



Rabobank

Dutch Housing Market Quarterly

August 2009

Economic Research Department

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Dutch Housing Market Quarterly

Introduction and summary

Things are looking less favourable for the Dutch housing market than was the case in recent years. Fewer houses are being sold and they remain on the market for longer. Prices are also dropping. Nonetheless, as in previous years, the second quarter showed a relatively positive price development. Divided between emotion and logic, individual households have to make a decision on moving house: yes or no. The emotional side is fed by fear: the fear of unemployment and of possible double mortgage costs. On the other hand, reason dictates that when trading up, the reduced selling price is amply offset by a lower purchase price. Furthermore, those trading up will benefit more from future rising house prices, because prices in the more expensive bracket are more volatile. In addition, the affordability of purchasing a house in the Netherlands has improved considerably for the time being. This is partly due to the historically low interest rates. The fact that over half the survey population believe that now is a good time to buy a house should give reason for hope. The market may well receive a strong boost, once the fear factor has diminished. New housing output is slipping back. In view of the lengthy completion times for building projects and the major housing expansion and replacement schemes ahead of us, a more long-term approach to the production and adaptation of houses is called for. Cyclical factors would then have less effect on the long-term plan.

The Dutch cabinet has decided to temporarily raise the national mortgage guarantee (NHG) limit from € 265,000 to € 350,000. From 17 September 2009, this measure will only apply to house buyers. Until that date, it will also apply to those seeking to renovate existing homes. This measure may give rise to an increase in the number of top-up mortgage loans. It is intended to encourage banks to issue loans, enabling more people to purchase a house. However, consumer research conducted by the Rabobank Group shows that potential house buyers are chiefly concerned about their income, possible double housing costs and the price they will get for their existing house. The recent rise in the NHG limit has no direct effect on any of these concerns. It is therefore questionable whether this measure will do anything to restore consumer confidence in the Dutch housing market.

There are large regional differences in housing affordability in the Netherlands. Altogether, affordability has improved throughout the country since the autumn of 2008. This is mainly due to declining prices and low interest rates. The regions that had the sharpest price increases in recent years are now showing the greatest improvement in affordability.

On the whole, the Dutch housing market is currently experiencing difficult times. For the second-hand housing market, Rabobank envisages a **nominal price drop of 6% in 2009 and a further decline of 1% in 2010**. The more expensive price bracket will be affected most.

Martijn de Jong-Tennekes
D.M.Jong@rn.rabobank.nl
(0031) (0)30 – 216 4490

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Second hand housing market

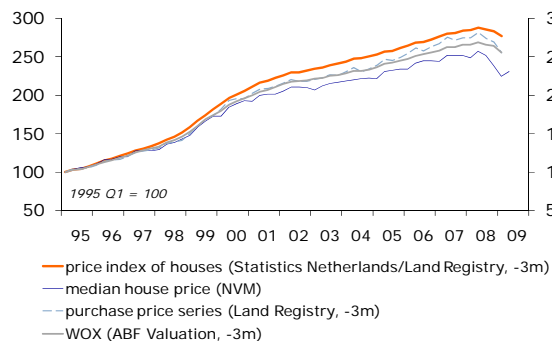
House prices coming down, but seasonal patterns remain

House prices have declined in the Netherlands during the past 12 months (figure1). To date, the greatest decline has been recorded by the NVM (Netherlands Association of Real Estate Brokers). A year ago the median house price was € 251,000. According to the NVM this has dropped by over 10% to € 225,000. This decline is much sharper than that shown in other house price series. There are a number of reasons for this. First, there is a difference in time of measurement, as the NVM measurements take place about 3 months ahead of other series. As a result, the year-on-year median house price as measured by the NVM has been declining for three successive quarters. By contrast, the price index of second-hand houses (PKB) of Statistics Netherlands (CBS) and the Dutch Land Registry show a negative price trend for only five months (figure 2). To take account of this discrepancy, the other series have been put back by 3 months in figure 1.

In addition, the composition effect should not be underestimated, particularly in relation to the NVM median house price and the Land Registry's purchase price series. Because far fewer houses are currently changing hands in the upper quarter of the market, there is a downward effect on both the median and the average house price. Both the PBK and the WOX house price index allow for these differences in the composition of housing stock sold. Consequently, the slope of these series is less extreme (figure 1). With regard to the current situation, this means that these indices decline at a less sharp rate than the median house price and the average purchase price. More information about the differences between the various price series for the Dutch housing market can be found in the Dutch report: *Themabericht 2009/10: Meten en weten op de woningmarkt*, on www.rabobank.com/kennisbank.

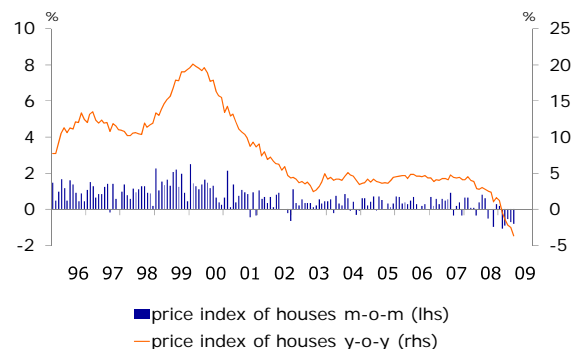
Remarkably, the median house price in the second quarter has risen by comparison with the previous quarter. The composition effect likely plays its part in this too. This is because we expect that a greater number of expensive houses

Figure 1: Nationwide drop in house prices



Source: ABF Valuation, Statistics Netherlands/Land Registry, NVM, Rabobank

Figure 2: 5-month decline in house prices



Source: Statistics Netherlands/Land Registry, Rabobank

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were sold in the second quarter of 2009 than in the first quarter of the year. It would also appear that the usual seasonal patterns have not disappeared. Indeed, in the NVM's median series, the second quarter generally shows the strongest price development of the year, and the first quarter the weakest. Despite the overall lower house prices compared to last year, this pattern remains consistent. This is considerably different from the situation in countries such as the US and the U.K., where house prices have declined at an increasing pace for uninterrupted periods.

If we distinguish between the various house types, our view is confirmed that the prices of more expensive houses (the top quarter of the market) are currently being harder hit than in the lower price brackets. Figures from both the Land Registry and the NVM show that detached houses are declining most in value and mid-terraced houses the least.

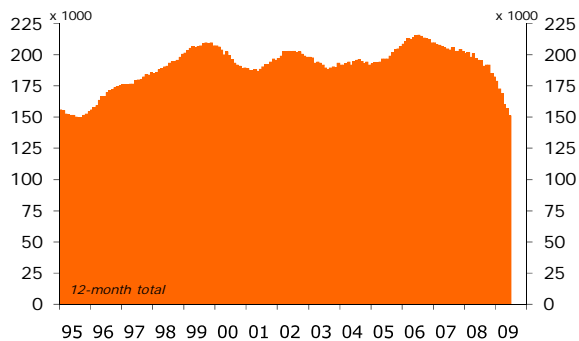
According to the PBK, house prices dropped in all 12 Dutch provinces during the past 12 months. The most marked declines took place in the provinces of Noord-Holland (-5.1%) and Friesland (-4.8%). The decline is particularly remarkable in Noord-Holland, since this is where prices were strongest during the past two years, rising by 4.9% in 2008 and 6.9% in 2007.

The least marked price drop occurred in the province of Zeeland (-1.6%), followed by Utrecht and Noord-Brabant (both -2.4%). The price development in the province of Utrecht stands out: during the past two years, price rises here were second only to Noord-Holland. It would appear that the housing market in the province of Utrecht is less sensitive to the economic headwind than that of Noord-Holland. The geographically central location of Utrecht, combined with stability of employment due to the presence of many sectors of industry may well play an important role in this.

