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Contents

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Introduction and summary

Times are still tough in the market for owner-occupied properties. But there are some signs of improvement. After having fallen for the six preceding quarters, house prices have now been rising for two successive quarters. These increases confirm the earlier view that prices are stabilising overall. At the same time, the regional differences have not narrowed at all. Actual price levels as well as price trends diverge considerably from the national average in some regions.

While the number of transactions is historically low, signs of stabilisation are visible here too. The number of transactions, which had exceeded 200,000 in the period before February 2008, has fluctuated at around 128,000 (12-month average) since October 2009. The adverse impact of these low transaction numbers is felt by estate agents, intermediaries, removal companies and civil-law notaries. It also translates into longer selling times for many sellers. The extended selling time is accompanied by an increase in the number of residential properties up for sale, which has risen by over 40% in a period of two years. There is also a large group of home owners who are waiting for conditions to improve before they put their house on the market. This 'latent' supply may cause prices to rise only very moderately even in the longer term and is the chief reason why, on average, prices will fall in 2011. The differences between regions and segments of the housing market will not diminish next year.

The number of residential property transfers is expected to edge up in the remaining months of 2010 and in 2011, as demand rises slightly due to a pick-up in market sentiment (as there will be no interventions in the housing market for the time being), better affordability and lower unemployment. But this will not suffice to restore the number of transactions to pre-crisis levels. That would require concessions from home sellers as well, the more so as the number of homes up for sale has risen sharply in the past period. Sellers are increasingly realising that the ball is in their court and are demonstrating a growing willingness to peg down their asking price in exchange for better selling prospects. Prices are therefore expected to nudge down in the remaining months of 2010 and in 2011. Year-on-year, prices will fall 2% in 2010, mainly due to the price falls in the latter part of 2009 and in early 2010. Prices are expected to decrease by a further 1% on average in 2011, mainly due to the ample housing supply.

For the years after 2011, the limited number of new housing properties due for completion is expected to provide a floor for the market. We envisage an increase in transaction numbers to 145,000 (2010: 130,000) for 2011, which would herald the start of a recovery.

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Market for existing residential properties

House prices more or less stable

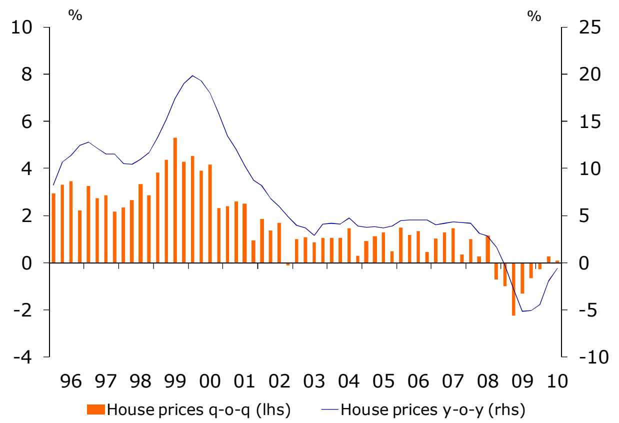
Prices in the housing market have been more or less stable for a while now. On the basis of the Price Index of Existing Houses (Prijsindex Bestaande Koopwoningen - PBK-index) of the Statistics Netherlands/Land Registry, the increase in average house prices seen in the second quarter (+0.3% quarter-on-quarter) continued in the third quarter (+0.1% quarter-on-quarter) (figure 1). Nonetheless, price levels in the third quarter are still 0.6% below those of a year ago. This is due to the fall in house prices towards the end of 2009 and in early 2010. The absolute price level is still almost 6% below that of the third quarter of 2008 (when the index peaked). Despite the stabilisation of prices, we expect the PBK-index to fall by 2% on average in 2010, given the fall in prices at the end of 2009 and the beginning of 2010. The PBK-index is set for a further fall of 1% in 2011, due to the ample supply of residential properties that will be sold next year with some concessions on price.

Other indicators confirm that house prices are currently virtually stable. The Land Registry's purchase price series, ABF Valuation's WOX and NVM's (Netherlands Association of Real Estate Agents) square metre price series all show an overall stabilisation of prices (figure 2). The median house price of the NVM, however, evidences a 0.9% decrease in the third quarter (quarter-on-quarter). As the NVM's median house price leads the Statistics Netherlands/Land Registry series by three months, these data bear out our forecast.

Differences in price indicators

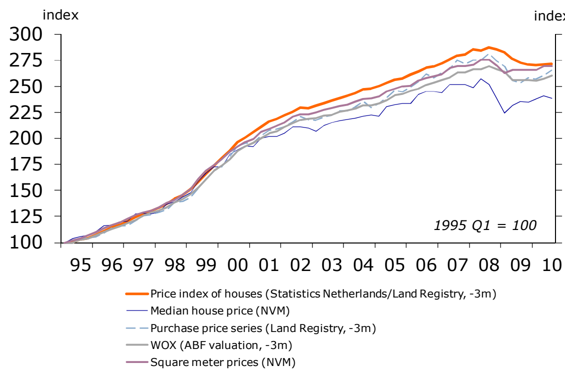
The NVM data on prices for sales of existing owner-occupied properties lead the Statistics Netherlands/Land Registry indicator (PBK) by around three months. That is because the Statistics Netherlands/Land Registry records the sale at the time of the actual transfer before civil-law notary, whereas NVM data record the

Figure 1: House prices up in third quarter



Source: Statistics Netherlands

Figure 2: Price movements by indicator



Source: Statistics Netherlands, NVM, ABF valuation, Dutch Land Registry Office transaction at the time the sale is concluded. Prices based on NVM data therefore provide more up-to-date market information than the PBK. Nonetheless, we have opted for the PBK in our analysis. This index measures the price of a property with unchanged specifications more reliably across time. In other words, it does not reflect whether significantly more cheaper or expensive houses are sold compared to an earlier period. The PBK offers added value especially in 'unusual' times, marked by divergent developments in the various submarkets within the housing market.[1]

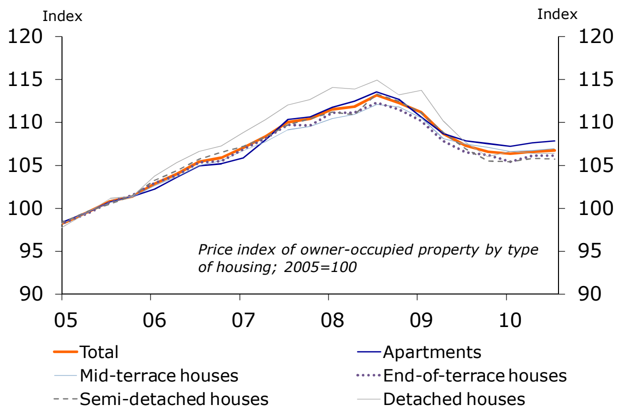
Data on the basis of the PBK-index show that the increase in value does not apply to all types of properties (figure 3). Prices in the cheaper segment – mid-terraced houses, end-of-terrace houses and apartments – rose for the second quarter in succession. But pricing pressure is continuing in the higher price brackets, for detached and semi-detached houses. And as transaction numbers remain low, price trends are based on a thin market.

Transaction numbers remain low

In the third quarter of 2009 the Statistics Netherlands/Land Registry recorded 33,234 residential property sales. This number had dropped to 32,398 in the third quarter of 2010, down 2.5% from the same period of the previous year. Despite this slight decrease, the number of transactions appears to have bottomed out (figure 4). Whereas sales in the cheaper price bracket beat the average on price trends, the more expensive price bracket outpaces the trend on transaction numbers. In the market for semi-detached houses, sales were up 2.3% in the third quarter from the same period of last year.

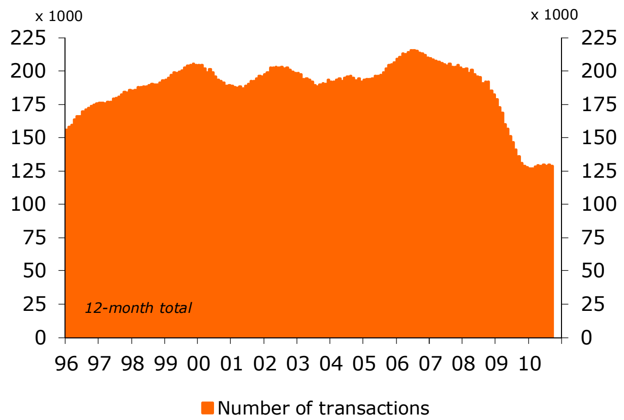
[1] See also the Special Report 2009/10 *Meten en weten op de woningmarkt* (only available in Dutch).

