Rabobank

Dutch Housing Market Quarterly

May 2008

Economic Research Department

Table of Contents

Additional publications about the Dutch housing market can be found on our website: www.rabobankgroep.nl/kennisbank

Completion date: 7 May 2008

Introduction and summary

House prices continue to rise on a year-on-year basis. Compared to the previous quarter this is a limited, incidental price drop from an average of € 246,000 down to € 244,000. Upmarket houses are currently rising faster than cheaper houses. For a total of seven quarters the number of sales transactions has been declining, which is bad news for market activity and movement on the property ladder. At the same time, the housing supply is increasing, which highlights the mismatch on the Dutch housing market. On a more positive note, there has been a 4.4% drop in the number of forced house sales compared to last year.

New housing completions have risen sharply, and the 12 month total is now 81,942 housing units. In 2007 the government target of at least 80,000 new completions per year was met, for the first time in ten years. However, this has not fully resolved the fundamental bottlenecks.

This year the affordability of buying a house may improve slightly in the Netherlands. At the same time, we expect to see a gradual rise in money and capital market interest rates, as well as a further moderate rise in house prices. However, this will be balanced by higher income growth among Dutch households, which will compensate for higher property financing costs this year.

Mortgage output showed a further drop during the last quarter. Furthermore, some mortgage lenders are intensifying their lending terms in reaction to the credit crisis. A number of smaller operators have even discontinued their activities in the Netherlands. This trend can also be seen in other countries.

The IMF expects a downward adjustment of house prices in many Western countries. In our opinion, the Netherlands does not belong to this category. The situation in the Netherlands differs from that in other countries on account of the fundamental shortage of houses and the introduction during the mid-90s of the dual income provision for single households. This supports the present prices.

The rental property sector has decreased, both in housing market share and in property numbers. Because of waiting lists and mismatch between house occupants and actual target group, it is hard for households on a limited budget to get a house. In particular for middle income earners it is difficult to find a suitable rented accommodation.

Owing to the continuing positive economic climate, the somewhat improved property affordability and the ongoing accommodation shortage on the Dutch housing market, we expect that the average house price will rise further. For both 2008 and 2009 we foresee an increase of 3%.

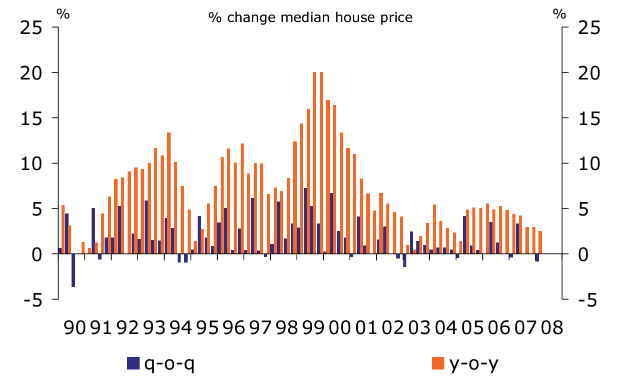
Martijn de Jong-Tennekes
D.M.Jong@rn.rabobank.nl
030 – 216 4490

Second-hand housing market

House prices rising more slowly

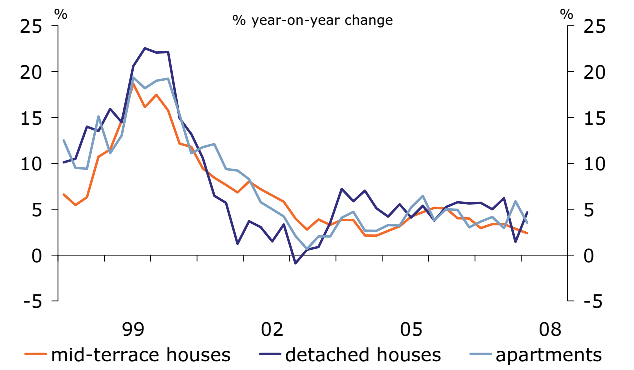
As was the case in previous years, the price development has been relatively limited in the first quarter. Compared to the previous quarter there even has been a drop in house prices during the first quarter of 2008 (figure 1). This is not unusual and also occurred for instance in 2005 and 2007. According to the NVM (Netherlands Association of Real Estate Brokers) the current median house price is € 244,000. This is € 2,000 less than at the end of last year, but € 6,000 more than a year ago. As in previous quarters, houses at the higher end of the spectrum are going up more quickly than lower-end houses. According to data from the Dutch Land Registry, the price of an average house at the end of March was € 250,160. This represents a rise of 2.5% compared to the same month last year. The difference in these two sets of data has to do with the calculation method. In contrast to the NVM, the Land Registry registers all transactions.
The effectiveness of a house price index is limited by the fact that different houses are sold in each period. Consequently, each individual period has its own unique distribution according to house type and location. The NVM goes some way towards addressing this problem by referring to a median house price. In the past quarter, relatively fewer houses were sold in the pricier areas of the urban belt (Randstad), for instance in Amsterdam, Haarlem and Delft. This has pushed down the median house price for the first quarter of this year. If we look more specifically at the regional differences, it transpires that the price per square metre rose most in the centre of the urban belt. By contrast, in some regions prices rose little if at all during the past four quarters. These include the cities of Den Bosch (+0.1%), Groningen (-0.8%) and the province of Zeeland (-3.2%).
There are also differences according to house type. In the past 12 months the highest rise has been registered for detached houses (+4.7%), followed by apartments (+3.5%) and end-of-terrace houses (+3.0%). Semi-detached and mid-terraces rose least: both showing +2.4%.

Figure 1: Reduced house price growth



Source: NVM, Rabobank

Figure 2: Limited differences per house type



Source: NVM, Rabobank

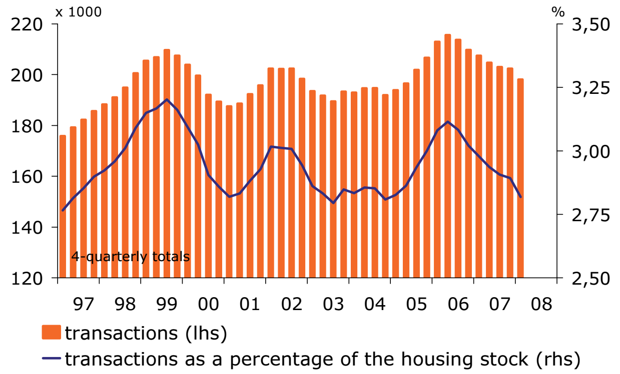
Transactions down, supply up

During the first quarter of 2008, there was a further drop in the number of sales transactions (figure 3). Transactions have already been declining since the summer of 2006. The 12-month total of houses sold currently amounts to 198,117, which is 4.5% less than a year ago. If we relate this number to the supply of houses for sale, this ratio has not been so low in recent years. This is unfavourable for activity on the Dutch housing market. After all, it is easier to find the right house when there is more turnover in the market.
According to the NVM, it is usual for the first quarter to be quieter than the fourth. Fewer houses are offered for sale, and fewer are sold. On balance, the housing supply rose by 3% in the first quarter. Since the market is heterogeneous in character, houses may remain unsold for extended periods, while at the same time, house-seekers cannot find the house they want. The current large relative price differences are an indicator of this.

Forced sales stabilise

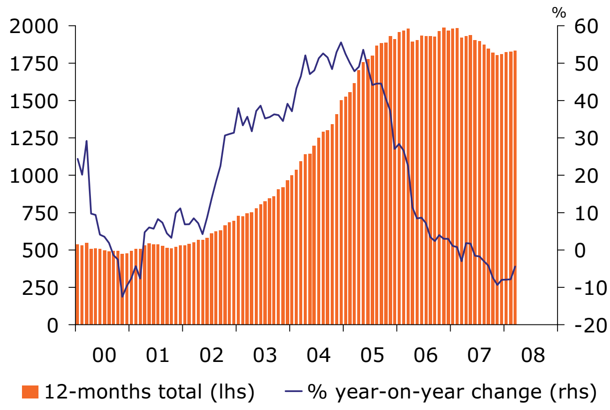
As is customary, there were fewer forced sales in the first quarter than in the previous fourth quarter. So far this year, the Land Registry has recorded 490 enforced auctions. This is only 24 more than last year. This figure puts the 12 month total at 1,835 (figure 4). Compared to a year ago, the number of forced sales has dropped by 4.4%.
During the first quarter, the Home Ownership Guarantee Fund (NHG) received 254 declarations in relation to a loss-making forced sale. This is 22 more than in the same period last year (+9.5%). Rotterdam (32%) in particular, but also The Hague (9%) account for a large share of these numbers. The negative price development is one of the main factors involved. These cities regularly have problems in certain districts, which now feature again. The NHG has identified significant financing risks in the older neighbourhoods of Rotterdam.

