Rabobank

Dutch Housing Market Quarterly

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Economic Research Department

Contents

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Introduction and Summary

The Dutch existing homes market is currently under heavy weather. A lack of confidence among house buyers has sapped momentum from the market. Transaction numbers continue to lag below pre-crisis levels. However, the decline in the number of sales has been halted: during the first half of 2010, almost 60,000 sales took place – over 2,000 more than in the same period last year. Sales figures are currently stabilising around 130,000 year-on-year. This is historically low, but at least the downward trend has come to an end.

This stabilisation is reflected in the price development of second-hand (or existing) houses. The second-hand housing market indicator (PBK) of CBS/Land Registry showed 0.2% price growth in the second quarter of 2010 compared to the first quarter. Owing to the declining prices of previous quarters, prices have still declined year-on-year, although the rate of this decline has decreased markedly in recent quarters (from -4.4% to -1.9%).

In line with this development, the Dutch mortgage market is also stabilising. The improvement is entirely due to a rise in newly issued mortgages, since the number of refinancing mortgage loans continues to drop. Incidentally, the average mortgage sum issued has declined. There are two main reasons for this: lower house prices and compositional effects (fewer houses sold in the more expensive price bracket).

Clearly, it is a buyers' market out there at the moment. There are plenty of existing homes for sale, and prices are historically low. Nonetheless, many potential house buyers remain hesitant. Despite low interest rates and improved affordability, many are reluctant to take the plunge. This lack of confidence is fuelled by the ongoing uncertainty surrounding government policy on the housing market. Because of the large supply of houses for sale, a boost in sales is needed for prices to recover. In the absence of this, Rabobank envisages a slow recovery. For this year and next we expect to the PBK index for existing homes sales to show prices stabilising further or rising only slightly. Negative statistical carry-over effects will push this year's annual average to below that of 2009. Expressed in percentages Rabobank predicts an average price drop of 1½% this year, followed by 1% growth in 2011.

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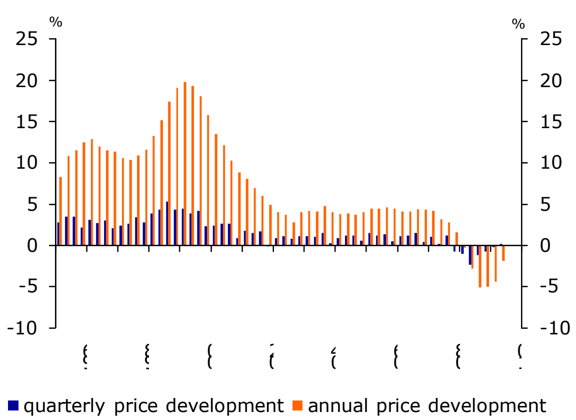
Second-hand housing market

Limited price rise
After one and a half years of declining house prices, the second-hand housing market indicator (PBK) of CBS/Land Registry showed a small plus (+0.2%) in the second quarter of 2010, compared to the previous quarter (Figure 1).
While prices are still lower than a year ago, this can be entirely attributed to the price drop in the second half of 2009 and the first quarter of this year. Moreover, the year-on-year decline is much less marked than in the previous quarters. On balance, 2010 has seen prices stabilise on the Dutch housing market.
This development is fully in line with our expectations. Already in the autumn of 2009 we predicted that house prices would stabilise and that there would be a limited price rise during the course of 2010. Currently, we expect this price development to continue, without becoming exuberant. There is still too much uncertainty to warrant over-optimism.

The limited positive price development is confirmed by other series. This applies both to the median house price and square metre price series of the NVM (Association of Real Estate Brokers) and the purchase price series of the Land Registry and the WOX of ABF Valuation (Figure 2). Since the NVM series lead the other house price series by some three months, these data support our expectations.

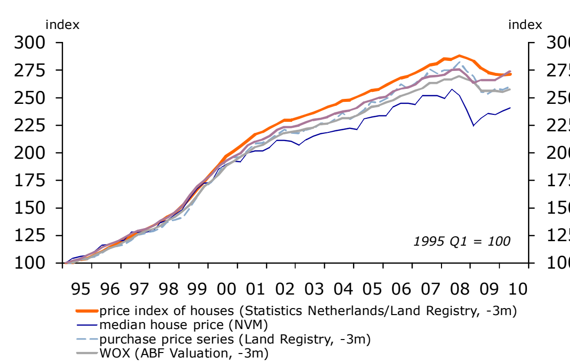
If we make a distinction in the PBK figures between the different house types, then we see that only detached houses continued to decline in price in the second quarter (Figure 3). These account for 10% of house sales in the second quarter, which is usual for this type of house. The limited positive price development is therefore spread across the market, with the exception of the most expensive segment. However, as already stated, the recovery is only very slight (Figure 3). For all house types, the price rise in the second quarter has been very modest, particularly when contrasted with the cumulative price decline in the preceding period.

Figure 1: House prices rise in second quarter



Source: CBS, Land Registry, Rabobank

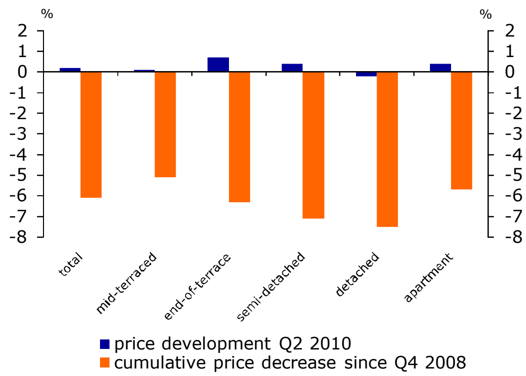
Figure 2: Limited rise across the board



Source: ABF Valuation, CBS, Land Registry, NVM, Rabobank

Furthermore, it is clear that the more expensive price bracket (detached and semi-detached houses) has been harder hit than the cheaper apartments and terraced houses. In addition, sales numbers are still depressed, which means the price development is based on a thin framework, making definitive statements about recent price trends rather premature.

