# Dutch Housing Market Quarterly

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*Economic Research Department*

# Contents



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# Introduction and summary

In the second quarter of 2012 second-hand house prices fell further. Compared to the first quarter, prices dropped by 1.8%. This further decline does not come as a surprise. We have seen the number of houses for sale continue to rise, while disposable income is still dropping. Besides having less money to spend, potential buyers are faced with uncertainty about their jobs, their pensions and the question of mortgage interest relief. Nor do we expect this picture to change materially during the coming quarters. Uncertainty about the future of mortgage interest relief still prevails now that the debate about the housing market has been postponed until after the September elections. The main question is whether there will still be a majority in parliament after the elections to implement the full package of housing market plans agreed to last spring. For the time being we assume that this will be the case, particularly as virtually all the parties are in favour of reforming the housing market.

Because buyers are unwilling or unable to pay the current asking prices, and vendors are dropping their prices only in a piecemeal fashion, both parties are slow to reach a 'sale agreed'. As long as this mismatch between demand and supply remains, prices will continue to drop and sales figures will remain low. No change is expected in this scenario during the coming year and a half. On balance, we expect that prices of second-hand houses will drop by an average of 5% in 2012. This trend will likely continue in 2013 - by a further 4%. However there may be large differences according to both price bracket and region.

The Spring Agreement is not likely to contribute much to this downward price trend, as it will do little to reduce the borrowing capacity of households, if at all. Thus the price decline will depend largely on choices made by households. The introduction of the Spring Agreement may in fact have a positive effect, as it will create more certainty for buyers about the future of mortgage relief.

During the second quarter a total of 34,628 homes changed hands - a rise of 17.3% on the same quarter a year ago. The increase is mainly seen in the month of June, when sales rose by nearly 70%. The main reason for this spike is the uncertainty about the rate of stamp duty to be paid after 1 July. This induced both buyers and vendors to close the deal before that deadline. However, the total number of sale agreements did not rise in the first half of the year. This leads us to conclude that transition between sale agreed and conveyancing was shortened considerably, which will be reflected in a sharp drop of ownership transfers during the coming quarter. In the fourth quarter we are likely to see a slight rise in the number of sales registered, as household will want to avail of current fiscal measures. On balance, a total of some 113,000 house sales are expected to be registered in 2012. In 2013 a similar number of homes is expected to change hands.

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# Prices still falling

### Selling prices declining more rapidly

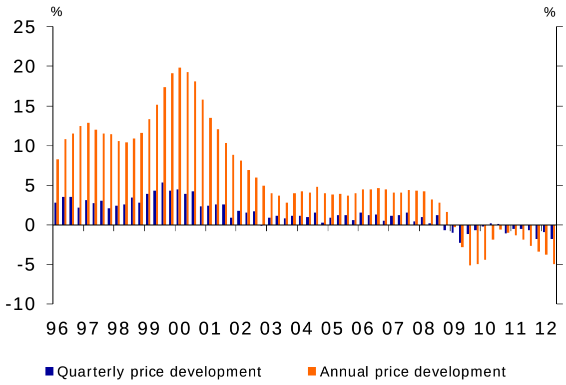
In the second quarter of 2012 the prices obtained for existing homes declined further. Prices fell by 1.8 percent on a quarterly basis, according to the Existing homes price indicator (PBK-index) of Statistics Netherlands (CBS). On an annual basis the price drop was 5.1% (Figure 1). Meanwhile, house prices have been falling for fifteen quarters. This is similar to the period in the early 1980s, after which a recovery started. However, there is a sharp difference between the rate of decline in both periods. In the early 1980s the nominal price drop was 34.8%, compared to a current rate of 12.3% (Figure 2). The vastly more rapid decline thirty years ago can be explained by the rising interest rates at that time, combined with the popularity of variable interest rate mortgages. Furthermore, the employment situation deteriorated far more rapidly then than is now the case, and thirdly, the house price rise just prior to the fall was much more acute. In contrast to that period, it is unlikely that the current price decline will cease after 15 quarters. Current market conditions and the weak economy will continue to put downward pressure on house prices.

The price decline in the second quarter does not come as a surprise. More and more houses are coming onto the market, while buyers still face uncertainty about their income in the years ahead. They are concerned about cutbacks, the deterioration in the labour market, and to a lesser extent, their pensions. Uncertainty about tax relief on mortgage loans also still prevails. While proposals for reform have been made under the Spring Agreement, the parliamentary debate has been postponed until after the elections of 12 September. This increases the chance that changes will be made to the originally formulated plans.

### Other indicators

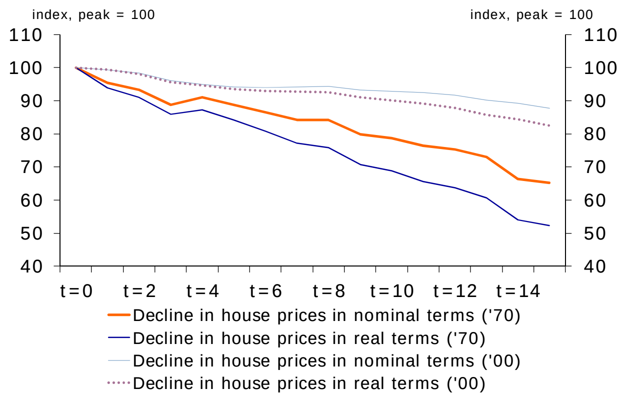
Besides the PBK-index, Statistics Netherlands also publishes the average selling price. In the second quarter of 2012, the average price obtained for a second-hand house was 234,572 euro - 0.6% down on the previous quarter. A drawback to this series is

