



Rabobank

# Dutch Housing Market Quarterly

June 2013

*Economic Research Department*

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# Introduction and summary

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*Although second-hand house prices have risen in recent months, the monthly growth figures in February (+2.1%) and March (+0.1%) were not enough to cancel out the price drop in January (-2.9%). Averaged out over the first quarter, second-hand house prices (PBK-index) fell by 2.3% quarter-on-quarter. The second quarter also got off to a poor start: in April prices dropped by 1.4% compared to March. And fewer homes were sold in the first quarter of 2013 (23,090) than in the first quarter of 2012 (23,951).*

The developments of recent months need to be evaluated in the light of the new fiscal regime which was introduced on 1 January 2013. This involves significant adaptation of the credit rules on the mortgage market, which has had a substantial effect on prices and transaction numbers. In order to be eligible for mortgage interest relief, new or top-up mortgages have to be paid back 100% on an annuity basis at least. As a consequence, households can borrow up to 9% less for the same monthly costs than was the case before 1 January. Furthermore, Nibud (National Institute for Family Finance Information) has revised the mortgage ceiling downward on the basis of an expected loss of purchasing power. Thus the maximum mortgage has dropped by about 4%. As result is the negative price effect by market reforms and delivery conditions is maximum 13%, however, because the market had probably anticipated this adjustment, the effects may already be partly visible in lower prices. Because of these developments, the market was expected to contract sharply in the first quarter of 2013. In the end, there was only a minor contraction in sales numbers, compared to the fourth quarter of 2012.

The crisis has not had the same impact on all segments of the housing market. The most marked effect on prices has been on the expensive detached houses price bracket, where prices have fallen by 22% since the fourth quarter of 2008. This compares to a drop of 16% for mid-terrace houses. Furthermore, our regional analysis shows that the worst affected are large homes in municipalities with less greenery, more visual pollution and a relatively tight housing market. It is likely that the percentage of detached homes on the market has grown as a result of price loss, while the percentage of apartments has declined.

## **Market Recovery**

Long-term indicators, such as affordability and price-to-income ratio, show that homes are relatively affordable, so, may actually can say that households can buy more 'home' than in 2008. However, the slowing decline or near stabilisation of the number of house sales coupled with the recent slight monthly price rises make it tempting to philosophise about market recovery. In our previous Quarterly ([February 2013](#)) we indicated that there is a realistic prospect of market recovery in the medium term. Initially, the recovery may be visible in stable sales numbers and quicker selling times; only later may a period of stabilisation commence. We consider this likely in 2014. But it is mainly lack of confidence that is holding buyers back.

# Introduction and summary

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## **Discussions on housing**

Despite the call of the government to no longer be eligible for the housing market, with new reform proposals, there is plenty of discussion in the first months of 2013. Under pressure from the Upper House, the cabinet reached an agreement on the housing market on 13 February. The Upper House has asked the government to examine the consequences of not fully repaying mortgages and investigate the possibility of spreading the mortgage repayments over a longer period than the now customary 30 years - for example to 35 years. Housing minister Stef Blok responded by submitting a detailed example to the Upper House, consisting of a sample mortgage for which the compulsory annuity repayments are combined with a second interest-only mortgage up to a maximum of 50% of the value of the property. However, interest on this second mortgage would not be eligible for tax deductibility. Households might opt for this type of combined loan because the monthly costs would be lower over a thirty year period.

The Parliamentary Committee on house prices describes its report (April) the situation on the owner-occupier housing market from 1995 - a period of ongoing price rises until 2008, followed by a price drop. Throughout this period, the Dutch government stimulated home ownership. The committee indicates that in the 1990s, products appeared on the market which maximised the benefits of mortgage interest relief. We would point out that this is only one of the factors that lead to price growth. Our international comparison also shows that the development of Dutch house prices is not much different from that in other countries. By comparison with other countries, this rise is only middling, with the exception of the 1995 to 2000 period. This is the period that the committee chiefly focussed on. The report argues for an expansion of the role of the private rental sector; this sector commands rents from EUR 681. The committee argues that this sector should become a more attractive alternative for house seekers, in keeping with changing accommodation preferences and increasing flexibility on the labour market. Rabobank also favours a growth of this sector.

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# Price development

There were two sides to house prices in the first quarter of 2103. The second two months were more positive than the first. In January house price declined sharply (-2.9%), followed by a m-o-m rise in February (+2.1%) and March (+0.1%). This means that existing homes prices (PKB index) have dropped by 2.3% on average in the first quarter compared to the previous quarter (Figure 1). The second quarter started with a price drop - down 1.4% on March. Compared to a year earlier, prices have fallen 7.6%. Since the start of the financial crisis in August 2008, house prices have dropped by 19% in nominal terms and are back at the level of spring 2003 (Figure 2).

## Are prices stabilising or not?

The price stabilisation of the last two months of the first quarter has give rise to positive media reports - particularly when coupled with the signals given by Dutch mortgage brokers De Hypotheker and De Hypotheekshop (*Het Financieele Dagblad*, 22 April). According to the mortgage brokers, there has been a rise in the number of clients seriously seeking information about purchasing a house. While we view this as a positive sign, it is not immediately the start of a period of stabilisation for house prices. Likewise, the CPB (Netherlands Bureau for Economic Policy Analysis)<sup>1</sup> assumes that house prices will continue to be under pressure this year, but that prices may start to rise gradually next year or the year after<sup>2</sup>. The same goes for the credit rating agency Fitch<sup>3</sup> which predicts that there will be no further acceleration of the price drop on the Dutch housing market, and that prices may possibly stabilise next year. In this respect Fitch sees a direct association between the expected price stabilisation and the improved clarity about reforms thanks to the introduction of the new legislation on 1 January 2013. According to Standard & Poor's<sup>4</sup> both unemployment and uncertainty

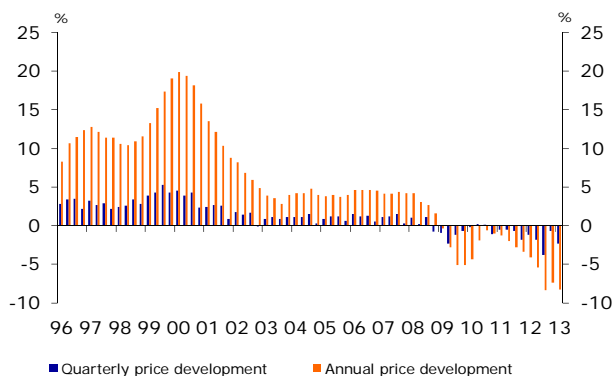
<sup>1</sup> CPB (April 2013), Centraal Economisch Plan 2013, pp. 42 & 43

<sup>2</sup> For BNR Radio (24 April) Coen Teulings, departing director of the CPB, said that he expects prices to rise gradually next year or the year after.

<sup>3</sup> [Fitch](#), (11 April 2013) Major Dutch Banks' Exposure to Real Estate Lending

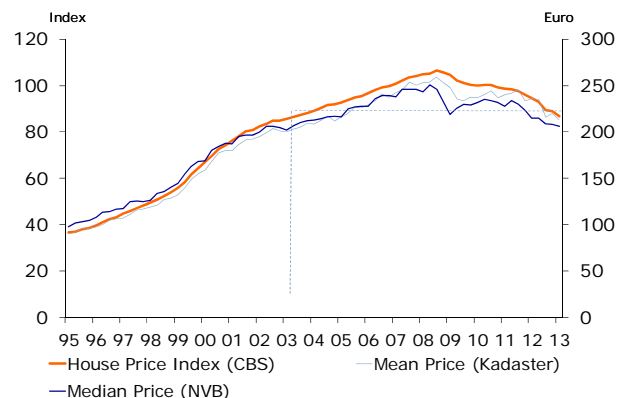
<sup>4</sup> S&P, Recession Keeps House Prices In The Dumps In Most European Markets, 29/4/13

Figure 1: Price Changes



Source: CBS

Figure 2: Price Development



Source: CBS

# Price development

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about pensions are affecting developments on the housing market. For 2013, S&P envisages a price drop of 5.5%, followed by a drop of only 1% in 2014. After this the rating agency expects prices to stabilise.