Figure 3: Number of transactions still dropping



Source: Land Registry, Rabobank

Figure 4: Stabilisation in forced sales



Source: Land Registry, Rabobank

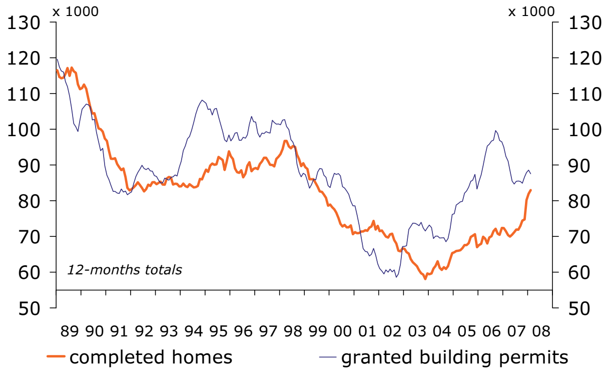
Rapid increase in new housing output

In December 2007 there was a sharp rise in new housing output (figure 5). Although it is usual for more houses to be completed during the last month of the year than in previous months, the output for 2007 was higher than in the same period of preceding years (figure 6). Output for the entire year of 2007 amounted to 80,193 new housing completions, which is the highest since 1998. Furthermore, for the first time in 10 years, the government minimum target of 80,000 completions per annum was realised. Likewise in January and February of 2008, there was an increase in new housing completions compared to the same months in 2007. Thus the 12-month production has risen further and by now amounts to 82,986 completions.

If we distinguish between the rental sector and the non-rental sector, production has increased in both sectors (figure 7). In the rental sector, the upward trend started as far back as the summer of 2004. For the non-rental sectors, output was relatively stable in recent years at over 50,000 completions on a 12-month basis. In the space of only a few months, this total has risen to almost 60,000 completions.

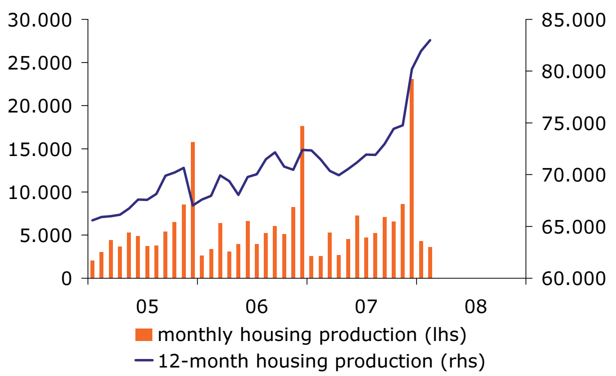
The question is, however, whether this higher production reflects a long-term trend. New building permits which peaked in the summer of 2006 have declined since April 2007 to fewer than 90,000 permits per year. In the fourth quarter of 2007 there were 176,645 building licences outstanding, of which 140,051 had been issued in the past two years. Although not all permits actually result in the completion of a new house, it would appear that the current number of permits is sufficient for the realisation of at least 80,000 completions this year as well.

Figure 5: New completions picking up



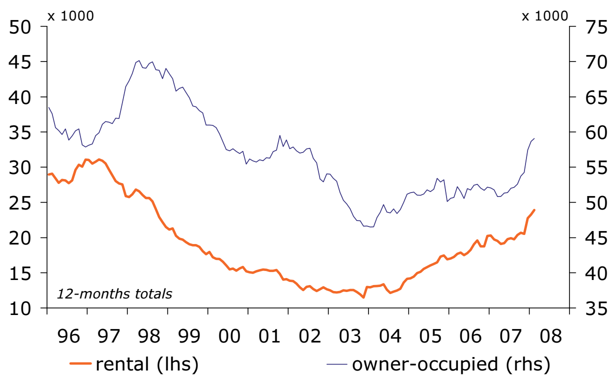
Source: CBS, Rabobank

Figure 6: Large differences in monthly output



Source: CBS, Rabobank

Figure 7: Production increase by ownership



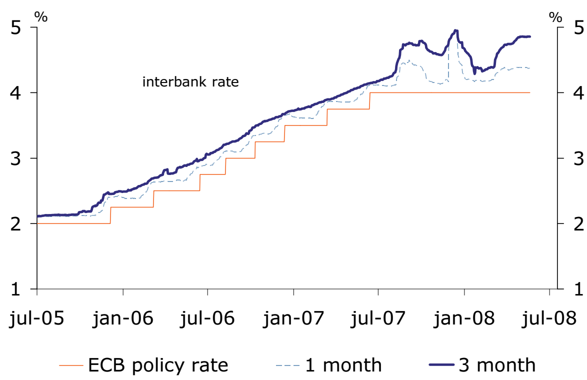
Source: CBS, Rabobank

Sharp rise in interest rates

At the start of this year it appeared as though peace and quiet had returned to the interbank money market after the turbulence of the second half of 2007. However, the period of calm did not last long and since early March, the 3-month interbank interest rate has surged (figure 8). The publication of information about losses sustained by financial institutions as contained in their annual reports was not sufficient to restore confidence to the interbank money market. Banks remain wary of lending money to each other, particularly for periods over three months. Consequently, the risk premium in the interbank money market has risen sharply again.

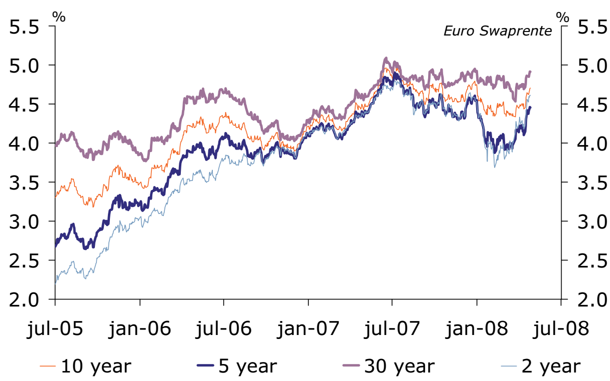
For the time being, the eurozone economy is bearing up well in the midst of the credit crisis and the growth slowdown in the US. The fragility of the financial markets combined with slowing economic growth and the strong euro have prevented the ECB from continuing the series of interest rate rises that it instigated in 2005. Despite high inflation (3.6% in March) and thanks to the relatively good year's start for the EU economy, the ECB will leave its policy interest rate unchanged for the time being. Only if economic growth shows severe deterioration and the inflation outlook so permits, the policy rate might drop somewhat during the second half of the year. Together with an expected recovery in interbank confidence, this means that money market interest rates will move toward 4% during the course of the year.
Capital market interest rates have declined sharply since the summer of 2007 (figure 9). In particular, the yield on short-term government bonds decreased considerably. This can partly be attributed to the popularity of safe government bonds among risk-averse investors. However, since March, interest rates have found the way upward again. Under the influence of further normalisation of the financial markets, the relatively healthy growth performance of the eurozone, and high inflation, yields may rise further somewhat during the course of the year.

Figure 8: Renewed unrest on the money market



Source: Reuters EcoWin, Rabobank

Figure 9: Capital market rates rising again



Source: Reuters EcoWin, Rabobank

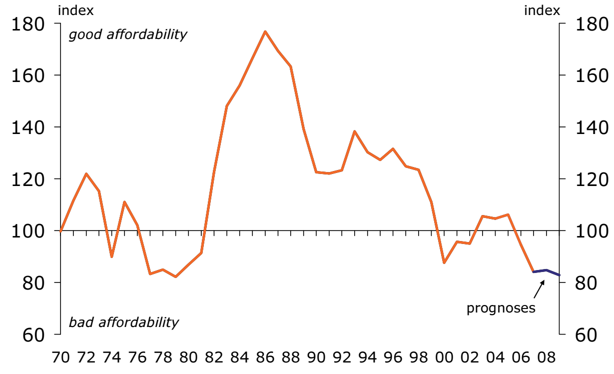
Affordability still a problem

The Rabobank affordability index is a measure of the affordability of purchasing an average house for a household with an average income in the Netherlands. A distinction is made between affordability for first-time buyers (110% financing) and those who want to trade up (70% financing). If the affordability index is 100, this means that for an average household income and an average priced house, the gross monthly burden is 30% of gross income. If the affordability index exceeds 100, then the gross monthly burden is less than 30% of gross income, and vice versa.

In 2006 and 2007, the affordability of buying a house in the Netherlands deteriorated sharply. This was largely due to the rise in money market and capital market interest rates and was exacerbated by further house price growth during this period. Income growth among Dutch households was only partly able to compensate for the increased financing burden. For this year and next year we expect affordability to stabilise at the current level. We anticipate a further rise in capital market interest rates, but considerably less markedly than in previous years and only later in the year. The same applies to house prices, which will rise less sharply. Furthermore, wages will increase more rapidly this year and next year. On balance, therefore, affordability will improve marginally this year, but the effect will be cancelled out again next year.

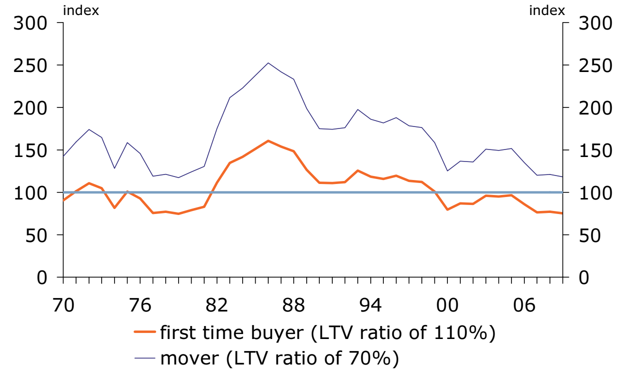
First time buyers are the main victims of poor affordability. The conditions for entering the housing market are currently unfavourable and will remain so for the time being. Households that already own a house are generally less affected by changes in the affordability of buying a house. Most have opted for a long-term fixed-rate mortgage, what gives them stable housing costs. Furthermore, if they do move house, they profit from the increased value of their current home.