**Figure 1: Price decline continues**




Source: Statistics Netherlands

**Figure 2: Comparison with the 1970s**




Source: Statistics Netherlands and NVM

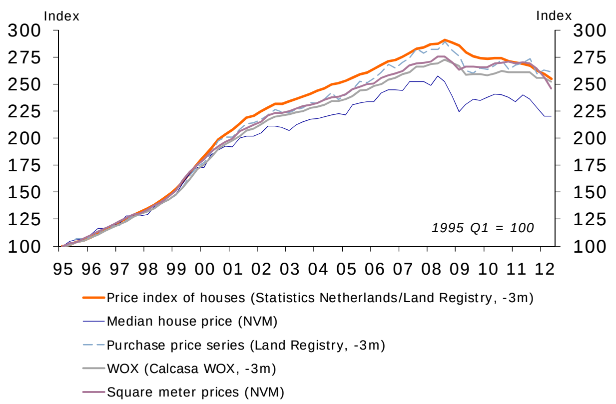
that it doesn't correct for house type or region. Likewise, the NVM series is not corrected for compositional effects. However, the advantage of the latter is that prices are monitored on the basis of "sale agreed", which means the series predates the other two series of Statistics Netherlands. According to NVM data, the median house prices was 215,000 euro - unchanged from the first quarter (Figure 3).

**Regions and segments**

There are differences according to market segment and region in the extent of the price drop since the peak in the third quarter of 2008. Mid-terrace houses have declined in value by 10.7%, whereas detached houses are now 14.8% cheaper than four years go (figure 4). It is not surprising that the more expensive price bracket has fallen more sharply. Prices for more expensive houses always react more strongly, both in an upswing and a downturn. Currently, demand for houses shows a decrease according as the houses become more expensive. As is the case with first-time buyers, those trading up are affected by the prevailing uncertainty and feel less inclined to trade up or move house. At the same time, they have more choice than first-time buyers: they already have a house, which means they may also have the option to stay put and extend or renovate their house. Another reason for the decline in demand among existing home owners is the fact that some of them would be left with residual debt if they were to sell up. This negative equity situation has led to stagnation in this group.

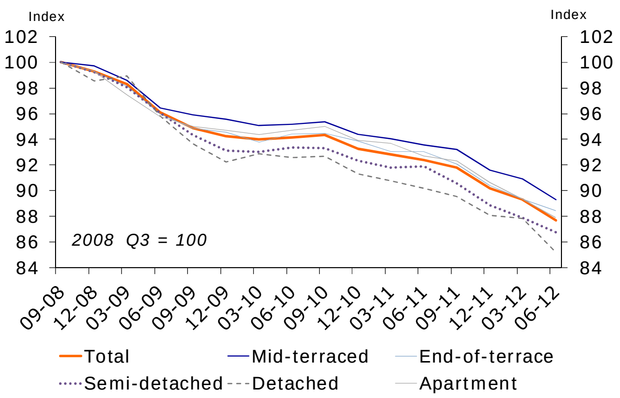
Not only do prices differ per segment, there are also considerable differences between regions. Prices in the region of Het Gooi & Vechtstreek fell by 19.8% compared to a drop of 4.9% in Zeeuws-Vlaanderen. The reasons for this discrepancy include demographic factors, such as the profile and growth of the number of households. The composition of the housing supply in a region also plays an important role. However, it is worth mentioning that the analysis of price development in regions is based on a low number of sales. As a result, the series become more volatile.

**Figure 3: Various indicators**




Source: Statistics Netherlands, NVM and Calcasa Wox

**Figure 4: Price development by segment**

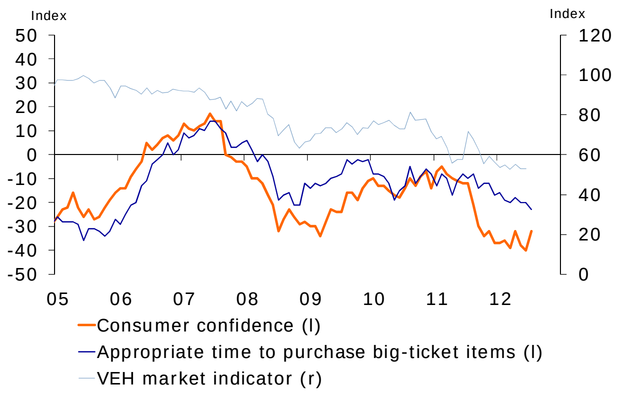



Source: Statistics Netherlands

### Looking ahead: buyers remain hesitant

Economic growth is not likely to pick up any time soon, while austerity measures will continue. The knock-on effect of this is that both disposable income and employment will remain under pressure. Clearly, this will cause potential house-buyers to be cautious and to have greater difficulty in purchasing a house. The uncertainty is further fuelled by questions about the future of mortgage interest relief. It is entirely possible that there will not be a majority in government after the 12 September elections to legislate for the proposals contained in the Spring Agreement. And a new coalition may well have other ideas about how the housing market should be reformed (see box Positions of Political Parties on page 7).

**Figure 5: Consumer confidence**




Source: Statistics Netherlands and VEH

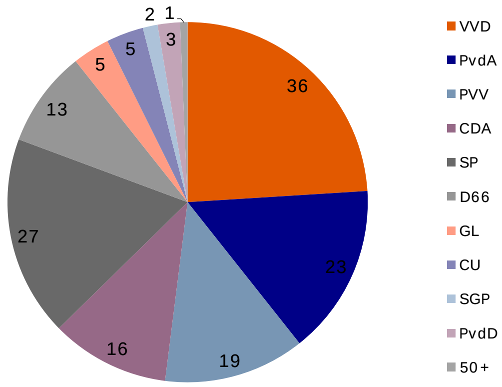
The lack of optimism among consumers is reflected in the consumer confidence indicator and the market indicator of the Homeowner's Association (VEH). Although consumer confidence rose by 8 points to -32, this is still a very low level. Moreover, the sub-indicator "appropriate time to purchase big-ticket items" fell further, and the market indicator for the residential property market has been below the level of 2008 for some months now (Figure 5).