Housing market has not closed shop

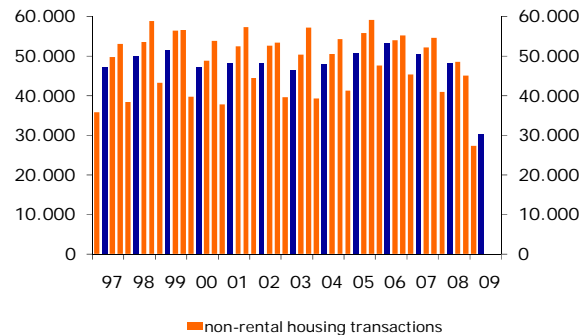
The Dutch housing market has not come to a standstill nor has it shut down.

Figure 3: Transactions have not dried up



Source: Land Registry, Rabobank

Figure 4: Seasonal pattern remains



Source: Land Registry, Rabobank

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Admittedly, considerably fewer houses are changing hands than was the case in recent years (figure 3). During the second quarter of 2009, the Land Registry recorded 30,269 house transactions, which brings the total for the first half of 2009 to 57,487 transactions. This is the lowest number ever recorded in the series published by the Land Registry (figure 4), and represents a drop of 35.4% compared to the first half of 2008. Taking a long-term perspective, we see that the current six-month transaction total deviates negatively by 32.3% from the average of the past 15 years. Again though, historical seasonal patterns are repeated: even in 2009, the second quarter had more transactions than the first, although the increase was smaller than usual.

A consequence of the lower number of transactions is that unsold houses remain longer on the market. According to the NVM, the current turnover time for selling a house is 110 days. This compares to 76 days a year ago. Furthermore, the selling time differs according to house type. Apartments are sold quickest (on average after 85 days); by contrast, detached houses take longest to sell (165 days). Consequently, there is a relatively large number of more expensive houses on the market. This situation reflects the fact that more expensive houses are being harder hit by current market circumstances.

Emotions versus logic

In the previous Dutch Housing Market Quarterly, we focussed on the lack of confidence among house buyers in the Netherlands. Two fears are central to this lack of confidence: (i) the fear of becoming unemployed (loss of income) and (ii) the fear of possible double mortgage costs (higher fixed expenditure). The uncertainty created by these two fears leads to a reluctance among potential house buyers to enter the housing market.

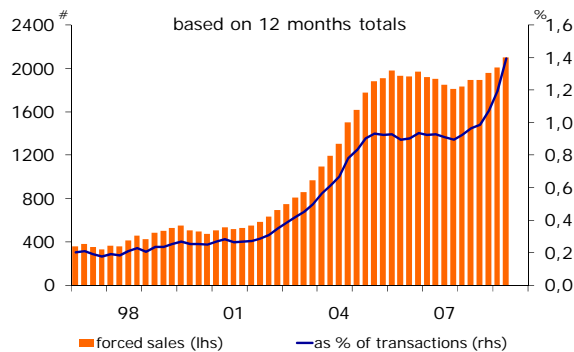
However, this is just one side of current market developments. In contrast to this more emotional attitude, a rational approach reveals a completely different side to the market.

We have already seen that house prices are currently declining, and we know that price developments in the more expensive bracket are more volatile than at the cheaper end of the market. Assuming that most households trade up to a more expensive house, the current market contains opportunities for those who wish to do so. The house to be sold is dropping less in price than the (more expensive) house to be purchased. In other words, vendors currently get less for the house they are selling, but they also have to pay less for the house they want to buy. The lower price that vendors are currently receiving for their own house is amply compensated for by the lower price they pay for the new house. Furthermore, those trading up the property ladder can benefit more from future price rises, since the price development of houses in the more expensive bracket is more volatile. Of course, this is assuming that no major permanent changes in the market will occur.

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Furthermore, the affordability of purchasing a house has improved greatly this year. This has increased the options available to house buyers: houses that were once financially unattainable are no longer so. However, this improvement is

Figure 5: Some rise in forced auctions



Source: Land Registry, Rabobank

directly linked to the current credit crisis, and is therefore temporary. The strategy of adopting a wait-and-see approach in the current housing market situation will result one sure thing in any case: the affordability of Dutch houses will deteriorate as soon as the credit crisis is over. More on this topic can be found on page 11.

Torn between emotion and logic, many Dutch households have to make a decision on whether or not to move house. The outcome of these individual deliberations is of considerable importance for current developments on the housing market. It therefore gives cause for hope that a consumer survey conducted by the Rabobank

Group shows that over half of the population believe that now is a good time to buy a house; furthermore, a similar number of people expect that the economy will pick up next year in the Netherlands. The results of this survey can be found in the publication *Woning & markt 2009* (www.rabobank.com/kennisbank).

Limited increase in forced sales

Data from the Dutch Land Registry show that the number of forced auctions increased in 2009 (figure 5). During the second quarter, a total of 588 auctions of repossessed houses took place. Together with the total from the first quarter, the full number of forced auctions during the first half of 2009 amounted to 1,127. That is 14.5% more than in the same period last year.

If we look at the forced sales as a percentage of the overall number of transactions on the Dutch housing market, we see that the ratio has increased in recent quarters, from just under 1 to almost 1.4. However, this increase can largely be explained by the currently low level of house sales. This means that in absolute terms, the number of forced house sales remains limited and has little impact on the price development of the Dutch housing market.

On the basis of the expected sharp rise in unemployment in the Netherlands, Rabobank expects an increase in the number of enforced sales. However, an increase in repossessions will not be proportionate to the rise in unemployment. This expectation is based on the increase in the mortgage burden facility for NHG-guaranteed mortgages and the announcement by various banks to show leniency towards households that through no fault of their own run into temporary repayment difficulties.

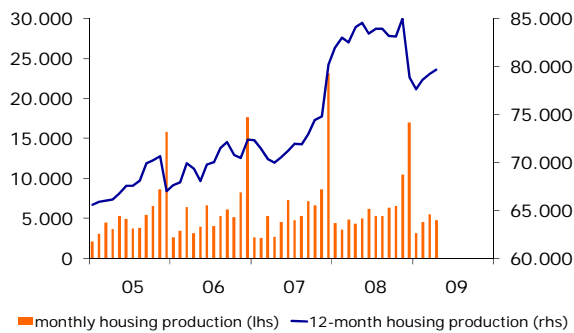
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New completions on the way down

In view of the economic downturn, we would expect to see a decline in new housing construction for 2009. However, early indicators give a different picture. Data from Statistics Netherlands show that during the first four months of 2009

a total of 17,198 new housing units were completed. This is 811 more than during the same period last year. On a 12-month basis it would appear that the market will stabilise at around 80,000 new completions (figure 6), but this will be temporary. After all, the developers' order books have been reduced, which means that the current level of production cannot be sustained in the longer term. In view of the historic trends in housing production and current market circumstances, the 12-month production levels of 2008 will not be emulated any time soon.