Figure 3: Recovery fragile and limited

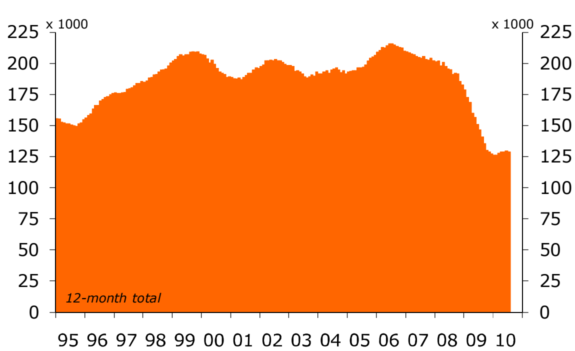


Source: CBS, Land Registry, Rabobank

Transaction numbers stabilise

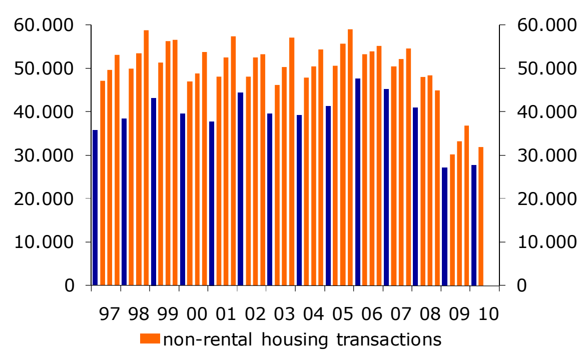
The market has made a clear break with the declining trend in transaction numbers (Figure 4). In the first half of 2010, the Land Registry recorded 59,636 houses sold -2,149 more than in the same period last year (+3.7%). However, the differences per quarter are rather miniscule (Figure 5) and we expect this to remain the case for the rest of the year. Meanwhile, the 12 month totals have risen slightly to 130,000, which remains extremely low, historically. Until recently, we were used to an average annual market volume of some 200,000 house transactions. Current figures are about one third less, which is bad news for companies that depend on momentum on the housing market, such as estate agents, removal companies and notaries. Many of them have seen their share of market related sales decline considerably, despite the stabilisation in house sales numbers this year. Moreover, it will be quite some time before activity returns to the Dutch housing market at pre-crisis levels. Many potential house buyers continue to postpone a purchase, which is clear from the large number of houses for sale. According to NVM data, there were over 168,000 houses on the market in the second quarter, of which just under 24,000 were sold. This corresponds to a

Figure 4: Small plus in transaction numbers



Source: Land Registry, Rabobank

Figure 5: Transaction numbers close to 2009



Source: Land Registry, Rabobank

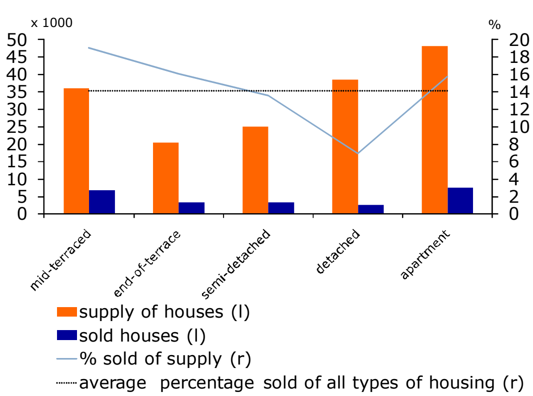
sales percentage of 14.2%. However, there are considerable differences per house type (Figure 6). The sales ratio for terraced houses is the most favourable, at 19.1%. This reflects the relatively short average selling time of 97 days for these houses. Detached houses are at the other end of the spectrum. There is a sales percentage of only 6.9% for these houses. And the average selling time has risen to 238 days. Moreover, only17% of detached houses change hands within three months, which pushes down the average significantly.

Owing to the large supply of houses and the limited activity, houses remain on the market for longer than was the case before the credit crisis. Houses now take an average of 129 days to sell, compared to around 80 days before the crisis - an increase of 60%. Prospects of improvement are not good, with the stock of unsold homes continuing to rise. This also means that the price development outlined above needs to be viewed with caution. Because there is so little dynamic in the most expensive market segment, the house price development really only reflects the most popular segment of the market.

Break with trend: slight drop in forced sales

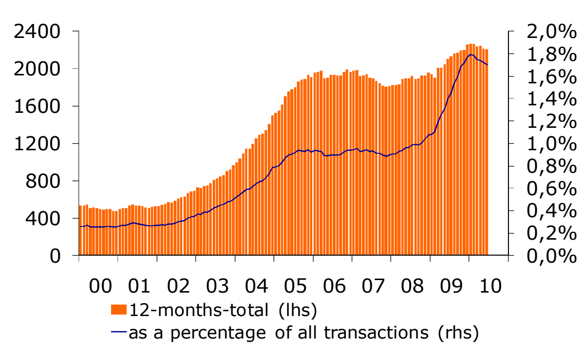
There was a slight drop in forced sales in the first half of 2010 (Figure 7). During this period the Land Registry recorded 1,077 forced auctions – 50 less than for the same period last year. While this difference may not be marked, at least the upward trend has been broken. Stabilisation of unemployment during the past half year may have played a role. Incidentally, the turning point has come relatively early in the cycle, since the Netherlands only emerged from recession in the third quarter of 2009. Generally, the trend in forced sales follows with a lag of about a year.

Figure 6: Plentiful supply and sparse sales



Source: NVM, Rabobank

Figure 7: Small drop in forced sales

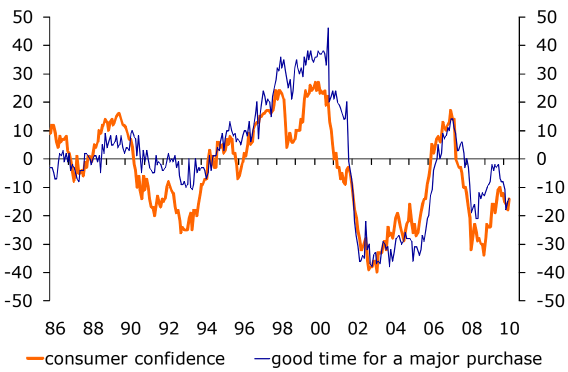


Source: Land Registry, Rabobank

Outlook for the existing homes market

The Dutch housing market is experiencing difficult times. Buyers are faced with uncertainty about a number of issues: household income, selling their existing house, the duration of a possible double housing costs and government policy for the housing market. Since mortgage loans are usually entered for a thirty-year period, the long-term horizon is very important. This highlights the importance of composition of a future cabinet. Since elections take place every four years, the market will benefit from a long-term vision which will extend beyond a single period of office. This will require broadly based decision-making and a reliable government. In the meantime, there is considerable uncertainty surrounding the Housing Ministry's (VROM) first-time buyers' subsidy as well as doubt about when the government will reverse the temporary national mortgage guarantee (NHG) threshold increase from € 265,000 to € 350,000. Without political intervention, the NHG threshold will revert to the old level at the end of this year. Currently, parliament is favourably disposed to a one-year extension. However, the need for cost-cutting places a question mark over the outcome of this debate.