Figure 3: Price trends by type of housing



Source: Statistics Netherlands

Figure 4: Transaction numbers



Source: Statistics Netherlands

Transfer numbers for detached houses rose 9.2% (year-on-year), from 3,100 to 3,384. Conversely, the number of transactions in the lower price bracket was down from a year ago (mid-terrace houses -4.8%, end-of-terrace houses -3.1% and apartments -6.5%).

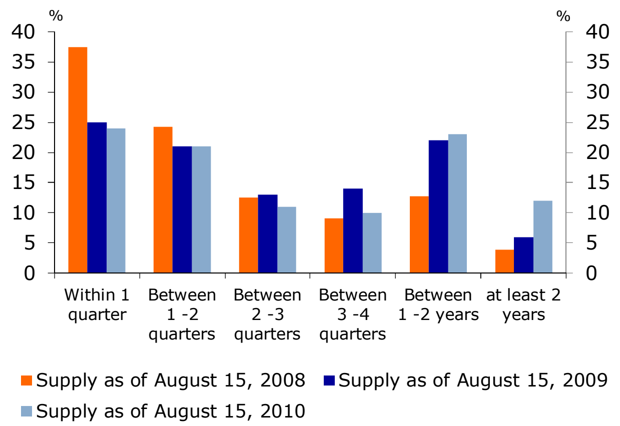
That the number of transactions appears to have bottomed out is clearly encouraging. It should be noted, however, that this floor is at a very low level. On a twelve-month basis, the number of transactions is now 33% lower than before the crisis. This has negative consequences for estate agents, intermediaries, removal companies and civil-law notaries. For many sellers it also means that their house is up for sale for a longer period of time. The NVM has found that in the third quarter of 2008, 37% of homes were on sale for less than three months. That percentage has meanwhile receded to 24%. The category 'for sale for over two years' has bulged from 4% in the third quarter of 2008 to 12% in the third quarter of 2010 (figure 5).

Expressed in terms of days, houses are currently on sale for an average of 243 days. But again the differences between types of housing are substantial. Apartments were on sale for an average of 201 days, while detached houses were on the market for an average of 345 days.

Lack of momentum in the market

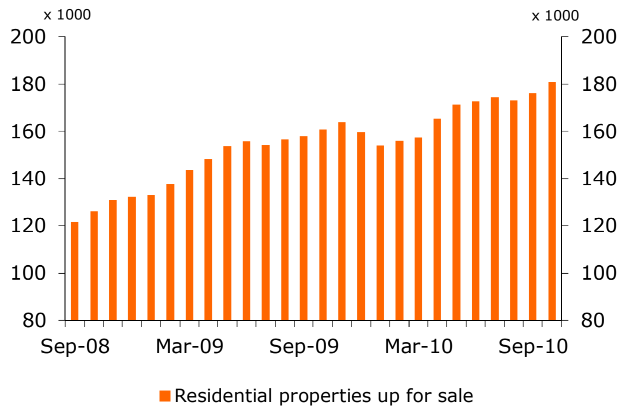
The fact that properties take longer to sell has one principal cause, which is that the number of people who actually buy another house has fallen in the past period. Although the propensity to move is still high, people want to sell their current house first. That has created an interdependence of transactions. As first-time homebuyers are still having a hard time and the sentiment was negative, no momentum was created in the market. The lower number of transactions and

Figure 5: Long selling times



Source: NVM

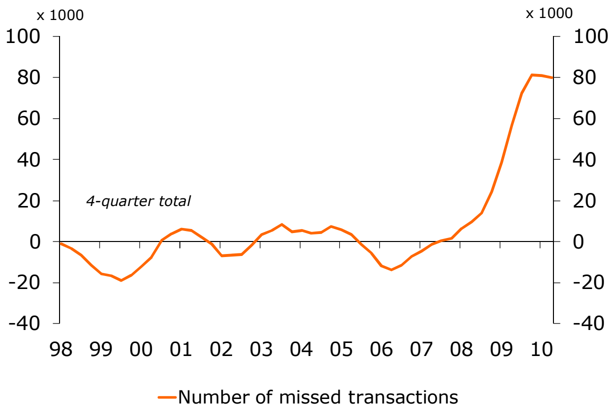
Figure 6: Sale of residential properties rising



Source: Huizenzoeker.nl

a higher number of houses on sale was a logical consequence. Despite a decrease in the number of houses that were put on the market, supply outpaced demand. As a result, on balance the number of houses on sale increased (figure 6). In October 2008 over 126,000 properties were on sale; that number has risen to almost 181,000 (October 2010) in two years, an increase of almost 45%. The slump in demand therefore led to lower numbers of transactions, but also to an increase in the number of properties up for sale. Their number could have been even higher if there had been no 'latent' supply. This represents properties that would have been put on the market given normal conditions. But because people are uncertain whether they will be able to sell their home (for a good price), they are waiting for better times. There is no data on the size of that group. We can, however, estimate it.

Figure 7: Significantly fewer transactions than normal



Source: Statistics Netherlands/Land Registry

In the period from the first quarter 1998 to the third quarter 2008 an average of around 0.75% of the housing stock changed hands per quarter. That percentage has been down by over ¼% percentage points since the fourth quarter of 2008. In terms of numbers, this means over 19,000 fewer transactions compared to the period before the downturn (fourth quarter 2008). This means 80,000 fewer transactions (figure 7) on a full-year basis. To estimate the number of properties that have not been put up for sale since the beginning of the crisis (third quarter 2008) despite their owners' willingness to sell, we deduct from the total number of missed transactions the increase in the number of properties up for sale. This tells us that under normal circumstances, almost 100,000 more properties would have been put on the market. The numbers show once more that both (potential) house sellers and other market parties are experiencing tough times and that a normalisation of the housing market, even in an otherwise stable macro-economic environment, will take some time.

Break through psychological barriers

That house prices are on average stabilising is an encouraging sign. It is likewise positive that a period of sharp falls in the number of transactions appears to have come to an end. But that does not mean that the harm done by the crisis has been reversed. The market momentum is low and housing supply exceeds demand.

The current problems can be resolved by either an increase in housing demand or better supply. The former is likely to follow on the heels of a growth in confidence and/or disposable income, as the underlying willingness to move is not the issue. The new government has helped by leaving the mortgage interest rate deduction intact. This may boost confidence. But it will not be sufficient to persuade potential buyers that the time is right. The reason is that the next few years will bring austerity measures and tax and premium increases, at the expense of the average disposable income of households. In other words: for the foreseeable future, households will have less funds for buying a house, even if the need for doing so is set to increase. The Nibud (National Institute for Family Finance Information) reached the same conclusion in an article published recently.[2] The Nibud data are also used in the National Mortgage Guarantee scheme (NHG) to set the level of a mortgage for a given income. For 2011 this means more specifically that the mortgage loans available for people with low incomes may be lower than in the past.

Improving supply is a realistic option, by contrast. This is targeted not so much at the quality of supply as at its price. It means that house sellers will have to lower their price or in any case keep it constant to have a better chance of selling. Pegging down the expected selling price can be a major disappointment for house sellers, especially if they had counted on obtaining the same price their neighbours had two years earlier. But the average house seller does not have much choice as supply, given unchanged pricing, is set to exceed demand for the time being.

The scenario outlined above in which house sellers will have to lower their asking price in exchange for a better chance of selling their house is already unfolding in the upper end of the market. In the third quarter of 2010, sellers in this segment were prepared to reel in buyers by accepting a difference of 9.7% between asking and selling price (the average for all residential properties is 6%). This relatively wide margin between the original asking price and the selling price was reflected in an increase in the number of transactions in this segment. By contrast, sellers in the cheaper segment have not yet travelled sufficiently far down this route. The difference between the original asking price and the actual selling price is narrower in this segment, and not enough to persuade buyers to close a deal, as evidenced in the decrease in the number of transactions. The number of sellers willing to accept a lower selling price is expected to rise in the remaining months of 2010 and in 2011.

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[2] See Nibud: 'financieringslastpercentages 2011 bekend' 10 November, 2010

Overcoming this kind of psychological barrier (revising expectations for proceeds from the house sale to the new market conditions) appears to take some time. But that also means that transaction numbers are set to rise again from the 130,000 expected for 2010 to 145,000 in 2011. Prices, by contrast, will continue to fall slightly (-1% in 2011).