Figure 6: Fewer completions than last year

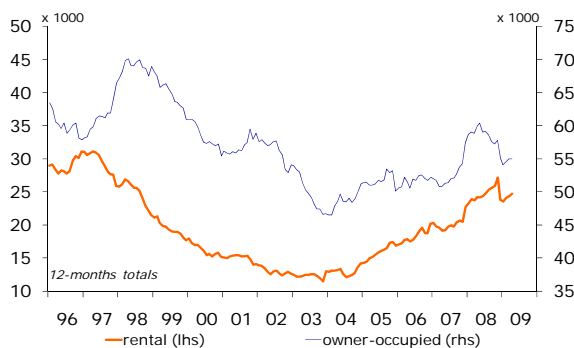


Source: Statistics Netherlands, Rabobank

If we distinguish between the rental and non-rental sectors we see that output has declined in both sectors, compared to 2008 (figure 7). This parallel development is not surprising, since rental housing projects increasingly include units to be sold.

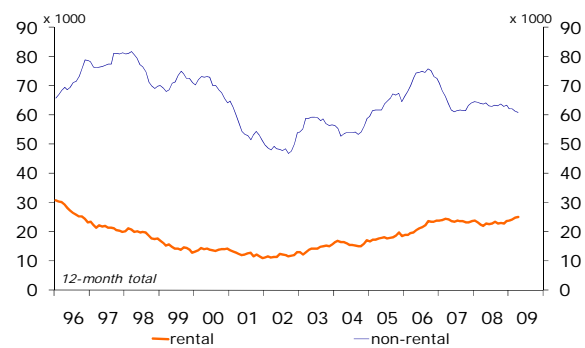
Figure 8 shows that the number of permits issued for rental housing construction has increased in recent months. This is remarkable in view of the deterioration in the investment climate. Interestingly too, there is only a slight decline in the number of building licences issued for non-rental housing construction. It appears there are still market parties who perceive profitable investment opportunity in the Dutch housing market. It remains to be seen however, whether these applications actually convert into housing completions.

Figure 7: Lower building cost for both rental and non-rental sectors



Source: Statistics Netherlands, Rabobank

Figure 8: Rise in applications for rental sector building permits



Source: Statistics Netherlands, Rabobank

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Mortgage interest rates

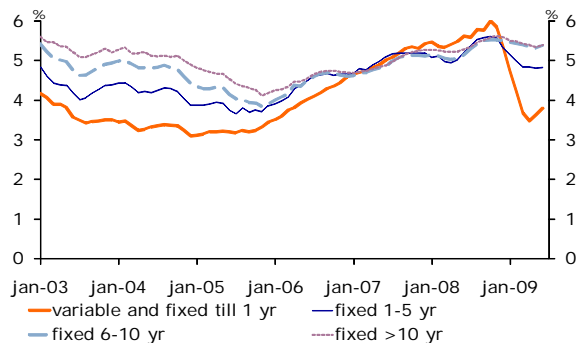
The average variable mortgage interest rate declined rapidly between November of last year and May this year. When this trend came to an end, the fixed interest mortgage rate also rose slightly in June – for the first time since last October (figure 9). Our view is that the variable mortgage rate may decline further during the coming months, but that there is little room for a drop in the fixed rate.

Money market rates at a low ebb

Once it became clear that the spate of interest rate cuts by the ECB had probably ended, the decline in money market rates stabilised in mid-May. But then a further decline set in. This development coincided with the record amount of €442 bn that banks have borrowed (in exchange for collateral) from the ECB within the new 12-month refinancing facility. Thanks to the large volume of liquidity currently present on the money market, the sharpest drop has occurred in short-term money market rates and the overnight interbank rate (figure 10). Because banks can finance themselves for extended periods in this way, money market rates, especially for longer maturities, are expected to drop further. Although the liquidity problems now seem to be under control, the banks are still fairly cautious about lending money to each other on the interbank money market. The lack of economic growth combined with deflationary pressure will give the ECB scope in the coming months to keep the policy rate low and maintain an ample level of liquidity.

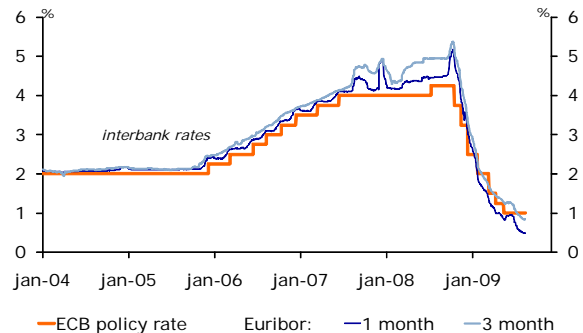
Lower money market rates have only a limited effect on the variable mortgage rate, because banks only borrow a small percentage of their funding requirements from the ECB. Because of limited access to market financing, banks are increasingly focusing on retail financing. This is also noticeable on the savings market, where interest rates on savings accounts have declined less sharply in recent months than the interbank rates. To a certain extent

Figure 9: Where are mortgage rates going?



Source: DNB

Figure 10: Money market rates at a low ebb

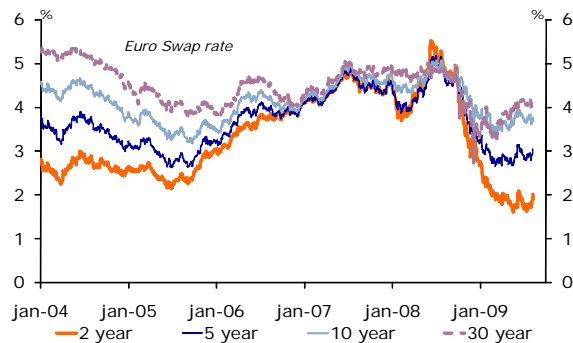


Source: Reuters Ecowin

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this explains the current development of the variable mortgage interest rate. We expect that the downward trend of deposit interest rates will be followed with a lag by the variable mortgage interest rate during the coming months.

Figure 11: Rise in capital market rates



Source: Reuters Ecowin

Capital market rates on the way up

Poor economic data combined with a deterioration of the labour market and negative inflation in Europe resulted in further drop in capital market interest rates during the first half of this year. In particular, bonds with shorter maturities were under downward pressure (figure 11). But now that there are increasing signs of an improvement in the international economic climate, the capital market is rising from the doldrums, although interest rates are still historically low. Despite inflationary pressure being expected to remain low in the short term, all the ingredients are in

place for an upward trend in capital market rates. A full-scale collapse of the financial system appears to have been evaded and the recession seems to have bottomed out. This will encourage investors to exchange their safe government bonds for riskier investments. In addition to the improved market sentiment and the reduced risk aversion, an inflationary effect of the stimulus packages cannot be ruled out in the longer term, which means the capital market rates would rise accordingly. There is a risk that investors may try to pre-empt the market, resulting in a rapid rise in capital market rates which could choke the economic revival. Uncertainty surrounding the economic picture for next year means that the interest rate outlook remains equally unclear.

On account of the credit crisis, banks have had greater difficulty during the past months in financing their activities on the capital market, and swap rates do not provide a good picture of bank financing costs. The higher risk premiums, combined with relatively high deposit interest rates have resulted in a slower decline in fixed interest mortgage rates than in capital market rates. In view of the developments on the capital market, we expect that there will be only limited scope for a reduction in fixed interest mortgage rates during the coming period.

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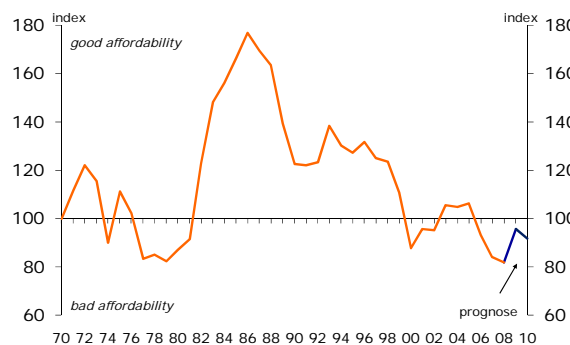
Temporary improvement affordability

The Rabobank affordability index (figure 12) is a measure of the affordability of purchasing an average house for a household with an average income in the Netherlands. It is essentially a snapshot, which means it does not take account of changes in income situation, for instance as a result of unemployment. The index makes a distinction between affordability for first-time buyers (110% financing) and those who want to trade up (70% financing). If the affordability index is 100, this means that for an average household income and an average priced house, the gross monthly burden is 30% of gross income. If the affordability index exceeds 100, then the gross monthly burden is less than 30% of gross income, and vice versa.