Figure 8: Consumer confidence still negative



Source: CBS, Rabobank

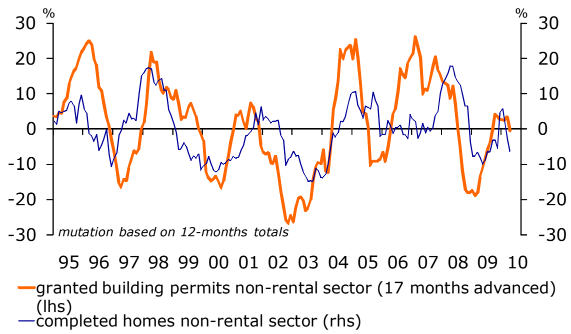
Both confidence and economic growth are of considerable importance to the property market in the Netherlands. Consumer confidence remains negative and virtually unchanged from the last quarter (Figure 8). It is to be hoped that a new cabinet will quickly create greater certainty about householders' future financial burden. Confidence requires a certain degree of certainty. Looking at economic growth, the picture is moderately positive. Rabobank expects the Dutch economy to grow by 1½% this year and by 1¾% next year – a limited recovery after the 4% contraction of 2009. Despite a couple of dips, we expect unemployment to rise this year by several tens of thousands to 469,000, followed by a slight drop of a few thousand in 2011. Interest rates are another important housing market indicator. Although these have fallen in recent months, this drop is likely to be temporary. In line with this, the somewhat improved affordability of buying a house will be reversed in equal proportions next year.

The large supply of houses for sale and the limited number of sales taking place are sure signs of a buyers' market. Lack of confidence is largely to blame for buyer hesitance. More sales need to take place for prices to recover. Rabobank therefore envisages a slow recovery. For this year and next, we expect to see the PBK-index values stabilise or rise only slightly. For this year, the annual average will be lower than 2009 due to a negative statistical carry-over effect. In numbers, Rabobank expects house prices to decline on balance this year by an average of 1½%, followed by growth of 1% in 2011.

Sharp drop in new completions

Despite the credit crisis, new housing output remained robust in 2009 with 83,000 new completions. Because the construction industry is a late-cyclical sector, most housing completions last year involved existing pre-paid orders dating from the previous year (Figure 9). The sharp decline that occurred in the sale of new houses in the second half of 2008 (40% year-on-year) is only now being reflected in a slump in construction output. In the first quarter of this year, only 7,280 new houses were built. This is the lowest number of new completions since 1995, virtually half the number constructed in the same period a year ago. The decline has mainly occurred in the non-rental sector of private housing. However, the rental sector will not be likely to take up the slack. Because of the deterioration in the liquidity position of housing corporations (making it difficult to generate additional capital), investment in new housing is under pressure. In the first quarter of this year, new completions of rental units commissioned by the housing corporations were down on last year's by over 50%.

Figure 9: Slump in construction shows a lag



Source: CBS, Rabobank

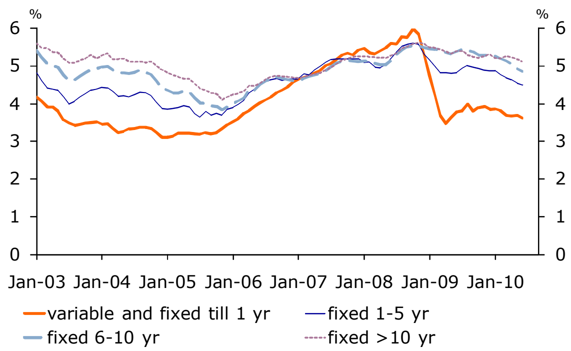
The outlook for housing output for this year and next year is far from encouraging. Although almost twice as many new houses were sold in the first half of 2010 as in the same period a year ago, some qualifying remarks need to be made.
First, sales of new houses had hit rock bottom in the first six months of 2009, with just over 7,500 houses sold. Compared to the same period in the years 2005 to 2007, the number of sales is still down by 40%. Furthermore, the rise in 2010 can partly be attributed to knock-down prices by project developers. Many of the new houses sold had already been built when they were offered for sale at a reduced price.

Finally, the incipient recovery in the sale of new houses may well be undermined during the coming period by uncertainty about the economy, possible cut-backs and the discontinuation of the first-time buyers' subsidy. The cumulative effect of sharply declining sales, reluctance among potential buyers and problems in financing new housing projects is reflected in the fact that the first quarter of this year saw the lowest number of building permits issued in the past 22 years (around 11,000). We do not rule out the possibility that this year and next, the number of housing completions may dip below 60,000 for the first time since 2003.

Mortgage rates stable

In line with the downward trend on the money and capital markets, both the average variable and fixed mortgage rates have declined slightly since the start of this year (Figure 10). In the long term both variable and fixed mortgage rates will be pushed up a little as a result of the expected upward movement on the money and capital markets. However, any rise in capital and money market interest rates will not necessarily be followed to the same extent by mortgage interest rates, as a return to calm in the financial markets may lead to a reduction in risk premiums.