### Awaiting a rational move by first-time buyers

Apart from the prevailing uncertainty, buyers who expect house prices to drop further have an incentive to postpone their purchase. Certainly, new entrants to the market will need to spend less money on a house if the wait a while. For those moving up the property ladder the same is true, if they expect their current house to drop less in value than their next house. Since this group already own a home, the effect will matter less to them. In practice, both first-time buyers and existing home-owners have their own set of limitations. For first-time buyers with good earning prospects, borrowing capacity is restricted by the new Code of Conduct[1]. Some of the existing home-owners are hampered by the burden of residual debt, which cannot always be carried over to a new mortgage, making it difficult for this group to move house. Thirdly, in times of declining prices, the costs attached to purchasing a house cannot be earned back, which means households will want to avoid incurring these costs to often. They achieve this by buying a house that enables them to skip a rung on the property ladder, i.e. by staying put for longer.

[1] The effect of this is likely to be limited as factors including falling prices mean that affordability has not deteriorated. See M.T. van der Molen (2012), Aanschaffen woning is gemakkelijker [Buying a house now easier], Rabobank Themabericht 2012/01.

**Figure 6: Opinion poll (27 July 2012)**




Source: Ipsos-synovate

**Drop in reference interest rate**

In the Netherlands, the maximum issuable mortgage is determined on the basis of a 30 year annuity mortgage. Income and interest rate are the input variables for the calculation. If borrowers wish to opt for a fixed-interest period of under ten years, the reference rate forms the basis for the maximum amount issuable. This is comparable to the interest rate on a ten-year mortgage. On 1 July 2012 the reference rate was reduced from 5.6% to 5.4%, as a result the borrowing capacity increased somewhat.

**Positions of the political parties**

Uncertainty about the future of mortgage interest relief is put into perspective if we look at the political barometer (Figure 6) and the diverging positions of the various parties. It appears there is no political majority in support of one of the proposals.

Positions of the eight largest parties[2]:

**VVD:** From 2013 tax relief on new mortgages will only be applied based on an annuity repayment schedule.

**PvdA:** The mortgage amount to which the interest relief applies will be capped at 1 million euro in 2013, and subsequently be reduced to the average house value in a thirty year period. The tax bracket eligible for mortgage interest relief will be reduced from 52% to 30%. Moreover, the interest on new mortgages may only be deducted for tax purposes if an annuity payment schedule is followed.

**PVV:** No change to the tax relief on mortgage interest.

**CDA:** This party supports the proposed housing market reforms as contained in the Spring Agreement. Additionally, the introduction of a flat tax of approximately 35% will result in a single rate for the deduction of mortgage interest for tax purposes.

**SP:** Over a ten-year period, the maximum deductible amount for tax purposes will be reduced to 350,000 euro with a maximum tax bracket of 42%.

[2] The positions of the political parties in relation to the rental market have been omitted from this list. Here too, the viewpoints are very divergent. In fact a number of parties want to integrate both rental and non-rental sectors in the reform proposals.

**D66:** The tax relief facility will be based on a 30 year annuity mortgage. For existing mortgages, a transitional phase of five years will be allowed. In addition the income tax bracket applicable will gradually be reduced to 30% by 2035. The long-term aim is to treat home ownership the same as other assets for tax purposes (box 3; wealth tax).

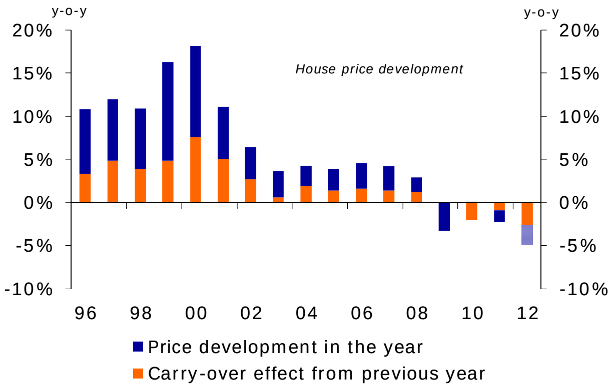
**GL:** From 2013 the maximum mortgage amount eligible for tax relief will be set at 1 million euro; for new mortgages the ceiling will be 500,000. In both cases, the amount will be reduced to zero over a 35 year period. Moreover, home ownership will gradually be included in a tax on wealth. There will be an fiscal exemption up to the average value of a house.

**CU:** The ChristenUnie party supports the Spring Agreement, while adding a number of other proposals. These include a gradual reduction of the maximum mortgage amount eligible for interest relief to 500,000 euro; the tax bracket from which mortgage interest is deductible will be reduced to 30%; and ultimately, home ownership will be treated according to the measures in box 3.

## Price expectations

In 2012 existing home prices are expected to decline by 5%; the bulk of this drop - 3.8% - has already taken place (Figure 7). Prices will continue to fall during the final two quarters of this year on account of the ongoing mismatch between demand and supply on the housing market. On the one hand buyers are not always able or willing to pay current asking prices, while on the other hand, competition between vendors has increased. This is evident from the growing number of houses on the market. Nonetheless, vendors are in no hurry to lower their prices. This is reflected in the low level of payment defaults (see section on Forced Sales, page 14). Another reason for vendors to take their time is that unemployment is still low, albeit rising among younger age groups and the less well-educated. Thus the risk is concentrated.

