Rabobank

Dutch Housing Market Quarterly

November 2013

Economic Research Department

Contents

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Summary

As expected, the housing market is picking up slowly but surely. Sales appear to have bottomed out and prices have risen on a quarterly basis for the first time since 2010. In addition, confidence has further improved in the past quarter. A number of indicators are pointing to recovery, but it is a fragile recovery. We expect to see an increase in sales in the fourth quarter of 2013, followed by a stabilisation of prices during the course of 2014.

Recovery takes time
A market that has been declining for over five years can hardly recover from the slump within a single quarter. This is particularly true for an imperfect market like the housing market. Factors such as affordability, policy uncertainty, confidence and supply respond to mutual development with a lag. Consequently it takes some time before prices and sales numbers reflect changes in the supply-demand scenario. Indeed, (adapting) price expectations can in themselves cause a delay. Currently a number of underlying factors are positive. Affordability has improved and there is greater clarity about government policy. A by-product of this is improved confidence which in turn leads to increased sales. More sales will over time result in tightness on the market, and only then will average house prices stabilise or rise slightly. Prices are showing the first signs of stabilisation, but it is too early to speak of a real recovery. In our view, this will occur during the course of 2014.

Market effects gradually building
In the third quarter, there was relative calm in relation to government housing market policy. There were no surprises in the form of a reduction of transfer tax (VAT) or changes to mortgage lending standards. These decisions had already been made, and the market appears to be adapting to the new situation. Sales numbers according to the Land Registry have risen considerably in the third quarter compared to the previous quarter (30%). The number of sales agreements mediated by NVM estate agents has likewise increased. By the end of the year we expect that the total number of houses sold will have reached 115,000. After years of plummeting sales, this number just falls short of the 117,000 transactions completed last year. In view of the upward trend in the underlying factors, we expect to see a further rise in house sales in 2014. This will permit prices to stabilise. Prices will likely remain under pressure during the coming months. This is because of the problems affecting over 250,000 homeowners who would like to move house but find themselves in negative equity (WoON, 2012). These vendors have a relatively high asking price, but cannot drop the price on account of the negative equity. As a result, those wishing to move along the property ladder will find it difficult to do so for the coming period. Consequently, the increase in the number of sales can be expected to be limited. Moreover, there is a relatively large share of 'old stock' that has been on the market for some time. Regional divergence in this respect is on the increase.

Economic growth required for further recovery
The Dutch economy appears to be gradually emerging from the recession. In recent months, consumer confidence has improved and the purchasing managers' index has also been positive. On this basis we expect to see an end to the recession in the second half of this year. We envisage a return to quarter-on-quarter growth in the third or fourth quarter. This in turn should contribute to further confidence and recovery on the housing market.

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Sales development and expectations

In the third quarter, considerably more houses changed hands than in the second quarter. This is fully in line with the expectations expressed in our [Quarterly] of June, the effect that the trough for sales numbers was in sight. In view of the growing number of contracts signed with NVM estate agents, the number of deeds exchanged will also rise in the fourth quarter. We expect this trend to continue in 2014.

Sales bottom likely reached

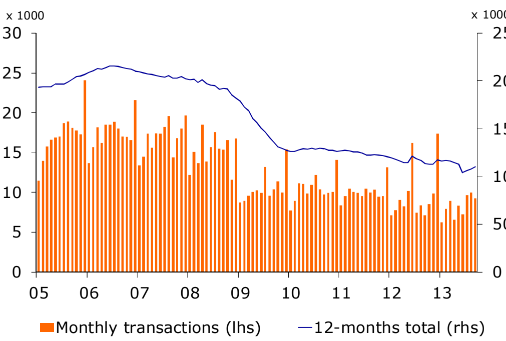
It appears that the bottom in house sales has been reached. After half a year of historically low transaction numbers, the third quarter saw a clear rise in sales. The Land Registry registered a total of 28,925 transactions, which was over 30% more than in the previous quarter. Even corrected for seasonal patterns, this is a strong rise. Moreover, the 12-month average rose by over 5% for the first time since 2006 (figure 1).

The number of sales contracts mediated via NVM estate agents likewise rose strongly in the third quarter. The average lag between signing a provisional sales contract and the actual transfer of deeds with the Land Registry is about three months (figure 2). In view of the average market share held by NVM estate agents in the third quarter for the past six years (74%), we can predict that the full year's total will rise further this year - from 109,830 to over 115,000 completed sales. This supports our expectation of stabilising sales in the second half of 2013. Last year we saw an exceptionally strong rise in the fourth quarter due to changes to the fiscal regime. This resulted in a relatively poor first and second quarter in 2013. The third quarter of the year has largely made up for this deficit. Thus we are witnessing a recovery in sales and expect a further increase in 2014.

Underlying factors supporting the recovery in sales

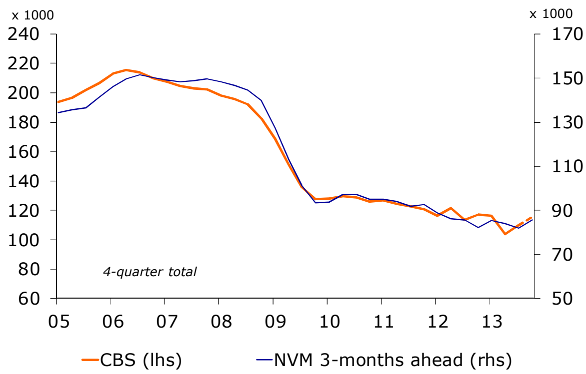
Various underlying factors are contributing to the recovery in completed sales. First, despite the tightened lending requirements, affordability has improved as prices have declined more than incomes since 2008. Our recently published Price Model reported a significant under-valuation of houses in the Netherlands (Van de Belt et al., 2013). Calcasa (2013) likewise states that affordability has improved considerably since the start of the crisis. For many house-seekers it is currently more favourable to buy than to rent (Gualthérie van Weezel, T. and Kooistra, 2013). A second factor is that relative tranquillity has been restored regarding government policy on the housing market. Consumers currently know what they have to expect when they buy a house.