Figure 10: Slight drop in mortgage rates

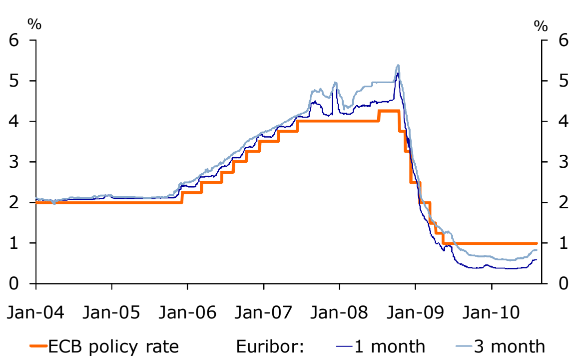


Source: DNB

Money market loosening gradually

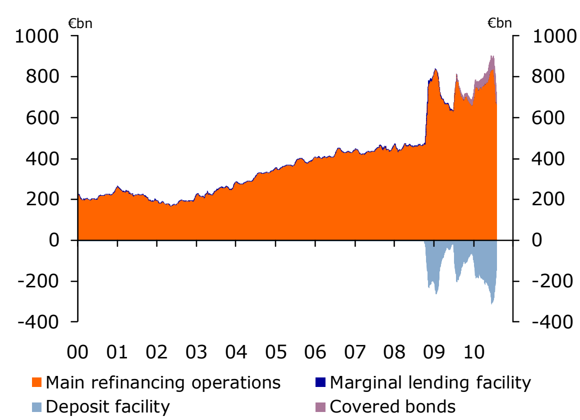
The gradual withdrawal of liquidity measures since December 2009 was temporarily reversed in May. With the confidence crash on the market for government bonds threatening to disrupt access to liquidity on the money market, banks were again given the opportunity to borrow unlimited sums from the ECB at a fixed interest rate of 1% for a three-month period. In the event, they made less use of the facility on this occasion. After having repaid € 442 billion on 1 July that was borrowed a year early, the banks made less use of the three-month auction that followed, borrowing 'only' € 132 billion. This is an indication that the financing requirements of eurozone banks are not as acute as was feared. Furthermore, the ECB has completed its programme of purchasing covered bonds. In the wake of the reduced liquidity, the short-term interbank rate has risen (Figure 11).

Figure 11: Money market loosening gradually



Source: Reuters EcoWin, Rabobank

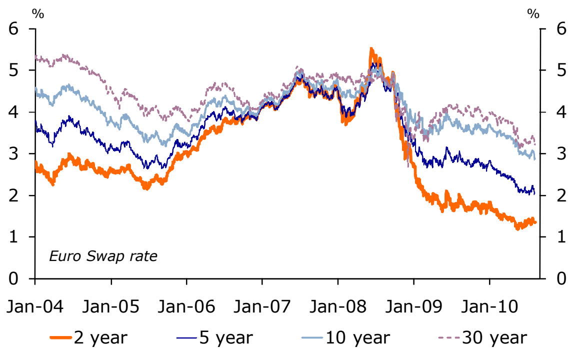
Figure 12: Banks deposit their money with the ECB



Source: ECB

A further rise is expected during the coming months, because the ECB is tightening liquidity support to the banks. Although the situation on the interbank money market is gradually returning to normal, confidence does not appear to have been fully restored. Much of the money that the banks borrow from the ECB returns to the central bank in the form of overnight deposits, instead of being lent out to other banks (Figure 12). The more that banks reduce their dependence on short-term financing (from the ECB), and focus more on long-term financing (savings deposits), the more pressure will be exerted on deposit interest rates. Together with the expected upward trend in money market rates, this may push up the variable mortgage rate somewhat over time. Conversely, the upward trend will be dampened to a certain extent by a reduction in the risk premiums that the banks impose on each other.

Figure 13: Capital market rates under pressure



Source: Reuters EcoWin, Rabobank

Capital markets: seeking a safe haven

The extent of the uncertainty in the financial markets about the sustainability of European government finances became evident last April when the Greek bond yields rose to unprecedented heights and market confidence in Greek government paper evaporated. The European Commission and the IMF reacted by creating a support package for euro countries in difficulties, and the ECB started to buy up public and private paper to restore the functioning of the market and thus improve the effectiveness of the transmission mechanism of monetary policy. Despite this rescue plan, investors sought the safe haven of German and Dutch government bonds. This pushed the 10-year rate on these bonds to below 3% by mid-May. In the meantime, there are two developments on the capital market that balance each other out. On the one hand, there are question marks over the economic recovery. Recent macro-economic data would appear to indicate a weakening of growth in the global economy in the coming months. On the other hand, there are concerns about the sustainability of European sovereign finances. In the absence of a solution, doubts about the government finances will remain for some time. Since mid-May, the 10-year euro swap rate has fluctuated around its lowest point ever of 3% (Figure 13). In our view, this rate will rise a little during the next year to an average level of around 3.4%. It is entirely possible that this slight upward trend in capital market rates will be (partly) offset in the coming months by a reduction in capital market risk premiums. As a result, fixed rate mortgages may well remain more or less unchanged.

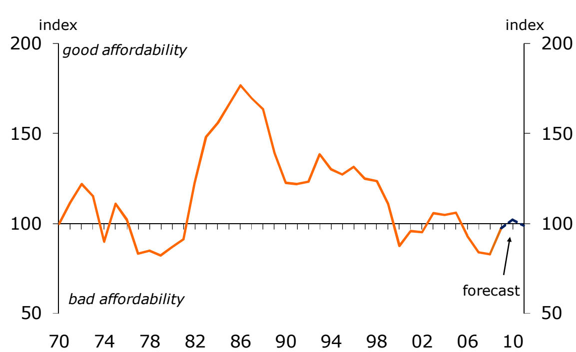
Affordability at its peak in 2010

The Rabobank Affordability Index (Figure 14) 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 to the income situation, for instance as a result of unemployment. A distinction is made between affordability for first-time buyers (110% financing) and those who want to trade up (70% financing). If the affordability index is 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 affordability index exceeds 100, then the gross monthly burden is less than 30% of gross income, and vice versa.

The affordability of buying a house in the Netherlands improved dramatically throughout 2009, but is set to level off during 2010. The improved affordability is chiefly due to the cumulative house price decline of 6.4% (PBK) and lower interest rates, particularly at the short end of the yield curve. Both factors push down the cost of buying a house, which is favourable for affordability.

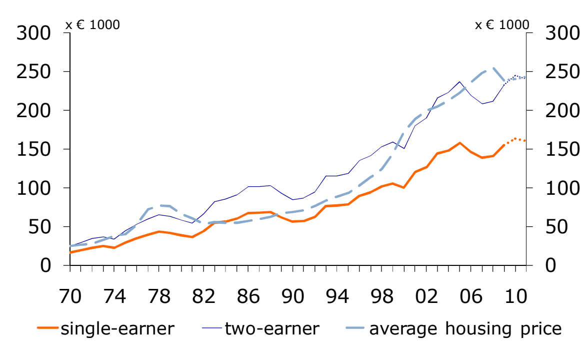
Figure 15 gives a good indication of the correlation between the average price of houses in the Netherlands and the borrowing capacity of single and dual-income households. Despite the improved affordability, it is clear that the choice is limited for single-income households with an average income (2010: € 32,500), unless they have sufficient equity to bridge the gap of some € 77,000 to pay for an average-priced house (excluding costs). For most young singles, that gap is simply too big. As against this, single house-seekers are generally satisfied with a smaller living space than larger households. Bread-winner households do not have this advantage, but may well have built up more equity – for example in their existing property.