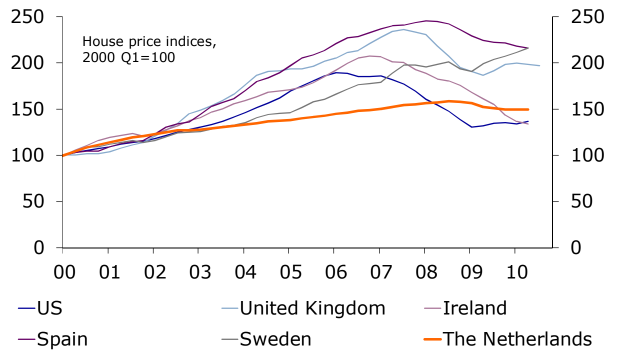
Strong foundation

A small fall in 2011 is likely. But we do not foresee a slump in prices. The reason is that the market in the Netherlands is principally a consumers' market. In some other countries houses are also investment assets (figure 8), which leads to stronger price fluctuations. Moreover, there is an intrinsic long-term shortage of houses in the Netherlands. Population growth is expected to continue while the number of occupants per house is declining. The basic robustness of the market is also reflected in the low number of forced sales. In addition, interest rates are expected to remain low in the coming years and the economic situation will stabilise further. Given that kind of environment, no steep price falls are expected in the Dutch housing market.

Number of forced sales decreases slightly

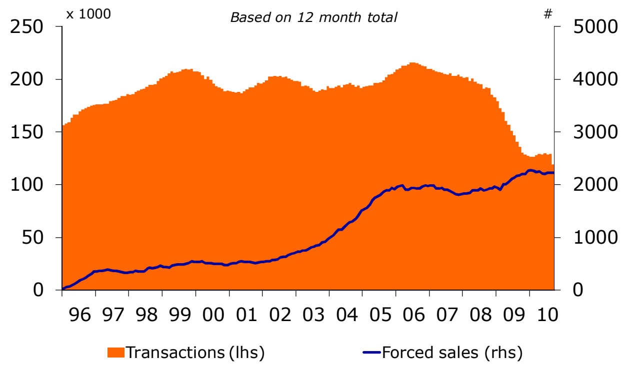
The number of forced sales remained level in the third quarter of 2010 (figure 9) and exactly matched the number for the second quarter of this year: 2,222 (12-month average). A possible explanation for this stabilisation is a continuing economic recovery, with the ensuing stabilisation in the employment market. The number of forced sales is expected to decrease somewhat in the remainder of this year and next year. The government is making a positive contribution in this field by easing the burden for home owners paying double monthly housing costs (see next section).

Figure 8: International comparison



Source: S&P Case-Shiller, HBOS, Permanent tsb, Ministry of Housing, SCB and Statistics Netherlands/Land Registry

Figure 9: Forced sales



Source: Statistics Netherlands/Land Registry

Cabinet offers provisional respite

Before its departure, the outgoing cabinet announced a number of measures to shore up the housing market. Firstly, the increase of the National Mortgage Guarantee (NHG) to EUR 350,000 has been extended to the end of 2011. In addition, people having to pay double interest because they own two houses with a mortgage can make use of double mortgage interest rate deduction for three years instead of two years up to the end of 2012. Thirdly, people can claim mortgage interest rate deduction again after the rental period of a property expires. This facility will likewise be discontinued at the end of 2012. Fourthly, a property is exempt from transfer tax if it is bought in 2011 and sold in the same year, with the exception of any gains achieved. The house building industry will also receive some support. A reduced VAT rate of 6% (instead of 19%) is applicable between 1 October 2010 and 1 July 2011 for the renovation and restoration of houses that are at least two years old.

The new cabinet (Rutte I) has decided to leave the housing market well alone for the most part. There are some changes in the rental market. For instance, rents in the social sector can be raised by inflation plus 5 percent if tenant household income exceeds EUR 43,000. This will apply with effect from 1 July 2011. Also, tenants will be given the opportunity to buy their home from the housing corporation at a reasonable price. What represents a reasonable price will become clear in the coming months. There are also changes for landlords letting more than ten houses. They will pay an annual levy as a contribution to the rental allowance. The above measures are intended to yield EUR 760 million from 2014 on a recurring basis. Nothing is set to change on the buyers’ side of the market. In other words, the mortgage interest rate deduction will be left intact for the time being. This assurance may provide a short-term impetus to the housing market.

New housing completions

Building permits track economic cycle

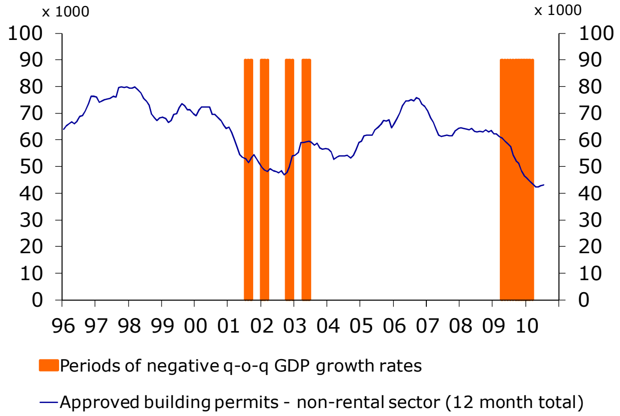
In the near term, the supply of owner-occupied housing will continue to exceed demand. That is set to change in the long term, however, provided the housing market recovers in the next few years. This is attributable to the low number of new owner-occupied properties due for completion in the coming years, as a result of the low number of building permits being granted at present. The number of building permits granted has never been so low since the inception of the series in 1995. The number of building permits granted at present is down 32% from December 2008.

The low number of building permits granted is not unusual during an economic slowdown (figure 10). Financing for new projects is less readily obtained by project developers as demand for housing decreases in such periods.

Renewed tightness without new completions

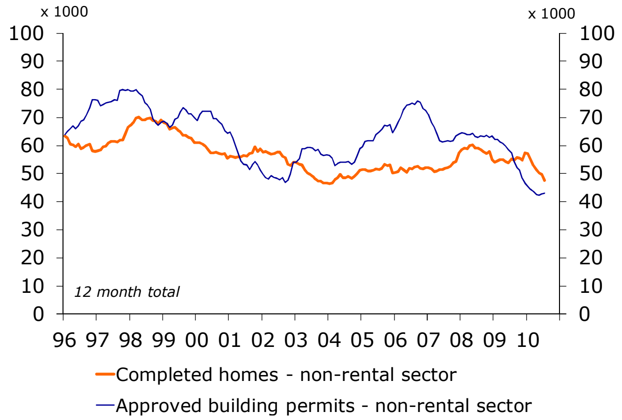
Unlike the number of building permits granted, the number of new housing completions does not closely track but lags behind the economic cycle. Historically, it takes 19 months before a permit is converted into new housing. Accordingly, the number of new residential properties that have come onto the market remained constant from December 2008 until February of this year. Since then, additions of new housing have fallen from 55,227 in February to 47,667 in July 2010 (12-month average; see figure 11). This decrease is a welcome development for present house sellers, as it means the competition in the house selling market will not increase sharply. In the long term, when the housing market picks up, this could usher in a period of renewed tightness, as supply will again respond with some delay.

Figure 10: Permits track economic growth...



Source: Statistics Netherlands

Figure 11: ...and housing completions

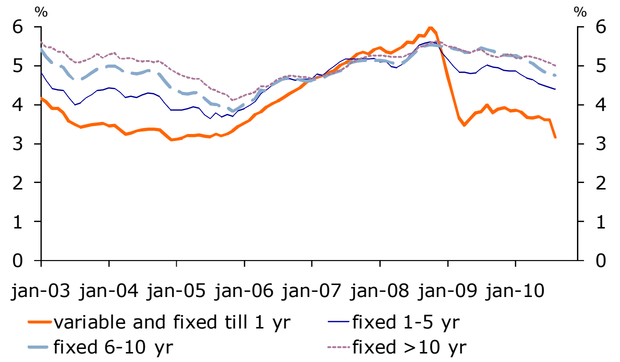


Source: Statistics Netherlands

Mortgage rate trends

Both the average variable and fixed mortgage rates have been falling since the summer of last year (figure 12). Before the crisis, mortgage rates more or less followed trends in money market rates and swap rates as liquidity and risk premiums were low and stable at that time. But during the crisis these premiums rose steeply, and banks' financing costs are therefore sharply higher than the customary comparison with the money market interest rates and swap rates suggests. Figure 13 also shows that savings, traditionally a significant source of financing for banks, have been more expensive as from mid-2008 than is to be expected on the basis of the money market and swap interest rates.