Figure 10: Rabobank-affordability index



Source: CPB, Land Registry, Reuters Ecowin, Rabobank

Figure 11: Affordability index by buyer type

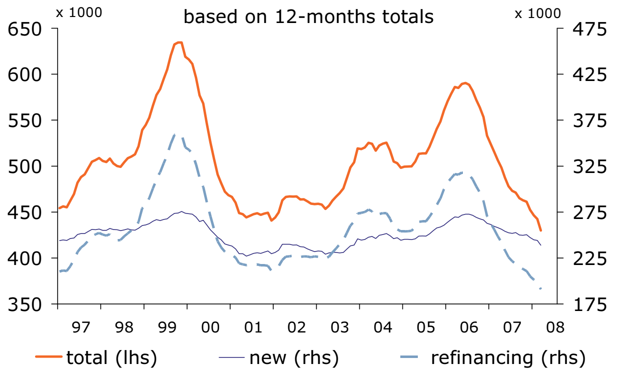


Source: CPB, Land Registry, Reuters Ecowin, Rabobank

Mortgage market shrinks further

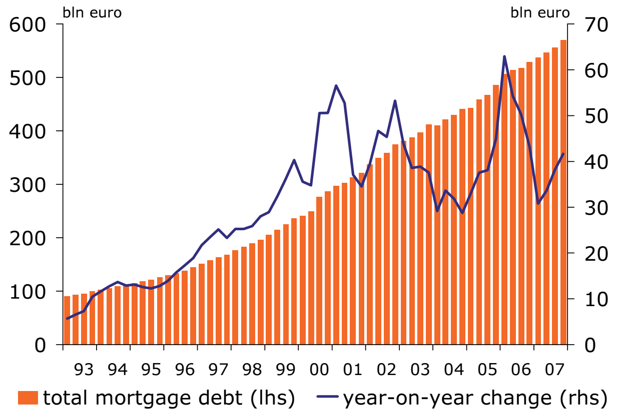
In line with previous quarters, mortgage output declined further in the past quarter (figure 12). Since its peak in mid-2006, mortgage output has decreased by 27.1%. The drop in the number of refinancing mortgages has been particularly marked (-40,0%). The number of newly issued mortgages has also dropped by 12.5%. This is in line with the declining number of transactions. Currently the 12-month mortgage output amounts to 429,957 mortgages.
The value of mortgage volume is also shrinking. This decline is less pronounced, because the average mortgage sum has increased every year thanks to rising house prices. Accordingly, the drop is 18.8% vis à vis the peak of mid-2006. Here too, the decline is considerable for refinancing mortgages (-35.3%), whereas the decrease in respect of newly issued mortgages is modest at 5.3%. During the past 12 months, € 102,861 million worth of mortgages have been issued in the Netherlands.
Despite the drop in mortgage output, the net value of mortgages issued continues to rise (figure 13). Data from the Dutch Central bank (DNB) show that there is currently € 570 billion of mortgage debt outstanding in the Netherlands. However, on account of using securitised loans as collateral, there has been a certain about of duplication. In 2006, these transactions amounted to a value of € 2.5 billion, and in 2007 as much as € 48.6 billion. Corrected for these amounts, the net amount of mortgage debt should be reduced.
In the wake of the credit crisis, a number of mortgage providers have had difficulty in procuring money. Consequently they are less easily able to issue mortgage loans. A number of parties have intensified their lending terms or have discontinued issuing certain products. This is for example the case with Elq and Hypotrust. Furthermore in March, GMAC Hypotheken ceased its mortgage operations in the Netherlands. Now that the sector is combating adversity, the most reliable market parties remain. This situation is not unusual in other countries either. For instance, ABN-Amro-hypotheken-Gruppe, a 100% Fortis subsidiary, has stopped issuing mortgage loans in Germany, on account of the credit crisis.

Figure 12: Sharp decline in mortgage volume



Source: Land Registry, Rabobank

Figure 13: Total mortgage debt rises further

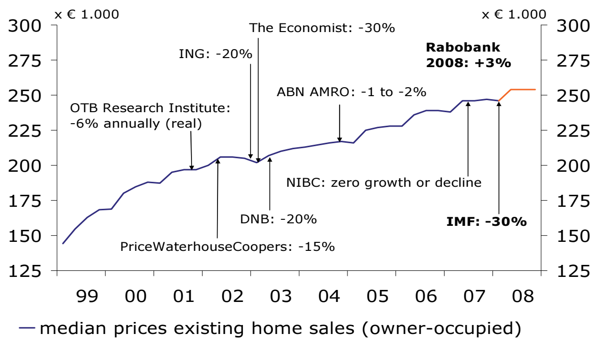


Source: DNB, Rabobank

IMF concerns unfounded

In the World Economic Outlook (WEO) of April 2008 the International Monetary Fund (IMF) dedicated a chapter to housing market developments in advanced economies. In view of the possible consequences of a downturn in the housing market – which are currently painfully visible in the US - this is a very relevant topic. In the foreword to the publication, the IMF warns that just as in the US, "housing prices may adjust downward significantly in many other advanced economies". This is illustrated by a graph from which it could be deduced that houses in the Netherlands are overpriced by 30%, which resulted in alarming headlines in Dutch newspapers. False alarm, in our opinion.

Figure 1: A history of pessimism



Source: ABN AMRO, DNB, Economist, ING, NIBC, OTB, PWC, IMF, Rabobank

A tradition of pessimism

The prospect of plummeting house prices in the Netherlands has been heralded by various parties on numerous occasions already since the beginning of this decade (figure 1). Because houseowners find these reports unnecessarily disturbing, we have responded to them a number of times[1]. On this occasion, the warning comes from a renowned institution at a time when the financial markets are reacting strongly to bad news, particularly where real estate and mortgages are concerned. We therefore feel a need to explain again, why we believe this pessimism is unjustified in relation to Dutch house prices.

After the cool-down

As early as September 2004, the IMF pointed the finger at the sharp house price growth in a large number of countries[2]. Despite a period of lower economic growth, property prices rose steadily in these countries at the beginning of this decade. Only in more recent years have prices cooled considerably in many countries. The IMF has charted the risks of this cool-down for investment, consumption and economic growth.

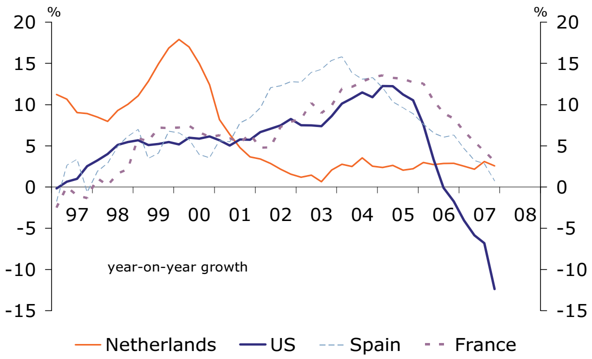
If we compare the development of Dutch house prices with those in a number of other countries, then it is clear that this country has not followed the above-described pattern (figure 2). While prices were rising rapidly elsewhere since the start of the decade, they were actually cooling on the Dutch housing market. Since 2003, the nominal growth of house prices in the Netherlands has fluctuated at around 4%. By contrast with the almost 20% growth of 2000, this was a considerable cooling down. But we have been spared the hard landing that

[1] Rabobank Themaberichten 2002/15, 2005/01, 2007/26 en Aarts, J.W.M. (2004) "*Vooruitzichten woningmarkt gematigd positief*" (*Moderately positive housing market outlook*) in ESB #4441, p. 424

[2] IMF (2004), World Economic Outlook (September 2004): The Global Demographic Transition, chapter 2

is now a reality in the US. The fact that the Dutch property market has been cooling off for some time, does not of course rule out overvaluation. Therefore it is important to further examine the IMF analysis.

Figure 2: Real house price growth, 1997-2007



Source: Land Registry, Reuters EcoWin

What is the IMF now in fact saying?

The IMF does not issue forecasts about the short-term development of house prices in individual countries. However, it does say that in a number of countries there is a risk of downward price adjustment, because these may have risen too sharply. When the IMF says that house prices in many other advanced economies may have to make a downward adjustment, it makes two important assumptions. The first is that houses in a number of countries are overpriced. The second assumption is that this overvaluation will lead to a decline in house prices. Later in the IMF report, both assumptions are heavily qualified. We will add to this qualification and argue that there is no question of such a strong price drop taking place in the Dutch housing market.

Overpriced or lack of explanatory power?

The assumption that house prices are too high in some countries is based on an analysis of the determinants of these prices. The rise in real house prices (i.e. corrected for inflation) is explained by a number of fundamental determinants: income, interest rates, availability of credit, share prices and demographics. Using this model, the IMF is unable to explain some of the price rises in the 1997-2007 period for many western countries. There are two possible reasons for this unexplained price growth, which the IMF calls 'house price gap':
1) The analysis is complete (all relevant factors are included in the model), therefore the rise in house prices is not entirely based on fundamental factors. The unexplained share indicates overvaluation, in this case.
2) Important specific local factors[3] have not been included in the analysis. The house price gap then indicates a lack of explanatory power in the model

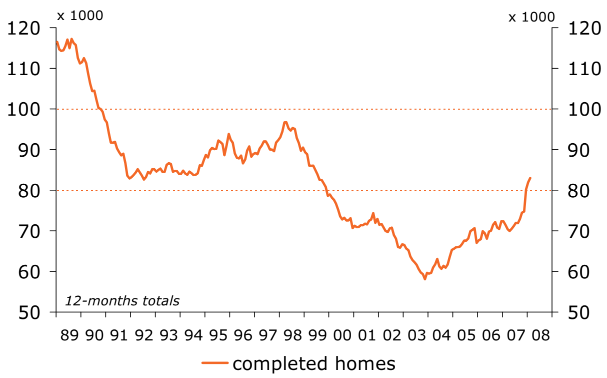
In our opinion, the second of these reasons is the correct one. There are two local factors which make it clear that this interpretation is highly relevant to the Netherlands: the dual-income provision which was introduced in 1993 in respect of mortgage loans, and secondly, the fundamental lack of housing supply compared to demand.