Figure 14: Rabobank Affordability Index



Source: CPB, Land Registry, Reuters EcoWin, Rabobank

Figure 15: Price level of houses affordable for dual income households



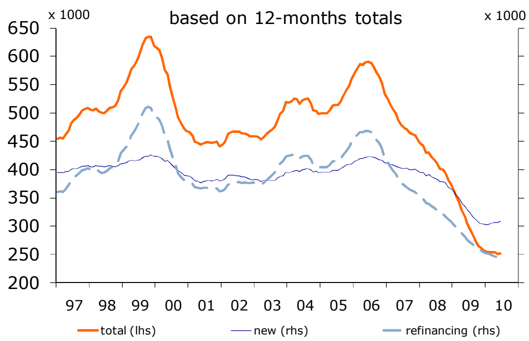
Source: CPB, Land Registry, Reuters EcoWin, Rabobank

Mortgage market stabilising

The Dutch mortgage market appears to be stabilising at the current level of around 250,000 mortgages issued on a 12-month basis (Figure 16). This development is entirely due to the output of newly issued mortgages. Land Registry data show that in the first half of this year, 5,146 more new mortgages were issued than in the same period in 2009. Nonetheless, on balance, on account of the continuing decline in re-financing loans, output was down slightly in the first six months of 2010.

Expressed in figures, the picture is comparable, albeit with one important difference. On a 12-month basis the figures show growth. The lowest point was reached in February of this year (€ 61.2 billion). In recent months, this has risen to € 62.0 billion. However, compared to the pre-crisis peak level of € 126.7 billion in July 2006, the notion of growth can scarcely be considered.

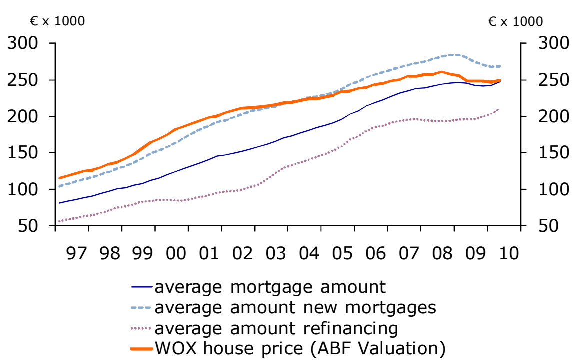
Figure 16: Stabilisation of mortgage output



Source: Land Registry, Rabobank

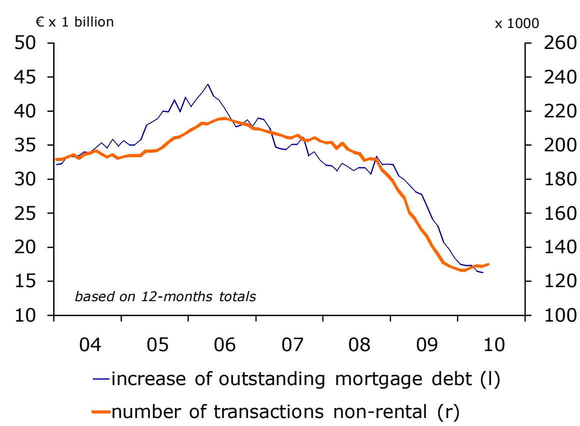
Figure 17 clearly illustrates that the average mortgage amount issued, particularly for new mortgages, has declined in the recent period. There are two main reasons for this: lower house prices and compositional effects. Because fewer houses in the more expensive price bracket are being sold, the average mortgage rate has come down. How transaction numbers impact on the mortgage market is clear from the parallel development in the change in outstanding mortgage debt (Figure 18). Data from the Netherlands Central Bank (DNB) show that this debt currently amounts to € 542.7 billion. However, it is rising at a slower pace than was formerly the case.

Figure 17: Correlation between house value and mortgage output



Source: ABF Valuation, Land Registry, Rabobank

Figure 18: Correlation between transactions and outstanding mortgage debt



Source: DNB, Land Registry, Rabobank

Mortgage-holders positive about Rabobank and insurance agency

Research is conducted at regular intervals on the quality of the services provided by mortgage consultants. Examples are surveys by the Netherlands Authority for the Financial Markets (AFM) in its capacity as sector supervisor or by the Dutch homeowners' association [Vereniging Eigen Huis], in order to establish whether its members are being advised correctly. In addition to these studies, market researchers TNS NIPO recently published the results of a survey in which over 1,500 (potential) mortgage clients were asked about their experience of mortgage-broking. A number of the findings are highlighted below.

This TNS NIPO study shows that mortgage clients rated the mediating activities of Rabobank and the insurance agency very highly. Both scored 7.6 for their role as intermediary – the highest score of all the brokers evaluated. Rabobank's local banking structure was rated positively by the researchers. This system means that decisions can be made fairly autonomously at regional level, which benefits client-friendliness. Furthermore, the local banks are relatively unaffected by internal reorganisations. Clearly, it is better for client-bank relationship, if there are as few changes in advisors as possible. However, since mortgage loans are taken out for a period of several decades, changes cannot be avoided. It is these strengths that enabled Rabobank to leave the competition far behind. The next large bank scored only 6.4 in the survey for mortgage broking.

Besides the brokerage activities, clients are positive about the prices quoted by Rabobank and its subsidiary, Obvion. They share top place alongside – in alphabetical order - AEGON, Fortis Bank Nederland, De Hypotheker, Nationale Nederlanden, SNS Bank and Westland Utrecht Hypotheekbank.

The researchers also examined the behaviour of mortgage clients. The results showed that the average client is relatively quick to complete the decision-making process regarding a mortgage. Clients first often search the internet for information, but before concluding a loan agreement, they prefer to have personal contact with an advisor. This is understandable, since a mortgage loan generally amounts to multiple annual salaries and the term usually extends to several decades. Furthermore, legislation and tax issues often affect the outcome of the decision-making process. Consequently, receiving personal advice and having confidence in the advisor are important prerequisites for clients to conclude a mortgage agreement. On average, a client will consult two mortgage brokers for information and a price. Once an advisor has been consulted, on average three appointments are scheduled. During these meetings, the pros and cons of the various mortgage products are discussed, after which two definitive tenders are requested.