Figure 1: Monthly and annual sales



Source: CBS

Figure 2: Rise in NVM sales



Source : CBS/NVM, computation Rabobank

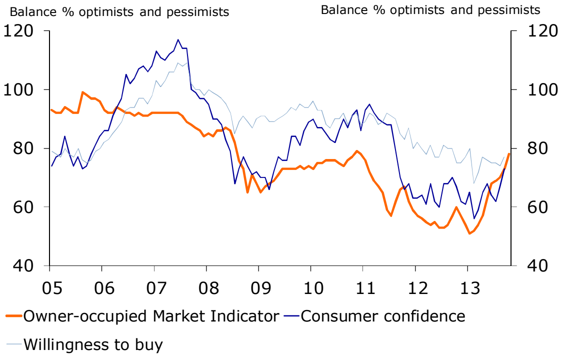
Thirdly, confidence in the housing market is of great importance for sales numbers and for the ensuing price trend. Since early 2013, confidence - as measured by the market indicator (EHM) of the Homeowner's Association (VEH) has risen consistently. During the past quarter the indicator rose further and now stands at 78% (figure 3). This is the same level as in mid-2008, and is equivalent to the long-term average. Research by the TU (Technical University) Delft has shown that consumer confidence is a good leading indicator for sales numbers (Boumeester, 2008). This also supports the expectation of a further increase in completed sales.

However, there are other roadblocks that hamper the working of the housing market. The most significant of these concerns the large group of home-owners saddled with negative equity. Next year they will be confronted with a further reduction of the maximum mortgage from 105% to 104% of the purchase price. If prices stabilise at best, it will remain difficult for this group to trade up, as even more equity will be required. As a result, the rise in the pace of increasing sales numbers will be limited. Moreover, at 7% (international definition) unemployment is currently considerably higher than before the crisis, when it stood at 3.1%. We expect unemployment to rise further, averaging 7½% in 2014. Finally, interest rates are at an all-time low. If these start to rise in time, this could put a spanner in the works for the recovery.

Overhang still increasing

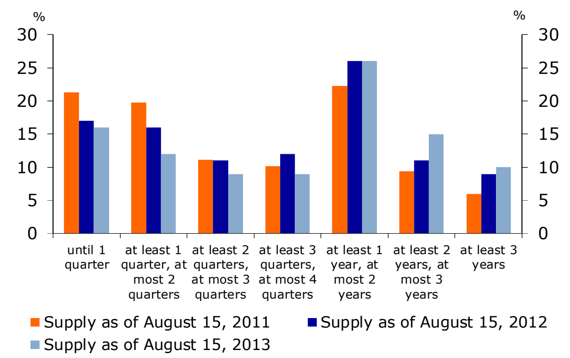
The recovery in a housing market occurs very gradually. Most houses that were difficult to sell in recent quarters are still on the market in the current quarter. The number of houses on the market for longer than a year is still increasing. The average time it takes to sell a house in the Netherlands is 420 days. In the regions of Amsterdam, Leiden and Zaanstreek, the average duration is 284 days; this compares to an average of 523 days in the least dynamic regions, such as Noordoost-Groningen and Oost-Friesland (NVM, 2013). The likelihood that this old stock will be sold is considerably lower (2%) than that newer houses to the market will sell (26%). Accordingly, the recovery in sales is not spread uniformly throughout the country. On the other hand, there is a strong correlation between the regional housing markets and the national housing market. In general, a recovery takes place first in the central regions, before it follows in the peripheral regions (Meen, 1999).

Figure 3: Sentiment improving strongly



Source: VEH/CBS

Figure 4: Houses for longer on the market



Source: NVM

Price development and expectations

Second-hand house prices (PBK-index) rose for the first time in three years on a quarterly basis, albeit by a modest 0.4%. This is in line with the rise in sales numbers. Compared to a year ago, however, prices have fallen (-5%), and by comparison with the peak in 2008, the price drop amounts to 20%. We expect to see price stabilisation during the course of 2014.

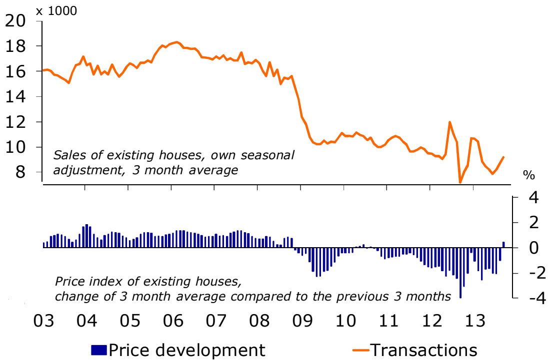
A first sign of price recovery is finally visible

After eleven successive quarters of declining prices, it is fair to say that the past quarter exhibits the signs of an incipient recovery (figure 5). However, a rise of 0.4% is small and recovery takes time. After all, prices are still 20% lower than their peak in the third quarter of 2008.

In our last Dutch Housing Market Quarterly (De Vries and Van Dalen, 2013), we already pointed out that it would only be possible for prices to stabilise once sales numbers pick up. This is the sequence described in the academic literature (Janssen, 1992), and which now shows the first signs of becoming visible. Increased sales will lead to a reduction of unsold housing stock. This will ultimately contribute to a restoration of the equilibrium between supply and demand, which will put upward pressure on prices. Currently, according to a long-term outlook, house prices are undervalued. It is a good time for first-time buyers to enter the market, and sentiment in this group is back up to the level of 2006 (Smulders, 2013). The relatively low prices will also permit home-owners without negative equity to trade up. They could for instance buy a detached house - at a considerably lower price than is normally the case.