Figure 12: Mortgage rates down slightly

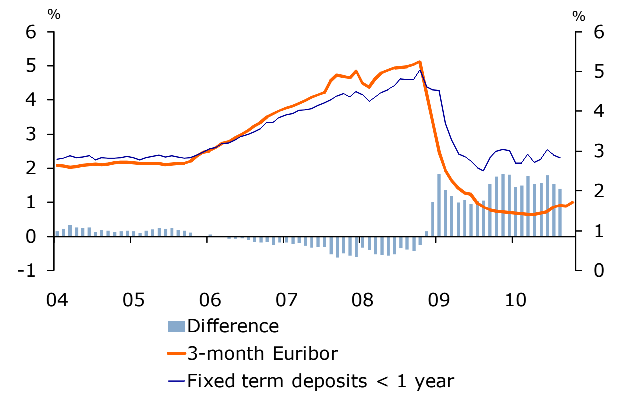


Source: DNB

ECB will not raise the interest rate in the near term

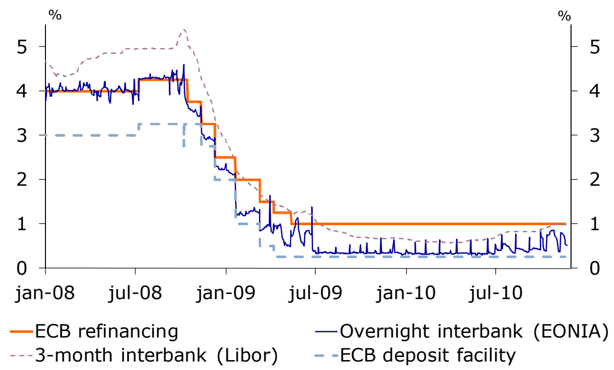
By contrast to the US Fed, which has announced it will step up its monetary stimulation policy, the ECB is more concerned about the consequences of significant easing of monetary policy for financial stability in the future. Given the modest economic outlook, the inflationary pressure and the fragile situation in the bond markets a first increase in the key interest rate is not likely before the end of next year. But there is effectively already some tightening as Euribor-rates have crept up recently in response to the contracting liquidity surplus in the inter-bank money market. At the end of September, the European banks repaid € 225 billion to the central bank but only asked for € 133 billion in new loans. Consequently, the liquidity surplus in the inter-bank money market fell by around € 75 billion on average to the current level of around € 25 billion. Now that liquidity in the Eurozone bank system is falling, the 3-month Euribor has also risen to just above 1% (figure 14).

Figure 13: Financing from savings is expensive



Source: Reuters EcoWin, DNB

Figure 14: Signs of recovery in money market



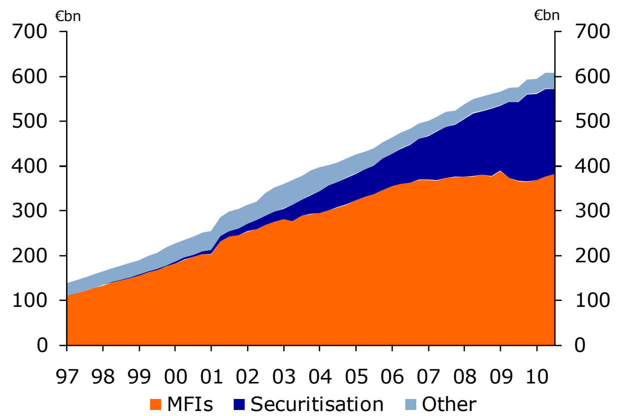
Source: Reuters EcoWin, Rabobank

The ECB sees the diminished demand for liquidity as a sign that conditions in the inter-bank money market are returning to normal. Precisely because of the temporary nature of the current ECB liquidity facilities, it is important for banks to be able to finance themselves again via private markets. According to data from the Dutch Central Bank (DNB) the take-up of central bank financing by Dutch banks at the end of the second quarter of this year was some € 70 billion, versus € 150 billion at the height of the crisis in 2008. Before the crisis, central bank financing customarily averaged some € 80 billion. It is also important for banks to increasingly source long-term financing. They can do so through the securitisation market, which has recently seen a moderate recovery. Roughly one third of the Dutch mortgage debt is securitised (figure 15). But the collapse of the securitisation market during the current crisis demonstrated the importance for banks of financing long-term (mortgage) loans with savings, which are relatively stable.

Capital market still under pressure

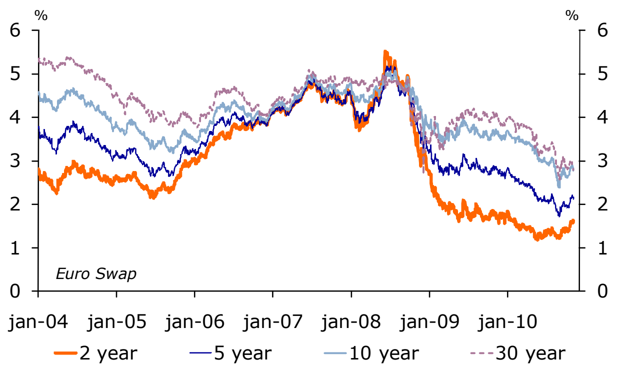
Investors have actively homed in during the past few weeks on the Fed's willingness to buy up government bonds for the second time since the financial crisis broke out in order to keep capital market interest rates down. Not only the US interest rate fell, German and Dutch 10-year bond rates were nudged down as well. Meanwhile, it has been announced that the Fed will buy up $ 600 billion in treasuries up to June of next year in order to boost the economy. The 10-year euro swap rate has been hovering around a record low of 3% since mid-May (figure 16).

Figure 15: Financing of Dutch mortgage debt



Source: DNB

Figure 16: Capital market still under pressure



Source: Reuters EcoWin

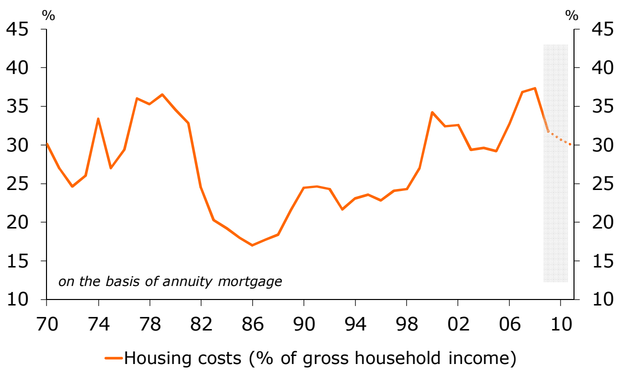
Affordability

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. It is essentially a snapshot, which means that it does not take account of changes in income, for instance as a result of unemployment. A distinction is drawn between affordability for first-time homebuyers (110% financing) and second-time homebuyers (70% financing). An affordability index of 100 means that for an average household income and an average priced house, the gross monthly burden is 30% of gross income. If the affordability index exceeds 100, then the gross monthly burden is less than 30% of gross income, and vice versa.

In 2008, gross housing costs averaged 37% of gross monthly income. This is still expected to be just over 30% (figure 17) in 2010. Housing affordability improved by some 15% within the space of one year as a result of higher incomes, lower house prices and a lower mortgage interest rate. We expect affordability to increase slightly in this year and the next (figure 18). On the one hand, the gross wage increase will taper off due to the modest economic growth. On the other, we are assuming that mortgage interest rates will stabilise in the coming period. Therefore, housing costs can remain limited in the short term for households opting for a short fixed-interest period. In addition, we are expecting a limited fall in house prices next year, leading to a slight improvement in affordability.

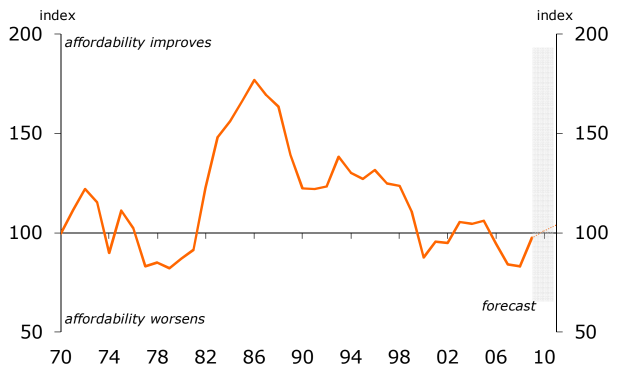
Despite the improvement in affordability, it is still not easy for people on an average income (2010: € 32,500) to buy a home. The gap between the average house price and the mortgage loan they can obtain is almost € 80,000 (excluding costs payable by the buyer).