**Figure 7: Price expectations[3]**




Source: Statistics Netherlands, Rabobank

House prices will fall further in 2013. Demand is likely to be dampened further, with disposable income declining more rapidly than in 2012. The Spring Agreement will have only a limited (negative) impact on prices. This is because borrowing capacity will decline only marginally, if at all, since it was already based on a 30 year annuity. However, it is entirely likely that households will borrow less, as they won't want to pay higher monthly costs.[4] In the case of first-time buyers, however, borrowing capacity is more important than the monthly repayments. Thus, any further downward pressure on prices will not come from this group. By contrast, those wishing to trade up (i.e. willing to buy a more extensive house) are mainly concerned about monthly costs. But since they will only have to make higher monthly repayments for the additional amount borrowed, the impact will be limited. In the long term the effect on prices may increase, depending on the eventual reforms.

Notwithstanding the above, there is considerable uncertainty surrounding the expected price development for 2013. First, because there are doubts as to whether the Spring Agreement will be implemented in its current form. Second, because there are question marks over the extent to which borrowing capacity and monthly repayments will be decisive for households. Third, as many households may have already factored in a change to the mortgage interest relief facility, it is unclear how much this is reflected in

[3] A carry-over effect arises when the value at the end of the year is higher or lower than the average of that year. Consequently, if the value in the following year remains unchanged, the average will be higher or lower than in the previous year - even though prices have neither gone up nor down. In 2011 prices fell at the end of the year, pushing the December level below the yearly average. A negative carry-over effect was the consequence.

[4] Over the entire mortgage period, the net monthly repayments of an annuity mortgage can be 15% higher than in the case of a fully paid-off savings account mortgage.

pricing. Clarity about the housing market reforms may thus have a positive effect on price development. On balance, we expect house prices to drop by about 4% in 2013, although there may be sizeable differences according to price bracket and region.

**Long term price development**

Besides the above factors, mortgage interest rates and the supply of newly built homes play an important role in price formation. Interest rates have been fairly stable in recent years, and historically they are relatively low. A possible rise in interest rates would reduce borrowing capacity. Such a development may depend on the outcome of the euro crisis. A solution to the crisis could lead to a reduction of the safe-haven effect in the Netherlands. Conversely, if the crisis deepens, this could push up interest rates in core eurozone countries.

For some years now, construction output has been well below pre-crisis levels. Even before the crisis, housing output was scarcely sufficient to meet the demand from the growing number of households. With production at a low level, the chronic shortage of housing is becoming more evident. In the longer term, this will be a major factor in halting the price fall.

**On a positive note: sales are up**

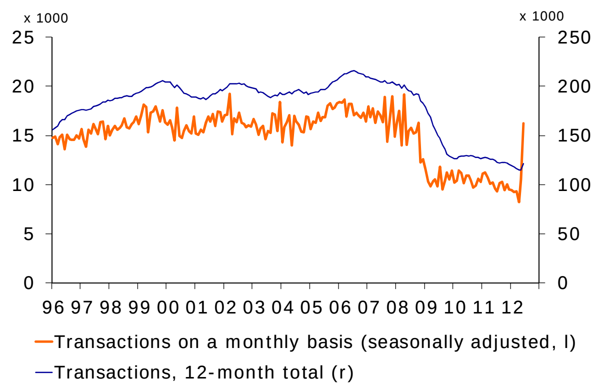
In het second quarter, a total of 34,628 homes changed hands - a rise of 17.3% year-on-year. On an annual basis, 121,428 homes have been sold. The rise in the second quarter occurred almost entirely in the month of June, when transfer of ownership was up by nearly 70% compared to a year ago (Figure 10). However, this rise is due to temporary factors. Buyers had a strong incentive to close the deal before 1 July, as this was meant to be the deadline for a supposed rise in stamp duty.

In addition, the NHG guarantee ceiling was lowered from 1 July from 350,000 to 320,000 euro. Buyers wishing to purchase a house with an NHG guarantee in this price bracket had to do so before 1 July. However, this development appears to have had little impact, since the relative number of mortgages between 320,000 and 350,000 did not increase in the first half of the year (Figure 9).

**NVM: scarcely any rise in sales**

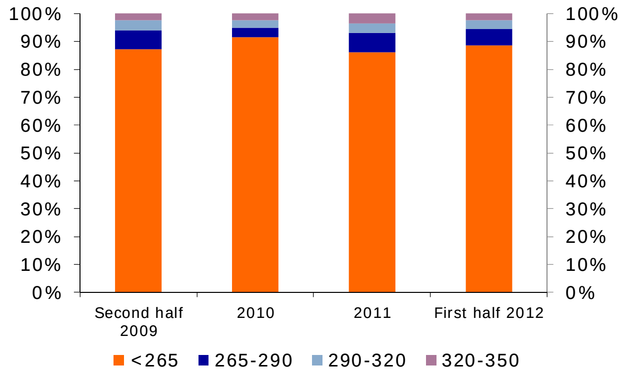
The usual transition period between sale agreed and transfer of ownership is three months. Thus the NVM data contain an important indicator for the number of transfers expected in the following quarter. In the second quarter, NVM estate agents completed a total of 22,554 sale agreements. Based on a market share of 75%, this would mean some 30,000 transactions took place in the entire market, which represents a rise of almost 20% compared to the first quarter. However, on average, the second quarter always has 12% more transactions than the first quarter. So even taking account of this, there has been an increase. Nonetheless, compared to a year ago, the number of sale agreements has declined by 1.3%.