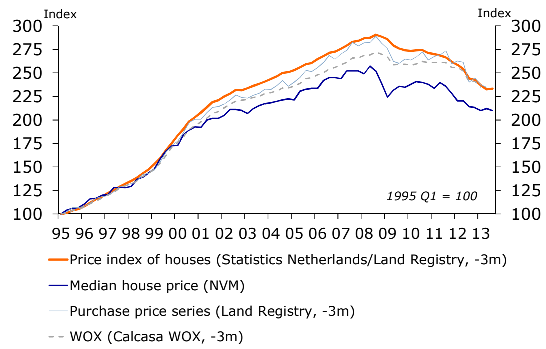
The main bottleneck is found among home-owners who would like to move house, but who are stuck with negative equity. During the coming quarters, this group will find it difficult to move house, and this will hamper the price recovery. Furthermore, the changes to the fiscal deductibility of mortgage interest payments from 1 January 2013 has led to a one-off price drop. A further effect of this measure will be that house prices will no longer rise at previously seen rates. As opposed to this, the market will in future probably be less susceptible to cyclical swings.

Figure 5: First price rise in three years



Source: CBS, computation Rabobank

Figure 6: Various price definitions NL



Source: CBS

Gradual restoration of the demand/supply balance

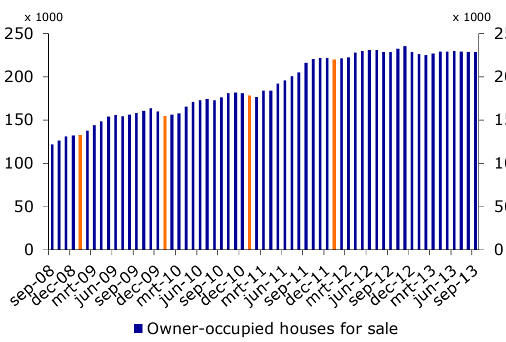
In view of its specific nature, the housing market has many imperfections, which can cause the pricing mechanism to malfunction, leading to relatively long delays in achieving a balance between demand and supply (Priemus, 1978). Importantly, the third-quarter NVM data seem to indicate that demand and supply are gradually moving closer together. Since the crisis, these two variables have drifted ever further apart: supply continued to rise (figure 7), while demand slumped. This led to declining house prices (figure 8) and fewer sales.

Now that the market is entering a transitional phase (characterised by rising sales and stabilising prices), a gradual reversal of this trend is becoming visible. Supply has declined by 2.2% quarter-on-quarter. The length of time needed to sell has also decreased[1]: in the third quarter, the average selling time went down from 176 days to 159 days, having risen steadily since 2011. Moreover, the tightness indicator has shown a drop since the beginning of 2013. The indicator divides the available supply by the number of transactions. It now stands at 22, whereas it was 29 at the start of the year. This means house-buyers have less choice than before, but that prices can stabilise, since the vendor’s bargaining position has improved. Nonetheless, it is still a buyers' market.

Overhang is the problem

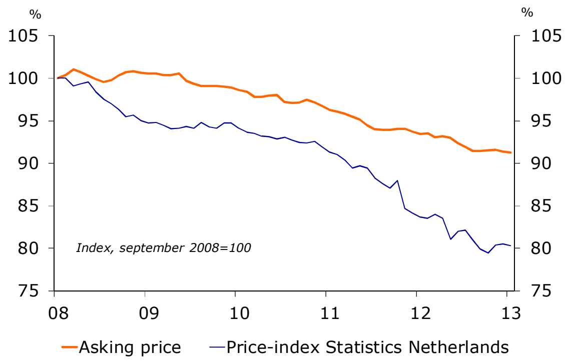
The houses selling quickest at the moment are those that are new to the market. Homes longer than three years for sale have only a 2% chance per quarter of selling (NVM, 2013). 53% of the supply has been on the market for over a year. This can be partly attributed to the relatively high asking prices (figure 8). The gap between original asking price and actual selling price has already narrowed somewhat during the past quarter, but asking prices are still a lot higher than selling prices. While actual selling prices have fallen by 20% since the crisis, the asking prices have declined by only 10%. This is understandable from a micro-economic point of view: people are unwilling to take a loss when selling their home, and prefer to wait a few months longer, hoping to fetch their original price (Van Dijk, 2013). If large numbers of vendors stick with asking prices that are still relatively high, the number of sales may not rise further. Would-be vendors in negative equity probably can’t afford to drop their price, with the result that it takes time for asking prices to conform to the market trend.

Figure 7: Supply stabilising



Source: Huizenzoeker.nl

Figure 8: Asking prices still relatively high



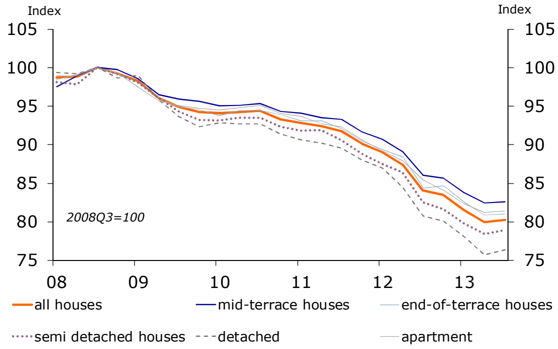
Source: Huizenzoeker.nl/CBS, computation Rabobank

[1] Not to be confused with a rise in duration of supply. Houses new to the market were quickest to sell. Average selling time declined, although many houses already on the market remain unsold.

Different trends for different house types

Since the start of the economic crisis in 2008, the price decline for detached houses has been considerably steeper (-23.7%) than for houses in the cheaper price brackets, such as apartments (-18.7%) or mid-terrace houses (-17.4%). This makes sense economically: more expensive houses show greater price elasticity because they have more of the characteristics of luxury goods. In recessionary times, people tend to economise on these goods. Conversely, demand for luxury goods can rise faster during a recovery, thanks to the greater price elasticity. In the past quarter, detached houses have gone up by almost 1% (q-o-q), compared to only +0.1% for apartments (figure 9). Accordingly, the price rise in the luxury segment is a good indicator for incipient price recovery.

Figure 9: Detached houses react quickest



Source: CBS

Expectations

We expect to see a stabilisation of house prices during the course of 2014. Underlying factors, such as the greatly improved sentiment, the decline in the tightness indicator and increased affordability support the view that prices are set to recover in due course. Moreover, the Dutch economy is expected to emerge from recession in the second half of this year. That said, unemployment will rise further in 2014. There will also be risks to price stabilisation from low interest rates and policy changes. Over the next few quarters, there will likely be plusses and minuses, from quarter to quarter. During the course of 2014, prices will flatten out.