Figure 17: Housing cost percentage will edge down further in 2011



Source: Rabobank

Figure 18: Affordability will improve slightly in 2011



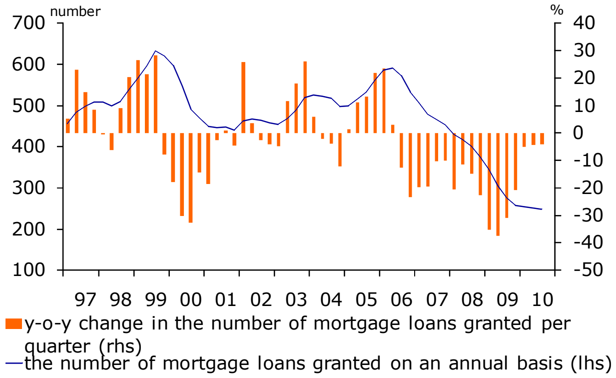
Source: CPB, Land Registry, Reuters EcoWin, Rabobank

Mortgage output

Data from the Land Registry show that almost 64,000 mortgage loans were taken out in the third quarter of this year, an increase of over 10,000 from the first quarter of this year. More than half of that increase is attributable to new mortgages granted. The number of mortgage loans granted in the third quarter, however, was 4% below the level of one year ago, although the year-on-year decrease was substantially flatter. The contraction of mortgage lending by over a third recorded in the second quarter of last year has since decelerated to the present 4%. Nonetheless, the number of mortgage loans granted has reached the lowest level since the mid-nineties on an annual basis: it is currently as low as 250,000, whereas before the crisis 400,000 to 500,000 mortgage loans were customary (figure 19).

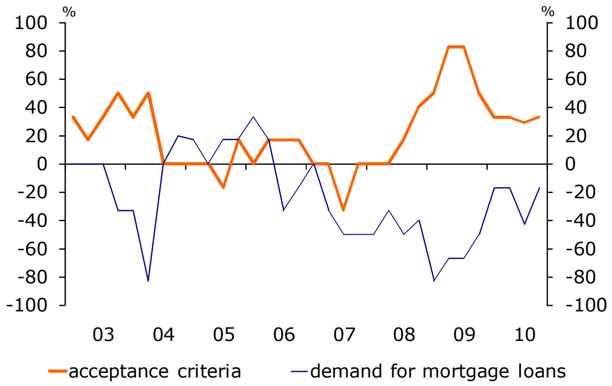
Figure 20 shows that on balance there were more banks in the third quarter of 2010 that tightened their acceptance criteria for residential mortgage loans. This is due to the higher buffer requirements imposed by the market and more expensive financing. A majority of banks also expects to be tightening their credit terms for the fourth quarter. Owing to the new requirements set by the Financial Markets Authority (AFM) to curtail overextensions of credit for mortgage loans, due to take effect at the start of next year, banks will also restrain lending next year as well. The number of banks tightening their criteria has, however, declined significantly compared to the peak in early 2009. At the same time, reduced mortgage lending is also attributable to the sharp fall in demand. The need for mortgage loans was low due to the adverse economic developments, uncertain income prospects and uncertainty about government policy for the housing market. In the third quarter, banks for the most part recorded a fall in demand for mortgage loans. Now that the cabinet's plans for the housing market have become clearer, we expect that (catch-up) demand for housing will pick up next year.

Figure 19: Mortgage output remains low



Source: Land Registry, Rabobank

Figure 20: Supply and demand for mortgage loans



Source: DNB

Volatile regional housing prices

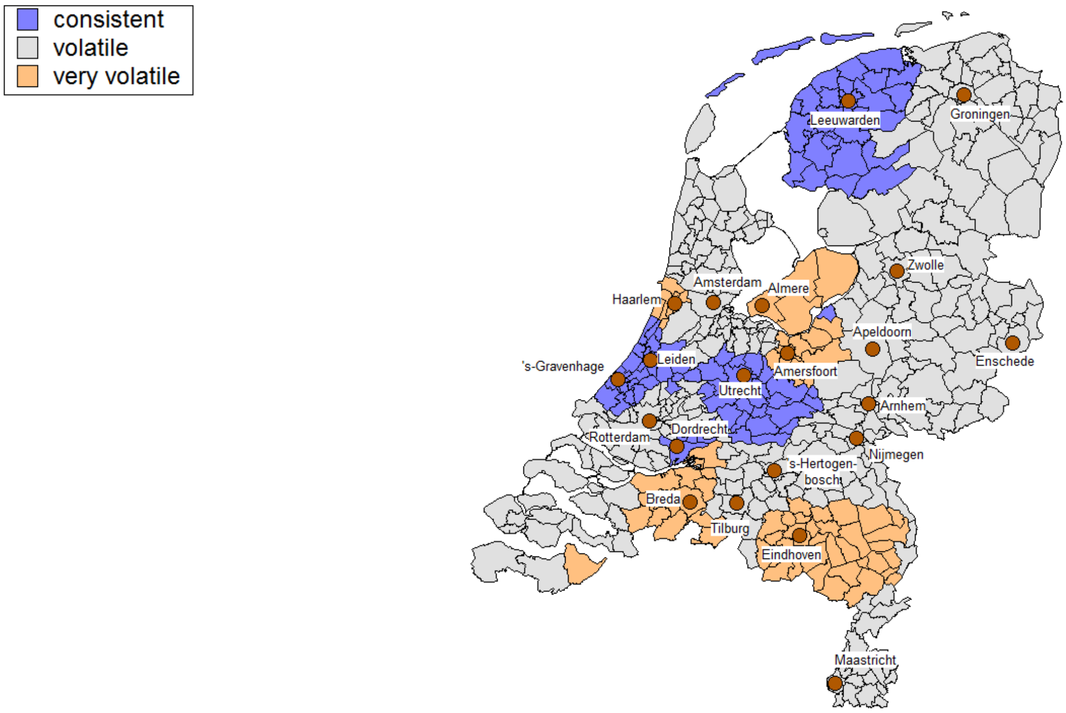
House prices have risen again in practically all markets since the market bottomed out. As is the case at a national level, the price trend in the various housing market regions is usually very volatile, although there are also regions where the market is less volatile. Due to the fall in interest rates, affordability is better than 18 months ago in virtually all regions.

Volatile quarter-on-quarter price changes

The price changes in the regional median house presented by the NVM were particularly notable in the third quarter of 2010. Two frontrunners in terms of price increases since the trough in the housing market in early 2009, the Haarlem and Amersfoort regions, reported falling prices. The third frontrunner, The Hague, continued to trend up. Elsewhere, prices in the Eindhoven and Leeuwarden regions developed notably strongly, but prices in the Groningen, Almere and Breda regions suffered significant setbacks.

The price trends of the latest quarter accordingly reflect the highly changeable course taken by house price trends since the market was at its lowest. Not a single region recorded unbroken price increases or price decreases in the past six quarters. House prices trended consistently upwards in five of the six quarters (see map 1) in no more than five of the 21 regions. These consistent' regions are Utrecht, The Hague, Leiden, Dordrecht and Leeuwarden. This

Map 1: Consistency of median house price trend quarter-on-quarter 1st quarter 2009 – 3rd quarter 2010



Source: ABF-Research, adapted by Rabobank appears to indicate that after the steep fall in prices the market has reverted to a steady increase again here. The 'steady' price trend in these regions indicates a substantial, persistent demand relative to (new) housing supply. In the Almere, Amersfoort, Breda, Eindhoven and Haarlem regions, by contrast, price increases and decreases alternate continually. These are 'volatile' regions with highly changeable price movements.

In these 'volatile' regions the addition of (new) housing to the market probably leads to major supply overhangs on a regular basis, which is subsequently reflected in falling house prices. The volatility in the Haarlem region may be a consequence of the high median house price. In the present 'thin' market, sales of a few units more or less produce a sharp price increase or fall overall. In the other regions, there appears to be no correlation between the price level of a region and its movements since the start of 2009.

