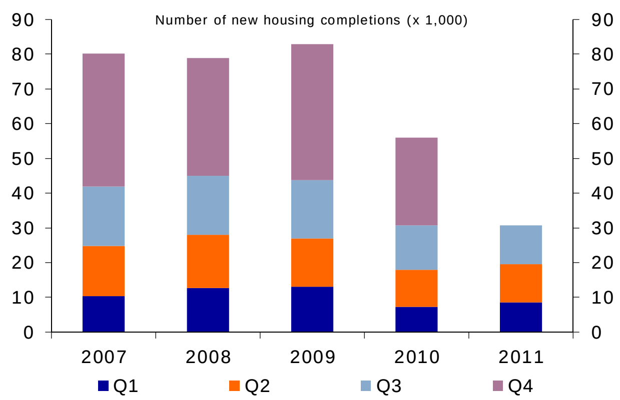
The recovery in construction output of the first half of 2011 was not sustained into the third quarter. The total number of new housing completions was over 12% lower than in the third quarter of 2010. The decline was most marked in the rental sector (-21.8%), but fewer new houses were built in the non-rental sector too (down by 6.7%). Hence the number of newly completed houses in the first three quarters of 2011 is virtually the same as in the first nine months of 2010 (figure 16). At the end of 2011, the order books in the house-building industry were less well filled. According to the Economic Institute for Construction and Housing (EIB), in late November 2011 there was just over six months work in the books, nearly half a month less than in October.

Similarly, there has been a decline in the number of new houses for which a building permit was issued. In the third quarter, this was 14% fewer than in the same quarter a year earlier. During the first half of 2011 the number of building permits issued had actually risen year-on-year. Altogether, far fewer permits are still being issued compared to pre-crisis levels. There is a lag of about one and a half years on average between application for a building permit and the completion of a house. Accordingly, an increase in housing output is not envisaged any time soon.

Mild winter allows for more productive working hours

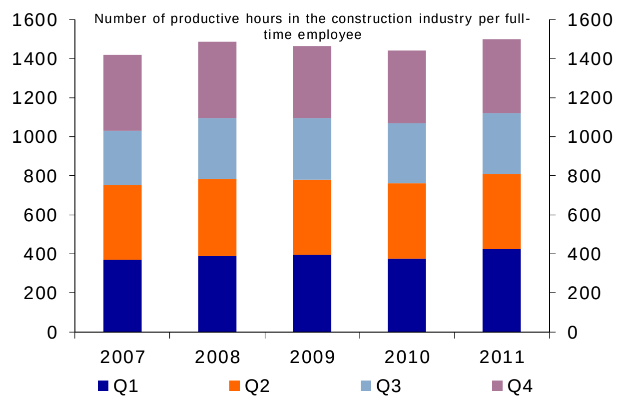
The construction sector benefitted from a very mild start to the winter. December 2011 was one of the warmest December months in over a century. By comparison, December 2010 was the coldest in 40 years. Not surprising then that the number of productive hours in commercial and house building was higher during the last quarter of 2011 than in the previous year (figure 17). This was also the case in the first quarter of 2011. Accordingly for the entire year, the number of productive hours per full-time employee averaged over 4% higher than in 2010.

Figure 16: Construction output fairly similar



Source: Statistics Netherlands (CBS)

Figure 17: More productive hours



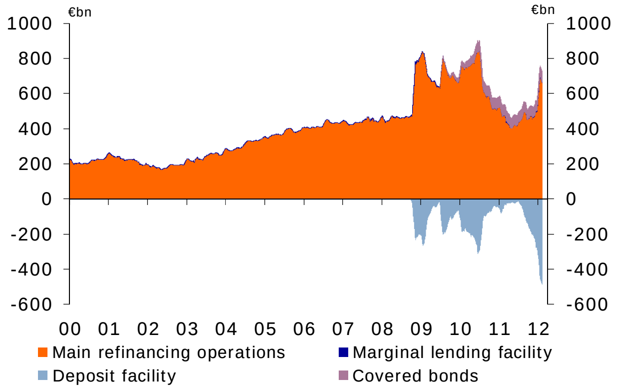
Source: Statistics Netherlands (CBS)