This year, the value of the Rabobank affordability index has risen sharply. The main reason is the current low level of house prices. The drop in mortgage rates and the slightly higher nominal incomes have also contributed to this development. However, we can already assert that this situation will be merely temporary. Because of the underlying mismatch between supply and demand on the Dutch housing market, house prices can only go up in the long term. This applies also to (short-term) mortgage rates, since these have declined chiefly on the back of ECB interest rate cuts. The expected rise will not be fully offset by higher nominal incomes. Therefore, an eventual deterioration in the affordability of Dutch houses is highly likely.

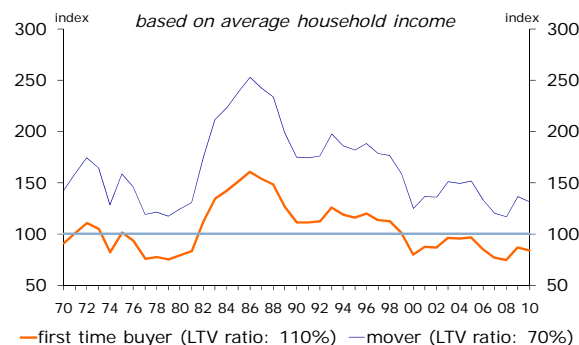
Although the problems for new entrants to the housing market have not been solved (figure 13), it is not financially attractive to wait until the credit crisis is over. First-time buyers in particular would be advised not to wait. House prices are then likely to rise again, and mortgage interest rates will go up. A house that is just about affordable now, will then be beyond reach.

Figure 12: Temporary improvement in affordability



Source: CPB, Land Registry, Reuters Ecwin, Rabobank

Figure 13: First-time buyers still with problems



Source: CPB, Land Registry, Reuters Ecwin, Rabobank

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Mortgage volume limited

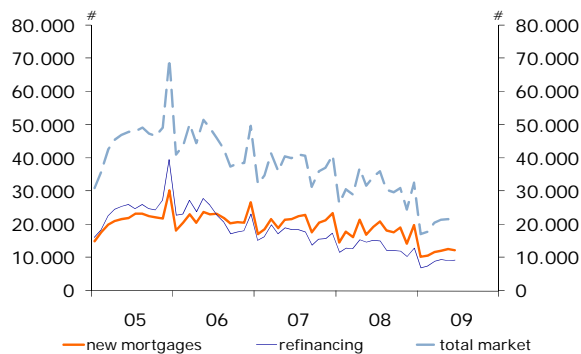
The volume of mortgages issued stabilised at a low level during the second quarter of 2009 (figure 14). During this period a total of 64,662 mortgages were issued. This brings the output for the first half of 2009 to 120,503 mortgage loans issued, which is 36.4% less than during the same period last year, when almost 200,000 mortgages were sold.

The average amount lent per mortgage also declined significantly (figure 15). During the second quarter of 2009, a total of € 15.4 billion of mortgages was issued, bringing the output for the first half of the year to € 28.8 bn. Compared to last year, this represents a drop of 37.2%. Unlike the preceding quarters, the mortgage amount is now declining at a faster pace than the number of mortgages issued. This trend may be attributed to the current lower level of house prices and the disproportionate drop in the number of houses changing hands in the more expensive price bracket of the Dutch housing market.

Temporary boost to re-financing mortgages

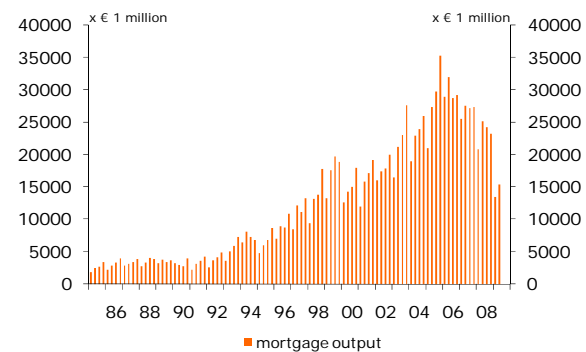
From 1 July 2009 the NHG guarantee limit was raised from € 265,000 to € 350,000. More information on this measure can be found from page 13. The amendment to this measure announced on 17 July last is what chiefly interests us here. Minister van der Laan announced that the NHG limit raise was only intended for people who wish to purchase a house, and not for those who want to top up their mortgage for the purpose of home improvements. Those wishing to renovate have until 17 September 2009 to re-finance their mortgage subject to NHG conditions. Interested parties will have to hurry, since the re-financing procedure can take some time. This time pressure may give rise to a once-off boost to the number of re-financing mortgages in the third quarter of this year. However, any such rise is likely to be limited, since eligibility for NHG mortgages requires the payment of an advance premium, as well as possible costs attached to the top-up mortgage itself. Other costs may include a possible penalty premium, a new surveyor's report and/or notary costs.

Figure 14: Mortgage volume remains low



Source: Land Registry, Rabobank

Figure 15: Value of mortgages issued declines



Source: Land Registry, Rabobank

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Cabinet adopts crisis measures

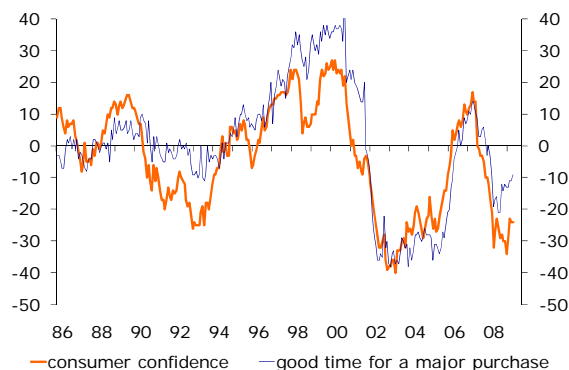
Recently the Dutch cabinet took a number of measures in an attempt to counteract the consequences of the financial crisis. These include a certain amount of support for the Dutch housing market. One of the measures involves the temporary raising of the NHG guarantee level from € 265,000 to € 350,000. It appears this step was taken in response to pressure from a number of lobby groups. In order to test the effectiveness of this measure, we first give a brief analysis of the current situation on the Dutch housing market, highlighting specific problems. We will then see if the increase in the NHG guarantee level can solve these problems.

Current situation on the Dutch housing market

We have already seen that fewer houses are currently changing hands in the Netherlands. The lack of confidence among house buyers is an important factor. Thankfully, the slide in consumer confidence has been halted in recent months (figure 16). However, it has stabilised at a low level (still more pessimists than optimists), which is unfavourable. Households are currently saving more than formerly, which is not good for the dynamic on the housing market. In particular, large purchases are being put off, and this includes houses.