Regional price movements usually uniform compared to national trend
Regional price movements are much more uniform than national trends (map 2). Two thirds of the regions almost consistently recorded stronger or, conversely, softer price movements than the national trend. For one third of the regions this in fact occurred in all six quarters. Viewed across the entire period the Amsterdam, Haarlem, Utrecht, The Hague and Enschede regions almost continually recorded a stronger price increase than the increase at a national level. In the Leiden and Almere regions and a large number of regions in the east and the south of the country the price increase almost always trailed that of the national trend.
The crisis does not appear to have affected the position of any of these regions in the nationwide housing market. The opposite is true for Amersfoort, the regions in the north of the Netherlands and the southwest. Owing to new housing completions and the 'thin' market respectively, quarters with price increases and falls alternate continually.

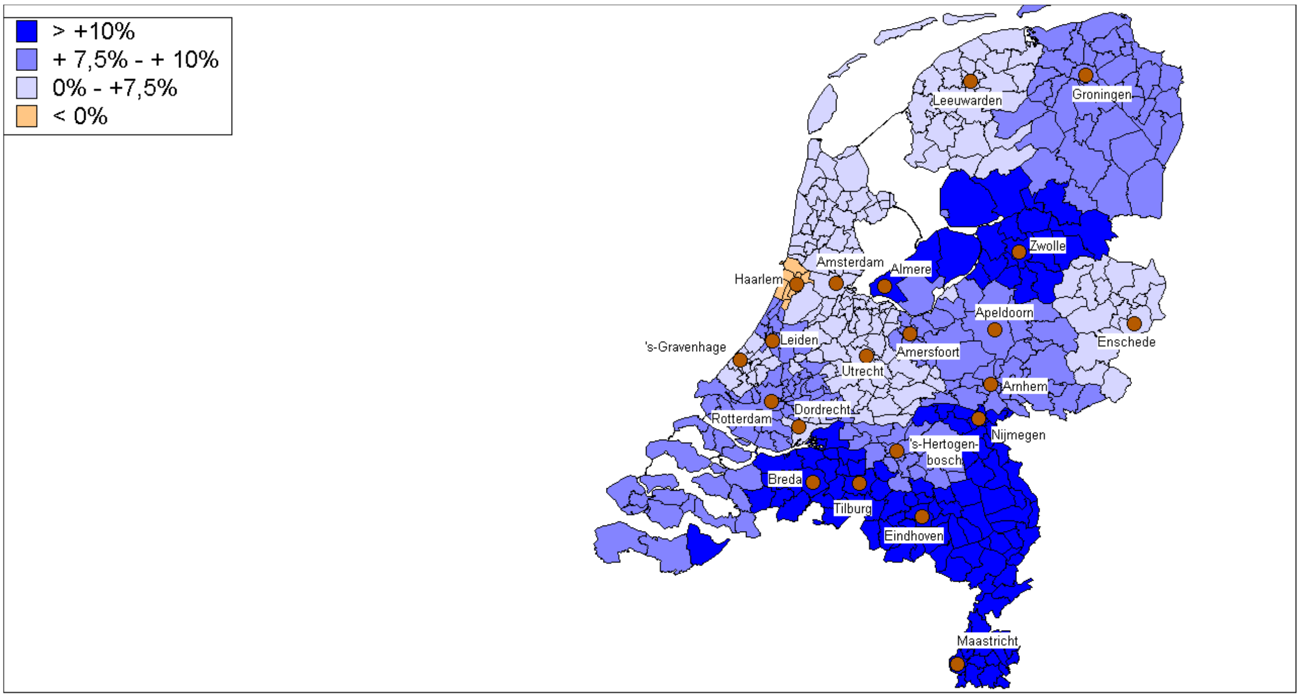
Improvement in affordability

Regardless of whether house prices rise or fall in a region, the interest rate cuts in the past quarters have had a favourable effect on the affordability of housing (map 3) across the country. Although house prices have increased in almost all regions since the market trough, this has not affected affordability. In the east and south of the Netherlands in particular, housing is now much more affordable than it was 18 months ago. Haarlem is the only region where price increases have adversely affected affordability, but only to a marginal extent. The other regions with significant price increases since the start of 2009 – Utrecht, Amersfoort and The Hague – still offer a more favourable climate for buyers than during the trough.

Conclusion

Regional price trends are highly volatile, but house prices have on balance increased in 2009 since the market was at its lowest. Owing to the fall in interest rates, affordability still increased despite the rise in prices.

Map 2: Consistency of regional versus national house price trend 1st quarter 2009 – 3rd quarter 2010



Source: ABF-Research; adapted by Rabobank

The Amersfoort housing market region

Regional differences in house prices and affordability result from regional differences in demand and supply in the regional housing markets. There is no such thing as a uniform Dutch housing market. The market is made up of various regional housing markets, within each of which movements in demand and supply are strongly similar. In this quarterly report we focus on the eastern rim of the Randstad conurbation, an area that displays a great deal of growth, especially along the axes A1, A12 and A28. To illustrate this, we zoom in on the Amersfoort housing market region, which comprises the municipalities of Amersfoort, Barneveld, Bunschoten, Ermelo, Leusden, Nijkerk, Putten, Renswoude, Scherpenzeel, Soest, Woudenberg and Zeewolde. This region has over 400,000 inhabitants and 210,000 jobs. This represents 2.5 percent of the population and job market of the Netherlands (table 1). In the past decade the growth of the region's population, jobs and employment market have outstripped the national trend. The regional population grew almost twice as fast in the period 2000-2009 as the national population and the growth of housing stock likewise comfortably exceeded the national average. This section will first look at housing demand and supply and the operation of the housing market.

Demand in the housing market: development of the population

The housing needs of the inhabitants of a region and those wishing to move there constitute the demand in the regional housing market. The development and composition of the population are therefore important factors underlying housing demand. Population growth is the result of two factors: net migration and natural population growth. Domestic net migration is the difference between inbound and outbound migration and indicates whether a region is a popular residential location among people in the Netherlands. This balance is slightly positive for the Amersfoort housing market region as a whole (figure 21). As more people moved into than out of the region each year from 2003 to 2007, the population grew by 2,200 persons (0.5% of population). By comparison: within the Netherlands the province of Flevoland recorded the strongest net migration growth over that period at 0.65%. The Amersfoort region is sought out mainly by the group aged 25-34 years (figure 22). This group consists largely of present and prospective young families. In the Netherlands, the number of births is relatively highest among women aged between 25 and 35[1] years. In

Table 1: Key figures for Amersfoort housing market region, 2009

	Population	Households	Housing	Jobs
Amersfoort Housing Region	403.586	163.628	159.199	210.693
Amersfoort proper	*143.212*	*61.780*	*59.662*	*82.381*
The Netherlands	16.485.787	7.312.579	7.106.564	8.032.079

Source: ABF

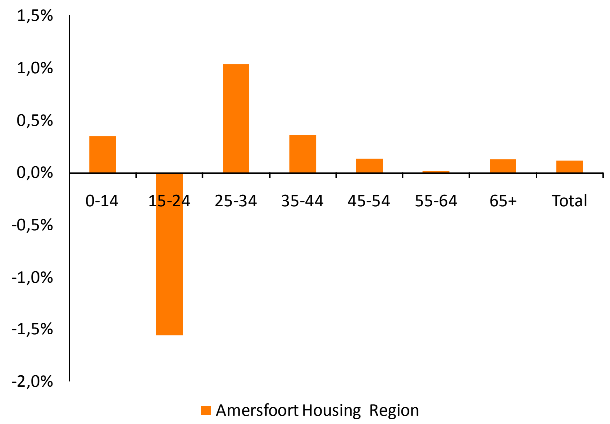
addition to contributing to net migration this group therefore also contributes to natural population growth. Natural population growth (difference between births and deaths) in the period 2003-2007 was over 2,300 people a year and was accordingly the main driver of regional population growth. The natural population growth in the region is strong owing to the high birth rate. An average of 1.8 children is born for every death. For the Netherlands as a whole this is 1.3.

The provenance of buyers of houses in the Amersfoort region provides an accurate reflection of the attractiveness of the area as a residential location. A comparatively large portion of houses in the Amersfoort municipality is bought by people from outside the municipality. Of the buyers, 35 percent comes from elsewhere, versus 23 percent in the rest of the municipalities in the region and 28 percent in the Netherlands as a whole. There is a notable division within the region. On the one hand, the housing market in municipalities such as Amersfoort, Ermelo, Leusden, Soest and Zeewolde exerts a strong pull on people outside this region. Around four in ten houses are purchased by people from outside the municipality. The housing market in Barneveld, Bunschoten and Putten, conversely, exerts a strong attraction locally: almost nine out of ten houses are bought by existing inhabitants of these towns.