Mortgage Interest Rates

Banks still don't trust each another

The mutual lack of confidence between the banks has not induced the ECB to further cut its policy rate. However, ECB President, Mario Draghi expressed satisfaction about the three-year refinancing operation of last December. This enables the banks to access relatively cheap financing for the longer term. On the one hand, the available liquidity seems to have alleviated the tension on the inter-bank money market, leading to a decline in the three-month inter-bank money market interest rate. On the other hand, confidence between the banks has not yet been restored, as evidenced by the vast deposits left overnight with the ECB (figure 18).

Figure 18: Stress between banks/deposits with ECB



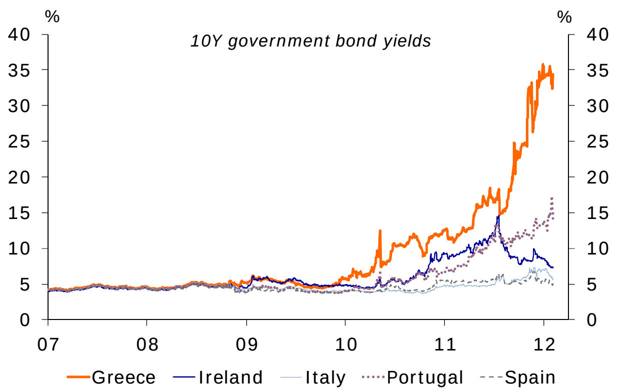
Source: EcoWin

Interest on state debt in the periphery declining

In recent weeks interest rates on government bonds of southern European countries have declined (figure 19). The ECB's three-year refinancing operation announced last December is cited as the main reason for the drop in capital market interest rates. Banks have availed of this facility partly to buy government bonds of these peripheral countries. Consequently, there has been a decline in interest rates, particularly at the short end of the yield curve. This means the ECB is under less pressure to intervene directly via the Securities Market Programme. In the fourth and fifth weeks of 2012, the total amount concerned was 187 million euro (figure 20) - considerably less than in the autumn of 2011.

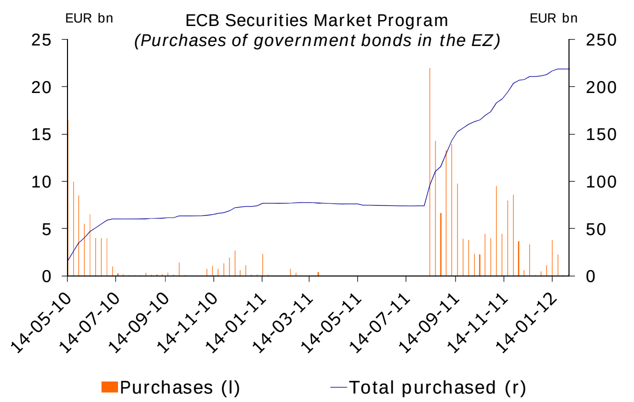
The ECB's policy of extending long-term liquidity on a large scale clearly does not offer a long-term solution for dysfunctional government finances or ma-

Figure 19: Interest on government bonds



Source: EcoWin

Figure 20: Extent of the bond-buying programme



Source: DNB (Dutch Central Bank)

rooned economies that have little growth potential. However, it does buy time for European policy makers to implement the necessary reforms.