Differences in regional activity

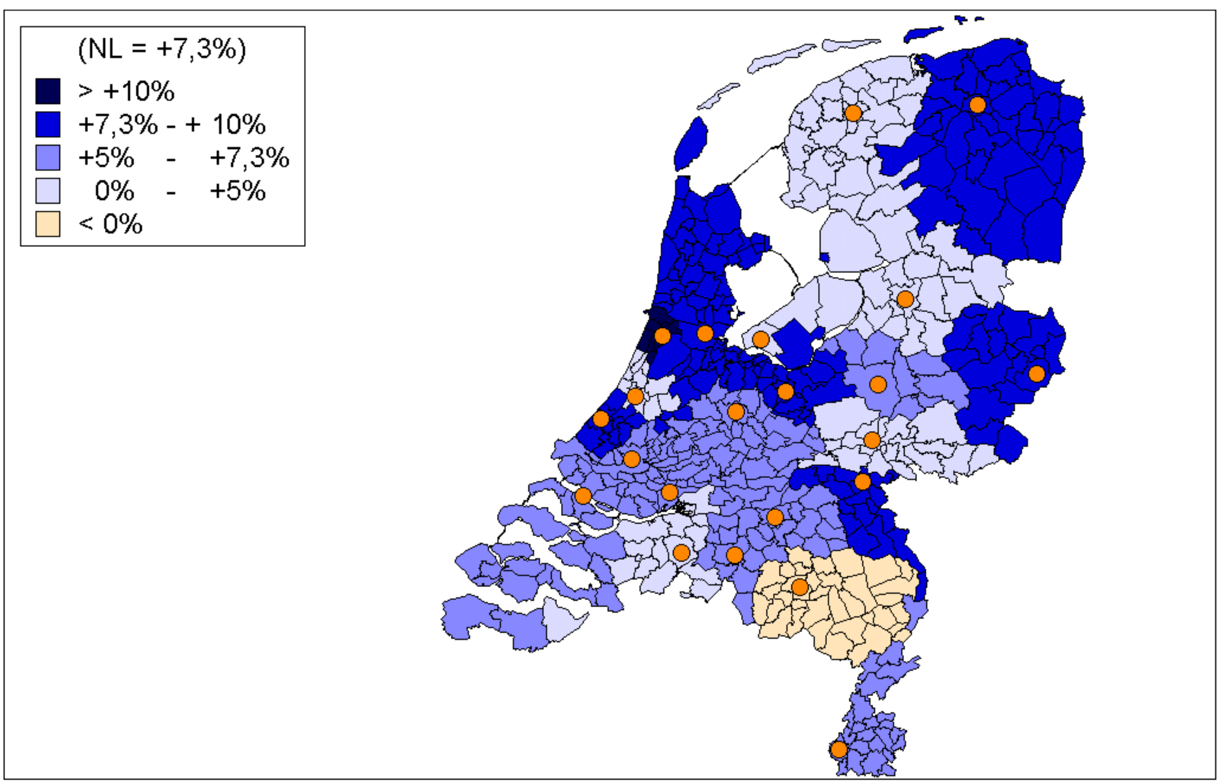
There are considerable regional differences in the Dutch housing market, both in terms of price and affordability. Furthermore, there are differences in market dynamism. Here we first illustrate the development of regional house prices, followed by an outline of regional differences in affordability. The most recent developments in the second quarter of 2010 are highlighted, and we also look at developments that have taken place since the lowest ebb of house prices in the first quarter of 2009.

Considerable differences in regional price development

This regional analysis is based on NVM data on the median house price at regional level. Map 1 sheds light on the differences in the regional price dynamic. These figures reached their lowest point in the first quarter of 2009. Since then, the national median house price has risen by 7.3%. Incidentally, these figures are influenced by compositional effects (the sales share of more expensive houses varies per region), which means price development does not always tally with that of the other series – of CBS, Land Registry and ABF Valuation.

Of all the regions, Zuid-Kennemerland performed by far the best in this period (+19%), followed at some distance by the regions of Amsterdam, Haaglanden and Amersfoort (+9%) and Nijmegen, Groningen and Enschede (+8%). Within the Amsterdam region, Het Gooi had the strongest growth. In this area prices have risen by over 25% since the trough of early 2009.

Map1: Development of median house price per region 2nd quarter 2010 vs. 1st quarter 2009



Source: ABF-Research; bewerking Rabobank

This performance is much stronger than that of the Utrechtse Heuvelrug and the Amsterdam environs (circa +10%), both of which also record a high average house price. Remarkably, the NVM data show that the Eindhoven region is the only region to show a price drop in this period. Moreover, the decline is spread virtually across the entire region – both in urban and non-urban municipalities. This picture contrasts sharply with that of the surrounding regions, where a large stretch of rural areas and a number of towns have registered sharp price rises. The city of 's-Hertogenbosch is the main exception in this picture, where prices have stabilised. Regions showing only a limited positive price development are Almere, Breda, Leiden and Arnhem. It would appear that a glut of houses for sale in these regions has dampened price growth.

Incidentally, regional price development is more volatile than average and is based on relatively few transactions in a 'nervous' market. In contrast to the national housing market, the regional picture can be determined by a limited number of transactions in some cases. This clearly plays a role in the current market. For instance, the second quarter of 2010 shows a remarkable regional price development. It is precisely the areas with relatively poor dynamism that show the strongest price rise: Rotterdam, Nijmegen and Maastricht (+3%) and Groningen (+5%). Regions in the centre of the country (Amersfoort and Eindhoven) show the opposite – a decline in prices, as does Almere.