[3] The IMF (WEO April 2008 and October 2007) itself cites possible additional explanatory factors for price development as migration patterns, household formation, macro-economic volatility, changes in the availability of mortgage financing and supply constraints.

Strong growth in credit

Since 1993 a second household income is fully allowed for in acquiring a mortgage loan in the Netherlands. Prior to that date, this had not been the case. This development greatly expanded the credit scope of households in the 1990s. Since more money could now be borrowed, the effective demand for houses greatly increased, pushing prices up. The IMF study does broadly take account of this development with an explanatory variable in relation to the credit growth. At the same time it observes that changes in the availability of mortgage financing is an important factor which may not have been adequately allowed for in the analysis[4]. This means that the justified 'fundamental' house price may well have been underestimated. Taking account of this important development in the mortgage market would then result in a smaller percentage of unexplained price growth. This must surely be the case for the Netherlands.

Figure 3: Supply of new houses



Source: CBS

Scarce goods are expensive

A second explanation for the Dutch situation has to be sought in the relative scarcity of houses. One of the basic economic principles is that scarce goods are expensive. The situation is no different for houses. However, the IMF model only looks at the house price development from the point of view of demand. Supply effects are completely disregarded. In the Netherlands, the supply of new housing units declined sharply between 1998 and 2003 (figure 3). Not until the end of last year was an annual production of over 80 thousand completions achieved. And this is only the lower limit of the 80-100 thousand new completions that the Government says are needed annually. Accordingly, the supply of new houses has been lagging behind demand for years. The ensuing housing shortage drives up prices. This effect was particularly marked in the 1997-2003 period, and was more pronounced than in earlier periods. This is confirmed in a recent study on house prices by the Netherlands Bureau for Economic Policy Analysis (CPB)[5]. Because the IMF omitted the supply factor from its analysis, the result was an underestimation of the justified 'fundamental' house price.

[4] IMF (2007), World Economic Outlook (October 2007): Globalization and Inequality, p. 73
[5] Kranendonk, H. & J. Verbruggen (2008), "*Is de huizenprijs in Nederland overgewaardeerd?*" (*Are Dutch house prices overvalued?*) CPB Memorandum 199

The possibility of a soft landing

The CPB analysis, which was published partly as a reaction to the IMF report, concludes – in contrast to the IMF – that house prices were not overvalued in the Netherlands in 2007[6]. The CPB concludes also that between 2000 and 2007, house prices were higher than could have been explained on the basis of the fundamental determinants used (the long term equilibrium). This overvaluation was, however, not followed by a strong nominal price decline. Thus the Netherlands provides proof that a drop in the nominal house price is not an unavoidable consequence of a certain exent of overvaluation.

The IMF indicates in its analysis that such a nominal price drop is only one of the mechanisms which can make prices come into line with their equilibrium value[7]. The study looks at real house prices. If the price growth is lower than inflation, a price drop may be the result, without actually falling in nominal terms. Another possibility is that the fundamental factors are supporting prices. This was the case in the Netherlands. Since 2004, real house price growth was lower than the growth of the long-term equilibrium price, which resulted in a gradual reduction of the overvaluation and its disappearance in 2007. An important conclusion reached in the CPB study is that price adjustments towards the equilibrium take place quicker when the price is below the equilibrium value, than when the opposite is the case. In the Netherlands, the downward movement of prices is very rigid. Sellers often opt to leave their house on the market for a protracted period rather than accept a lower price. Thus the number of sales declines, but prices do not fall. The inflexible nature of supply also plays a part in this situation. Because of the lag between house building starts and completions, countries in which new housing construction reacts quickly to price rises will see a further increase increase in supply at a time when demand is already cooling. The resulting oversupply of houses will then drive prices down. This mechanism is missing in the Netherlands.

Conclusion: Unnecessary concern about overvaluation

Earlier we discussed the two assumptions underlying the IMF statement that "housing prices may adjust downward significantly in many other advanced economies". For the Netherlands we can conclude that 1) there is no question of houses being overvalued and 2) that a certain degree of overvaluation does not necessarily have to lead to declining nominal prices. Although the IMF rightly points to the risks of cooling housing markets, such concerns are ill-founded for the Netherlands.

---

[6] The main difference between the analysis of the IMF and that of the CPB lies in the supply effect. In addition, the CPB indicates that the income data used by the IMF may not have been corrected for changes to the health care system. In 2006 these changes produced a sharp income drop in the statistics. In the IMF model this would give rise to in a drop in house prices. Thus a gap arises between the predicted negative growth and the actual positive growth.

[7] WEO April 2008, H3, p. 12; this was also emphasised in the press conference accompanying the report on 3 April.

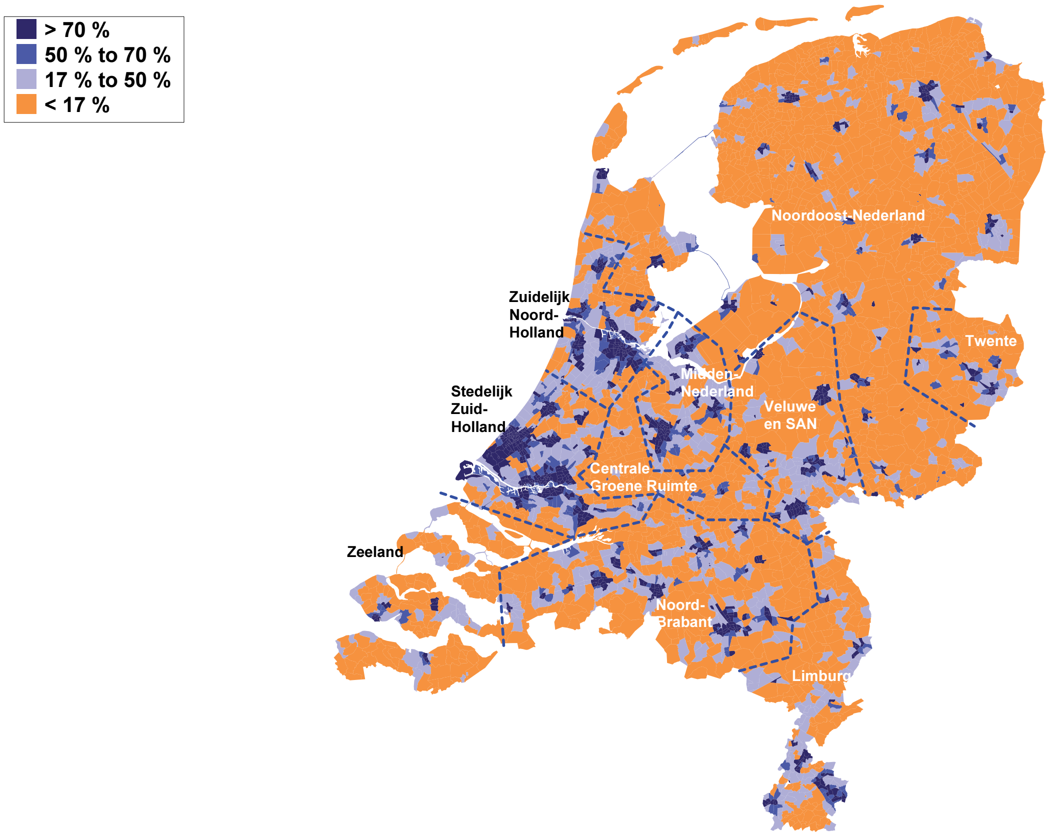
Regional variation in the Netherlands

The profile of the Dutch housing market shows considerable regional variation in terms of demand, supply, the relationship between demand and supply and price formation. For this reason, from the first edition of 2009, each edition of this publication will contain a close analysis of a specific region. In the run up to this new approach, the four Quarterlies of this year will contain an overview of the regional variation in the country.

This first Quarterly of 2008 looks at demographic and economic development. Despite its small size, the Netherlands nonetheless has considerable regional variation in economic volume and development as well as in population. This regional economic and demographic variation forms the basis for regional differences in demand for housing.
The following editions of this publication will examine the regional differences in supply and price, government spatial policy and regional distribution, respectively.

Regional differences in a small, densely populated country.
In the Netherlands, the number of inhabitants and (economic) activities are very large compared to the country's surface area. The Netherlands is one of the most densely populated countries in Europe. Despite this, only 17% of the land area is used intensively. By this we mean use of land for housing,

Figure 1: Share of intensively used land by postal code district 2007



Source: Rabobank

industry, infrastructure, parks, recreation areas, cemeteries, excavation and glasshouse horticulture. Almost 65% of the country's land surface is used for agriculture and 18% is allocated to nature areas or inland water(ways).
The distribution of population and activities is far from equally spread, and this is expressed in large regional differences in size and share of the intensively used acreage (figure 1).