Large regional variation

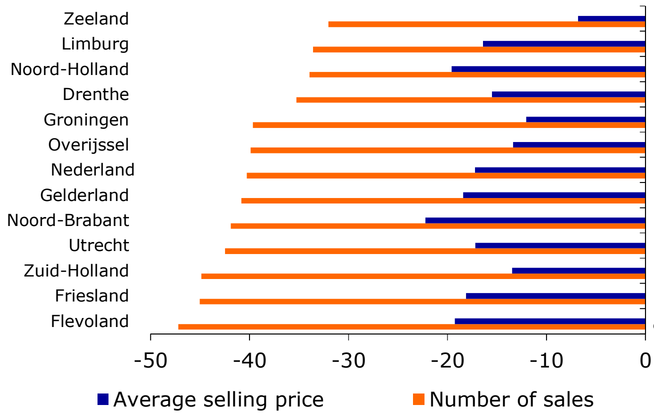
The slump on the housing market has varied across regions. While all provinces have experienced a decline in sales numbers as well as falling prices, the extent of these developments varies from one province to another. Our analysis shows that the price drop has been most marked in those provinces that had higher prices than the national average at the start of the crisis.

Extent of the variation

Regional differences in the Netherlands are considerable (figure 10). The province of Flevoland tops the list for housing market contraction. Lower than average sales of existing homes are also found in the provinces of Friesland, Zuid-Holland, Utrecht, Noord-Brabant and Gelderland. A comparison between the pace of regional price declines shows another trend: Prices fell most sharply in Noord-Brabant, followed by Noord-Holland and Flevoland. The price drop was least marked in the provinces of Groningen and Zeeland.

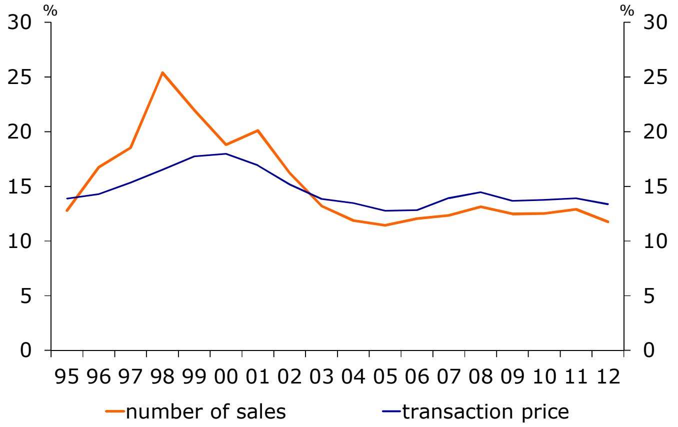
On average, provincial sales figures and price levels deviate some 12% from the national average. In recent crisis years, this spread has changed little (figure 11). This was not the case in the pre-crisis years, when the housing market was flourishing. In those days, the differences in average price level, and particularly in sales numbers (as a percentage of the housing stock) were much more pronounced. The large variation in the number of houses sold in the 1990s can be attributed to the building of the so-called Vinex developments. Considerable extra construction took place in the provinces with Vinex-developments, leading to a sharp increase in the number of houses sold from existing housing stock (as a percentage of the purchased housing stock). Flevoland topped the list, followed by the other provinces in the Randstad urban conglomerate. The peak in variation in house prices in 2000 was due to the spike in prices in the sought-after, affluent provinces of Utrecht and Noord-Holland, and to a lesser extent in Gelderland and Noord-Brabant. By contrast, in Flevoland, Zuid-Holland and other provinces, house prices lagged considerably behind the national average.

Figure 10: Number of house sales and average selling price 2008/3-2013/3



Source: CBS

Figure 11: Distribution of number of homes sold vis à vis housing stock and selling price by province, 1995-2012

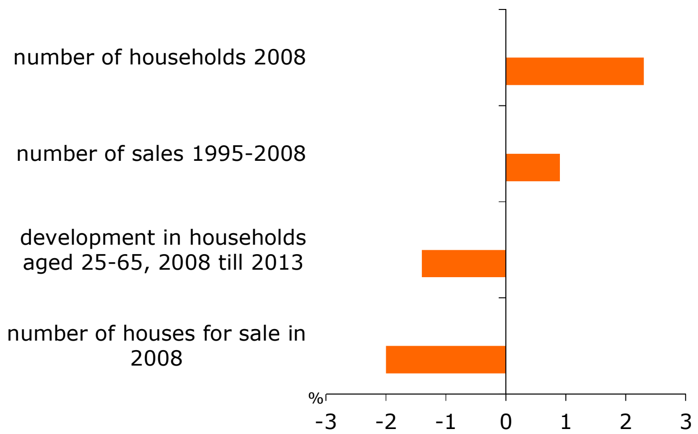


Source: CBS/ABF

Variation in market development

We use a regression model to clarify the variation across provinces in house sales numbers as a percentage of private housing stock since the start of the crisis. The number of households in 2008 is an important factor in the equation (figure 12). The contraction in the housing market was most pronounced in provinces that had a large population and a high growth rate on the housing market in the pre-crisis years. An increase in the number of households and in the housing supply in a particular province ensured that the decline in the number of sales was dampened. In other words, in provinces with a 'quiet' market in pre-crisis years (Zeeland, Limburg and Drenthe) and in the province that experienced strongest growth in demand despite the crisis (Noord-Holland), the contraction was least pronounced. The other large provinces – Zuid-Holland, Noord-Brabant, Gelderland and Utrecht – were the most severely affected by the crisis.