Large regional differences in affordability

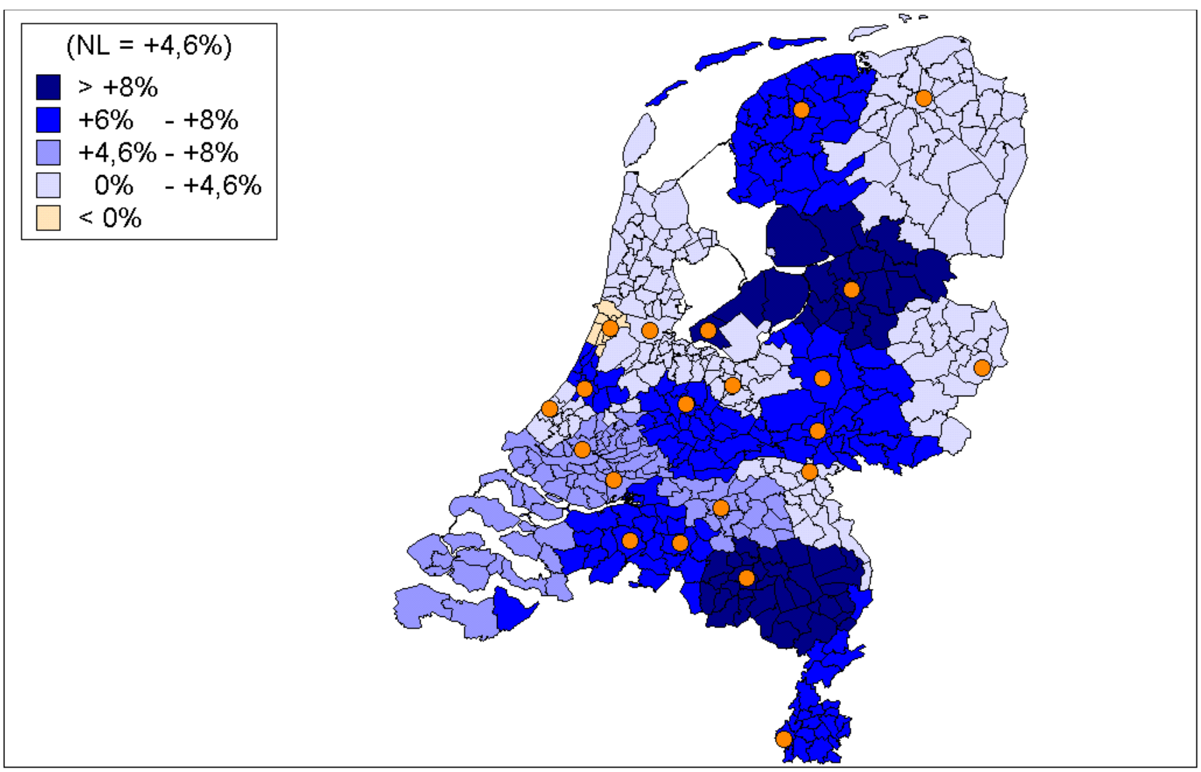
Besides the actual price of houses, the affordability of buying a house is important for momentum in the market. The regional affordability of houses reflects a link between the average regional income and regional house prices. Regional prices are based on the median house prices of the NVM. As was explained earlier, these prices are influenced by compositional effects. In addition to these data, interest rates affect house prices, and these are the same throughout the country.

Based on these data, we can perceive large regional differences in the affordability of purchasing a house. Affordability is currently highest in the Almere region. This is followed by some distance by the regions of Dordrecht and Maastricht. Incidentally, this does not mean that the average house price is lowest in Almere. The index takes account of regional income differences as well. At the other end of the scale, houses in the Haarlem region are currently least affordable. This is likewise followed at some distance by number two – Amersfoort. Besides absolute differences in level of affordability, there are also differences in how affordability develops over time. If we look only at the most recent, second, quarter of 2010, we see that only the Groningen region shows a slight decline. Affordability improved in the other regions. This was mainly due to the slightly lower level of mortgage interest rates. A comparison between the current level of affordability and that of the first quarter of 2009 (the trough for the median house price, according to the NVM), shows that affordability has improved virtually everywhere (Map 2). Earlier we saw that house prices have risen since that trough by an average of 7.3% (Map 1). However, this effect is more than negated by a combination of higher incomes and lower mortgage rtes. During this period affordability improved most in the region of Eindhoven followed closely by the regions of Almere and Zwolle. The Haarlem region also stands out, because only here did affordability decline during the said period. The above-average rise in house prices is the reason for this.

Conclusion

Despite the rise in the median house price in 2009 and 2010 (NVM data), the affordability of purchasing a house has improved virtually throughout the whole country. This is entirely due to a combination of higher regional incomes and lower interest rates. Incidentally, the results of this analysis are influenced by lower transactions numbers and the related compositional effects. As a result, volatility in price development has increased.

Map2: Development of affordability per region 2nd quarter 2010 vs. 1st quarter 2009

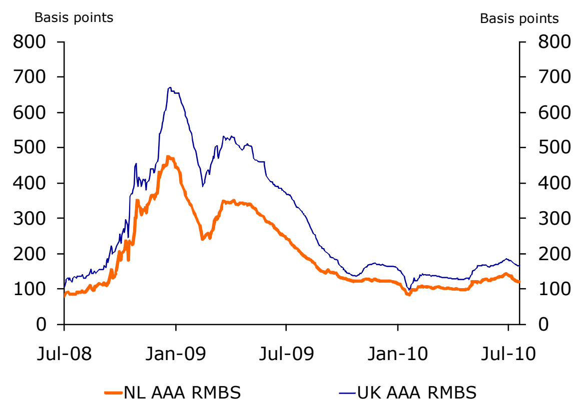


Source: ABF-Research; data processing, Rabobank

Dutch RMBS-transactions

In the previous Dutch Housing Market Quarterly we dwelt in detail on the securitisation of Dutch mortgages. New transactions have taken place in the second quarter of 2010. Below is an update of the latest developments in this market.

Figure 19: Secondary margin AAA RMBS NL & U.K.



Source: Rabobank

Margin

Owing to the European debt crisis, the margin for Dutch triple A RMBS (Residential Mortgage Backed Securities) on the secondary market increased considerably from the lowest level of some 100 basis points (1.00%) in April 2010 to 140 bps (1.40%) in June/July 2010. Since then the margin has slipped again to some 120 bps (1.20%), thanks to a period of relative calm in the market and a scarcity of public RMBS transactions. Figure 19 gives an overview of the margin on the secondary market (Dutch AAA RMBS). This also clearly shows that the margin in the Netherlands is consistently lower than in the U.K. In fact, Dutch RMBS transactions have the lowest margin in Europe. This implies that investors have more confidence in Dutch RMBS products than in similar instruments from other European countries. Since there is currently only a very limited (public) supply of Dutch RMBS, we expect that the secondary margin will decline further over the summer. Clearly, this will also depend on general developments on the financial markets.