**Figure 8: Sharp rise in transfers**




Source: Statistics Netherlands; data processing Rabobank

**Figure 9: Breakdown of houses purchased under NHG guarantee by cost threshold**




Source: NHG

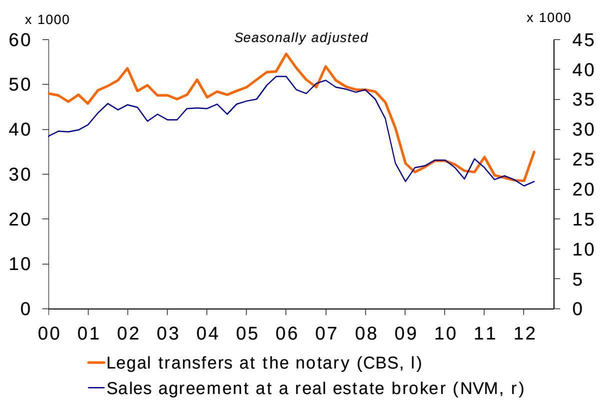
**Conclusion: resurgence only temporary**

The rise in the number of transfers registered is not based on additional sale agreements reached with NVM estate agents. In the first and second quarters there was scarcely any rise in sales as such (Figure 8). The increased number of registrations can therefore only be explained by a shortening of the period between sale agreed and conveyancing. In other words, houses sold in the second quarter were not transferred in the third quarter as is customary; instead ownership was legally transferred by notary in the second quarter. Thus, the increase in the second quarter can be fully attributed to the fact that transfers were brought forward. As a result, the number of transfers is expected to drop substantially in the third quarter (Figure 10).

**Differences between segments**

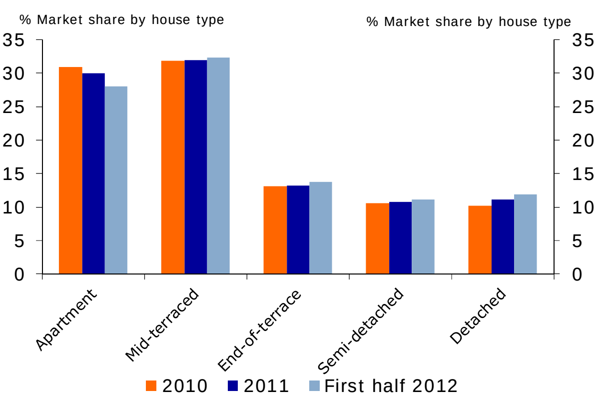
The rise in the number of transfers is not equally distributed across the various market segments. The number of apartments sold, for instance, rose by 'only' 4.9% compared to a year ago. The increase was greatest for detached houses: over 28%. The other three groups - mid-terrace, semi-detached and end-of-terrace houses - showed increases varying from 21% to 24%. The relatively poor performance of apartments is also reflected in the market share of this segment. (Figure 11). The four other (more expensive) segments all gained market share. Compared to 2010, when apartments accounted for 31% of all sales, in the first half of 2012 this had dropped to 28.0%.

**Figure 10: Temporary surge**




Source: Statistics Netherlands and NVM; data processing Rabobank

**Figure 11: Market share by house type**




Source: Statistics Netherlands

# Housing supply still growing

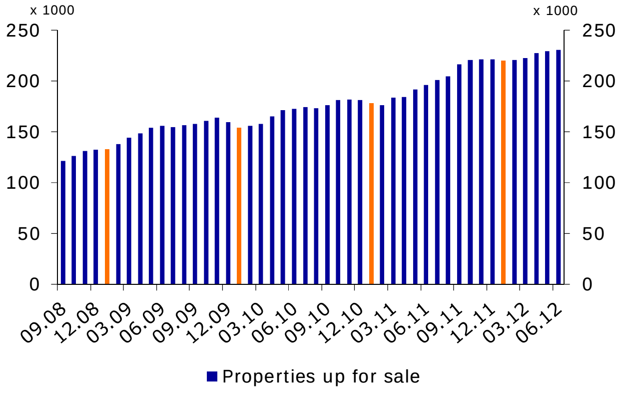
**Supply continues to grow**

From April to the end of June, the number of houses on the market rose to almost 231,000. Compared to March 2012, this represents an increase of over 8,300 homes. A rise in the second quarter is not surprising, as the supply grows more quickly in the second quarter than in previous quarters. It would appear unlikely that vendors were quicker to put their house on the market in connection with the question marks over stamp duty. Because of the time it takes to sell, a rise in the first quarter would have been more likely in that case (Figure 12).

Houses remain increasingly longer on the market. In the second quarter of 2012, it took an average of 308 days for a house to sell - 14 days longer than in the previous quarter. Altogether, the selling period is 73 days longer than two years ago. This is shown in Figure 12. Since the beginning of the crisis, the percentage of homes on the market for longer than a year has risen from 16.2% to 42.4% of the total sale stock (Figure 13).

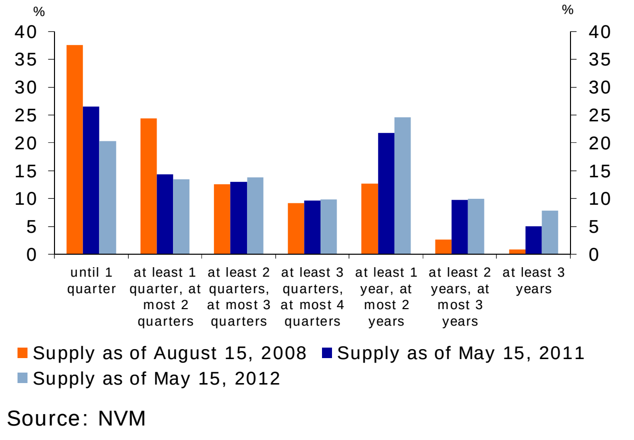
In this regard, there are considerable differences between house types. The average duration on the market for a mid-terrace house is 259 days, whereas detached house are on the market for an average of 387 days.