The population of the eastern rim of the Randstad conurbation is expected to continue to grow more strongly than the national average in the present decade. The Amersfoort region is a clear driver of this growth due to migration and natural population growth; the total growth of the population is put at over twice as high as in the comparison areas by the Primos forecast (figure 23). The Amersfoort region presents a different growth pattern of the population by age. The group of young people (younger than 30 years) is growing comparatively

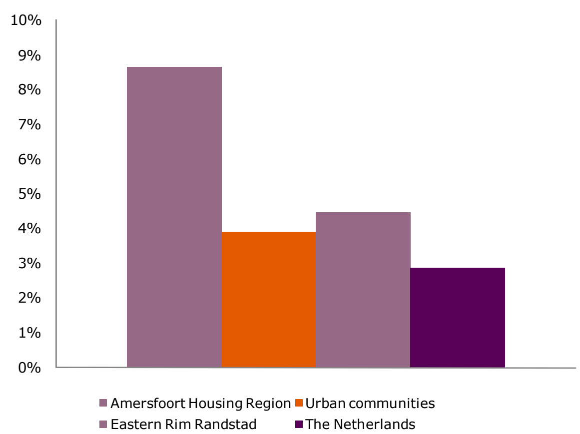
[1] CBS Statline - birth; mothers' age 2008

Figure 21: Average net migration 2003-2007 by age group (% of population by age group)



Source: ABF, adapted by Rabobank

Figure 22: Population growth 2010-2020



Source: Primos forecast, 2009

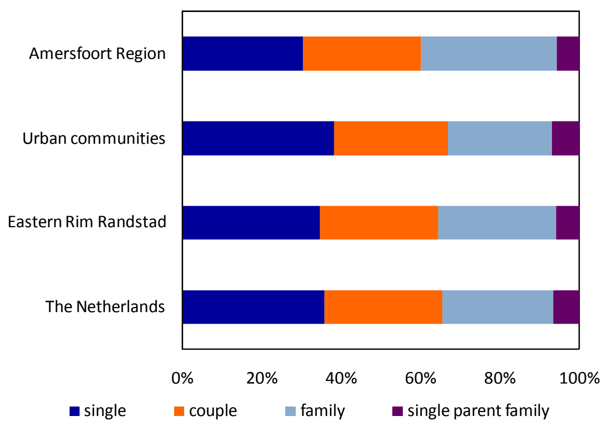
strongly here, by 5 percent, versus only 1 percent in the comparison areas. At the same time, the group of older people (65+) in the Amersfoort region, as in the Netherlands, will grow significantly in the coming ten years (30 percent nationally). This is also reflected in the employment market; as in other areas, the relative proportion of people belonging to the potential working population (everyone between 15 and 65) will decrease in the next ten years.

Demand in the housing market: composition of the population

Household composition is a factor that significantly affects the desired size and location of houses. The proportion of single people is particularly high in urban areas, whereas people with children are overrepresented in the adjoining municipalities and/or municipalities with a strongly religious population. It is typical of the region that the proportion of families is considerably higher than for the country as a whole. Within the region (two parent) families represent 34 percent of all households; nationally this is 28 percent. In a number of municipalities (Barneveld, Bunschoten, Renswoude and Zeewolde) this share is above 40 percent. In the Amersfoort municipality, families form 31 percent of all households; in comparable urban municipalities this is 26 percent. The overrepresentation of the number of families means that the average household size in the region is large. The combination of the inflow of the group aged 25-34 years and the confessional nature of a (large) portion of the municipalities in the area keep the region young.

The population's purchasing power provides an indication of buyers' options in the housing market. The average disposable household income of the Amersfoort[2] municipality (not the housing market region) shows that both homeowner and tenant households have a higher income. The higher purchasing power enables them to buy more expensive houses (table 2). The difference in the average income arises mainly because the categories young households (<34 years),

Figure 23: Household composition



Source: ABF, adapted by Rabobank

Table 2: Average disposable household income and purchase price (2006)

	Amersfoort Region	The Netherlands
Household income, all households	40.840	35.050
Household income, private housing	48.620	43.310
Household income, rented housing	26.260	23.230
Price	366.500	316.500
Housing costs, private housing	843	809
Affordability Ratio	24	26

Source: Cita Vista

cohabiting couples with children and second-time homebuyers in the Amersfoort municipality have higher household incomes than in the Netherlands as a whole. Incomes in the other categories of households are also higher, albeit with narrower differences compared to the Netherlands as a whole.

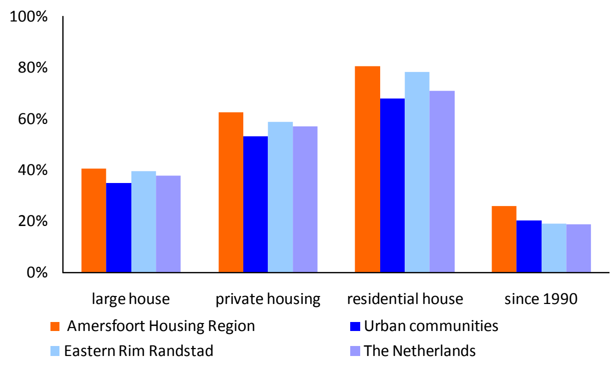
Housing market supply: housing stock

The housing stock of a region can be subclassified by criteria such as form of ownership, type of house[3], size and year of construction. In general, owner-occupied, large, low-rise houses from the pre-war period and from after 1990 are rated more favourably than the competition. The housing stock in the Amersfoort region has a relatively greater supply of all these types than the comparison areas and is therefore attractive (figure 24). This is partly due to the development of the large-scale new housing locations Nieuwland and Vathorst in Amersfoort.

The growth of housing supply in the region was much stronger than for the Netherlands as a whole. In the period 1996-2008 supply in this region expanded by 19 percent (25,800 houses), versus 12 percent for the Netherlands as a whole. New housing projects in Amersfoort, Barneveld, Nijkerk and Zeewolde accounted for three quarters of the total increase in supply in the region. At the national level we see a decrease in the number of rental houses, in both the private and social sectors. Owing to the surge in housing supply in the Amersfoort region the total number of subsidised rental houses here has in fact also increased (figure 25).
The largest relative increase in the number of subsidised rental houses was recorded in Leusden and Zeewolde. At the same time, the largest decrease in the number of private sector rental houses also took place there.

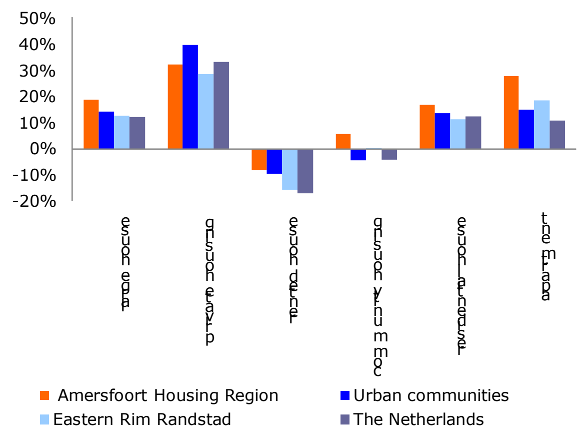
[2] Amersfoort, Baarn, Bunschoten, Leusden, Woudenberg, Eemnes and Soest
[3] Low-rise or high-rise

Figure 24: Housing stock – proportion of desirable house types



Source: ABF

Figure 25: Development of housing stock (1996-2008)



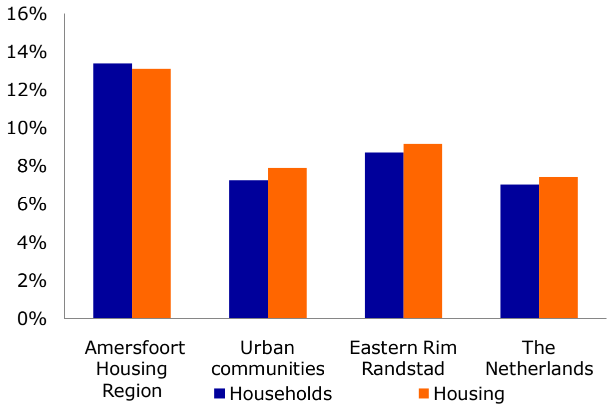
Source: ABF

Operation of the housing market

Pillars of the housing market

The housing market rests on three pillars: *availability*, *quality* and *affordability*. These three pillars can therefore be used as criteria to assess the operation of the housing market. Availability encompasses factors such as the number of houses per household and the relation between the number of desired residential properties and the actual stock. Quality relates to factors affecting the (subjective and financial) rating of the property and its neighbourhood. Affordability turns on the relation between purchasing power and housing prices.