We believe it is too soon to talk about market recovery or price stabilisation on the basis of the most recent developments. And particularly since the price rise of February (2.1%) and March (0.1%) have been followed by a price decline in April of 1.4%. The positive numbers of the first quarter may have been caused by the fact that buyers and sellers were acting in anticipation of the measures which were adopted by the cabinet at the start of the year. From 1 January this year, tax deductibility of mortgage interest payments - for new mortgages - will be limited to annuity mortgages that are fully amortizing within 30 years. If the house purchase agreement was signed before the deadline of 1 January 2013, the old conditions could still apply, even if the contracts were not actually exchanged until the first quarter. This may possibly have flattered statistics for the first quarter.

## **So when will prices finally stabilise?**

Price development in recent years has been strongly influenced by the reaction of housing consumers to the deteriorating economic situation, the poor prospects for employment and the ongoing debate about reform of mortgage interest deductibility. These factors led to a considerably sharper decline in house prices than might have been expected on the basis of economic fundamentals<sup>5</sup>. We know that housing market prices - including the Dutch housing market - are always susceptible to overshooting and undershooting. Consumer sentiment is after all more volatile than the underlying fundamentals. History teaches us that houses first have to become too cheap before the market can pick up again. The 19% price drop since 2008 can largely be explained by the way in which the Dutch housing market functions. In our February Quarterly we concluded that in view of the housing market regulations, actual house prices are below the long-term equilibrium and that it is time for prices to start recovering sooner or later.

Since 1 January 2013, however, the credit regulations for the housing market have been significantly adapted, with downward pressure on prices as a result. According to Dutch Central Bank estimates, households can now borrow about 9% less than was previously the case, while paying the same monthly costs<sup>6</sup>. Moreover, on the same date, Nibud lowered its projected mortgage ceiling, on the basis of expected loss of purchasing power, reducing the maximum mortgage by some 4%. Over time, this reduction will cause house prices to contract by up to 9%. However, because the market had probably anticipated this adjustment, the effects may already be partly visible in lower prices. Nonetheless, market participants will still have to get used to the new

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<sup>5</sup> Fundamentals of house price development are chiefly the development of incomes and interest rates

<sup>6</sup> De Nederlandsche Bank [Dutch Central Bank](2012), De verwachte effecten van de woningmarktmaatregelen uit het Begrotingsakkoord 2013 [The expected effects of the housing market measures contained in the 2013 Coalition Agreement]

# Price development

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situation. This adjustment process requires time, and both asking prices and offers will gradually be adapted to the new credit regulations.<sup>7</sup> The changes to the market regulations will influence price development for a lengthy period. In the initial years, it will be mainly first-time buyers that will have higher costs, while those selling on will only be affected for a top-up mortgage.

We emphasise again that the recovery will initially be seen in stable sales numbers and shorter selling times. Only then will prices start to stabilise. In the section on sales, we report that house sales are currently creeping up and that the selling time is shortening. With regard to timing, we expect to see prices stabilise in the medium term. The NVM (Dutch Association of Real Estate Brokers) likewise states in its analysis of the first quarter 2013 that four to five more quarters of price decline can be expected before prices start to stabilise. And if we factor in the reduction of transfer tax from 6% to 2%, we can only conclude that affordability has improved considerably in recent years. This sets the scene for a potential recovery in the housing market.

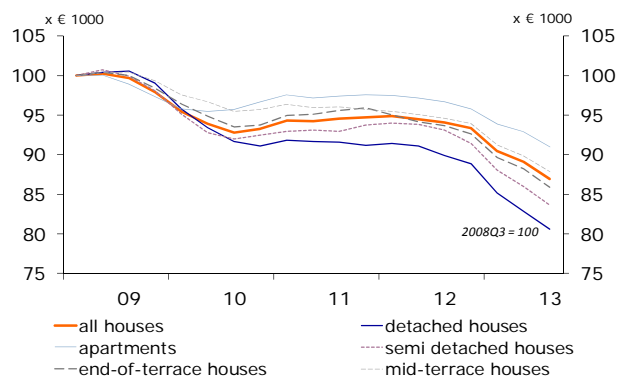
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<sup>7</sup> Hort, K., 2000, Prices and turnover in the market for owner-occupied homes, *Regional Science and Urban Economics* 30, pp. 99-119

# Differences by house type

*There are substantial differences in price development between the various house types. Prices are more volatile in the most expensive segment than in the cheaper segments of the market.*

**Figure 3: Price development by segment**



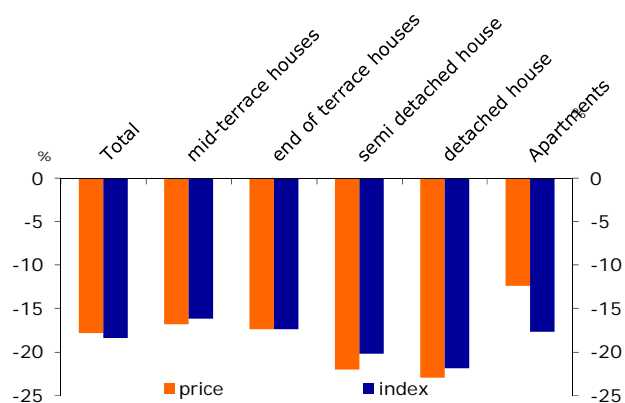
Source: CBS, Land Registry

## Detached houses harder hit by the crisis than apartments

Since the third quarter of 2008, the house price index (Statistics Netherlands/Land Registry) in the cheaper price bracket – apartments and mid-terrace houses – has declined by 17.7% and 16.1% respectively. During the same period, the prices of detached houses fell by 21.9% (Figure 3). Evidently, the more expensive, detached houses have been harder hit by the economic recession than other house types. This pattern of more expensive houses showing a more rapid decline (or rise) in price is typical for economies such as the Netherlands. The more expensive price bracket has greater price elasticity because it has more of the characteristics of luxury goods.

There is a difference in development between the house price index and the average house price (Figure 4). The house price index shows the extent of price change caused by factors other than a change in quality – as if the same houses were sold every quarter. In practice, however, quality does change, and consequently so does the average house price. Figure 5 shows that historically there is very little difference in the development of both indices, but a diverging trend can be seen from the start of the credit crisis in the third quarter of 2008. From that time, the average house price declined more rapidly than the house price index. This development is not surprising and it happens because in a declining market both buyers and vendors are acting in anticipation of a further price drop. This was the situation in 2008-2010 and again from early 2012 to early 2013. During both periods, confidence in the housing market also deteriorated. Currently both price and index have moved closer together. If recovery does take place in the near future, the selling price will rise faster than the index.

**Figure 4: Price development by segment from 08Q3, house price and price index**



Source: CBS/Land Registry; Data processing Rabobank

**Figure 5: Changes to the index and selling prices (y-o-y)**



Source: CBS, Rabobank



# Sales down slightly

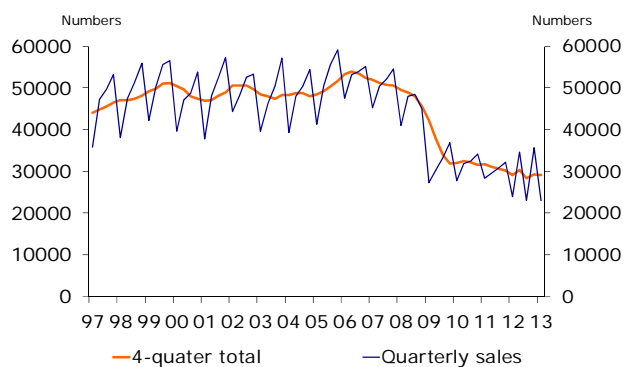
*In the first quarter of 2013, fewer houses were sold than in the first quarter of 2012. However, the difference (861 homes; 3.6%) was smaller than might have been expected after a very good fourth quarter last year. Remarkably, during the past six months - October 2012 through March 2013 - 5% more sales took place than in the same period a year earlier.*

## Sales down slightly in the first quarter of 2013

As expected, slightly fewer houses changed hands in the first quarter of 2013 (23,090) compared to the first quarter of 2012 (23,951), and a lot less than in the last quarter of 2012 (35,704; Figure 6). However, it is futile to draw a comparison with the fourth quarter of 2012. That quarter performed exceptionally well because house buyers were acting in anticipation of the new regulations on mortgage lending that took effect on 1 January 2013. From that date, first-time buyers must take out a fully amortizing mortgage to be repaid on an annuity basis over a maximum of 30 years, if they are to be eligible for tax relief. A large number of buyers - particularly first-time buyers - therefore signed the temporary purchase contract before the end of the year. This is why the first quarter of 2013 records lower sales numbers.