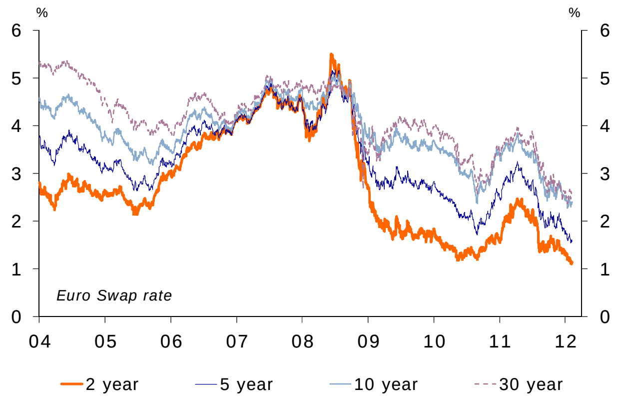
Greece the exception

Greek government debt continues to be a cause for concern. There is ongoing uncertainty as to whether Greece can meet all the requirements set by other euro countries and the IMF to be eligible for the second bailout of 130 billion euro. The aim is to make the Greek government financial situation sustainable again. A number of steps have been taken to resolve the issue. The Greek parliament has approved the additional austerity plans for 2012.
However, a number of other euro countries feel that the Greek political parties have given insufficient guarantees that a potential new cabinet will adhere to the austerity plans. As yet, agreement has not yet been reached between the Greek government and the private sector - particularly banks that hold Greek bonds - regarding a partial remission of the debt. The expected outcome is that the banks will accept a loss of about 70% of the net present value.

Uncertainty still an important factor

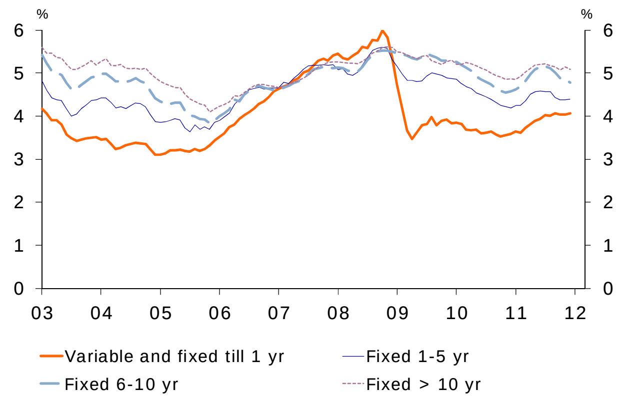
The decline in capital market interest rates (figure 21) may have a favourable effect on mortgage rates as the risk perception lessens. It must be noted however, that banks draw only part of their funding from the capital markets. The reduced risk perception may lead to a smaller 'safe-haven effect'. This means investors will be more inclined to invest in more high-risk products and less in safer instruments such as Dutch government bonds. Consequently, capital market interest rates for financial institutions based in the Netherlands could rise, leading to a similar hike in mortgage rates.

Figure 21: Decline in the swap rate



Source: EcoWin

Figure 22: Mortgage interest rates



Source: Statistics Netherlands (CBS)

Affordability

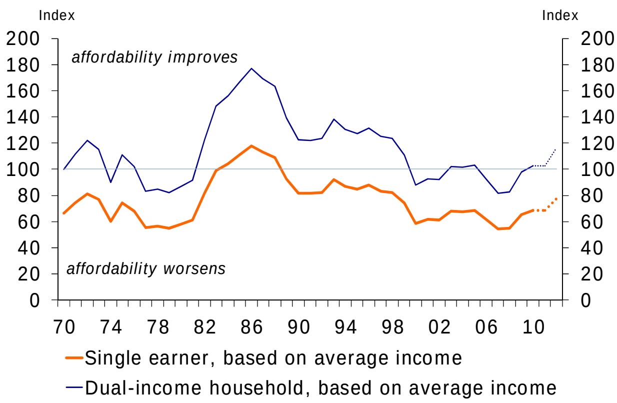
The Rabobank affordability index is a measure of the affordability of purchasing an average house for a household with an average income in the Netherlands. If the index registers 100, this means that for an average household income and an average priced house, the gross monthly burden is 30% of gross income. If the index exceeds 100, then the gross monthly burden is less than 30% of gross income, and vice versa

Although the economic situation has deteriorated in recent months, the affordability of purchasing a house in 2011 remained unchanged (figure 23). The affordability index for dual-income households registered a value of 102.6 in 2011. This year, affordability is expected to improve (116.2), mainly due to a likely drop in house prices. However, single-income first-time buyers with a modal income will have little to gain from the improved affordability. For this group, affordability is expected to amount to 62.8 on the scale in 2011, rising to 71.7 in 2012. This means, that without private equity, it is virtually impossible for people in this group to buy a house.