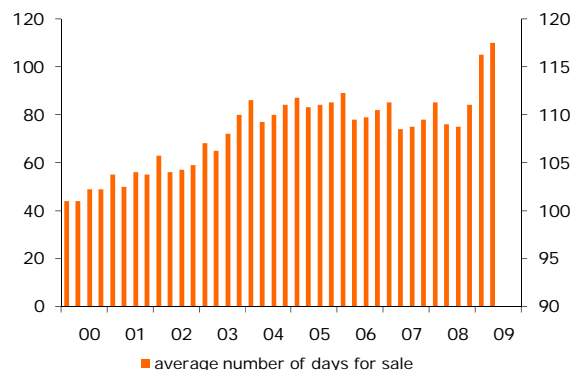
It must be pointed out that no negative structural changes have taken place between the historic high number of house transactions in 2000 and the current low level. While in 2006 nobody seemed unduly concerned about the prospect of double housing costs, that is no longer the case. This is, of course, understandable, in view of the reduced activity on the housing market (figure 17). After all, the possible duration of double mortgage costs is currently longer than in 2006. However, the problem is that this fear feeds the negative sentiment, which in turn does not help the current situation on the housing market.

Figure 16: Consumer confidence low but stable



Source: Statistics Netherlands, Rabobank

Figure 17: Rise in average time taken to sell



Source: NVM, Rabobank

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Consumer Survey

In order to obtain an impression of the impact of the credit crisis on relocation willingness among Dutch households, Rabobank Group recently had a consumer survey conducted by USP Marketing.¹ A remarkable finding was that the vast majority of Dutch households have not postponed their decision on relocation (whether to move house or not): 60% remain unchanged in their decision not to relocate, whereas 24% remain unchanged in their decision to move house (Figure 18). Of the Dutch households who have modified their relocation decision (8% of the total), 87.5% have decided not to move house after all and 12.5% have decided the opposite. On balance, the house-moving group has declined by 19.4%.

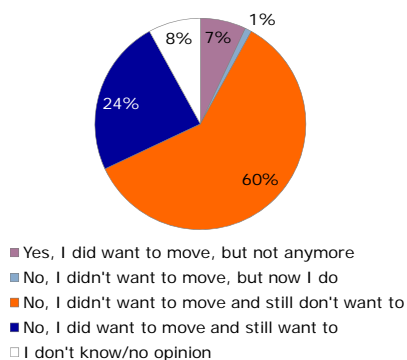
If we take only those who were willing to move house before the credit crisis, then it transpires that over three-quarters of this group currently still wish to move. The remainder have put off these plans. The main reasons given for postponing relocation plans are (i) the drop in house prices, (ii) uncertainty about income and (iii) sale of the existing house (Figure 19).

Remarkably, the most important reasons relate to the housing market (prices and transaction rate) and the labour market (income). There is little mention of the mortgage market (financing a house) by the respondents in the survey.

Considering that a significant number of the willing-to-move households have postponed their wish to move, all the survey participants were asked which measures would get them to take the plunge and decide to buy a house after all. It was very clear from the responses that the most cited measures were those that involved the sale of the existing house. Two elements are central in this respect: The time of sale and the price to be fetched by the existing house (figure 20). Remarkably, only 4% mentioned the NHG guarantee raise.

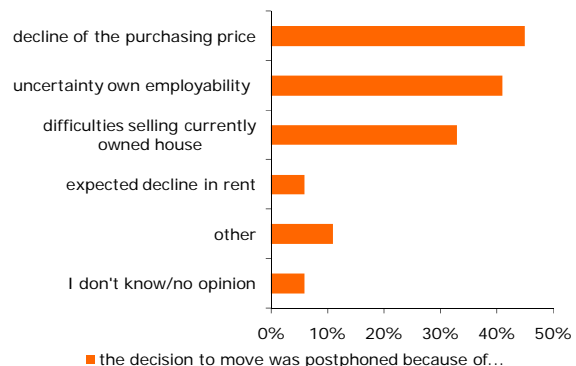
¹ Woning & markt 2009 (www.rabobank.com/kennisbank)

Figure 18: Putting off the decision to move house?



Source: USP Marketing on behalf of the Rabobank Group

Figure 19: Why not move now?



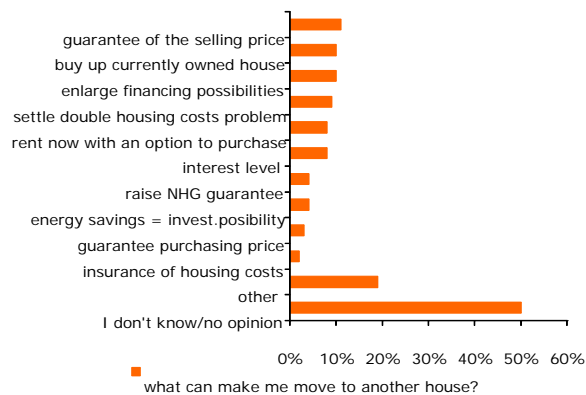
Source: USP Marketing on behalf of the Rabobank Group

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NHG guarantee raise

Before analysing this, it may be helpful to outline the advantages attached to the NHG. First, the mortgage borrower, who receives an interest rate reduction.

Figure 20: Measures to help house movers



Source: USP Marketing on behalf of the Rabobank Group

According to the CPB report 'Raising the National Mortgage Guarantee' [*Verhoging Nationale Hypotheekgarantie*] the advantage to the borrower is roughly between 0.2 and 0.5 percentage points. Furthermore, the borrower can avail of a guarantee for an additional loan (the mortgage burden facility). This gives households more time to solve any repayment problems. However, this measure is rarely used: in 2006 it was used once and in 2007 it was used twice. In early 2008 the rules for availing of the facility were simplified, and from 1 July, the facility was expanded to a maximum of 9% of the principal sum of the NHG mortgage amount. A third advantage for mortgage

holders is that any remaining debt can be written off, subject to certain conditions. However, the above CPB Report reveals that in 69% of cases, these conditions are not met.

Besides offering these advantages, the NHG attaches conditions to financing a home. The most important of these are the payment of a once-off premium (guarantee provision), maximising the financing burden (as a percentage of income) and maximising the interest-only part of the mortgage to 50%. The mortgage lender too can benefit from a NHG mortgage, as it is protected from the risk of an uncollectable remaining debt. Consequently, the mortgage lender, in keeping with current solvency requirements, does not need to hold capital as a risk buffer in the case of NHG mortgages. Thus the mortgage lenders incur fewer costs and they are in a position to offer their clients a slightly reduced interest rate.

The most important advantages of raising the NHG limit to € 350.000 appear to be the reduced interest rate for mortgage holders and the protection from risk for mortgage lenders. The press report from the ministerial council shows that the cabinet expects that the banks will now be more willing to issue loans as a result of the measure, and that more people will be able to buy a house or trade up. Thus the focus of this measure is chiefly on purchasing a house.

Unfortunately, this is currently not the major issue at stake. The main worry of potential house buyers in the Netherlands concerns their income, possible double housing costs and the price they will get for their own house. Raising the NHG limit does not directly address any of these concerns. It is therefore highly questionable whether this measure will be able to restore consumer confidence in the Dutch housing market.