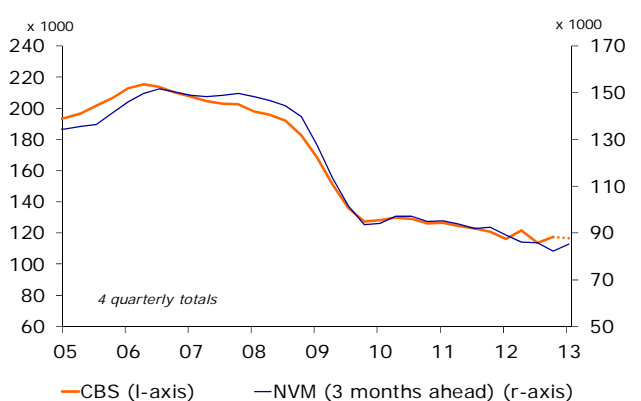
The NVM registers the number of provisional sales contracts. On average, there is a period of two to three months between signing the provisional contract and actual transfer of the property. For this reason, the NVM data for the fourth quarter of 2012 and the first quarter of 2013 are especially relevant now, given that the CBS/Land Registry data as yet shed insufficient light on the effect of the reformed mortgage regulations.

**Figure 6: Number of transactions per quarter**



Source: CBS

**Figure 7: Sales (CBS) and sale agreements (NVM)**



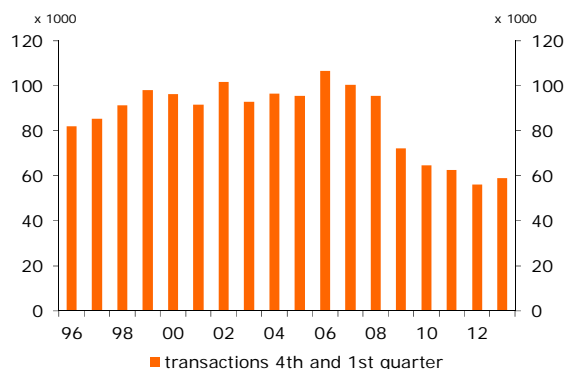
Source: NVM, CBS, Land Registry; Data processing, Rabobank

# Sales down slightly

NVM figures show that many potential buyers responded to the extra incentive to enter the market. In the fourth quarter of 2012, 25,219 provisional contracts were signed with an NVM estate agent, compared to 18,992 in the third quarter. While the fourth

quarter normally performs comparatively well, even corrected for this, a clear surge remains visible in the number of provisional contracts signed (Figure 7). By contrast, only 17,557 provisional contracts were signed with NVM estate agents in the first quarter of 2013 - a decline of 30.4% on the strong fourth quarter of 2012, and a drop of 6.5% compared to the first quarter of 2012. This latter drop can be seen as a reaction by buyers to the changed policy on credit lending, but also partly as the result of rising unemployment and lower disposable incomes.

**Figure 8: Transactions in 4<sup>th</sup> & 1<sup>st</sup> quarters**



Source: CBS/Land Registry; Data processing: Rabobank

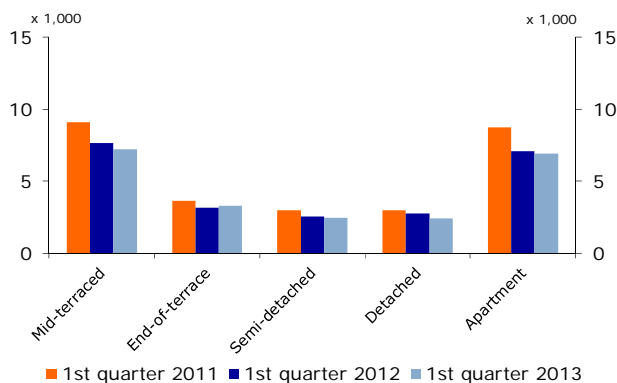
sales numbers in the first quarter of 2013<sup>1</sup>. In order to assess whether the market volume is increasing or decreasing, we will look at the development of the two-quarter moving total. This shows a slight rise in the number of transactions (Figure 8). During the past half year, a total of 58,794 homes were sold; compared to the same period a year earlier (56,031) that is a rise of 5%. That said, the numbers remain historically low. The average number of houses sold per six months from 1995 is nearly 86,000 - some 30,000 more than is currently the case.

**But the half-yearly figures show a rising trend**

We assumed that the strong fourth quarter of 2012 would automatically be followed by disappointing

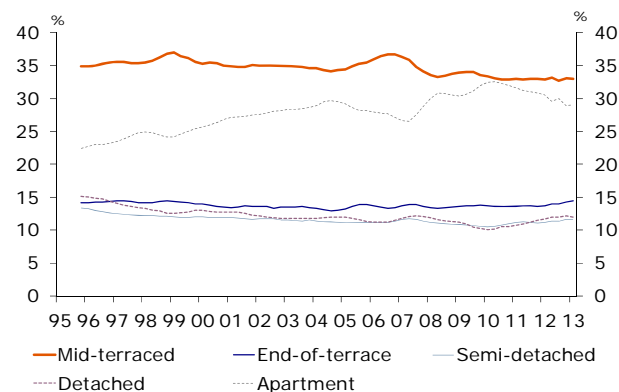
<sup>1</sup> Rabobank Housing Market Quarterly, February 2013

**Figure 9: More sales in almost all segments**



Source: CBS

**Figure 10: Market share of house types for sale**



Source: CBS/Land Registry

# Sales down slightly

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There are also faint signs of stabilisation in the development of the moving yearly average (Figure 9). During the past four quarters 116,400 homes changed hands. This is a very slight rise on the same period last year (116,332), which is why it is too early to speak of a stabilisation in the number of sales. A similar development can be seen in the NVM data. Although this shows that the two-quarter moving total declined by 4%<sup>2</sup>, sales have risen by 5% to 42,796 compared to the October–March period last year (40,748).

## **Price rise most marked in expensive price bracket**

With the exception of end-of-terrace houses, fewer homes have been sold in all segments compared to a year ago (Figure 9). In absolute numbers, the decline is most marked for mid-terrace houses. Compared to the first quarter of 2012, 428 fewer mid-terrace houses were sold. The largest percentage-wise decline was recorded for apartments: 12%.

The market share in sales of more expensive house types continues to rise (Figure 10). After the start of the crisis in the third quarter of 2008, the market share of both semi-detached and detached houses dropped from 11.0% and 11.6% respectively to 10.5% and 10.0% in the first quarter of 2010. After this, the respective percentages rose steadily, reaching 11.6% and 11.9% in the first quarter of 2013. Both houses types also suffered the greatest price loss during the same period, which may explain their growing market share. At the same time, the market share of apartments has declined from 32.4% in 2010 to 28.9% currently.

## **Selling time remains unchanged**

NVM figures show that houses sold in the first quarter were on the market for an average of 170 days. This was virtually the same as in the fourth quarter, when the average selling time was 171 days. Mid-terrace houses sold the quickest - after 131 days. On average, detached houses took longest to sell: 289 days. The NVM makes a distinction between houses already for sale and those new to the market. This shows that 16.4% of new houses on the market changed hands within a quarter, and that the difference between asking price and transaction price was 3.1%.

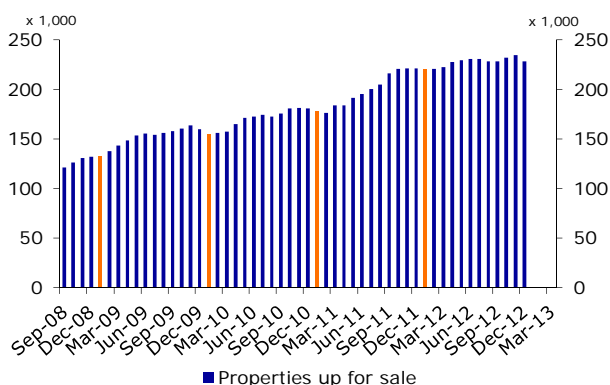
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<sup>2</sup> Number of NVM sales July '12 – Dec '12 = 44,549; Oct '12 – Mar '13 = 42,796

# Slightly less transactions

For some time the supply of existing owner-occupied homes for sale has fluctuated at around 225,000. In the current quarter, the number rose slightly, with declining apace. This means there is a greater choice for potential buyers. Thanks to the plentiful supply, we see a further drop in the asking price.