The affordability index does not take account of any costs other than housing costs or changes in the income situation as a result of unemployment, for instance. For example, health care premiums will be 6% higher in 2012 than in 2011, according to recent calculations by Nibud (National Institute for Family Finance Information). Moreover, there is a risk that the government deficit next year will be higher than originally projected by the cabinet, which means additional cutbacks will be necessary. With other fixed costs rising, there is less room for spending on housing than is indicated by the index (figure 24). At least potential house buyers will be able to benefit, until mid-2012 at any rate, from the reduced stamp duty. Even taking account of these policy changes, affordability is nonetheless improving.[4]

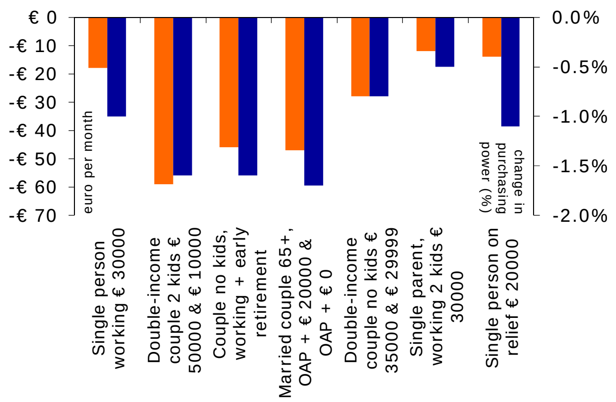
[4] Van der Molen, M.T. (2012) 'Aanschaffen woning is gemakkelijker', [Buying a house getting easier] Themabericht [Special Report] 2012/01, Rabobank Nederland

Figure 23: Improvement in affordability



Source: CPB, CBS/Land Registry, Reuters EcoWin, Rabobank

Figure 24: Reduced scope for spending on housing



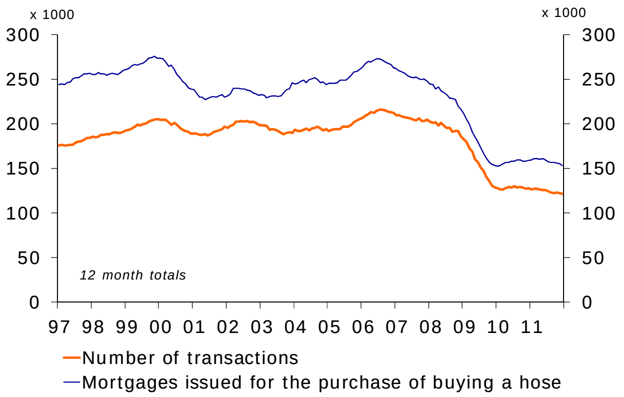
Source: Nibud

Mortgage Market

The number of mortgages issued for the purpose of buying a house is strongly related to sales figures (figure 25). Parallel to the rise in the number of houses sold, the number of mortgages issued increased by over four percent compared to the previous quarter. Compared to a year ago, however, there has been a 19.5% decrease in the number of mortgages agreed for the purpose of buying a house. With regard to turnover, we see a drop of 3% vis à vis the third quarter of 2011 and 16% compared to the fourth quarter of 2010. Similarly, in the market for mortgage renewals, both the volume and the turnover showed a year-on-year decline. On balance, over 18,000 mortgages were renewed in the fourth quarter, which represents a drop of just over 36% and as much as 50% compared to pre-crisis levels.