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Regional variation in affordability

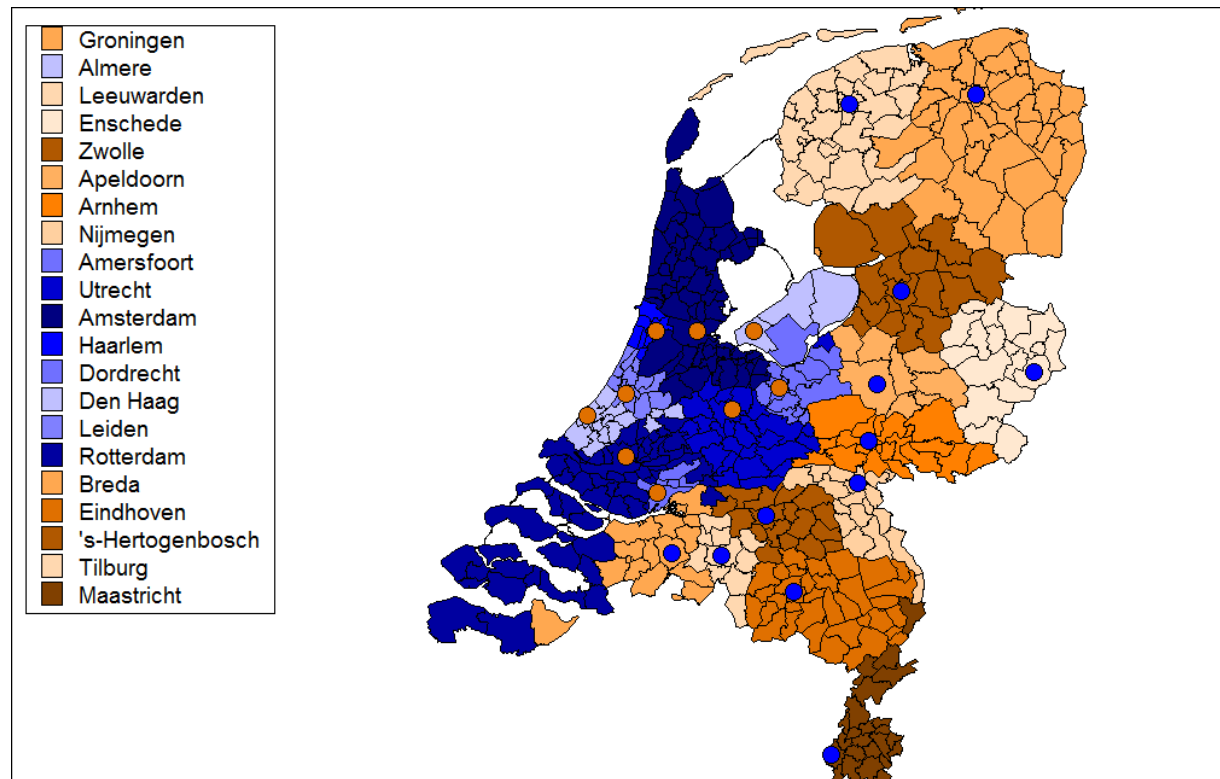
The affordability of buying a house depends not only on the time of purchase, but also on the place. In the Netherlands there is considerable variation in affluence and in house price. Consequently, there are large differences in the affordability of buying a house. The regional or local affordability index illustrates this variation in affordability.

Regional affordability index

We distinguish 12 regional housing markets in the Netherlands (map 1). These are based on population relocation patterns. People tend to move house a distance away and most removals are oriented towards urban centres. A distinct housing market region can be identified when more than half of house removals take place between neighbouring municipalities that are oriented towards the same urban centre.

As was the case for the national housing market, a (regional) affordability index can be determined for these 21 regions. This regional affordability index likewise expresses the maximum amount that house seekers can borrow on the basis of their income relative to the average house price: $affordability = \frac{\text{maximum mortgage}}{\text{average house price}}$. The maximum mortgage depends on the average income, the maximum burden that the mortgage costs may place on that income and the level of interest rates.

Map 1: 21 housing market regions in the Netherlands



Source: Rabobank

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The maximum borrowable amount increases with higher incomes and lower interest rates. An index value greater than 100 indicates that a household with an average income can purchase a house that is more expensive than the average house in the region concerned. In other words, that household has relatively strong purchasing power on the housing market in that region. If the index value is lower than 100, this means the purchasing power of a household with an average income is insufficient to buy an average priced house in that region.

Comparison with the national affordability index

Both the regional and the national index have the same purpose. They have differing backgrounds however, because the same data are not used in both cases. The regional affordability index is based on the average disposable income per household (instead of the modal gross income) and on the average *WOZ* valuation for property tax purposes (instead of the average house price according to the Land Registry) per municipality in that region. This means the regional index uses a lower income definition and a lower house value than the national index.

Another significant difference is that the regional index is based on the entire stock of rental and non-rental houses in a region, whereas the national index takes account only of houses sold. Consequently, the regional index yields a more positive impression of affordability than the national index. This distortion is due to the relatively large proportion of social rental housing, particularly in the (big) cities. This means that the national and regional indices cannot be compared in a straightforward way. The regional index is chiefly useful as an indicator of difference in house values within the Netherlands.

Regional variation

Regional differences in affordability are considerable. Figures from the first quarter of 2005 show that the regional affordability index had a spread of 109% to 146%. Purchasing power on the housing market was lowest in the Haarlem region. A household with an average income could afford to purchase a house worth only 17% more than average at that time. House seekers were best off in the Dordrecht region. Here, an average income household could purchase a house with a price tag of 45% higher than average.

In general, affordability was lowest in the northern area of the Randstad urban belt and in the decentralisation zone in the eastern part of the Randstad (map 2). Demand for housing has been considerable in these areas for decades, because of the strong economic opportunities on the one hand and the attractive residential qualities on the other hand. Accordingly, pressure on the housing market and the average house price is high. And despite the trend towards high average incomes in these areas, affordability is consequently poor. The

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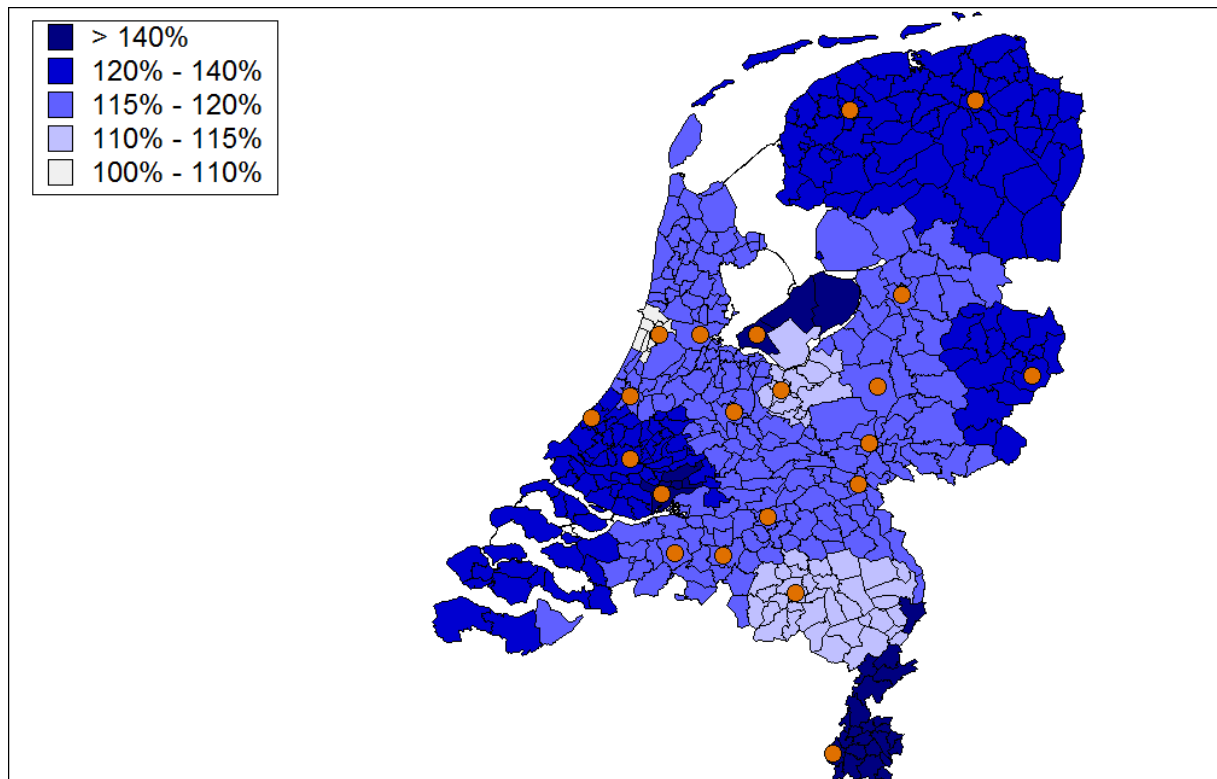
municipalities with the highest average incomes in the Netherlands are also those where the affordability of purchasing a house is lowest: Bloemendaal (69.3%), Laren (74.1%) and Blaricum (79.4%).