**Figure 11: Supply declining**



Source: Huizenzoeker.nl

## Slightly declining number of houses for sale

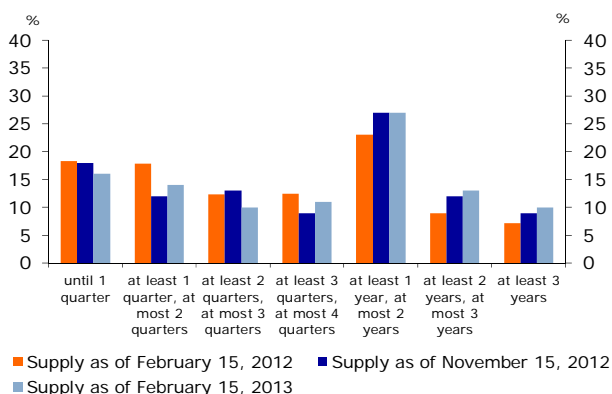
The effects of the increased number of sale agreements and property transfers can be seen in the supply of houses (huizenzoeker.nl). The number of homes for sale rose by almost 1,500 in March to 226,795 compared to February (Figure 11). For over a year, the number of houses for sale has fluctuated at around 225,000. According to the NVM, a quarter of the supply consists of detached houses, and 28.4% consists of apartments. At the start of the crisis, 25.5% of homes on the market were apartments. The NVM has developed a housing shortage indicator in order to monitor supply in relation to the number of sales. This indicator gives a good idea of the choices available to a potential buyer.

In the first quarter of 2013, the indicator rose to 29. This means the consumer could choose from an average of 29 houses. This level of choice is unprecedented. Before the financial crisis, the market was tight, offering consumers a choice of fewer than ten houses. For detached houses, there is a choice of 55 houses; in the case of mid-terrace houses, a buyer can choose from an average of 20.

## Houses on the market for longer

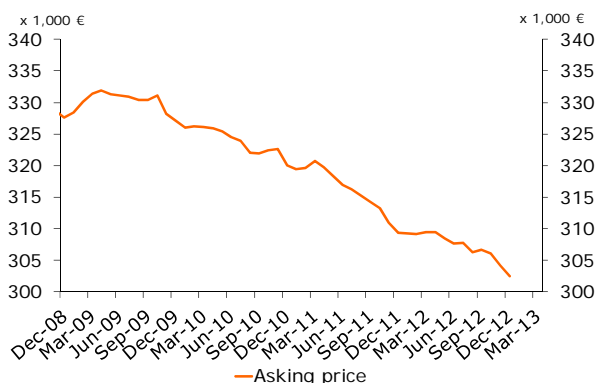
As measured mid-first quarter, unsold houses had been on the market for an average of 382 days, compared to 352 days a quarter earlier. This increase is also reflected in the percentage of homes that remain unsold for longer than a year - up from 39% in

**Figure 12: Houses again longer for sale**



Source: NVM

**Figure 13: Slight drop in asking price**



Source: Huizenzoeker.nl

# Slightly less transactions

the first quarter to 50% currently (Figure 12). Since 1 January 2013, vendors whose home is for sale for longer than three years and who have a double mortgage, are no longer permitted to deduct interest on both mortgages for tax purposes.

## Asking price dropping less rapidly than the transaction price

In the first quarter, the asking price for houses for sale declined by 1.5% to an average of € 302,000 (Figure 13). Since the start of the crisis, asking prices have fallen by a total of 8.8% which is considerably less than the drop in selling price (-19%). This difference can be partly explained by a delay in information reaching vendors. Economic developments affect the housing market with a lag because vendors in particular are slow to adapt their asking price to the new market circumstances<sup>1</sup>. Vendors tend to overestimate the value of their house in a falling market. Moreover, they are often prepared to wait to find a willing buyer and may put their house up for sale without really having to move. We can conclude this from the low level of payment arrears and forced sales. A second major reason for the discrepancy between the drop in asking price compared to selling price is that until recently, vendors were not permitted to avail of mortgage interest deductibility for debt overhang. This pushed up the costs of mortgage debt considerably, which made it less attractive to move along the property ladder. Under the Rutte II cabinet, it was decided that residual debt would also be eligible for tax relief for up to ten years.

One might expect that vendors would reduce the asking price for houses that are for sale longer than a year if they wish to sell. Instead, prices are reduced only in piecemeal fashion. According to the NVM, there was a greater difference (6.8%) between asking price and selling price in houses on the market before November 2012 and sold in the first quarter of 2013, compared to houses that change hands within a single quarter (3.4%; Table 1). This implies that pricing a house keenly reaps rewards. Moreover, it seems that houses new to the market come with a much lower price tag than those already on the market (Table 1). This holds for all house types, although it must be pointed out that the data in the table does not take account of the quality of the houses sold.

<sup>1</sup> Paul de Vries (2010), Measuring and explaining house price developments, TUDelft/OTB

**Table 1: Development of supply, first quarter 2013**

<i>Supply</i>	<i>Sold?</i>	
	<i>Yes, selling price*</i>	<i>No, asking price</i>
New, from Nov 2012	€ 205,389 (-3.4%)	€ 248,843
Old, before Nov 2012	€ 231,239 (-6.8%)	€ 281,965

\*In parentheses, the selling price as a percentage of the asking price

Source: NVM

# Payment arrears

*Despite the large number of unsold houses and rising unemployment, the level of payment arrears and forced sales remains relatively low. That said, the number of households in arrears is rising.*

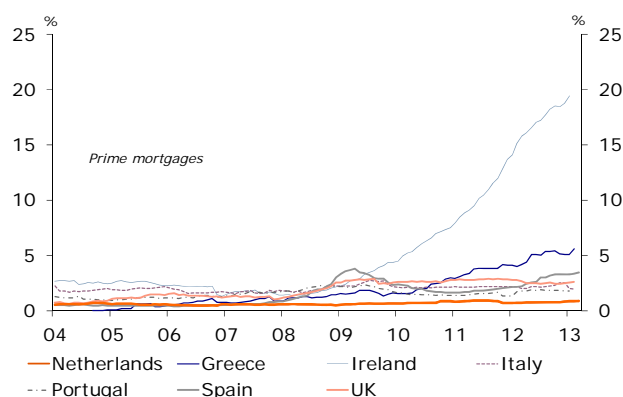
## Payment arrears on the rise

By comparison with other countries, the Netherlands continues to show a low level of payment arrears and foreclosures. Data is not available for all mortgage types. However, data on securitised mortgages (40% of outstanding mortgage debt in the Netherlands) show that in September 2012, 0.8% of mortgages were in arrears by 90 days (Figure 14). This is lower than in any other country where similar data are available. According to the BKR (Credit Registration Bureau), currently 1.6% of homeowners are in arrears by four months or longer. In its mortgage barometer of 15 April 2013, the BKR emphasises that the extent of payment arrears on the mortgage market is not a cause for concern; problems in other sectors are much greater, such as in the taxation, insurance and energy supply sectors.

Approximately one eighth of mortgages in arrears culminate in a forced sale of the property. In 2012, there were 2,488 forced sales, compared to 2,811 in 2011. As a percentage of total private sector housing in the Netherlands, this amounts to 0.06% on an annual basis (Figure 15). In the first quarter of 2013, there were 517 foreclosures, which is 60 fewer than in the first quarter of 2012.

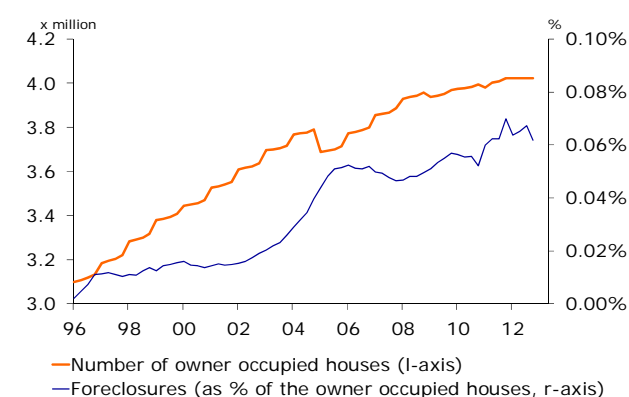
The number of households that has succeeded in obtaining assistance from the Homeowner's guarantee fund (WEW) rose in the first quarter of 2013 to 812 (687 in the first quarter of 2012). For 2013, the WEW expects fewer new NHG (guaranteed) mortgages and more declarations of loss than in 2012. Because the WEW has increased the premium for NHG mortgages, its capital reserves remain adequate.