Figure 12: Factors behind differences in the provincial decline in house sales 2008-2013

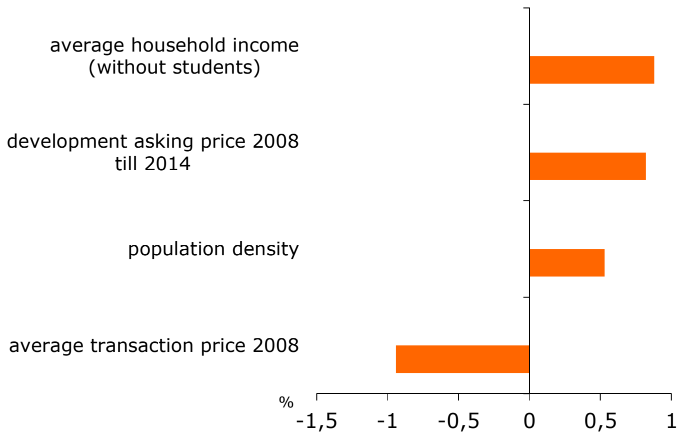


Source: Rabobank

Variation in price development

An important factor in explaining differences in the house price decline across provinces is the price level that prevailed at the top of the market (figure 13). The same is true for income level. For each percentage that house prices in a province were above the national average or incomes were below the national average income, house prices declined by nearly an extra 1%. The densely populated provinces – Noord-Holland and Noord-Brabant – were hit hardest in this respect. Besides these affluent provinces, a number of less prosperous, sparsely populated regions (Friesland and Flevoland) also struggled with a sharp price drop. Finally, the decline in the selling price was strongly linked to the decline in asking prices. This shows that vendors in regions with a high baseline price level or a lower than average income should not insist on their hoped for asking price, but must be prepared to sell their house at a loss, if they want to sell it at all. It is painful to have to accept a lower price, but at least it increases the chances of being able to sell.

Figure 13: Factors behind differences in provincial price development 2008-2013



Source: Rabobank

Policy developments

The government budget presented on Budget Day in the Netherlands contained familiar proposals, as well as new policies. Proposals have also been put forward for the sale of social rental housing; a housing agreement has been drawn up between the cabinet and the housing associations; and the cabinet is working on a plan to set up a National Mortgage Institute (NHI).

National Budget aimed at increasing house sales

The government's annual budget for 2014 contains a package of reforms and measures that, according to the cabinet, are designed to improve dynamism on the housing market (Box 1). Most of the housing market reforms had already been made known and were set out in the Housing Agreement (13 February 2013) that was drawn up between the cabinet and the opposition parties D66, ChristenUnie and SGP. We are now seeing that dynamism has indeed improved. However, in our opinion, this is due to the workings of the market itself, as affordability has improved considerably owing to lower prices. Moreover, the greater clarity about the reforms as well as the fact that no new measures are on the horizon, has had a positive effect on the current situation.

Housing agreement with Aedes, aimed at energy-saving investment

Dutch Housing Minister, Stef Blok, reached an agreement on 30 August with the housing association umbrella organisation, Aedes, concerning the implementation of the lessor's (landlord's) levy. Lessors, including non-associations with a portfolio of over 10 social rental housing units will have to pay a levy over the WOZ (official valuation) value of their social housing stock. According to the Association of Institutional Investors in Real Estate (IVBN), the levy will ultimately amount to one and a half month's rent per social housing unit (IVBN, 2013). In 2014, this will yield € 1.1 billion for the state coffers, rising to € 1.7 billion annually by 2017.

The landlord's levy will put considerable pressure on the investment capacity of housing corporations and institutional lessors. The result of this will be less new construction of houses in both the rental and purchase sector. In order to retain investment capacity within the rental sector, the housing agreement with Aedes copper fastens the levy, but permits the corporations to continue to pursue commercial activities - i.e. including social real estate and private housing for the purchase market. To this end, a fund of 400 million euro has been made available for specific energy-saving investments by corporations. We applaud this measure.

House valuation system: rents becoming more competitive

From 1 July 2014, the WOZ value per square metre will determine about 25% of the maximum rent of social rental housing (below € 681). This will result in rents becoming more dependent on market circumstances on the purchase market. In times of declining prices, if the maximum rent falls below the prevailing rate, then the lessor will have to lower the rent. Currently, the price of buying a house is lower per square metre than social rental housing, with the exception of Amsterdam, where purchased houses are marginally more expensive (Gualthérie van Weezel, T. andKooistra, 2013). A possible consequence of the proposed policy could therefore be a reduction in rents. Another consequence could be that rents rise less rapidly than envisaged by the minister. Our expectation is that nominal house prices will not start to rise until next year, and by 2020 will still be at the same level as in 2015.

Reactions to the new house valuation system have been very diverse. Aedes, the housing corporation umbrella organisation, is satisfied with the proposal and does not expect it to result in any major changes. The IVBN, on the other hand, is reticent about the future opportunities for developing new private rental housing that command rents just above the new limit. We likewise recognise this danger. For if the WOZ value were to decline somewhat, then a free-market rental property would suddenly fall into social housing territory (and the lessor's levy would have to be paid). Thus institutional landlords would be reluctant to invest in the development of rental properties just above the liberalisation limit. And it is precisely such properties that are needed to meet future housing demand (Piljic en Stegeman, 2013).

Selling rental housing at a reduced price in order to pay the levy

In order to enable payment of the lessor's levy, from 1 October 2013, the government is facilitating the sale of rental housing by housing corporations to owner-occupiers. It is also permitting the sale of liberalised and potentially liberalised multi-home complexes to third parties. This latter element in particular is part of government policy towards reducing the involvement of the housing corporations in the market for mid-price and expensive rental housing. The new selling regulations are complex and contain criteria based on the buyer's income and the reduction that the corporations are permitted to give on the sale. For instance, no official permission is required if the reduction is less than 10% and if the buyer has an income below € 38,000. If the buyer's income is higher than this sum, any increase in the value of the house within ten years will be shared with the corporation and the 10% will have to be repaid. In the case of housing complexes, ministerial permission is always required before the sale, and the selling price will be based on the current market value of comparable private rental accommodation.

Considerable disquiet has arisen among private parties and estate agents with regard to the permitted price reduction. Both the NVM and the Home-Owners' Association have expressed their view that this policy will distort the market. We share this position as it appears private parties will be squeezed out of the market by this cheaper housing supply, which is tantamount to interference with the market.