The regions in the Netherlands can be divided into three groups, on the basis of their share of intensively used acreage[1]. In the urban regions in the west and centre of the country (Randstad), some 35% of the land area is used intensively. A second group of regions is the intermediate zone, consisting of the cities in the province of Gelderland, the regions of Noord-Brabant, Twente and Limburg, where 20% is used intensively – just above the national average. In the third group – Green Netherlands - which includes the north-east of the country and the province of Zeeland – the share of land used is 15% or less (table 1). These three groups of regions differ not only in terms of their share of intensively used acreage, but also in terms of degree of the intensity applied to the land use (table 1). Per hectare of intensively used land, the number of inhabitants, households, employed people and jobs, as well as income size and GDP are far above average in the Randstad area. This area is not only 'full' but also 'busy'. It is the national frontrunner in terms of number of consumers, supply on the labour market, purchasing power, employment and production. In the intermediate zone, both percentage of intensively used land and the degree of intensity of use are around the national average.

[1] The tables in this contribution are based on the recent updating of the regional distribution in the Netherlands by COROP (Coördinatiecommissie Regionaal Onderzoeks Programma). 59 regions are now distinguished. The maps are based on the 40 original COROP regions.

Table 1: Intensity of land use by region (2003)

	intensively used area *(share)*	population (per ha *intensively used area)*	income of households	jobs	GNP
Noordoost-Nederland	11%	76	71	71	67
Twente	15%	99	91	95	81
Veluwe en SAN	18%	100	97	103	88
Midden-Nederland	34%	129	136	144	152
Zuidelijk Noord-Holland	35%	140	148	160	180
Stedelijk Zuid-Holland	39%	131	135	122	139
Centrale Groene Ruimte	15%	105	108	91	86
Noord-Brabant	19%	94	94	100	94
Limburg	21%	88	87	85	80
Zeeland	14%	55	55	54	49
Nederland	**17%**	**100**	**100**	**100**	**100**

Source: ABF-Research

Table 2: Affluence, productivity and role (NL = 100%; 2003)

	GNP per job *(productivity)*	income per person with income *(prosperity)*	income per household *(prosperity)*	GNP compared to income *(position)*
Noordoost-Nederland	94	94	96	94
Twente	85	93	96	89
Veluwe en SAN	86	98	100	91
Midden-Nederland	106	108	107	112
Zuidelijk Noord-Holland	112	106	97	122
Stedelijk Zuid-Holland	114	103	98	103
Centrale Groene Ruimte	95	105	114	79
Noord-Brabant	95	99	104	100
Limburg	94	94	98	91
Zeeland	90	97	101	89
Nederland	**100**	**100**	**100**	**100**

Source: ABF-Research

In the Green Netherlands area, land is used much less intensively than average. These regions are relatively ‘empty’ and ‘quiet’.

Regional differences in productivity and prosperity

The extent to which the regions differ in terms of ‘density’ from the national average differs per factor. For instance, the share of intensively used acreage and GDP per hectare are smaller in the central green zone, and the number of inhabitants and income are greater than average. The regions of Twente and Veluwe/Arnhem-Nijmegen account for a relatively large share of employment, whereas urban Zuid-Holland accounts for relatively little. These differences point to regional variation in productivity and wealth, and also provide insight into the role occupied by the different regions in the country.

By productivity we mean the ratio between the value that is created (GDP) and the number of jobs it takes to do so: GDP per job. This ratio differs per economic activity. Productivity is highest in the services industry and the processing industry; it is lowest in the catering industry and in agriculture. Regional discrepancies in productivity can largely be traced back to regional differences in economic structure. Thanks to the large size of the services sector, the urban regions of Noord- and Zuid-Holland, headed by Amsterdam and Rijnmond (Rotterdam area), top the productivity league table. In these centres, productivity is over 10% above the national average (table 2). And thanks to the processing industry, the region of Zeeuws-Vlaanderen and parts of Groningen have a very productive economy. In the regions of Twente and Veluwe/Arnhem-Nijmegen, productivity is well below average, however.

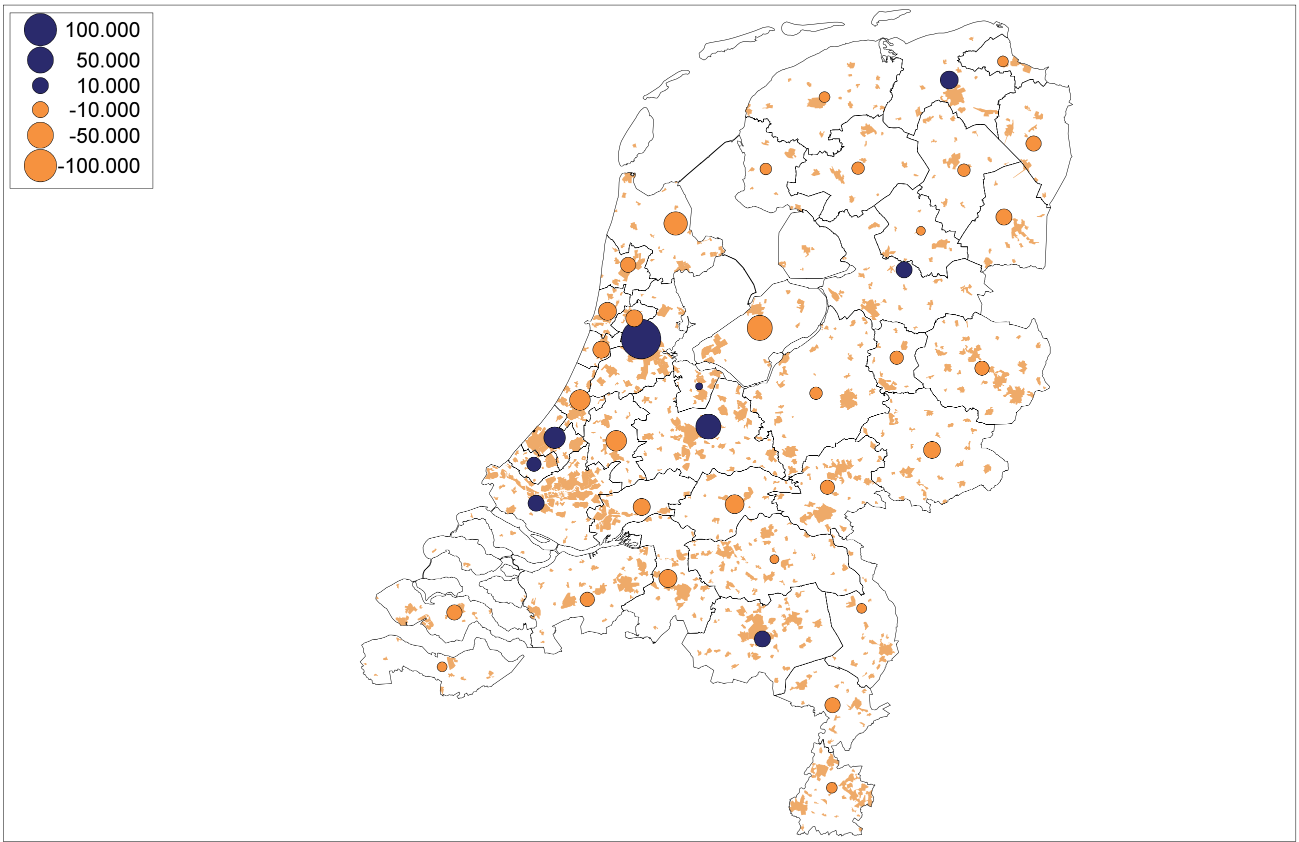
By wealth we mean income per employed individual or per household. A person’s functional level and the activity in which an individual is engaged determine that individual’s income. The extent and number of individual incomes in a household determine the household income. Regional differences in the composition of the working population and the number of incomes per household create regional differences in prosperity. At the top of the list for income per earner are southern Noord-Holland and urban Zuid-Holland; however these regions are now equalled by the central Netherlands area and the central green zone (table 2). The working population in these regions is relatively highly educated and has a relatively high income.

As is the case in Noord-Brabant, Zeeland and Veluwe/Arnhem-Nijmegen, the regions of the central Netherlands area and the central green zone number a large number of dual-income earners among households, which boosts the average household income. The north-east of the Netherlands and Limburg are much less prosperous than average, and likewise in the urban regions of Noord- and Zuid-Holland, income per household is relatively low on account of the large number of single person households. This is chiefly the case in the big cities. The outer suburb dwellers are generally very well off.

Places to work and places to live

The differences in productivity and prosperity per region indicate that the wealth that is produced in one region does not tally with the wealth that is 'enjoyed' in those regions. One region plays a main part in 'producing' wealth, while another region 'consumes' wealth. In other words: some regions are chiefly places to work, while others are mainly places to live. These roles may be ascertained on the basis of the GDP-to-income ratio in a region. If this ratio is taken as point of departure at national level, we see that in the Randstad urban belt and Noord-Brabant, the role of producer is predominant. Here the GDP-to-income ratio is relatively high (table 2). In the other regions, the role of consumer predominates, with a relatively low GDP-to-income ratio. Within the Randstad urban belt, greater Amsterdam and greater Utrecht have the strongest features of a producer region; within the intermediate zone, it is the regions of Zwolle and 's-Hertogenbosch. The green Netherlands area is mainly a consumer region, but within this region, Groningen and Zeeuws-Vlaanderen have more producer characteristics. On the other hand, consumer regions in the Randstad urban triangle include Kennemerland, Zaanstad, IJmond, Het Gooi, Groot-Leiden and the Drechtsteden area.