Figure 26: Expected development of households and houses, % (2010-2020)



Source: Primos forecast, 2009

Availability

The relation between the housing stock and the number of households offers an insight into the extent to which there is a (mis)match on the basis of availability. Overall, the housing stock in the Netherlands is not large enough to meet demand. In 2010 there is a housing shortfall in the Netherlands of 1.7 percent. But there are substantial differences between regions. In attractive (central) regions with solid population growth the shortfall is usually higher than at the national level, while in the Dutch contraction areas there is conversely an oversupply of housing. The region Amersfoort has a housing shortfall in 2010 of 2.5 percent (4,200 houses). For the eastern rim of the Randstad conurbation as a whole it was 2.3 percent. The population forecasts of Primos expect growth in the number of households in the Amersfoort region to outstrip that of the number of houses (figure 26). By contrast to the comparison areas, the housing shortage here is in fact expected to increase in the next ten years. It is highly important in a region such as Amersfoort in particular that new housing construction continues on par, to prevent the market from tightening.

However, the availability of houses says nothing about a potential mismatch between supply and demand on the basis of the quality of houses.

Quality

A qualitative mismatch can arise if the available residential properties, neighbourhoods and living environment do not match the needs of house-seekers in terms of quality. The housing stock in the Amersfoort region to a large extent consists of houses built between 1970 and 1990 and after 1990. There are a number of neighbourhoods in Amersfoort and Harderwijk with less favourable scores on living quality as measured in the Living Quality Barometer of the Housing Ministry (Leefbaarometer van VROM). The lower living quality score of these neighbourhoods is partly attributable to the lower quality of the housing stock[4]. But most areas in the region achieve positive to very positive scores on living quality. Data from the (former) Housing Ministry likewise show that this is a region with relatively few houses in areas with social, physical or economic-cultural underdevelopment. These factors and the fact that the area is not very urbanised indicate a high quality of houses and living environment. This is also reflected in the relatively high prices of properties in the region Amersfoort. The average Valuation of Immovable Property (WOZ-value) of houses in this area is 19 percent above the average value in the Netherlands and 8 percent above that on the eastern rim of the Randstad conurbation. Table 3 shows WOZ-values by municipality.

Affordability

You get what you pay for; the WOZ-value is not just the financial reflection of the value of the house, it also forms the link between a property's quality and its affordability. The fall in house prices at the end of 2008 and the start of 2009 has made houses more affordable. Within the region, affordability is best in Amersfoort and Leusden. In Amersfoort this is mainly because house prices are

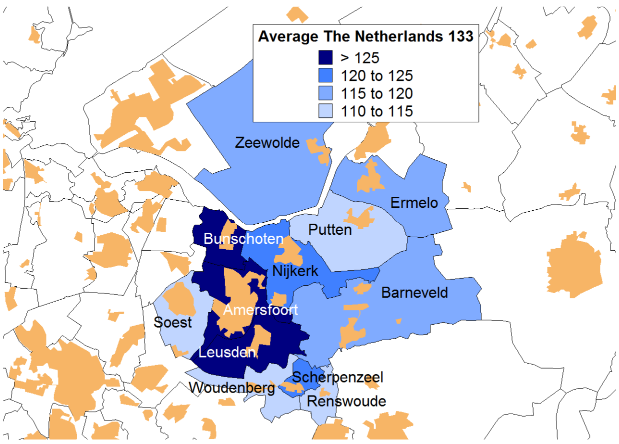
[4] Based on indicators including housing density, presence of 'desirable' houses (detached, semi-detached) and absence of 'undesirable' houses (apartments, subsidised rental housing).

Table 3: Average WOZ-value per property (2008, *1000 €)

Area	WOZ	Area	WOZ
The Netherlands	232	Nijkerk	286
Eastern Rim Randstad	256	Putten	310
Amersfoort Housing Region	274	Renswoude	292
Amersfoort	248	Scherpenzeel	271
Barneveld	312	Soest	287
Bunschoten	269	Woudenberg	281
ermelo	295	Zeewolde	252
Leusden	288		

Source: ABF

Figure 27: Affordability by municipality (3rd quarter 2010)



Source: ABF

slightly lower in relative terms. In Leusden it is because gross household income is relatively high (figure 27).
Although incomes in the other municipalities are also higher than the Dutch average, this does not benefit affordability there as house prices are likewise distinctly above the Dutch average. In view of the long-term growth of the regional population, the present (relatively favourable) affordability of housing appears to be a temporary phenomenon. We have already seen in this quarterly report that the Amersfoort housing market region is one of the regions with the strongest price increases since the fall in house prices. Prices are likely to continue to rise (further) in the Amersfoort region over time. In addition, interest rates are also likely to rise. This will have an adverse impact on affordability.

Conclusion
The Amersfoort housing market region is experiencing very rapid growth. It is driven by the region's location on the eastern rim of the Randstad conurbation, its pleasant living environment and the space available for residential development, which is a scarce commodity elsewhere in the Central Netherlands. The region has a net inflow of migration. It is particularly popular among persons aged between 25 and 34 years (young families). The move of this group into the region is also a boon for its natural population growth. As a result, the region has a relatively young, growing population. Population growth is most pronounced in the Amersfoort, Barneveld, Nijkerk and Zeewolde municipalities. They have recorded persistent growth since the mid-eighties. There is a division in the housing market between municipalities such as Amersfoort that attract a relatively high number of buyers from outside and municipalities such as Barneveld that cater mainly to local demand. The composition of the housing stock in the region is relatively advantageous as large properties, owner-occupied, low-rise houses and recently-built properties are comparatively strongly represented.

The region's popularity has clear effects on the operation of the housing market. The quality of the housing supply is reflected in the price and availability of residential properties. The current tightness in the housing market is not likely to be resolved within the next decade. In addition, the affordability of properties is handicapped by prices that are higher than in the surrounding regions.

Key figures

House Prices

Year-on-year change (%)	2008	2009	2010 [a]	2011 [a]
NVM (median house price)	-0.3	-7.1	3¼	-1
Land Registry (purchase price)	2.7	-6.4	1¼	¼
Statistics Netherlands/ Land Registry (PBK)	3.0	-3.3	-2	-1
ABF Valuation (WOX)	2.5	-3.2	0	-¼

Totals

x 1000	2008	2009	2010 [a]	2011 [a]
Sales transactions	182	128	130	145
Newly built homes	79	83	63[a]	58[a]

Totals

	2008	2009	2010 [a]	2011 [a]
Enforced Sales	1,961	2,256	-	-

Key economic figures (November 2010)

	2008	2009	2010 [a]	2011 [a]
GDP (growth, %)	1.9	-3.9	1¾ [a]	1½ [a]
Inflation (%)	2.5	1.2	1¼ [a]	1 [a]
Unemployment (%)	3.8	4.8	5½ [a]	5½ [a]

Rabobank affordability index

x 1000	2008	2009	2010 [a]	2011 [a]
Affordability index [b]	83	98	101	105

Interest rates [c]

Level (%)	November 2010	+3m [d]	+12m [d]
3-month Eurozone	1.05	1.17	1.66
10-year Euroswap	2.72	2.69	3.10
Mortgage interest rate, 5-10 year fixed	4.64 [e]		

[a] Rabobank outlook

[b] The Rabobank affordability index is calculated based on the average property price (Land Registry) and average household income (Statistics Netherlands). An annuity mortgage is used with a duration of 30 years and a forced sale value of 80 percent of the market value, and a monthly expense quota of 30 percent. An affordability index greater than 100 indicates that the average house is reasonably affordable. An affordability index below 100 indicates that an average property is not reasonably affordable without injecting personal capital.

[c] Forecasts by Financial Markets Research, Rabobank International

[d] Outlook for +3 and +12 months respectively

[e] September 2010 monthly average, DNB

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 and Statistics Netherlands.

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