**Figure 14: Payment arrears**



Source: Moody's

**Figure 15: Foreclosures**



Source: CBS/Land Registry

# Ongoing discussion and new measures

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*Housing market reforms were implemented in the first quarter of 2013. Following a CDA (Christian Democrats) motion in the Upper House, a new housing market agreement was reached on 13 February. In addition, the temporary committee on house prices has proposed to extend the maximum amortization period. The Van Dijkhuizen committee has published an interim report which reflects on the possible involvement of pension funds in financing mortgages.*

## **Housing market agreement**

Under pressure from the Upper House, the cabinet reached an agreement on the housing market on 13 February with the opposition parties D66, ChristenUnie and SGP. The agreement contains measures on the rental, non-rental and construction sectors that are aimed at facilitating movement along the property ladder and fostering confidence in the market. The Upper House was particularly concerned about the construction sector: this industry has suffered a major setback in production and hence also in employment.

The housing agreement is supplementary to the coalition agreement of October 2012. This is because although the Upper House had ratified all the proposed reforms to the non-rental market, in December 2012 it withheld a decision on the special landlord's levy. The Upper House submitted a motion to the minister to come up with a new proposal. Central to the CDA motion was that it had major concerns about developments in the construction sector and questions about the consequences of not fully amortizing mortgages. The opposition parties are in a strong position to make demands because the Rutte Cabinet occupies only 30 of the 75 seats in the Upper House; the government does have majority in the Lower House but is continually obliged to negotiate with opposition parties. That said, this does generate a broad political base. The new package contains a large number of measures which the cabinet believes will stimulate construction, increase employment and also promote energy efficiency. Below are the measures on the construction sector and the non-rental property market:

### *Construction sector*

An investment stimulus for construction will be created through the establishment of a 150 million euro fund for energy efficiency. The construction sector had already taken initiatives for setting up such a fund. A further 450 million will be raised by the market, leading to a total investment stimulus of 600 million euro. On 1 March VAT on home alterations was reduced to 6% for the period of one year.

### *Owner-occupied sector*

The state contribution to the fund for first-time buyer loans is to be increased from 20 million to 50 million euro.

The stipulation contained in the Coalition Agreement on complete repayment of mortgages within 30 years on an annuity basis remains the norm. However, the CDA have

# Ongoing discussion and new measures

submitted a motion to the cabinet to (1) examine the consequences of not fully repaying mortgages and (2) investigate the possibility of spreading the mortgage repayments over a longer period than the now customary 30 years - for example to 35 years. Housing minister Stef Blok responded by submitting a detailed example to the Upper House, consisting of a sample mortgage for which the compulsory annuity repayments are combined with a second interest-only mortgage up to a maximum of 50% of the value of the property. However, interest on this second mortgage would not be eligible for tax deductibility. Households might opt for this type of combined loan because the monthly costs would be lower over a thirty year period. However, after 30 years, there would still be monthly costs associated with the 50% interest-only mortgage. Thus over the entire period, costs would be higher. In general this combined mortgage has been dismissed as complex and expensive.

## Parliamentary Committee on house prices

On 11 April the Parliamentary Committee on house prices presented its report. The analysis describes the situation on the owner-occupier housing market from 1995 - a period of ongoing price rises until 2008, followed by a price drop. Throughout this period, the Dutch government stimulated home ownership. The committee indicates that in the 1990s, products appeared on the market which maximised the benefits of mortgage interest relief. We would point out that in the same period, incomes rose strongly thanks to economic growth. At the same time, second incomes were included in the calculation of mortgages, and interest rates declined sharply. These factors together led to strongly rising house prices

Our international comparison also shows that the development of Dutch house prices is not much different from that in other countries. Since 1995 nominal house prices in the Netherlands have risen by a factor of 2.5. By comparison with other countries, this rise is only middling, as can be seen in the scheme below which compares nominal price levels for various periods. The top five countries for price rise are coloured red, and the

**Table 2: Nominal price in development in various countries and various periods**

Periode	AU	BE	CA	CH	DE	DK	ES	FI	FR	VK	IE	IT	JP	KR	LU	NL	NO	NZ	SW	VS	ZA
1975-2012	17.6	8.6	8.6	2.6	1.9	6.2	24.6	8.8	10.6	18.6	20.7	13.4	1.4	14.0	13.8	5.6	11.5	16.3	9.0	5.1	44.4
1980-2012	17.1	8.2	8.3	2.7	1.9	6.1	23.9	8.7	10.2	18.2	19.5	13.5	1.4	13.2	12.8	5.5	11.3	16.1	8.7	5.1	43.8
1985-2012	6.2	5.1	4.0	1.6	1.3	2.6	7.5	3.3	4.0	6.1	5.4	3.9	0.8	2.5	6.0	4.3	4.5	5.3	4.9	2.5	14.1
1995-2012	3.1	2.5	2.5	1.3	1.0	2.3	2.4	2.8	2.6	3.2	3.3	1.7	0.6	1.7	2.6	2.5	3.1	2.6	2.9	1.7	6.0
2000-2012	2.4	2.0	2.3	1.4	1.0	1.5	1.9	1.8	2.2	2.0	1.3	1.6	0.6	1.8	2.0	1.3	2.1	2.2	2.0	1.3	3.8
2005-2012	1.4	1.4	1.6	1.3	1.1	1.0	0.9	1.3	1.2	1.2	0.8	1.0	0.8	1.3	1.2	1.0	1.6	1.2	1.4	0.9	1.5
2007-2012	1.2	1.1	1.2	1.2	1.1	0.8	0.8	1.1	1.0	1.0	0.7	0.9	0.9	1.2	1.1	0.9	1.2	1.0	1.1	0.8	1.1
1975-1980	1.8	1.8	1.8	1.2	1.4	1.6	2.2	1.4	2.0	2.1	2.6	1.8	1.4	3.6	2.0	1.6	1.4	1.3	1.7	1.7	1.6
1980-1995	3.1	1.9	2.0	1.7	1.4	1.7	4.6	2.3	2.0	2.8	2.4	4.3	1.8	2.3	2.6	1.4	2.5	4.7	1.8	1.8	4.7
1995-2000	1.3	1.3	1.1	0.9	1.0	1.5	1.3	1.5	1.2	1.6	2.6	1.1	0.9	0.9	1.3	1.9	1.5	1.2	1.4	1.3	1.6
2000-2007	2.0	1.7	1.9	1.2	1.0	1.8	2.4	1.7	2.1	2.0	2.0	1.8	0.7	1.6	1.9	1.4	1.7	2.2	1.8	1.6	3.4

Orange: top-5 price increase, Blue: top-5 price decrease

Source: FED Dalles



# Ongoing discussion and new measures

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five countries with the lowest price rise - or a drop - are coloured green. For most periods the Netherlands is green. This means prices growth has been relatively limited compared to other countries. That said, the Netherlands was in the top five during the 1995 to 2000 period. This is the period that the committee chiefly focussed on. However, from the time when the government started to stimulate private home ownership (around 1974), the Netherlands has been one of the countries with the lowest rate of rising prices.

One of the recommendations contained in the committee's report is that the government should ensure that the maximum mortgage is capped - for example by placing a fixed upper limit on the mortgage amount in relation to income. A second recommendation is that the maximum amortisation period of 30 years should be reviewed, because the committee feels this could be extended.

The report also argues for an expansion of the role of the private rental sector; this sector commands rents from EUR 681. The committee argues that this sector should become a more attractive alternative for house seekers, in keeping with changing accommodation preferences and increasing flexibility on the labour market. Rabobank also favors a growth of this sector.

## **Van Dijkhuizen Committee**

In March the Van Dijkhuizen committee published an interim report on the progress made regarding the plan to have mortgages financed by pension funds. The committee is discussing these proposals with the financial sector on behalf of Housing Minister Blok. It is proposed that pension funds could take over a some tens of billion euros worth of mortgages from the banks. The cabinet hopes that this might stimulate recovery in the housing market. However, the committee emphasises that the details still have to be worked out, which means there is no guarantee of success, and it is unclear whether mortgage interest rates will come down as a result of this arrangement.