By contrast, the southern section of the Randstad urban belt, the province of Flevoland and the border areas offer greater affordability in the housing market. With the exception of the city of Almere, economic activity is relatively weak in these areas; there is also a certain amount of demographic stagnation or even shrinkage. Accordingly, pressure on the housing market and on the average house price is low in these regions. Top of the list for affordability are the municipalities in the north and south-east of the country: Den Helder (183.9%), Appingedam and Terneuzen (179.2%) and Delfzijl (179.1%).

Remarkable improvement in affordability

A remarkable improvement in the affordability of purchasing a house in the Netherlands took place during the winter of 2008/09. This followed the third quarter of 2008, when the housing market was at its tightest. In two-thirds of the regions, a household with an average income did not have sufficient purchasing power to buy a house with an average price tag (map 3). Only in the regions of Almere, Dordrecht, Groningen and Maastricht was the affordability

Map 2: Affordability index per housing market region 1st quarter 2009 (average NL = 124%)

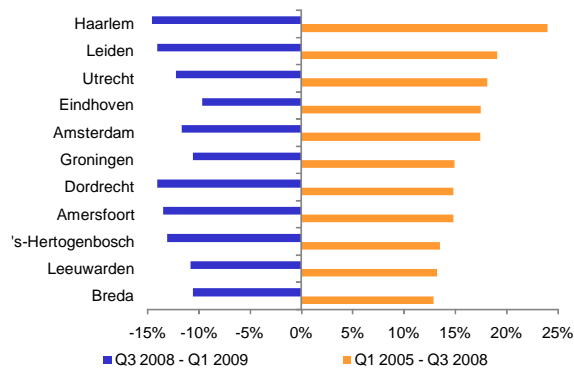


Source: Rabobank

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index high. In the Haarlem region and in the regions to the east of the Randstad, affordability was very poor.

Figure 21: House price development in the housing market regions with the sharpest price rise and decline



Source: NVM; data processing Rabobank

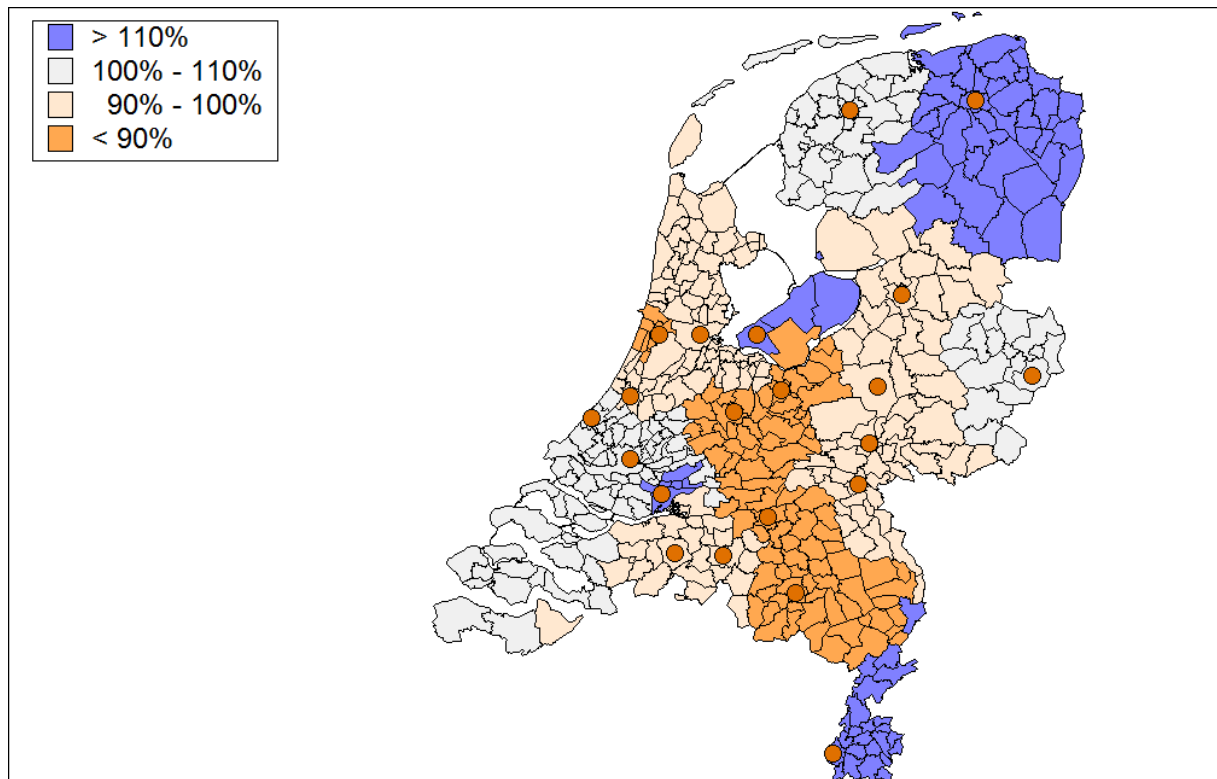
As a result of the drop in the median house price, the decline in interest rates and the rise in average household income, the affordability of purchasing a house has risen sharply since the third quarter of 2008. Thanks to this improvement, a household with an average income was able to buy a house in the first quarter of 2009 that was 25% more expensive than average.

Correction of sharp rise in house prices

At the same time, the spatial pattern in the affordability of houses did not change. The improved purchasing power on the housing market occurred in all regions. This is clear from map 3, which shows the index for the third quarter of 2008 and looks much less 'blue' than map 2, for the first quarter of

2009. However, within this spatial pattern, there were considerable regional differences in development.

Map 3: Affordability index per housing market region 3rd quarter 2008 (average NL = 97%)