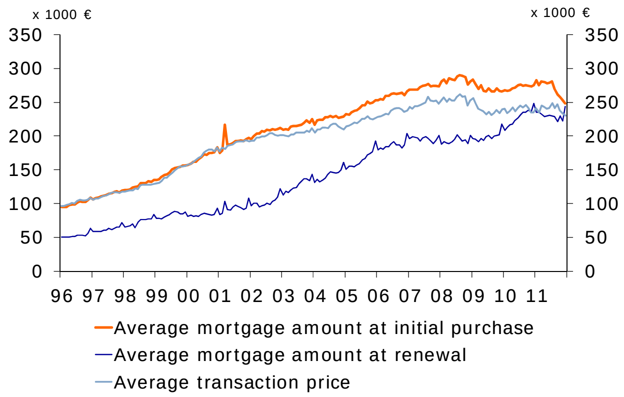
If we look at the average amount involved in new mortgages and the average price paid for a house, we see that these have been following a similar rising path for some time. However, after 2001, the mortgage amount increased at a faster pace than the average purchase price; since 2010 the reverse has been the case. This implies that the loan-to-value ratio of mortgages is currently declining. Apparently households are willing and able to take out a lower mortgage in relation to the value of their home, compared to a few years ago. Figure 26 also shows that as a result of the declining house prices, the average mortgage amount at initial purchase and at renewal are moving closer together. At the end of 2011 there was only 4,000 euro in the difference. By comparison, during the period 1996-2010 the difference varied between 40,000 and 100,000 euro. On account of the current decline in house prices, home-owners who bought their house a few years ago have no excess value in their house. And the lower loan-to-value ratio for current house-buyers leads to a lower mortgage value at the time of purchase.

Figure 25: Further decline in mortgages registered



Source: Statistics Netherlands (CBS) and Land Registry

Figure 26: Average mortgage value



Source: Statistics Netherlands (CBS) and Land Registry

The downturn on the housing market

In the second quarter of 2008 we saw the start of a downturn after a long period of rising house prices to the current period of price decline. This downturn did not occur to the same extent throughout the country. What were the differences and what were the reasons for these differences?

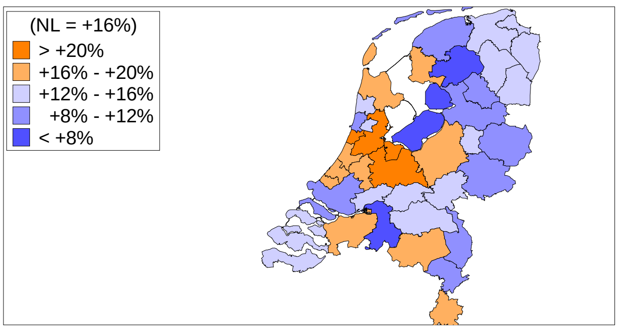
Rise and fall

The second quarter of 2008 saw an end to the rise in house prices in the Netherlands that had lasted for almost a quarter of a century. The rise was steepest in the second half of the 1990s, while the three years prior to the peak in 2008 also saw prices soar - by 16%. The crash of 2008, when prices fell by 13% almost wiped out those gains. Since the trough of the first quarter of 2009, prices struggled to recover, culminating in a rise of 2% by late 2011.

Both during the boom of the years 2005-2008 and in the years following, there was considerable regional divergence in price development. During the 'good years', the steepest price rise took place in the Greater Amsterdam area (+25%) – followed by other regions in the northern wing of the Randstad urban belt. Prices rose by almost 20% in Kop van Noord-Holland, Zuidwest-Friesland, West-Brabant, Zuidoost-Brabant and Zuid-Limburg. The north of the country and IJmond were bottom of the list (figure 27).