The Van Dijkhuizen committee has investigated how various parties feel about transferring part of the least risky element of the mortgage portfolio - the NHG-guaranteed mortgages - (nearly EUR 150 billion) to a national entity which would use it to place Dutch mortgage bonds (NHOs) on the capital market. This would give rise to very liquid bonds which could be adopted by pension funds in their government bucket; and it would enable the banks to finance their NHG mortgages more easily and cheaply on the capital market. It is expressly not the intention that this national entity would itself sell mortgages. During the coming months, the Kroes working group (APG) will give further thought to his idea. The committee intends to report to the minister before summer this year. It is as yet unclear whether this scenario would ultimately be of much benefit to housing consumers. A lot depends on the conditions at which pension funds could enter the Dutch mortgage market on a large scale.

# Ongoing discussion and new measures

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## Other measures

### *More financing options for first-time buyers*

In addition to the measures contained in the Coalition Agreement, the Cabinet has adopted a number of further measures designed to re-boot growth in the non-rental housing market. The Rutte II cabinet has agreed to a proposal by Finance Minister Dijsselbloem to relax the mortgage conditions for first-time buyers who have good income growth prospects. This measure is designed to give more scope to first-time buyers for taking out a mortgage - but based on a sensible premise - instead of a one-size-fits all rule. Indeed, banks have been calling for the rules to be tweaked in this way for some time. This year, the Banking Code of Conduct which applies to all banks in the Netherlands will be amended for this purpose.

### *Easier to lease vacant properties temporarily*

Housing Minister Blok has submitted a proposal to the Lower House designed to enable homeowners - before the summer - to temporarily lease their vacant houses. To this end, the Vacant Properties Act will have to be amended to liberalise rents and permit the vacant property to be leased for longer periods on a temporary basis. It has been proposed that instead of capping the rent on vacant homes for sale, to allow the rent to be agreed between the owner-lessor and the temporary tenant. It has also been proposed that the maximum duration for a temporary lease should be extended from five to seven years. In the current market, demolition and renovation plans for rental properties often take much longer than originally planned. Tenants will now no longer have to vacate the houses during this period. At the same time, a municipal permit will be required for this kind of temporary lease. The permit will guarantee that the temporary contract does indeed end when the notice period has expired, and rent protection will not apply. The system also affords certainty to the mortgage bank that a property can be sold as vacant immediately. The proposed legislation is currently being dealt with by the Upper House. Minister Blok has requested that it be ratified before the summer, and if so, it can be expected to take effect from 1 July 2013.

# Regional price differences

*In the Netherlands the average house price differs considerably from one region to another. Regional differences in income and in the quality of the living environment are important factors.*

## Persisting differences in the value of houses

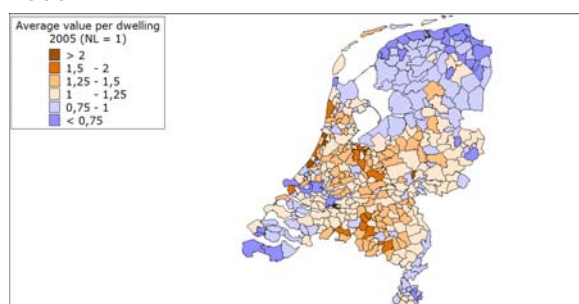
There are major regional differences in the average value of houses in the Netherlands. In the centre of the country, house prices are higher than average. By contrast, in the north east, the south west, in the province of Limburg and in most of the major cities, house prices are relatively low. The sharp decline in house prices of recent years has had little impact on this regional pattern. In the vast majority of municipalities the difference between the official (WOZ) value and the national average value were largely similar in both 2005 and 2010.

The highest values are found in the municipalities constructed on sandy soil in the northern wing of the Randstad urban conglomeration (figures 1 and 2). The town of Bloemendaal tops the list. In this town the average house in 2010 was valued at 2.74 times the national average. Bloemendaal is followed by the communities of Blaricum, Laren, Wassenaar and Rozendaal. The latter, which is situated in the central Veluwe region, is the only municipality in the top group which is not located in the northern wing. The top group is followed by other communities in the sand-dune region: Heemstede and Bergen; Naarden and Wijdemeren in the region of Het Gooi; and a large number of rural communities in Oost-Brabant, including Oisterwijk, Haaren and Waalre. At the bottom of the list are mainly municipalities in the north east - Appingedam, Delfzijl and Pekela as well as in Zuid-Limburg: Heerlen, Kerkrade and Vaals. The cities of Rotterdam and Schiedam are likewise near the bottom, ranking 392 and 393 on a list of 415 municipalities.

## The housing market

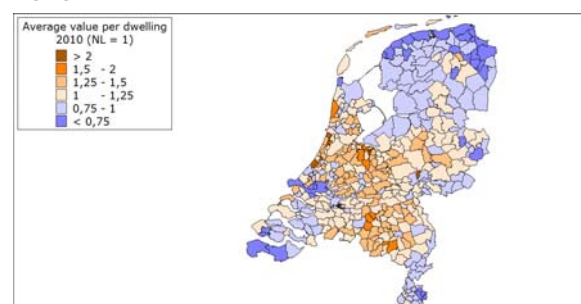
The market price for houses depends on demand and supply. These two elements - the demand for houses and the supply of houses - have both a qualitative and a

**Figure 1: Average WOZ-value per municipality 2005**



Source: ABF; Data processing, Rabobank

**Figure 2: Average WOZ-value per municipality 2010**



Source: ABF; Data processing, Rabobank

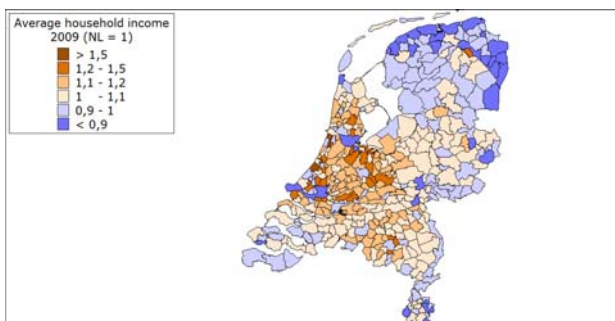
# Regional price differences

quantitative aspect. On the demand side, from a quantitative point of view, the number of households is an important factor; and from a qualitative viewpoint, purchasing power (the income and financing options) of the households is key. On the demand side, the important factors are the number of houses for sale and the characteristics of these houses. Besides the features of the property itself - such as size and type - the characteristics of the living environment are also important. In other words, in the interplay of demand and supply on the housing market, it is not only the number of houses and the number of house seekers that is important, but also how these factors are weighted: the type and location of the house and the purchasing power of the buyers.

Of all these quantitative and qualitative factors underlying the differences in house price between municipalities, by far the most important is the purchasing power of the inhabitants (Figure 4). Our analysis shows that if the disposable income of households in a municipality is 1% above the national average, house prices in that area will be 0.8% higher. Other factors, though considerably less important, are the quality of the natural environment, the extent of visual pollution and tightness on the housing market. If the natural environment is rated 1% better, the house price increases by only 0.3%; and a 1% increase in tightness on the housing market pushes the house price up by less than 0.1%. Composition of the housing stock played an even more modest role - at least in 2005. And a greater degree of visual pollution than average led to lower house values.