**Figure 12: Supply still growing**




Source: Huizenzoeker.nl

**Figure 13: Houses taking longer to sell**




Source: NVM

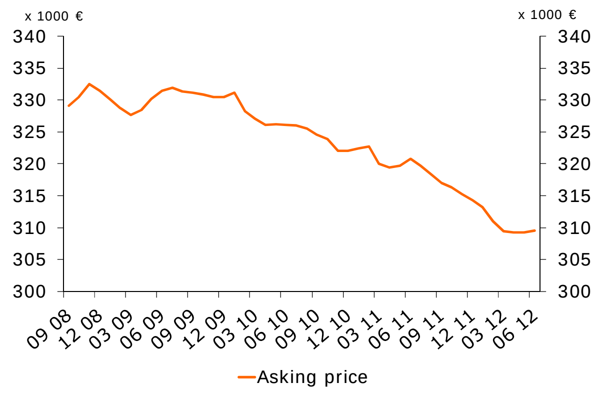
**Asking prices**

In contrast to the selling price, the average asking price did not drop during the past quarter. Although this can partly be ascribed to compositional effects, it also shows that vendors can still afford to take their time. This is reflected in the limited number of home-owners that are in arrears or whose house has been repossessed (Figure 14). A major reason for this is that unemployment has not risen unduly in recent years. Incidentally, many home-owners would be left with debt overhang if they were to drop their price. This in turn slows down movement on the property ladder.

**Forced sales**

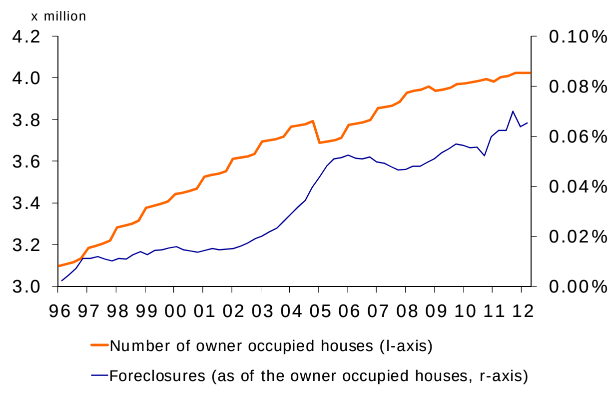
In the second quarter of 2012, a total of 724 forced sales took place - 8.2% more than in the same period a year ago. On an annual basis this accounts for 2,622 housing units. As a percentage of the total number of owner occupied housing stock, the number of forced sales in a year is tiny: 0.07%. The rate of payment arrears likewise remains low. In April of this year, 0.7% of home-owners were in arrears by 60 days or more (in relation to securitised mortgages - some 40% of the market). On the basis of 3.8 million households with a mortgage, this represents over 25,000 households. This number is significantly lower than the 50,000 recently published by the BKR credit barometer. This may be explained by the fact that the composition of the RMBS portfolio is different from the rest of the market.

**Figure 14: Asking prices unchanged**




Source: Huizenzoeker.nl

**Figure 15: Forced sales stable**




Source: Statistics Netherlands

# Sales expectations

**Expected number of sales**

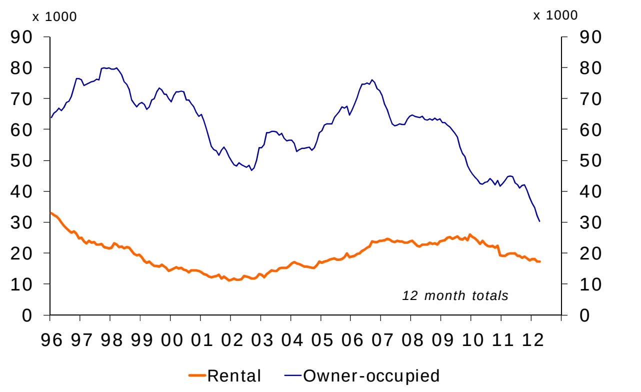
The number of sales registered in the third quarter of 2012 is likely to drop sharply, as a result of the reduction in the period between sale and transfer of ownership in the second quarter. In the fourth quarter, the number of registrations is likely to rebound somewhat in anticipation of the introduction of the Spring Agreement on 1 January 2013. Households that wish to avail of current fiscal policy will have to close the deal before that deadline. On balance, the number of home ownership transfers in 2012 is likely to total 113,000.

In 2013 a comparable number of homes will change hands.[5] There will be no improvement until prices have bottomed out. As prices are expected to drop further, a number of buyers will postpone their purchase, while supply will remain large. Confidence among buyers is also instrumental. Clarity about the future of mortgage interest relief could have a positive impact on prices, unless the new government's policy has the opposite effect. In that case, the price adjustment process will last longer and buyers and vendors will continue to have difficulty in agreeing a selling price. This will have a knock-on downward impact on the number of transactions.

[5] Assuming that those trading up are allowed to take their existing mortgage with them to the next house. If this is not the case, these home-owners will lose the incentive to trade up, as they will lose a portion of their mortage interest relief allowance.