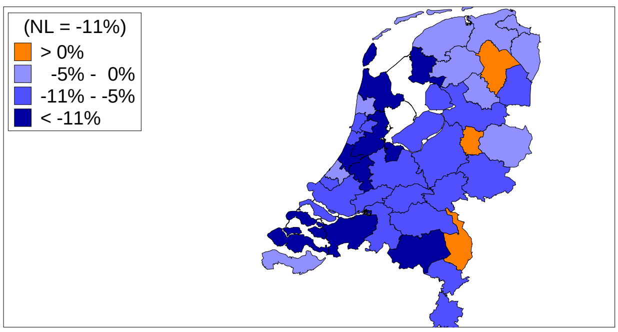
The picture is very different since 2008. After the downturn, most of the former top performers experienced the sharpest price drop after the province of Zeeland, where prices fell by an average of 17%. During the past three years, the North, Limburg and Zeeuws-Vlaanderen showed only a limited price drop. And in Noord-Limburg and Zuidwest-Overijssel prices actually rose slightly (figure 28).

Figure 27: Median house price during the boom (2005-2008)



Source: NVM, Data processing: Rabobank

Figure 28: Median house price after the peak (2008-2011)



Source: NVM, Data processing: Rabobank

Regional profiles

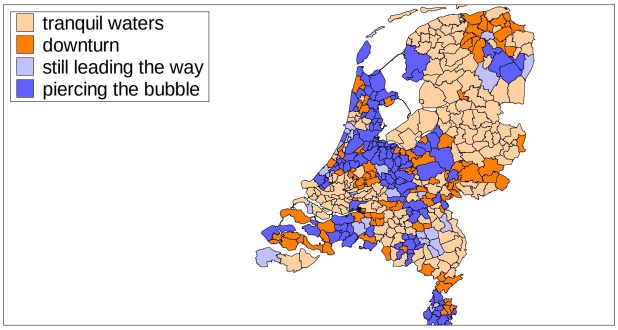
If we compare the various regions with the national development before and after the peak, four different regional categories emerge (figure 29). For the 'burst balloon' category, we saw an above-average price rise before the peak and a sharper than average decline after the peak. This category includes the northern wing of the Randstad urban belt, Zuidwest-Friesland, Zuidoost- and West-Brabant and Zuid-Limburg. In the regions of Haarlem and The Hague, the above-average price rise during the boom was followed by a less than average price drop after the peak. In contrast to the regions in the first category, The Hague and Haarlem were able to retain their leading positions on the residential property market.

As against these (former) top regions, a number of areas experienced only a modest rise in the median house price during the boom. After the peak the price decline was likewise modest in many of these regions. These regions - virtually the entire north of the country as well as Rijnmond, Drechtsteden and parts of Noord-Brabant – were in calmer waters both during and after the boom. However, in the areas of Noord-Kennemerland, Rivierenland, the SAN-region, de Achterhoek, Zeeland and Midden-Limburg, the median house price slumped during the downturn.

Possible reasons

The reasons for these differences in regional price development may possibly be found in the extent of the demand and supply of houses. A large increase in the number of newly built homes in a region could have a dampening effect on prices. The same effect could be caused by a relatively sharp decline in the number of relocations combined with an ageing local population. After all, a decline in the number of people moving house implies a drop in the demand for houses; and older people are less likely to move than younger people.

Figure 29: Downturn on the housing market, 2008



Source: NVM; Data processing: Rabobank

Figure 30: Correlation with regional price development during the boom and since the peak

	boom	*since peak*
residential building	-0,33	-0,13
newly built flats	-0,41	-0,26
appraisal of residential environment	0,26	0,09
share of elderly people	-0,05	0,20
domestic migration	0,03	0,00
growth number of households	-0,21	-0,23
house prices	0,28	-0,52

Source: ABF-Research, NVM; Data processing: Rabobank

Conversely, strong growth in the number of households could have a positive effect on prices. Figure 30 shows the association between these factors and price development before and after the peak, on the basis of correlation coefficients. Where there is a total correlation, the correlation coefficient value is '1'; if no correlation is found, the value is '0'; and for an inverse correlation, the coefficient value is '-1'. Values of 0.3 or higher indicate a fairly strong association.