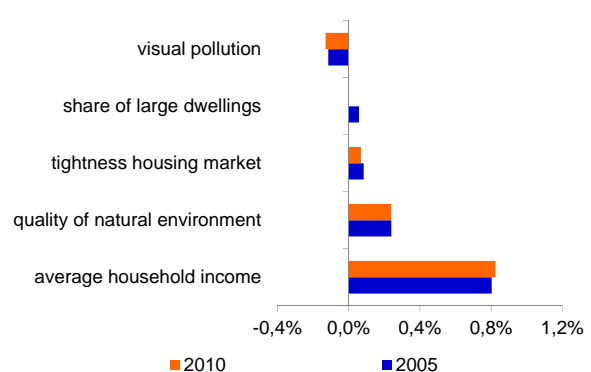
These factors together account for over 80% of the differences in house value between municipalities in the Netherlands. The developments of recent years have led to a very slight drop in the impact of these factors. Moreover, the relative weight of the various factors has shifted. The importance of the quality of the natural surroundings, tightness on the housing market and the composition of the housing stock has declined somewhat. By contrast, since the crisis, disposable income has gained in importance in

**Figure 3: Average household income per municipality 2009**



Source: ABF, Alterra; Data processing, Rabobank

**Figure 4: Factors explaining the variation in house value between municipalities**



Source: ABF Research, processing Rabobank

# Regional price differences

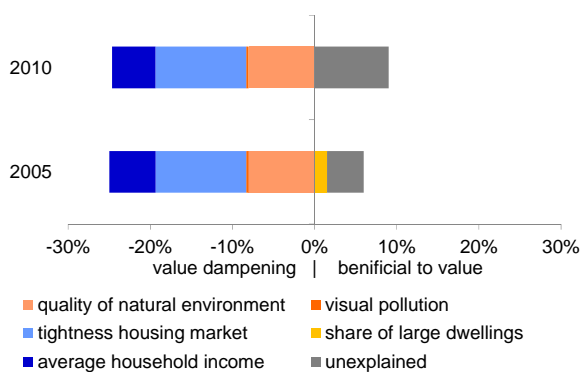
explaining the regional differences in house price; the same is true for visual pollution. From this development, it can be deduced that it is mainly large homes in less attractive neighbourhoods with a relatively tight housing market have been hardest hit by the crisis on the housing market.

## House value in individual municipalities

The importance of the various factors underpinning house value may deviate from the national trend in individual communities. After all, municipalities differ greatly from each other in terms of residents' purchasing power, composition of the housing stock, natural environment and visual pollution. Moreover, the national 'model' does not fully explain the house value variation that exists between municipalities. The model fails to account for some 17% of the discrepancies. There is a certain amount of 'noise' in the data, which may affect individual municipalities to a greater or lesser extent. The less data. The more noise there is, the more the above described factors explain the difference in house value between this municipality and the national average. However, if there is a lot of noise, then there are other factors that play a part.

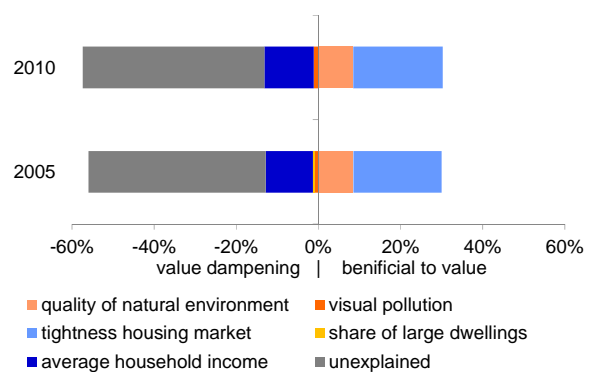
The region of Súdwest Fryslân is an example of a municipality for which the national model closely approximates the house price. The difference between the actual house price and the value calculated by the model was only 4.5% in 2005 and 9% in 2010. In 2005 the average house value here was 19% below the national average and in 2010 it was 15.6% below it. The relatively low house value in Súdwest Fryslân in both years can be explained by a less tight market, poorer than average perceived natural living environment and a relatively low average income (Figure 5). As a result of the influence of these three factors, the average house value in the region should have been over 25% below the national level were it not for the fact that the size of the housing stock - in 2005 - and a number of as yet unknown factors had a mitigating effect on the price gap. Possibly, the location of houses in Súdwest Fryslân in an area with ample water-sports facilities had a positive effect on the average value. Accordingly, the

**Figure 5: Explanation for difference between house value in Súdwest Fryslân and the national average**



Source: ABF, Alterra; Data processing, Rabobank

**Figure 6: Explanation for difference between house value in Enschede and the national average**



Source: ABF; Data processing, Rabobank

# Regional price differences

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'noise' has increased considerably for Súdwest Fryslân. It may well be that since the crisis, quality of the living environment has increased in importance for the value of houses.

For the city of Enschede, the factors that are of national importance in explaining the difference in house value in both years are grossly inadequate (Figure 6). The difference between the actual deviation from the national average and the calculated difference - i.e. the noise - is more than 40%. Tightness on the housing market in this student town as well as its location in the attractive natural surroundings of the Twente region have had a positive effect on values. On the other hand, the relatively low average household income and the high degree of visual pollution - together with one or more unknown factors - have a very strongly dampening effect. By contrast, the natural surroundings in most nearby communities, that have virtually no visual pollution, means Enschede finds it difficult to compete with its neighbours.

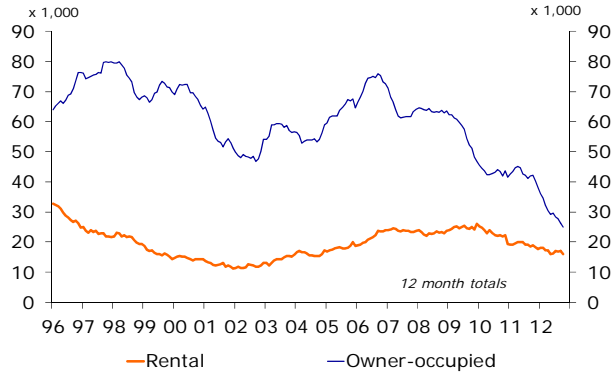
## **Conclusion**

Local and regional differences in property values are chiefly the result of a difference in purchasing power between the (potential) residents. Higher purchasing power leads to a higher average house price - especially in areas where the living environment is perceived to be more natural and with less visual pollution than average. The crisis on the housing market has further increased the impact of average income and the attractiveness of the living environment on the value of a house.

With the exception of most of the highly urban areas, the centre of the country is characterised by strong purchasing power, an attractive living environment and high house values. Within this central region the communities in 'sandy' areas around Amsterdam and in Oost-Brabant have the highest house values. Purchasing power in the north east, the south west and in Limburg is much weaker, and consequently the average house value is likewise lower. The lowest house values are found in east of the province of Groningen and in Zuid-Limburg.