Box 1: Overview of proposed measures*) from the Government's Annual Budget (17 September), Budget Agreement for 2014 (11 October) and the housing agreement with housing corporations (30 August)

Rental sector

- In 2014 rents will increase more than inflation and will be means dependent. In addition to the maximum rent increase per housing unit, there will be a maximum rental sum increase of 4% per housing corporation.
- The yield for the state from the annual lessor's levy will amount to € 1.1 billion in 2014. However, a redistribution has been proposed so that weaker housing market regions will be exempted. The yield is expected to rise to € 1.7 billion by 2017.
- Housing corporations will have to focus on their core business: providing affordable accommodation for eligible households. This principle was undermined by the housing agreement of 30 August between Aedes and housing minister, Stef Blok. The corporations voiced their opposition to the lessor's levy and in exchange, they are allowed to continue their commercial activities.

Owner-occupied sector

- The debt position of households will be limited by reducing the maximum difference between the mortgage amount and the value of the home (loan-to-value) in annual increments of 1%-point, to 104% in 2014 and up to 100% by 2018.
- From 2014, the maximum deductibility of mortgage interest payments will be reduced from 52% to 38%, in annual increments of 0,5%-point. The yield for the state will be neutral, as income tax will also be lowered.
- Interest paid over residual debt will be deductible for tax purposes for ten years; interest paid on the mortgage for an unsold home will be deductible for three years.
- For mortgages covered by a NHG mortgage guarantee, it will be possible for home-owners to include residual debt in a new mortgage, albeit under strict conditions.
- The cost ceiling for NHG mortgages will be further reduced to the value of the average house price from July 2017.
- The one-off exemption for gift tax will be temporarily raised (until January 2015) from € 50,000 to € 100,000.
- An additional € 50 million has been earmarked for first-time buyer loans, which will enable the provision of some 11,000 loans to first-time buyers.

Construction sector

- Up to the end of 2014, the reduced VAT rate for home alterations and renovations will apply; after that date, the rate will be raised to 21%.
- Approximately € 400 million is being made available for energy-saving investment (housing agreement with Aedes).
- Together with the State, Rabobank and ASN Bank are set to fill the National Energy Saving Fund (€ 300 million). This fund will enable home-owners to take out a cheap loan in order to finance energy-saving improvements.
- The VAT integration levy is to be abolished. This accounts for some € 60 million (housing agreement with Aedes).

*) The bulk of the proposed measures are contained in the Annual Government Budget.

National Mortgage Guarantee (NHG)

During the past three quarters, the number of NHG-backed homes sold at a loss rose to 3,427 (compared to 2,560 for the first three quarters of 2012). This has reduced the fund from € 786 million to € 783 million, which is in line with the liquidity forecast of the Homeowners' Guarantee Fund Foundation (WEW). The NHG fund was set up in order to absorb the increasing losses that occur under economically unfavourable circumstances. In its quarterly report for the third quarter, the WEW reports that under existing policy, the guarantee fund will recover after 2018 and show an increase (WEW, 2013). This forecast is based on the assumption of a recovery in the economy and the housing market, but allows for declining house prices through 2014 (NHG, 2013). We likewise expect to see a recovery on the housing market in the medium term. In the event that the guarantee fund should run out, the government is the guarantor. The fund has issued over one million guarantees, worth a total of € 162 billion. It is funded by one-off premiums paid by house-buyers when they purchase their house. From 1 January 2014, this premium will go up from 0.85% to 1% of the purchase price.

Possible restrictions to the NHG mortgage are currently under discussion. A preliminary step in this direction is the reduction of the maximum eligible guarantee amount from € 265,000 on 1 July 2014 to € 225,000 on 1 July 2016, and subsequently to be fixed at the average house price. This reduction is proposed in the government's annual budget. Moreover, on 31 October, the cabinet decided that mortgage issuers would have to bear an excess of 10% on losses arising from NGH mortgages that have been issued since 1 January 2014. This risk has in fact already existed, because in the past, many interest-only mortgages were issued, while the NHG covers only mortgages that are paid on an annuity basis. This means that each year, the amount covered by the NHG is slightly less. This implicit risk is now being made explicit under the new regulations. The current surcharge for possible credit losses is currently very small; and in our view the new reforms will not necessarily lead to higher mortgage rates for consumers who wish to take out an NHG-backed mortgage.

A direct result of the reduced price ceiling will be that fewer NHG mortgages will be issued in the longer term. We have already indicated our support for a restriction to the NHG, and we do not envisage any seriously negative effects for the dynamic on the housing market.

National Mortgage Institute (NHI)

Dutch Finance Minister, Jeroen Dijsselbloem, is investigating the setting up of a national mortgage institute. The plan is that pension funds and insurers, as well as large corporations and multi-nationals, will invest in Dutch mortgages. It is envisaged that for the coming five years, the NIH will buy up € 50 billion worth of NHG mortgages (of the 162 billion) from banks and will subsequently issue state-guaranteed national mortgage bonds. This is the snake in the grass. The condition proposed by the state is that the risk for the state itself will not increase. Banks willing to raise money via the NHI will have to pay a risk premium. It is possible that the European Commission might object to these plans, as the state guarantee on bonds could be in conflict with the regulations on government support to companies, despite the existence of the risk premium. The plan has yet to be approved by the European Commission. The possible advantage of the NIH is that it would increase the stability of financing via mortgage-backed securities (RMBS). By making the state guarantee explicit, it may moreover be possible to borrow money more cheaply on the capital market. According to the Kroes commission, which has explored the potential fall-out from the NHI, the advantage for home-owners with an NHG mortgage is that mortgage rates may drop by up to 0.2%.

Consensus on lower LTV, detail unclear

In its report *Naar een dienstbaar en stabiel bankwezen [Towards a serviceable and stable banking system]* the Wijffels commission presented various recommendations for the financial sector (Wijffels, 2013). One recommendation that relates directly to the housing market was that, in future, mortgages should not exceed 80% of the value of a property. One of the effects of this would be to reduce the future financial vulnerability of home-owners, by reducing the risk of negative equity. It would also narrow the funding gap by reducing the amount to be borrowed, likely thanks to higher savings. Moreover, the financing costs of banks would be lower in the longer term, ultimately leading to lower mortgage rates. Meanwhile, the government has endorsed the Wijffels recommendations in a general sense, in its outlook report for the Dutch banking sector (August, 2013). We also go along with the concept of a reduced LTV in the longer term. However, the transition period should be ample, and the success of the scheme depends on how the market is organised. This means that there should be a viable alternative in place for first-time buyers in the form of a properly functioning private rental sector (Piljic and Stegeman, 2013).