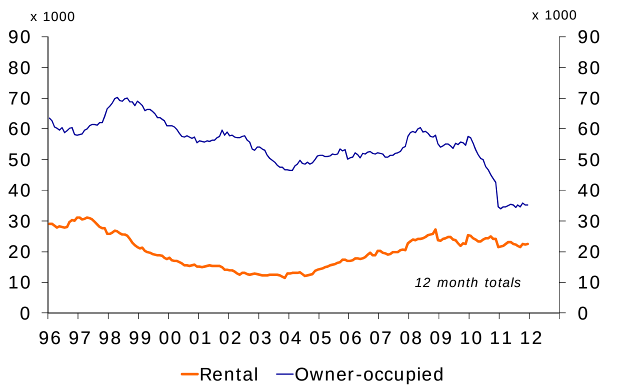
# Graphs

## Building permits issued



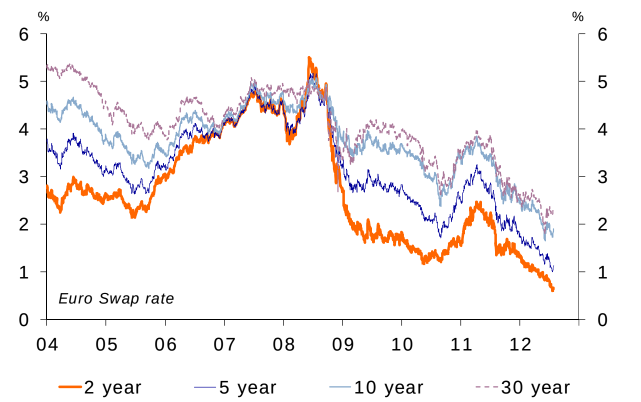

Source: Statistics Netherlands

## Construction output



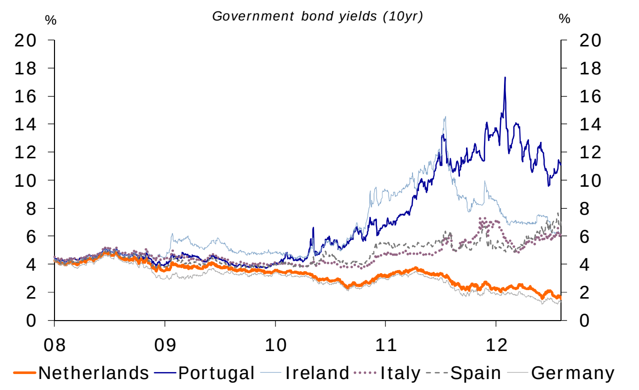

Source: Statistics Netherlands

## Swap rate



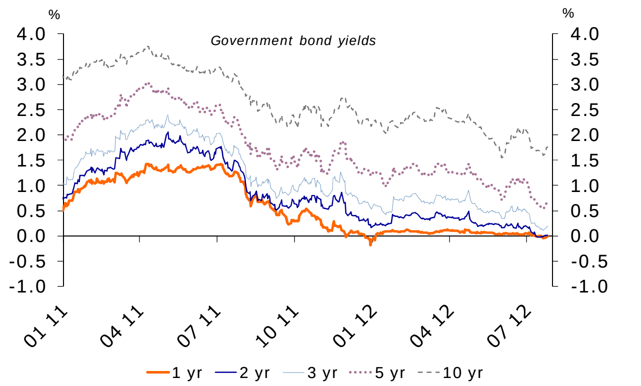

Source: Reuters EcoWin

## Capital market: various countries



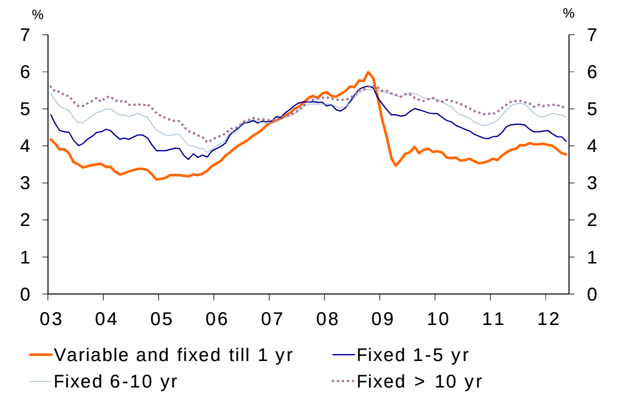

Source: Reuters EcoWin

## Capital market: The Netherlands, by maturity




Source: Reuters EcoWin

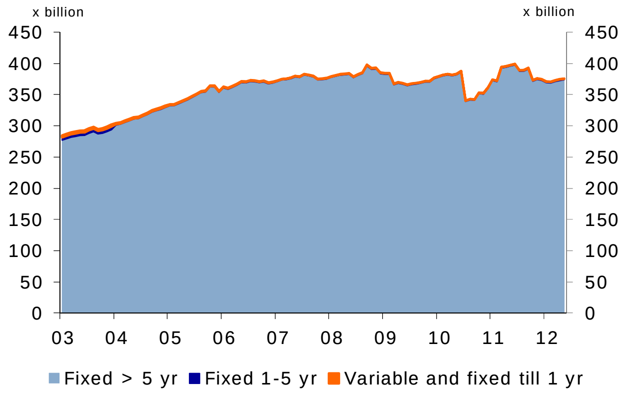
## Mortgage interest on new contracts, by duration