Source: ABF-Research; data processing Rabobank

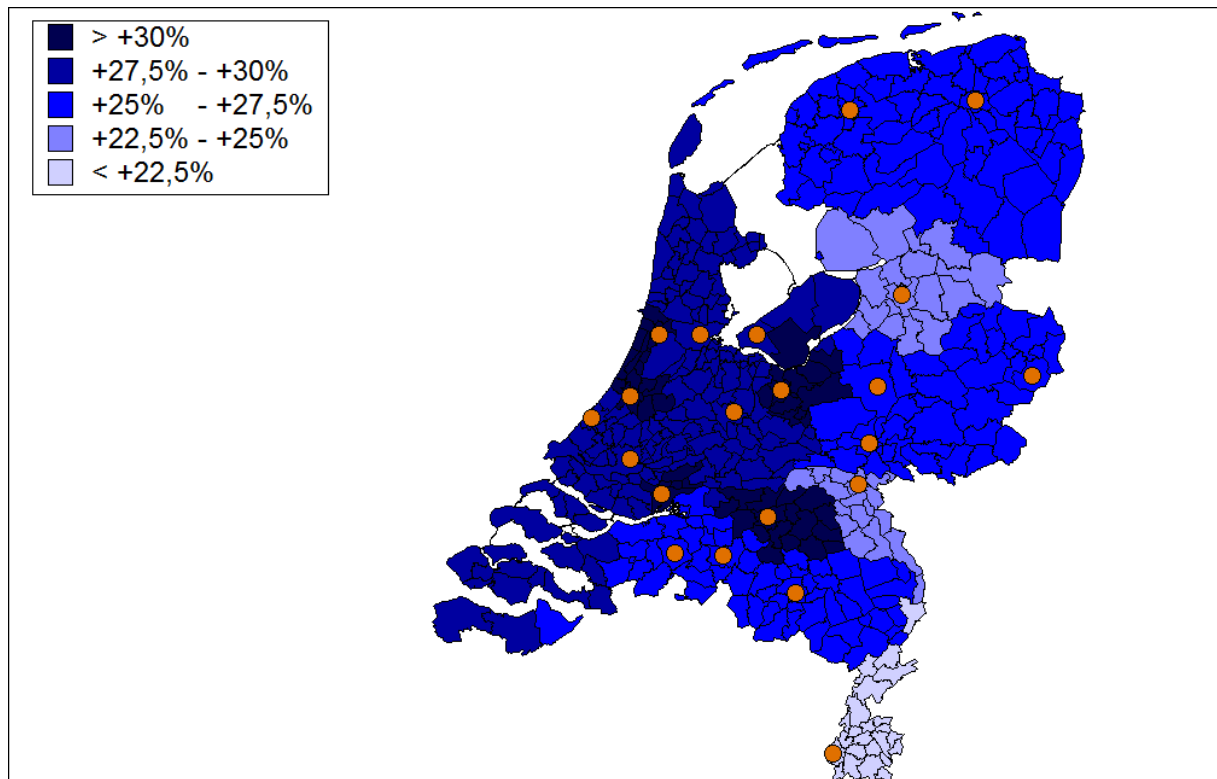
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The improved affordability was almost entirely linked to the drop in house prices ($r=0.99$). In turn, this price drop was most marked in the regions where prices had risen most sharply in recent years ($r=-0.47$): the regions of Haarlem, Leiden, Dordrecht and Amsterdam (Figure 21). Accordingly, the decline in house prices can (partly) be seen as a correction to the price development of previous years; and the improvement in affordability is an expression of this correction.

Conclusion

The affordability of purchasing a house varies greatly from one region to another in the Netherlands. This variation is a consequence of differences in average household income and average house price. Affordability is poorest to the north and east of the Randstad urban belt. To the south of the Randstad and in the peripheral areas of the country, affordability is highest. The improved affordability since autumn 2008 can be seen throughout the entire country, but should largely be viewed as a correction of the high prices of recent years. The regions that experienced the sharpest price rises, and hence the lowest affordability, are now undergoing the sharpest corrections and consequently the greatest improvement in affordability. However, the regional variation in affordability has not changed as a result of these different regional developments.

Map 4: Development of affordability from 3rd quarter 2008 to 1st quarter 2009 (average NL = +28%)



Source: ABF-Research; data processing Rabobank

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Outlook

The outlook for the Dutch housing market is far from rosy. The credit crisis has undermined the confidence of house seekers, and the 12-month transaction total has declined sharply. House prices have taken a hard knock and are currently dropping throughout the country. The more expensive bracket has been hardest hit, due to a relatively large supply and low transaction numbers. Consequently, buyers in the more expensive market segment are in a strong position.

With regard to economic development, we see that the economy has been shrinking for some time and is currently in recession. This applies to virtually all our trade partners at this time. For an open economy such as the Netherlands this gives cause for concern. Consequently we are revising the predictions of the previous Housing Market Quarterly downwards. For 2009 we expect the Dutch economy to shrink by 6%, followed by a further -½% in 2010. This will have an impact on the labour market, and unemployment can be expected to rise rapidly to 620,000 by late 2010. The housing market will not remain unaffected. Uncertainty about jobs will continue to erode confidence, so that we cannot expect a strong rise in transaction numbers in the short term. However, we will see an increase in the number of forced sales. As a percentage of total sales of houses, however, these will remain limited to a few percent.

New housing completions will also be affected by these market circumstances. Developers' order books are not filling up, which is bad news for the fundamental mismatch on the Dutch housing market, where a housing shortage of some 1.5% continues to prevail. In view of the lengthy completion times for building projects and the major housing expansion and replacement schemes ahead of us, a more long-term approach to the production and adaptation of houses is called for. Cyclical factors would then have less effect on the long-term plan.

The affordability of purchasing a house in the Netherlands has improved, albeit temporarily. The improvement is largely due to lower house prices. However, prices will eventually rise again, as will mortgage rates. This will be followed by a rapid deterioration in affordability, and a return to the well-known problems for first-time buyers.

When we weigh up the effects of the poorer than expected economic outlook, the lack of confidence, further disappointing transaction numbers and the fear of double mortgage costs and (partial) loss of income on the one hand, against the lower mortgage interest rates and temporary improvement in affordability on the other hand, we conclude that, on balance, our expectations must be adjusted downward. Accordingly, for second-hand houses we envisage a **nominal price drop of 6% in 2009 and of 1% in 2010**. The more expensive price bracket will be more severely affected.

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Key figures

House Prices				
Year-on-year change (%)	2007	2008	2009^a	2010^a
NVM (median house price)	3.6	0.0	-6	-1
Land Registry (average house price)	5.3	2.7	-	-

Totals				
x 1000	2007	2008	2009^a	2010^a
Sales transactions	202	182	135	150
Newly built homes	80	79	70	62

Totals				
	2007	2008	2009	2010
Enforced Sales	1,811	1,961	-	-

Key economic figures (May 2008)				
	2007	2008	2009^a	2010^a
GDP (growth, %)	3.5	2	-6	-½
Inflation (%)	1.6	2.5	1	½
Unemployment (x 1000)	344	305	440	620

Rabobank affordability index				
x 1000	2007	2008	2009^a	2010^a
Affordability index ^b	84	82	97	96

Interest rates^c			
Level (%)	11 August 2009	+3m^d	+12m^d
3-month Eurozone	0.88	0.93	1.98
10-year Euroswap	3.66	3.84	4.15
Mortgage interest rate, 5-10 year fixed	4.82 ^e		

^a Rabobank outlook

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

^c Forecasts by Financial Markets Research, Rabobank International

^d Outlook for +3 and +12 months respectively

^e June 2009 monthly average, DNB

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Colophon

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

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For other information, please call the ERD secretariat on tel. 030 – 2162666 or send an email to 'I.F.A.M.Rommens@rn.rabobank.nl'.

Text contributors:

Martijn de Jong-Tennekes, Frits Oevering en Danijela Piljic

Editor-in-chief:

Annelies Hogenbirk, deputy chief economist

Production coordinator:

Christel Frentz

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Economic Research Department online

www.rabobank.com/kennisbank

Postal address

Rabobank Nederland
Economic Research Department (UEL A.00.02)
P.O. Box 17100
3500 HG Utrecht
The Netherlands

Office address

Rabobank Nederland
Eendrachtlaan 10
3526 LB Utrecht
The Netherlands



Rabobank