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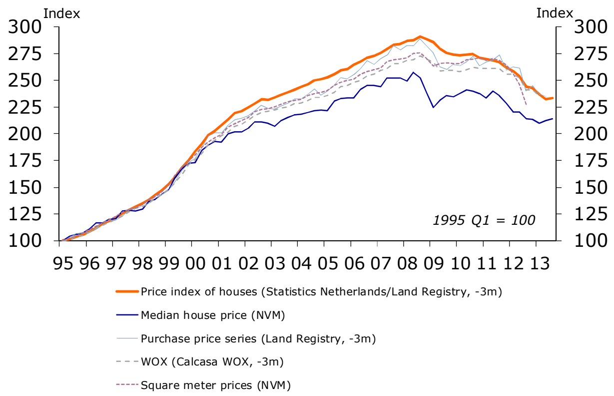
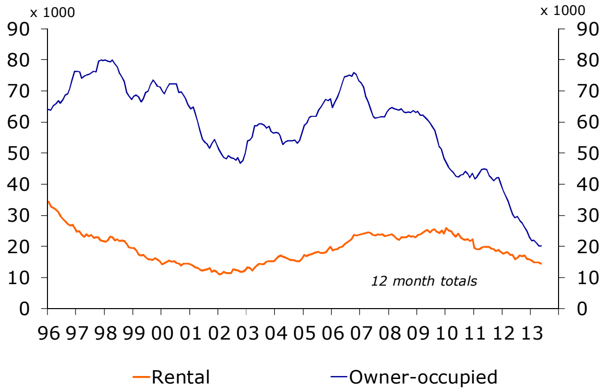
Graphs