Source: Dutch Central Bank

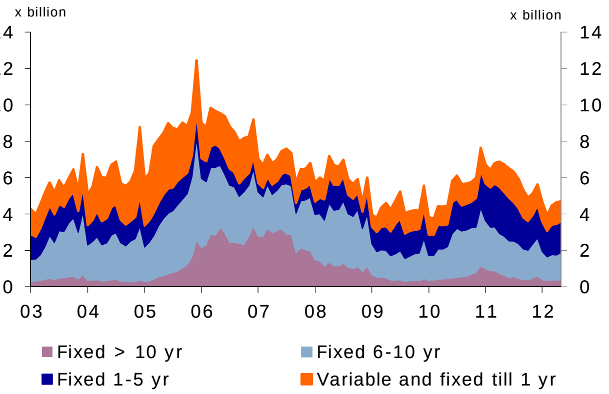
# Graphs

## Volume of existing mortgages by duration



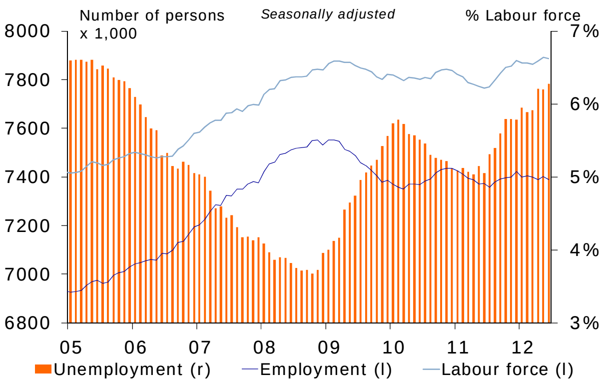

Source: Dutch Central Bank

## Volume of new mortgages by duration



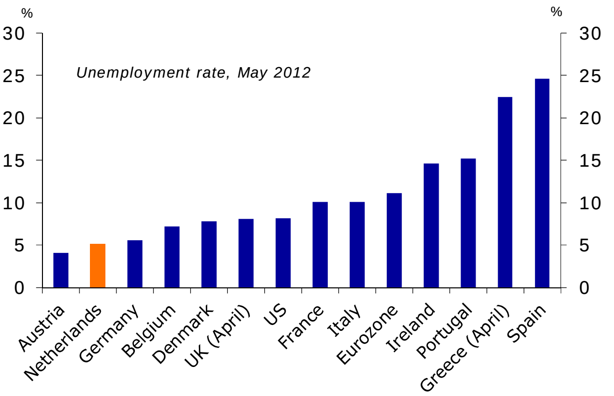

Source: Dutch Central Bank

## Unemployment in the Netherlands



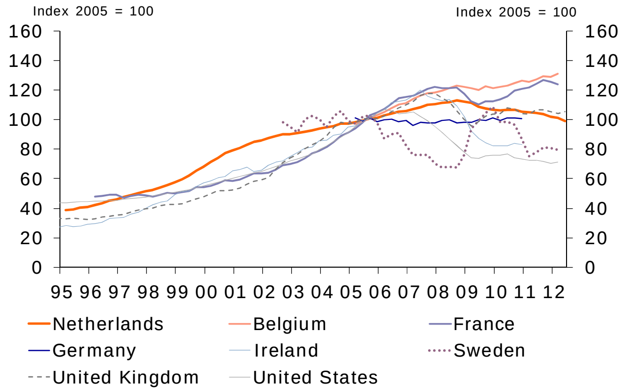

Source: Statistics Netherlands

## International comparison of unemployment




Source: Eurostat

## International price development




Source: Reuters EcoWin

## Economic outlook

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| *Year-on-year change in %* | | | |
| Gross Domestic Product | 1.1 | - ¾ | ½ |
| Private consumption | -1 | -1¾ | -1¼ |
| Government expenditures | 0.1 | 1 | -2 |
| Private investment | 8.9 | -4 | 1 |
| Exports of goods and services | 3.9 | -½ | 4¼ |
| Imports of goods and services | 3.6 | -1¼ | 3¼ |
| | | | |
| Consumer price index | 2.3 | 2½ | 2¾ |
| Unemployment (% labour force) | 5.4 | 6½ | 7 |
| Government budget (% GDP) | -4.7 | -4 | -3¼ |
| Government debt (% GDP) | 65.2 | 70¼ | 73 |
| Current account balance (% GDP) | 6¾ | 7¼ | 7 |

Source: Statistics Netherlands and Rabobank

# Key data

**House prices**

| Year-on-year change (%) | 2010 | 2011 | 2012 [a] | 2013 [a] |
|---|---|---|---|---|
| NVM (median house price) | 3.2 | -1.9 | -7.5 | -4.0 |
| Land Registry (purchase prices) | 0.3 | 0.3 | -3.0 | -4.0 |
| Statistics Netherlands/Land Registry | -2.0 | -2.3 | -5.0 | -4.0 |
| CALCASA WOX | -0.3 | -0.2 | -3.5 | -4.0 |

**Numbers**

| x 1,000 | 2010 | 2011 | 2012 [a] | 2013 [a] |
|---|---|---|---|---|
| Sales transactions | 126 | 121 | 113 | 110 |
| New housing completions (rental and sale) | 56 | 58 | 58 | 52 |

**Numbers**

| | 2010 | 2011 | 2012 [a] | 2013 [a] |
|---|---|---|---|---|
| Involuntary sales | 2,086 | 2,811 | - | - |

**Key economic data (June 2012)**

| | 2010 | 2011 | 2012 [a] | 2013 [a] |
|---|---|---|---|---|
| GDP (volume growth in %) | 1.7 | 1.1 | -¾ | ½ |
| Inflation (%) | 1.3 | 2.4 | 2½ | 2¾ |
| Unemployment (%) | 5.4 | 5.4 | 6½ | 7 |

**Interest rate [b]**

| Level (%) | 3 August 2012 | +3m [c] | +12m [c] |
|---|---|---|---|
| 3-month eurozone | 0.38 | 0.37 | 0.32 |
| 10-year euro swap | 1.75 | 1.80 | 1.96 |
| Mortgage interest rate. 5-10 years fixed[d] | 4.78[d] | | |

[a] Rabobank forecasts
[b] Forecast by Financial Markets Research, Rabobank International
[c] 3-month outlook and 12-month outlook, respectively
[d] Monthly average for May 2012 – Dutch Central Bank

# Colophon

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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