Figure 2: Commuting balance 2004



Source: Rabobank

On balance, income flows from the production regions or 'work places' to compensate for the input of labour from the consumption regions, or 'places of residence'. The role played by a region on the national stage is therefore not expressed only in the GDP-to-income ratio, but also in commuting patterns and in the direction of the daily traffic jams on the motorways. Production regions generally have an incommuter balance, whereas consumption regions have an outcommuter balance (figure 2). Based on the commuting balance, the highly urban regions in the Randstad belt, Het Gooi, Zuidoost-Brabant, Noord-Overijssel and Groningen are production regions. Greater Amsterdam tops this list by some way, with an incommuter balance of 200,000 workers. The other regions are consumption regions. Flevoland, northern Noord-Holland and the central green zone have the largest outcommuter balance. The consumer nature of the smaller urban regions within the Randstad, such as the Zaanstreek area, Zuid-Kennemerland, Leiden and Bollenstreek and the Drechtsteden area, is likewise expressed in an outcommuter balance.

Historical nature of regionale variation

This pattern of regional differentiation has existed for centuries in the Netherlands. Regional differences in the number of inhabitants and activities were caused by differences in opportunity for earning a living and by diversity in living circumstances. In other words, the place where one worked determined where one lived. Until the Middle Ages, the fertile loess belt and river and sea clay areas were the most densely populated. With the population growth and economic integration that evolved in Europe after the 10th century, the demographic and economic balance swung to areas that were easily accessible. Accessibility, opportunities for long-distance trade and the development of specialist crafts became the basis for the demographic and economic domination of (the cities in) the coastal provinces, initially Flanders and Brabant, and later also Holland[2].

The emergence of the intermediate zone as a place to work and live

Thanks to the development of industry, trade and services, the position of the provinces of Noord-Holland and Zuid-Holland became very strong, which is still the case today. Demand for housing has therefore been by far greatest in the west of the country. The emergence of the manufacturing industry in Noord-Brabant and Twente – due to the availability of cheap labour – and of the mining industry in Zuid-Limburg as a new source of earnings have steadily eroded the dominance of the Holland provinces' share since the 18th century. Other cities outside the provinces of Holland also grew, creating a strong demand for housing.

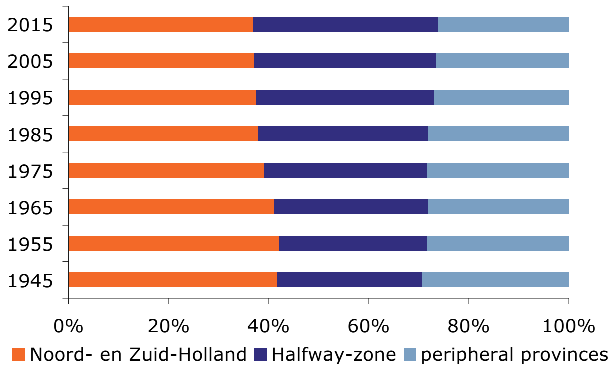
---

[2] Around 1700, Holland accounted for half of the one million inhabitants of the Republic of the Seven United Provinces. Amsterdam had some 220,000 inhabitants, over one fifth of the country's total.

This process of deconcentration was greatly accelerated from the 1960s. In 1955, the provinces of Noord- and Zuid-Holland accounted for 42% of the Dutch population; however, by 1985, this share had dropped to 38% (figure 3). Thanks to very strong growth in the 'Halfway Zone' – the provinces of Utrecht, Gelderland, Noord-Brabant and Flevoland – the proportion of the total population increased here from 30% to 34%. Travelling by car enabled a mass exodus of inhabitants over two decades from the cities (in the Holland provinces) to the less urbanised Green Heart and the south and north of the country. It had now become easier to live at greater distances from the workplace. Families, in particular, sought the more pleasant living conditions of the suburbs. Consequently, the Halfway Zone acquired additional, autonomous demographic growth potential. This population growth boosted the importance of the Halfway Zone as a sales and labour market for businesses. This autonomous economic growth was reinforced by the location, making the centre of the country in particular an attractive place for businesses targeting the national market. Finally, another reason for many businesses to switch to the Halfway Zone were the high cost of labour and land in the Randstad urban belt.

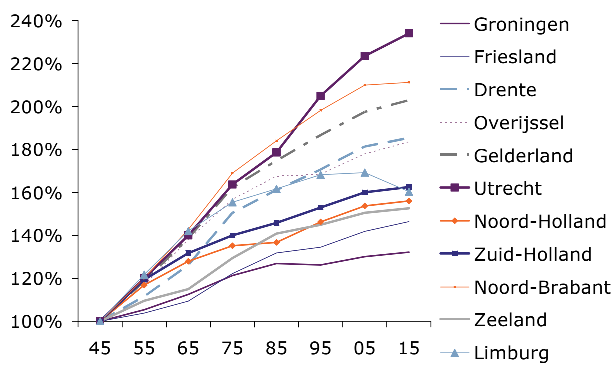
During the past decade, the decline in the population share of Noord-Holland and Zuid-Holland has been greatly offset by immigration, and in southern Noord-Holland, there is a strong, new economic dynamic. However, the Halfway Zone still has the strongest demographic and economic growth (figure 5). Furthermore, in the areas of production and logistics, jobs are still being leached from the urban belt. The share of the Halfway Zone in population volume and employment is increasing accordingly, and now equals that of Noord- and Zuid-Holland. In terms of population growth and employment, the north of the country and the province of Zeeland have been well behind Holland and the Halfway Zone for decades. Until the mid-1970s, the province of Limburg was in the top group in this respect, but since the mine closure it has fallen behind (figure 4). The collective share of these 'peripheral' provinces in the Dutch population has consequently declined from 29% in 1945 to 26% in 2005. Limburg, Zeeland and the north-eastern edge of the country can expect a

Figure 3: (Predicted) number of zones in the Dutch population (1945-2015)



Source: ABF-Research

Figure 4: (Predicted) demographic development (1945-2015; 1945 = 100%)



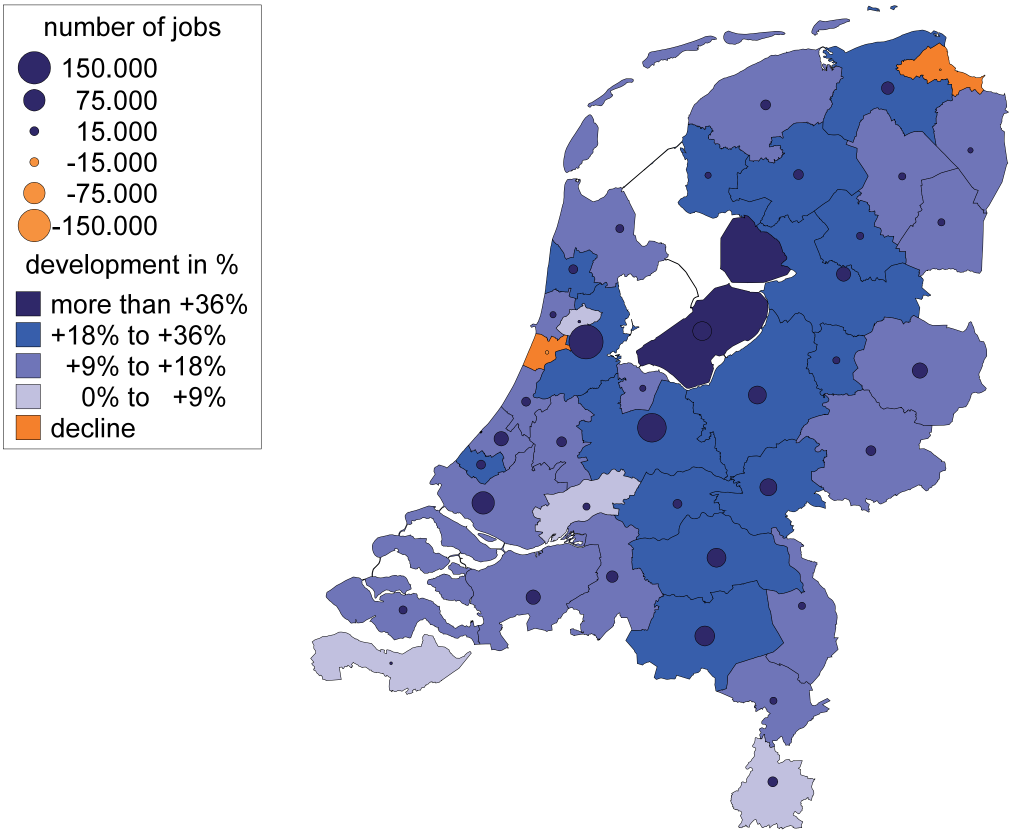
Source: ABF-Research

further decline in population and employment in the future. Meanwhile deconcentration has reached the south of Friesland and the province of Drenthe. In these areas, the Randstad and the Halfway Zone the demand for housing will remain strong.