Price comparisons



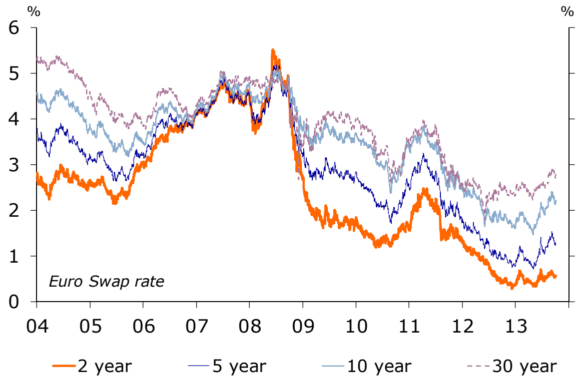
Source: CBS/NVM/Calcasa

Issued building permits



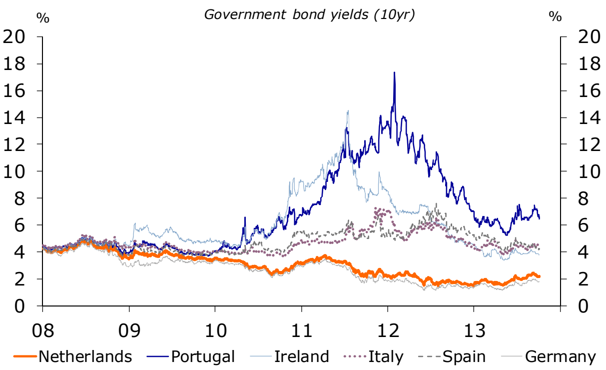
Source: CBS

Swap rates



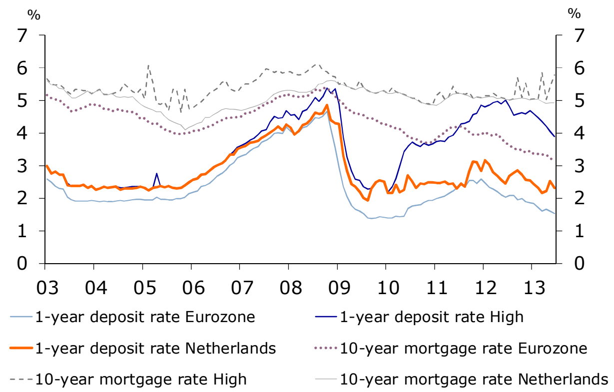
Source: Reuters EcoWin

Capital market: various countries



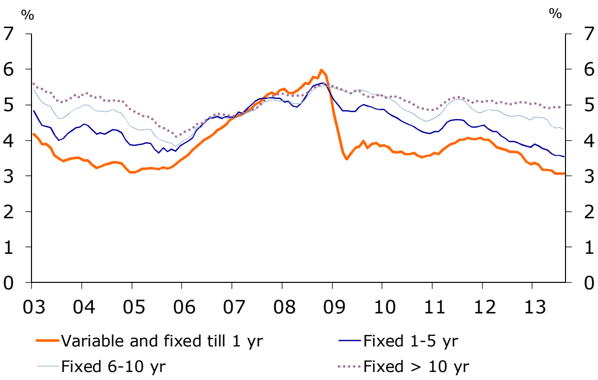
Source: Reuters EcoWin

Deposit and mortgage rates



Source: ECB

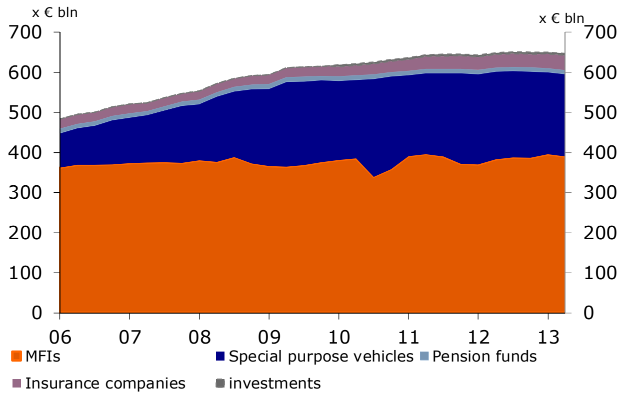
Interest rate on new mortgages by term



Source: DNB

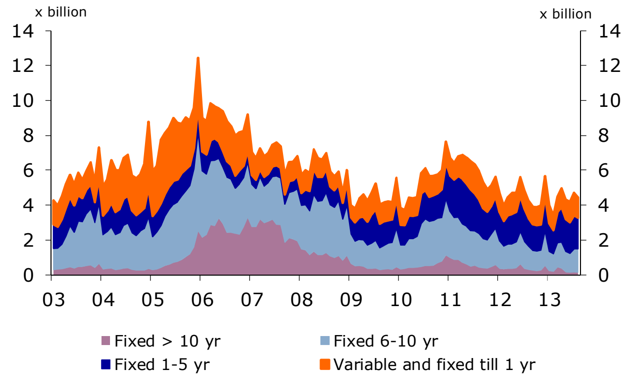
Graphs

Volume of existing mortgages by institute



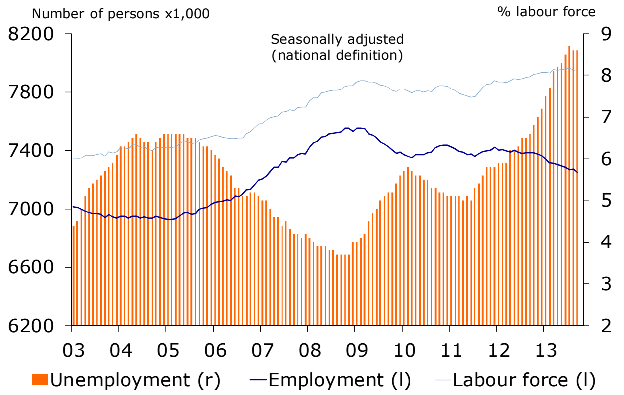
Source: DNB

Volume of new mortgages by term



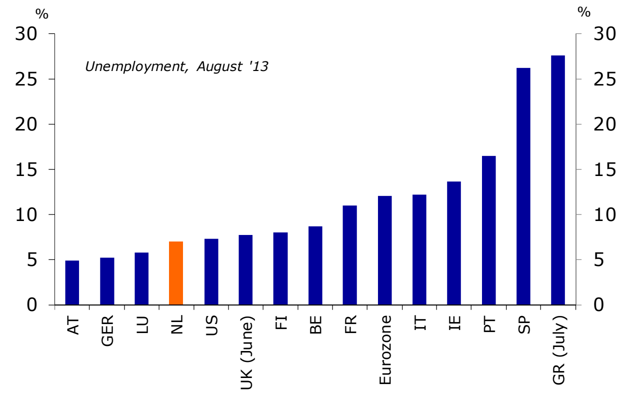
Source: DNB

Unemployment in the Netherlands



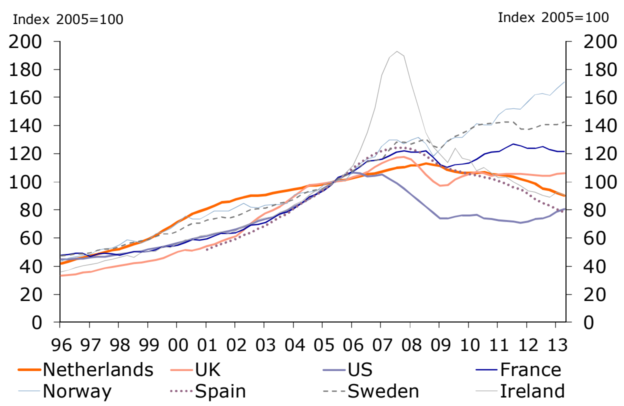
Source: CBS

International comparison of unemployment



Source: Eurostat

International house price development



Source: Reuters EcoWin

Economic expectations

Year-on-year change (%)	12	13	14
Gross Domestic Product	-1.3	-1¼	0
Private consumption	-1.6	-2	-1½
Government spending	-0.8	-1¼	-¾
Private investment	-4.6	-9½	¼
Exports	3.2	2¾	5¼
Imports	3.3	¼	4¾
Inflation	2.8	2¾	1½
Unemployment (%)	5.3	6¾	7½
Government budget (% GDP)	-4.1	-3¼	-3½
Government debt (% GDP)	71.3	75	76¾
Current account balance (% GDP)	9.4	11	11

Source: CBS and Rabobank

Key data

House prices

Year-on-year change (%)	2011	2012	2013Q2	2013Q3
NVM (median house price)	-1.9	-7.5	-5.3	
Land Registry (mean prices)	0.2	-5.6	-9.5	
House price index (CBS)	-2.4	-8.3	-8.5	
Calcasa Wox	-0.2	-4.7	-7.1	

Existing owner-occupied market (CBS/Kadaster)

	2011	2012	2013Q2	2013Q3
Sold houses	120,739	117,261	22,111	
Auctions	2,811	2,488	437	

Building permits (CBS)

	2011	2012	2013Q2	2013Q3
Total	55,804	37,370	6,440	-
Non-rental market	38,123	21,886	3,621	-
Rental market	17,681	15,484	2,819	-

Interest rate levels (DNB)

	2011	2012	2013Q2	2013Q3
Outstanding mortgages	*4.77*	*4.71*	*4.59*	
maturity <=1 year	4.44	4.32	4.18	
maturity >1 and <=5 year	4.32	4.29	3.88	
maturity > 5 year	4.77	4.71	4.59	
New mortgages	*4.55*	*4.27*	*3.80*	
maturity <=1 year	3.91	3.72	3.12	
maturity >1 and <=5 year	4.44	4.06	3.65	
maturity > 5 year	4.92	4.73	4.12	

Economic key data (October 2013)

	2011	2012	2013[a]	2014[a]
BBP (growth, %)	1.1	-1.3	-1.25	0
Inflation (%)	2.3	2.8	2.75	1.5
Unemployment (%)	44	5.3	6.75	7.5

[a] Rabobank forecast

Colophon

The Dutch Housing Market Quarterly is a publication of the Economic Research Department (KEO) 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.

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