On this basis, a rather negative association was found between the number of houses built and price development. This was especially true for apartments. Particularly during the boom, regions that saw a sharp rise in the number of apartments showed a relatively unfavourable price development. These regions included de Achterhoek, de Betuwe, Noord-Limburg and Midden-Brabant. However, the desirability of a region as a place to live - such as Haarlem, het Gooi, de Veluwe and Zuid-Limburg showed a limited association with price development during the boom.

On the supply side, the number of relocations and the age profile show scarcely any association with price development, while there is a negative correlation between price and number of households. In particular, regions such as Flevoland, Noord-Overijssel and Zaanstreek, that experienced strong growth in the number of households thanks to the construction of Vinex housing developments, show only a limited price rise or even a sharp drop in prices.

Qualitative - financial - factors seem to be involved as well. The strongly correlated average house value and average household income show a - moderated - association with the development of house prices before and after the peak. The price rise during the boom and the ensuing slump were most marked in the most affluent regions. As has been explained in an earlier Rabobank Special Report, consumer confidence appears to play a major role in this respect.

During the boom, an optimistic view of the future led to strong demand on the residential property market in affluent areas, which had an above-average upward effect on prices. The downturn in sentiment in 2008 had the opposite effect in the more expensive price bracket. Consequently, prices plummeted the most dramatically in the regions where they had risen most. This drop in demand was visible both in the northern wing and in commuter regions for the Randstad, such as Noord-Kennemerland, Rivierenland and the de SAN-region.

In les affluent parts of the country - such as the north - the downturn was much less marked in 2008. Both purchasing power and house prices were much lower during the boom than was the case in the northern wing of the Randstad urban belt, and were more in balance.

Key data

House prices

Year-on-year change (%)	2009	2010	2011	2012 [a]
NVM (median house price)	-7.1	3.2	-2.0	-5½
Land Registry (purchase prices)	-6.4	0.3	0.3	-6
Statistics Netherlands/Land Registry	-3.3	-2.0	-2.3	-5
CALCASA WOX	-3.3	-0.3	0.2	-4½

Numbers

X 1,000	2009	2010	2011	2012 [a]
Sales transactions	128	126	121	120
New housing completions (rental and sale)	83	56	52 [a]	52

Numbers

	2009	2010	2011	2012 [a]
Involuntary sales	2,256	2,086	2,811	

Key economic data (December 2011)

	2009	2010	2011	2012 [a]
GDP (volume growth in %)	-3.5	1.7	1.2	½
Inflation (%)	1.2	1.3	2.3	2
Unemployment (%)	4.8	5.4	5.4	5¾

Rabobank Affordability index

	2009	2010	2011	2012 [a]
Affordability index [b]	98	103	103	116

Interest rate [c]

Level (%)	10 February 2012	+3m [d]	+12m [d]
3-month eurozone	1.07	1.01	0.86
10-year euro swap	2.39	2.50	3.00
Mortgage interest rate. 5-10 years fixed [e]	4.77 [e]		

[a] Rabobank forecasts

[b] The Rabobank Affordability index is calculated based on average house prices (data provided by the Land Registry) and average household income (data provided by Statistics Netherlands). This is based on an annuity mortgage with a term of 30 years for a foreclosure value of 80% of the market value and a monthly expense quote of 30%. If the value exceeds 100, an average home is easily affordable. If the value is lower than 100, the price of such a home is less accessible for buyers not using their own assets.

[c] Forecast by Financial Markets Research, Rabobank International

[d] 3-month outlook and 12-month outlook, respectively

[e] Monthly average for December 2012 – Dutch Central Bank

Colofon

The Dutch Housing Market Quarterly is a publication of the Economic Research Department (ERD) of Rabobank Nederland. The view presented in this publication has been based on data from sources we consider to be reliable. Among others, these include Reuters EcoWin, Land Registry, NVM, DNB, CPB, Statistics Netherlands and huizenzoeker.nl.

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