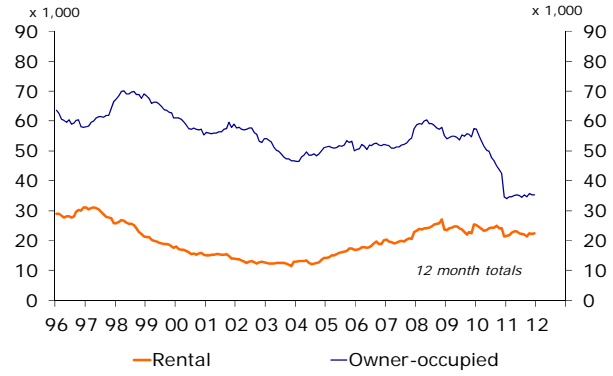
# Graphs

**Building permits issued**



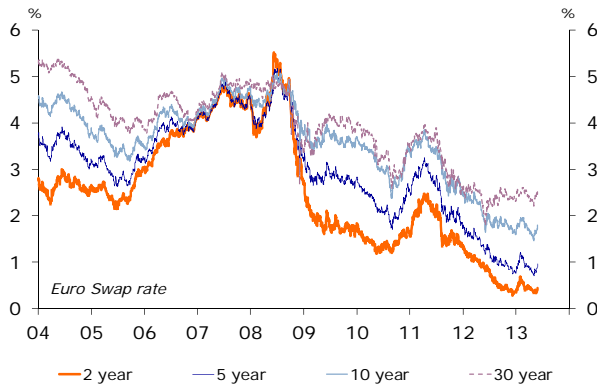
Source: CBS

**Construction output**



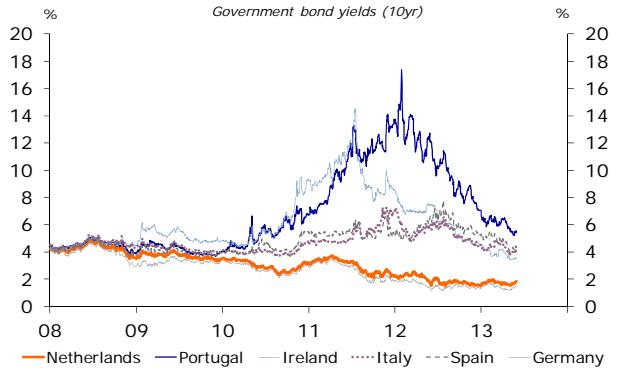
Source: CBS

**Swap rate**



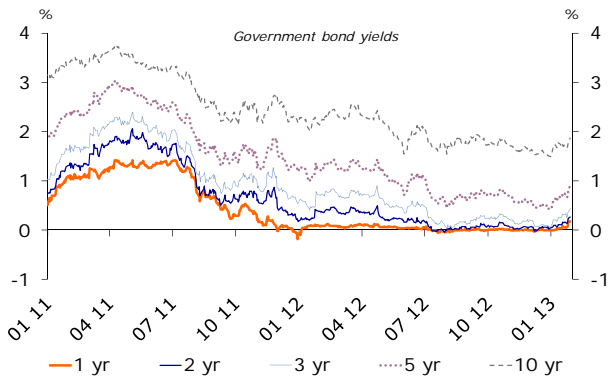
Source: Reuters EcoWin

**Capital market: Various countries**



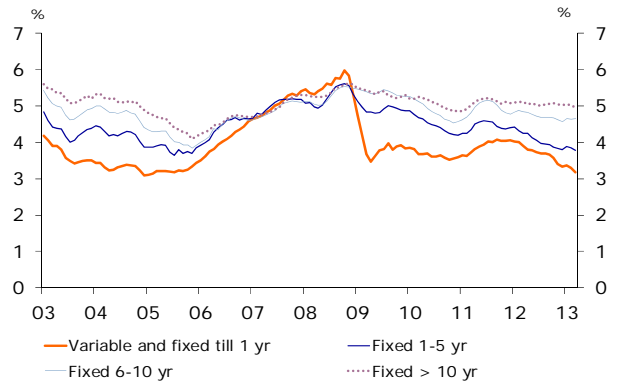
Source: Reuters EcoWin

**Capital market: Netherlands by maturity**



Source: Reuters EcoWin

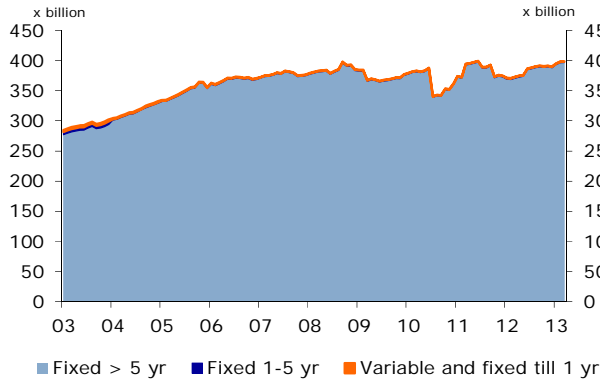
**Interest rate on new mortgages by term**



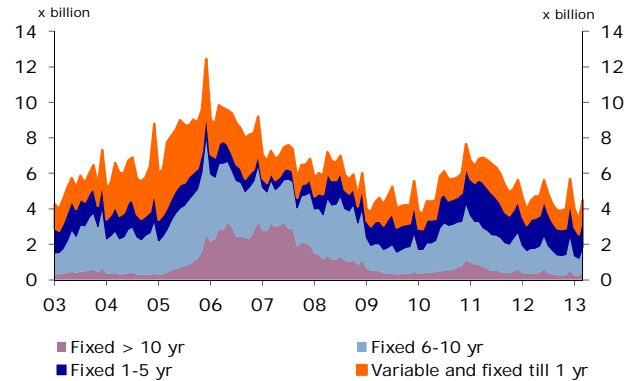
Source: DNB

# Graphs

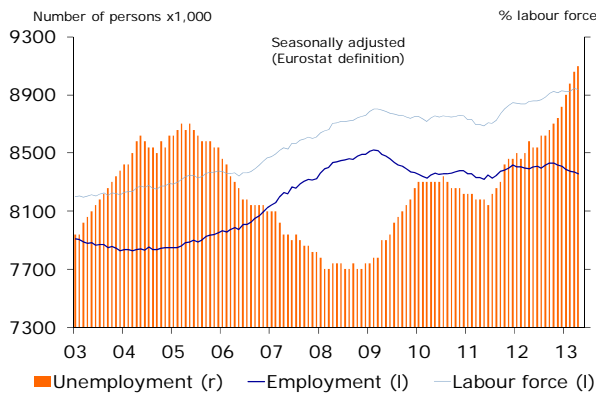
## Volume of existing mortgages by term



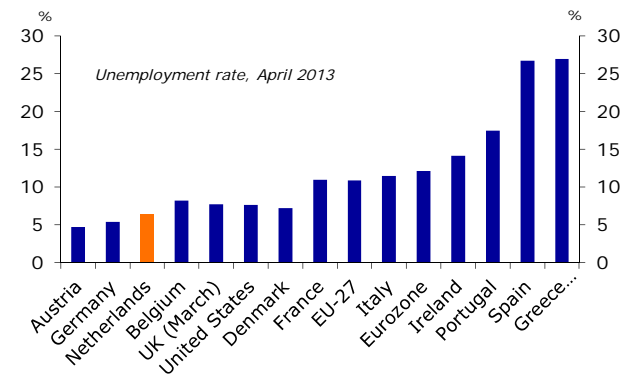
## Volume of new mortgages by term



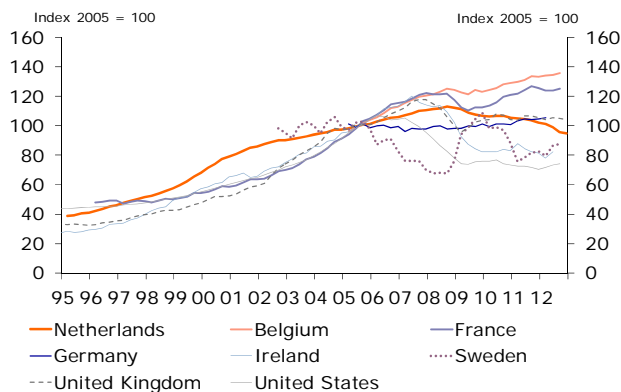
## Unemployment in the Netherlands



## International comparison of unemployment



## International price development



## Economic expectations

Year-on-year change (%)	'12	'13	'14
Gross Domestic Product	-1.0	-1	0
Private consumption	-1.4	-1½	-1¼
Government spending	-0.2	-1½	-¾
Private investment	-5.3	-8¼	1
Exports	3.3	2½	3½
Imports	3.1	-½	3
Inflation	2.8	2¼	1
Unemployment (%)	5.3	6¾	7½
Government budget (% GDP)	-4.0	-3¾	-3
Government debt (% GDP)	71.2	75½	78
Current account balance (% GDP)	9.6	10½	8½

Source: CBS and Rabobank



# Key data

## House prices

Year-on-year change (%)	2010	2011	2012 <sup>a</sup>	2013 <sup>a</sup>
NVM (median house price)	3.2	-1.9	-7.5	-5.5
Land Registry (mean prices)	0.5	0.2	-5.6	-9.6
House Price Index (CBS)	-2.0	-2.4	-6.3	-8.3
CALCASA WOX	-0.3	-0.2	-4.7	-

## Existing owner occupied market (CBS/Kadaster)

	2010	2011	2012	2013Q1
Sold houses	126,127	120,739	117,261	23,090
Auctions	2,086	2,811	2,488	517

## Building permits (CBS)

	2010	2011	2012	2013Q1
Total	61,028	55,804	37,370	-
Non-rental market	41,631	38,123	21,886	-
Rental market	19,397	17,681	15,484	-

## Interest rate level (DNB)

	2010	2011	2012	2013Q1
<i>Outstanding mortgages</i>	4.76	4.77	4.71	4.63
maturity <=1 year	4.12	4.44	4.32	4.23
maturity >1 en <=5 year	4.22	4.32	4.29	4.00
maturity > 5 year	4.76	4.77	4.71	4.63
<i>New mortgages</i>	4.52	4.55	4.27	4.04
maturity <=1 year	3.65	3.91	3.72	3.28
maturity >1 en <=5 year	4.49	4.44	4.06	3.84
maturity > 5 year	4.86	4.92	4.73	4.65

## Key economic data (June 2013)

	2010	2011	2012	2013 <sup>a</sup>
GDP (volume growth in %)	1.7	1.1	-1.0 <sup>a</sup>	-1
Inflation (%)	1.3	2.3	2.25	1
Unemployment (%)	3.7	4.4	5.3 <sup>a</sup>	6¾

# Colophon

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

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