Conclusion: deconcentration and shrinkage

Owing to the considerable concentration of inhabitants, activities, purchasing power and production, the Randstad urban belt is still the main player in regional development in the Netherlands. However, with the exceptions of Greater Amsterdam and Utrecht, this region is no longer in the lead for growth pace. The leading position is now occupied by the deconcentration zone to the east and south of the Randstad. Intensity is still relatively low in this area, and this factor as well as its central location lends it an attractive climate for setting up businesses, as well as for living and quality of life. These Halfway provinces have now outstripped Noord- and Zuid-Holland in terms of population volume and employment. In the Randstad the demand for space and accommodation is still strong, thanks to the dynamism in the northern wing of the region; however the intermediate zone is catching up fast. There is however a degree of stagnation along the edges of the country. After decades of slow growth in these regions, some are now even experiencing a drop in population and in employment.

Figure 5: Development of employment 1996-2006



Source: ABF-Research

Rental Housing Market in the Netherlands

In principle there are two options when it comes to accommodation: rent or purchase. It appears to be a clear-cut choice, but this is not the case in practice. Despite many initiatives, there is little movement between both markets. For new entrants to the housing market in particular, there are only limited opportunities for buying. It is also difficult for them to even rent a property. This chapter aims to shed some light on the reasons for this problematic situation.

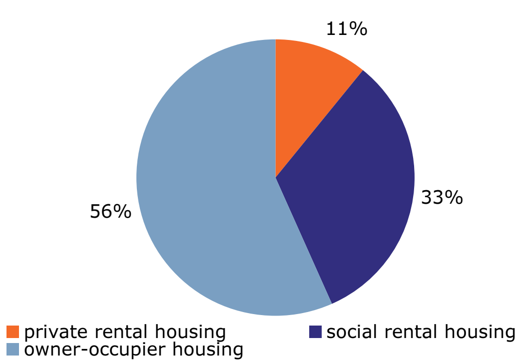
The rental sector losing ground

There are over seven million housing units in the Netherlands. At this stage non-rental properties outnumber rental properties. 56% of the total housing stock consists of owner-occupier houses (almost 4 million); 33% consists of social rental housing (almost 2.3 million) and 11% comprises private rental housing (almost 750,000); see figures 1 and 7. Private rental accommodation is the property of private parties or institutional investors.

The composition of the housing stock is changing continuously (figure 2). Factors that cause this include new construction, re-allocation and demolition. Other factors are changes to the ownership profile of the housing stock. The non-rental sector has been gaining ground since the Second World War and has accounted for more than half of the market since 1999. By contrast, the rental sector is shrinking steadily, both in market share and in property numbers. In the mid 1980s, more than half of the Dutch housing stock consisted of rental housing; this has now dropped to 43%.

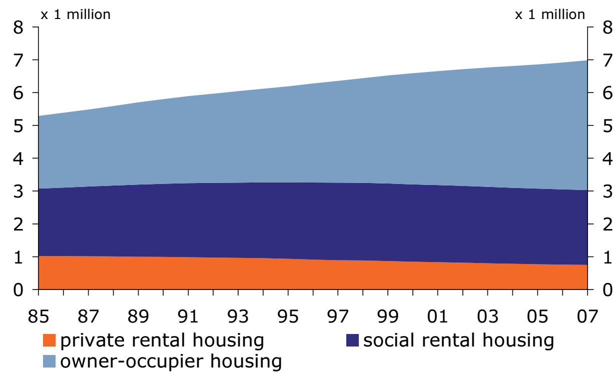
There are two reasons for the shift in ownership ratio. First, for years, most construction has been aimed at the non-rental market (figure 3). This was caused by a great demand for owner-occupier houses. Prices were rising, which made it a more lucrative segment for developers. Since 1995, on average three-quarters of all new completions are aimed at the non-rental market, and only

Figure 1: Housing stock by sector, 2007



Source: ABF Research (Syswov)

Figure 2: Development of housing stock by sector



Source: ABF Research (Syswov)

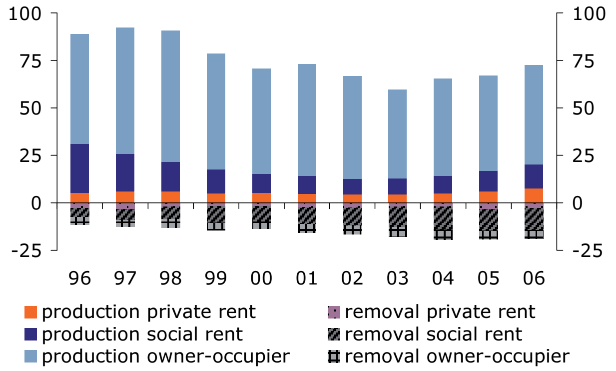
one quarter at the rental sector. Secondly, price growth in the non-rental market has also resulted in private and social rental properties being sold to existing tenants or new buyers. This process has shifted homes from the rental stock to the non-rental stock (figure 4). This development gained momentum particularly in the late 1990s, when between 30,000 and 40,000 rental properties per annum were sold to the existing dwellers or other buyers.

Owing to all these developments, the private rental sector has been dwindling steadily during the past twenty years. In 1995 there were over a million homes in this sector; in 2007 this was down to 750,000. A similar trend, though less pronounced, can be seen in the social rental sector. For several years this has stagnated at around 2.3 million homes. Small numbers of social rental properties have since been sold or demolished.

Rental market larger in the cities

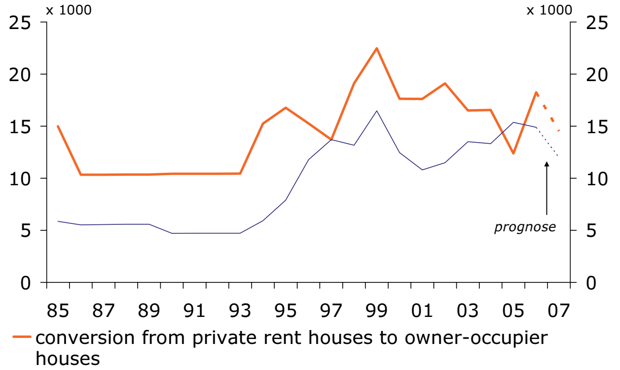
The share of rental properties in the housing stock increases as the cities get bigger. In the four major cities, Amsterdam, Rotterdam, The Hague and Utrecht, an average of 70% of the housing stock is in the rental sector. The rental component dwindles according as towns get smaller. Owner-occupier houses predominate in rural areas. The high percentage of rented accommodation in the big cities is not only attributable to a larger share of social housing, but also to a larger proportion of private rented properties. In the four major cities, the share of private rented accommodation is twice as large as in the smaller towns. Almost 60% of the total rural private rental housing stock (amounting to a total of almost 450,000 homes) is located in the three Randstad provinces of Noord-Holland, Zuid-Holland and Utrecht.

Figure 3: Completions and withdrawals by sector



Source: ABF Research (Syswov)

Figure 4: Conversions from rental to non-rental



Source: ABF Research (Syswov)

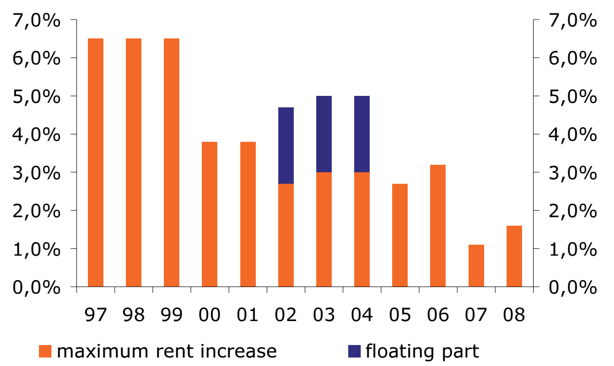
95% of leases regulated

In order to safeguard the affordability of the housing stock, the government has established rules for lease contracts. According to these rules, a lease is either 'regulated' or 'liberalised'. Some 95% of rents in the Netherlands are regulated (figure 6). For these homes, the amount of the rent and the maximal annual rent increase are regulated. This is done on the basis of an accommodation rating system (a points system), which expresses the quality of the accommodation in points. The number of points allocated is linked to a maximum rental price.

The liberalisation limit is 143 points. From July first 2008, the maximum rental limit of these homes will be € 631.73 per month. Homes with fewer than 143 points come under the rental price regulation. However, this is not to say that the maximum permitted rent will in fact be charged by the housing corporations. In recent years, the average rent has been around 70% of the maximum rent (CPB). In the case of housing units worth over 143 points (liberalised rental homes), the lessor is allowed to set the increase in rent. Only in the case of liberalised rental contracts do market forces operate.

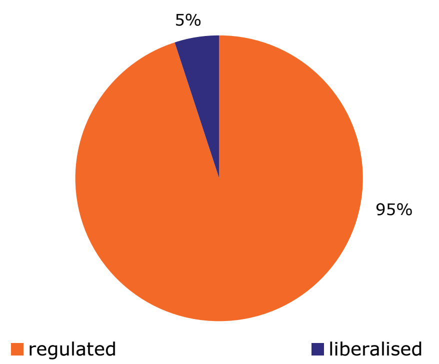
The state fixes the annual maximum price for housing corporations. This is the percentage by which the average rent is allowed to rise each year from July first, calculated over all homes within the relevant corporation. It also applies to cheaper rental homes (below the liberalisation limit) owned by private lessors and institutional owners. Since July first 2007, the annual maximum permitted rent increase has been very limited (figure 5), because it is linked to the inflation level of the previous year. Consequently, the annual permitted rise is minimal compared to previous years. For the period of July first 2008 to July first 2009, a maximum rent increase of 1.6% applies.