Transactions

On account of the European debt crisis, no public RMBS transactions have taken place since late March, only private placements. Figure 20 gives an overview of these, showing that the margin increased during June and July. In June a private placement took place of € 950 million worth of Class A bonds (AAA/Aaa) of STORM 2010-II (Obvion). The interest rate on this product is three-months Euribor (€3 m) plus a margin of 118 bps (1.18%), with a term of 4.3 years.
SNS Bank also made a private placement of € 1,500 million worth of Class A bonds in June. In this case too, the interest rate is based on the three-month Euribor, but with a higher premium: 130 bps (1.30%). These bonds have a 4.2 year maturity.
Finally, AEGON also placed a private RMBS transaction in July. € 1,018 million worth of Class A bonds were placed at an interest rate of three-months Euribor plus a margin of 135 bps (1.35%). As was the case with the Obvion bonds, the maturity is 4.3 years.
Besides these transactions, two others took place. First, Fortis Bank Nederland made a private placement of € 68 million Class E bonds priced at three-months Euribor plus 800 bps (8.00%). The Class E bonds are the most subordinated

bonds within Fortis's Dolphin programme, and have no credit rating from rating agencies. However, the risk of credit losses is not large, because 50 bps (0.5%) per annum is available in the structure of the bonds to absorb initial credit losses. Fortis used these transactions to achieve solvency relief by means of selling part of the credit risk on its mortgage portfolio to external investors. This is the first time since the credit crisis that subordinated bonds of this nature have been issued. It is estimated that this transaction, together with the € 7,000 million Class A bonds issued earlier, have raised some € 40 million Tier I capital (equity capital according to the solvency rules of the Bank for International Settlements) at a cost percentage of some 11%.

Finally, SNS Bank intends to make a private placement of € 932 million Class A Pearl 4 bonds at three-months Euribor plus a margin of 90 bps (0.90%) and a maturity of 4.2 years. Pearl 4 is a securitisation transaction of mortgages with a national mortgage guarantee (NHG). Likewise, this is the first time since the credit crisis that a NHG securitisation transaction is to be placed. According to BIS I (the former solvency regulations of the Bank for International Settlements), these bonds had a 0% solvency weighting and were an interesting investment, particularly for banks. However, under the current BIS II regime, the weighting of NHG bonds has been put on the same footing as the solvency weighting of regular securitisations. Accordingly, these bonds have become a relatively less interesting investment for banks.

Conclusion

Despite market turbulence, private placements of securitisation transactions have taken place. This underlines the fact that Dutch mortgages are regarded internationally as a relatively safe investment.

Now that calm appears to have returned to the financial markets, we expect to see a greater number of *public* placements of securitisations in the coming period.

Figure 20: Recently placed Dutch RMBS transactions

Issuer	*Program*	*Rating*	*Size*	*Coupon*	*Maturity*	*Date*
SNS Bank (PP) - NHG	Pearl 4	AAA/Aaa	932	3m€ +90	4,3jr	Jul-10
Aegon (PP)	Saecure 7	AAA/Aaa/AAA	1.018	3m€ +135	4,3jr	Jul-10
SNS Bank (PP)	HERMES XV	Aaa/AAA	1.500	3m€ +130	4,2jr	Jun-10
Fortis Bank (PP)	Dolphin 2010-II	NR	68	3m€ +800	5jr	Jun-10
Obvion (PP)	STORM 2010-II	Aaa/AAA	950	3m€ +118	4,3jr	Jun-10
Fortis Bank (PP)	Dolphin 2010-II	Aaa/AAA	2.000	3m€ +107	4jr	Apr-10
Fortis Bank (PP)	Dolphin 2010-II	Aaa/AAA	2.000	3m€ +113	6jr	Apr-10
Obvion (A1)	STORM 2010-I	Aaa/AAA	240	3m€ +80	2jr	Mar-10
Obvion (A2)	STORM 2010-I	Aaa/AAA	704	3m€ +100	5jr	Mar-10
Fortis Bank (PP)	Dolphin 2010-I	Aaa/AAA	3.000	3m€ +112	5jr	Mar-10
NIBC (A1)	Dutch MBS XV	Aaa/AAA	182	1m€ +110	2jr	Mar-10
NIBC (A2)	Dutch MBS XV	Aaa/AAA	531	1m€ +145	5jr	Mar-10
SNS Bank	Hermes XV	Aaa/AAA	1.398	3m€ +115	3jr	Feb-10
Friesl. Bank	Eleven Cities 4	Aaa/AAA	560	3m€ +140	5jr	Dec-09
Delta Lloyd	Arena 2009-I	Aaa/AAA	189	1m€ +110	2jr	Dec-09
Delta Lloyd	Arena 2009-I	Aaa/AAA	644	1m€ +140	5jr	Dec-09

Source: Rabobank

Key figures

House Prices

Year-on-year change (%)	2008	2009	2010 [a]	2011 [a]
NVM (median house price)	0.0	-7.4	4	1½
Land Registry (purchase price)	2.6	-6.3	½	1½
Statistics Netherlands/Land Registry (PBK)	3.1	-3.5	-1½	1
ABF Valuation (WOX)	2.6	-3.2	-½	1

Totals

x 1000	2008	2009	2010 [a]	2011 [a]
Sales transactions	182	128	135	145
Newly built homes	79	83	58	52

Totals

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

Key economic figures (May 2008)

	2008	2009	2010 [a]	2011 [a]
GDP (growth, %)	2	-4	1½	1¾
Inflation (%)	2.5	1.2	1¼	1¼
Unemployment (x 1000)	304	380	469	460

Rabobank affordability index

x 1000	2008	2009	2010 [a]	2011 [a]
Affordability index [b]	83	98	102	99

Interest rates [c]

Level (%)	10 May 2009	+3m [d]	+12m [d]
3-month eurozone	0.90	0.99	1.50
10-year Euroswap	2.71	2.91	3.40
Mortgage interest rate, 5-10 year fixed	4.85[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] June 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 EcoWin, Land Registry, NVM, DNB, CPB and Statistics Netherlands (Statistics Netherlands).

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