Figure 5: Fixed maximum rent increase



Source: Companen, Ministry of VROM

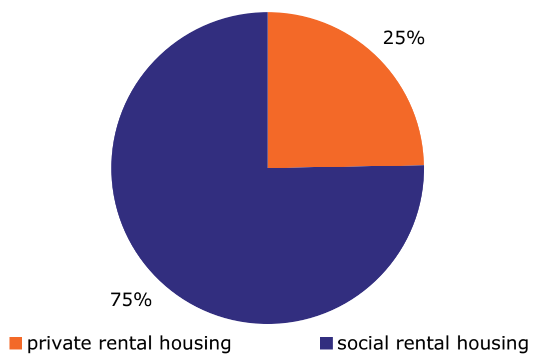
Figure 6: Importance of regulation on rents in NL



Source: Ministry of VROM

Another measure for keeping the rental stock affordable is the rent allowance. This in an income-dependent rent allowance for tenants of both social housing and private rental housing.

Figure 7: Rental property market by sector, 2007



Source: ABF Research (Syswov)

In recent years politicians and market parties have deliberated at length on the implementation of a new Rent Act. In 2006, a new bill was drafted, that should have taken effect on January first 2007. However, the new Balkenende IV cabinet decided to revoke the modernisation of the Rent Act.

Under the new legislation, 25% of the rental stock could ultimately be liberalised. The current figure is only 5% (figure 6). This would have provided an incentive to investors to invest more in rental housing with a monthly rent of about € 550 to € 800 – also known as the middle segment. The higher yields attainable from these rental properties were meant to induce investors to buy them. The withdrawal of the new Rent Act has not made it easier for people to find homes in this middle segment, as they remain scarce.

The rental market not accessible to everyone

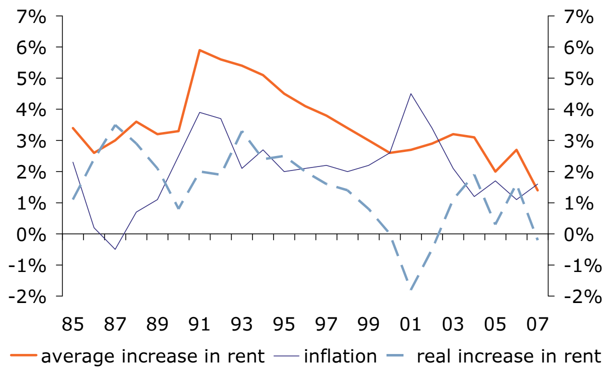
The current tightness on the rental market translates into long waiting lists for social housing, particularly in the main cities and the Randstad urban belt. In addition to these waiting lists and the number of registrations for each house that comes on the market, the turnover rate is also seen as a measure of tension on the market. Since 2000, few homes in the social sector are released onto the market and the average turnover rate is around 8.3%. This is considerably lower than in the second half of the 1990s, when the average turnover was 10.5%.

Theoretically, the existing social housing stock should be ample to provide suitable accommodation for its target group. After all, social housing accounts for 75% of the total rental stock and 33% of total housing stock (figures 1 and 7). This is extremely high by comparison to other European countries, where social housing only accounts for between 0 and 20% of total housing stock. This is all the more remarkable, since the Netherlands is far from being one of the poorest countries in Europe.

The shortage on the social housing market results from the fact that many of these houses are occupied by people who have higher incomes than strictly eligible. Consequently these houses are not available to the target group. The problem is exacerbated by the fact that the houses are not always located in the places where demand is greatest. As well as the wrong people living in these houses, the shortage and the low rents mean people remain in them longer, and some are illegally sub-let.

Thus the availability of affordable rental housing for the target group is reduced. It is also difficult to find a home on the private rental market – if possible even more so than on the social housing market. The private rental stock is limited in size (only 750,000 houses), has shrunk further in recent years and is often highly priced. In a tight rental market, tenants often have to put up with a home that does not fully match their wishes, and that is more expensive that would be the case in a market with more choice available.[8]

Figure 8: Average rent increases and inflation



Source: CBS

Rental and non-rental markets influence each other

House seekers have the choice of two housing markets: the rental market and the non-rental market. This has consequences for prices.[9] A house seeker on the rental market who cannot find a suitable (or affordable) home may expand his search to the non-rental market, and vice versa. This means that when rents are under strong upward pressure, people are more likely to opt to buy, which in turn increases the pressure on the non-rental market. Such was the case in the 1990s, when rents rose more rapidly than inflation. At the same time interest rates dropped, economic growth was healthy and mortgages were now made available on the basis of two incomes in a single household. This marked the start of a period of strong price growth on the non-rental property market.

On the housing market different trends are visible for the rental sector compared to the non-rental sector. Although house prices growth has been moderate in recent years, over the past few decades prices have risen sharply. By contrast, rents in the non-liberalised section of the housing market are kept artificially low (figure 8). The consequence of this dichotomy is that the non-rental market is increasingly a market for the higher income group, whereas the rental market is becoming a lower income group market. It is currently very difficult for people in the middle income bracket to find suitable housing in the rental sector. And for this group the likelihood of buying a house is also limited, because of the pressure on affordability.

[8] SEO (May 2006), "*Een Nieuw Fundament. Borging van publieke belangen op de woningmarkt*" (*A new foundation. Safeguarding public interests on the housing market*)
[9] CPB (April 2005), "*Welke factoren bepalen de ontwikkeling van de huizenprijs in Nederland?*" (*Which factors determine the development of house prices in the Netherlands?)*

Outlook

Compared to a year ago, the situation on the Dutch housing market is currently less positive. House prices continue to rise year-on-year, but less sharply than last year. Furthermore the transaction total has been declining for more than a year and a half. This is not good news for movement on the property ladder, which is under pressure. At the same time the supply of houses for sale is increasing, while the housing market remains tight at national level. The quantitative, qualitative and location-related mismatch on the Dutch housing market is thus manifested in the form of houses remaining for sale.

Despite the fact that the Dutch non-rental housing market is currently doing less well than a year ago, the prospects for price growth remain moderately positive for this year and next. For 2008 we expect a real GDP increase of 2¾% followed by 2¼% in 2009. However, the downward risks in this prediction are greater than the upward. This is chiefly due to economic developments in our neighbouring countries. The expected economic growth in the Netherlands should lead to further tightness on the labour market. As a result, contractual wages may rise both this year and next year by 3½%. Although consumer confidence has declined gradually in the past months, it must be emphasised that this is chiefly a consequence of the sub-indicator for the economic climate. By contrast, spending readiness, which is a more important indicator for the housing market has risen steadily in recent months.

The Code of Conduct on Home Loans establishes a direct relationship between the gross income of households, current interest rates on the money and capital markets and the maximum mortgage loan permitted. On this basis, the financing scope of Dutch households will increase this year and next year. Although we expect interest rates to rise slowly but steadily, this should be offset by wage growth. Thanks to higher wage rises this year, we expect the affordability of purchasing a house to improve somewhat in 2008. This is good news, although likely to be short lived. In 2009 this slight improvement is likely to be cancelled out. Thus the situation remains difficult for first-time buyers. For this group, the affordability of buying a house in the Netherlands has been under pressure since the late 1990s and for the time being this situation will remain unchanged.

Based on the above developments, we expect that the average house price will rise further. Both for 2008 and 2009 we expect an increase of 3%.

Key figures

House Prices

Year-on-year change (%)	**2006**	**2007**	**2008** [a]	**2009** [a]
NVM (median house price)	4.8	3.3	3	3
Land Registry (average house price)	5.9	5.3	-	-

Totals

x 1000	**2006**	**2007**	**2008** [a]	**2009** [a]
Sales transactions	210	202	195	190
Newly built homes	72	80	80	80

Totals

	2006	**2007**	**2008**	**2009**
Enforced Sales	1,968	1,811	-	-

Key economic figures (May 2008)

	2006	**2007**	**2008** [a]	**2009** [a]
GDP (growth, %)	3.0	3.5	2¾	2¼
Inflation (%)	1.1	1.6	2½	3
Unemployment (x 1000)	413	344	295	285

Rabobank affordability index

x 1000	**2006**	**2007**	**2008** [a]	**2009** [a]
Affordability index [b]	95	84	85	83

Interest rates [c]

Level (%)	**7 May 2008**	**+3m** [d]	**+12m** [d]
3-month Eurozone	4.86	4.50	3.75
10-year Euroswap	4.63	4.42	4.70
Mortgage interest rate, 5-10 year fixed	5.12 [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] February 2008 monthly average, DNB

Colofon

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

The Economic Research Department is also on the internet: www.rabobankgroep.nl/kennisbank

For other information, please call the KEO secretariat on tel. 030 – 2162661,
or send an email to 'N.G.Weede@rn.rabobank.nl'.

Text contributors:
Martijn de Jong-Tennekes, Eva Huijgen (Bouwfonds Asset Management), Tim Legierse, Frits Oevering

Editor-in-chief:
Drs W.W. Boonstra, Chief Economist

Production coordinator:
C.R. Frentz

Economic Reseach Department online
www.rabobankgroep.nl/kennisbank

Postal address
Rabobank Nederland
Economic Research Department (UC P515)
P.O. Box 17100
3500 HG Utrecht
The Netherlands

Office address
Rabobank Nederland
Croeselaan 18
3521 CB Utrecht
The Netherlands

Rabobank