# Dutch Housing Market Quarterly

November 2009

*Economic Research Department*

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## Introduction and Summary

The housing market in the Netherlands appears to be stabilising. It seems the worst of the decline in transaction numbers and house prices is behind us. The median house price as recorded by the NVM (Netherlands Association of Real Estate Brokers) has been rising in the last two quarters, albeit influenced by compositional effects. Still, we expect that the other price series, which are published with a lag, will also indicate evidence of a stabilisation in house prices. The current situation on the Dutch housing market is therefore not comparable to the late 1970s and early 1980s, when house prices fell from their peak by some 30%. At that time a structural adjustment had taken place on the housing market, caused by fundamental changes to mortgage market, which meant that buyers could no longer borrow as much as was previously the case.

Owing to current economic circumstances, including rising unemployment, the number of forced sales will increase somewhat. Nonetheless, the percentage of Dutch households struggling with repayment problems is the lowest in Europe (less than 0.5%), and this percentage is barely rising. Furthermore, in the bulk of cases, people manage to solve their problems within a matter of months, thus avoiding having to sell their house.

For some time it has been clear that house building would come under pressure from the crisis. In 2009, the decline in new housing completions was greater in the rental sector than in the non-rental sector. Housing corporations are reluctant to take on house building projects from developers. Not even with the guarantee limit for corporation loans having been raised to € 350,000. The immediate prospects for new housing output are equally unfavourable: applications for building permits have dropped by 17% since last year.

In 2009, the affordability of buying a house in the Netherlands showed a marked improvement. The underlying changes in house prices, mortgage interest rates and household income are not permanent in nature, however, which means that the improvement will be merely temporary. For 2010 we envisage a stabilisation of the current level, after which affordability can be expected to deteriorate again, in the wake of expected higher house prices and rising mortgage rates. Despite the lower mortgage output, total mortgage debt continues to climb. This is chiefly due to price rises from the past. Current buyers often have to take out a larger mortgage than their predecessors. Furthermore, the number of houses in the non-rental sector is still rising.

On balance for 2010, the Rabobank envisages a stabilisation of the average house price. However, our expectations will differ per series, chiefly on account of compositional effects (page 19). Because these effects distort the picture somewhat, we base our expectations on the Dutch Land Registry's Price Index of second-hand houses. For **2009 we envisage a price drop of 3½%, followed by a further decline of 1% in 2010.** Next year's drop will be chiefly due to lower prices at the start of 2010 compared to 2009.

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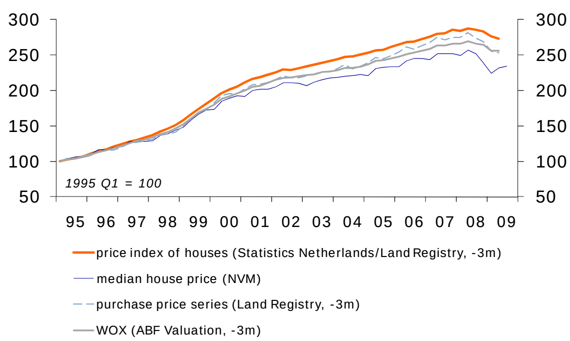
## House prices stabilising

*The worst seems to be over for the second-hand housing market. While there may yet be a slight drop in prices, the main decline is behind us, although uncertainty still prevails. The question as to how far house prices have fallen or may yet fall depends largely on which index you consult. The IMF also subscribes to the view that Dutch house prices have lost only limited value. Thus the current situation on the Dutch property market is not comparable to that of some 35 years ago when house prices plummeted.*

**Figure 1: National house prices stabilise**




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

### House prices reaching the bottom

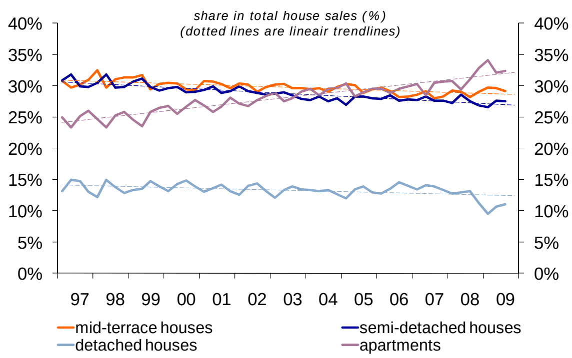
The Dutch housing market appears to be recovering somewhat from the negative price development of recent months. On a year-on-year basis, however, prices are still falling (figure 1). The median house price recorded by the NVM has declined by 6.9% during the past four quarters y-o-y. However, this price drop is entirely accounted for by the fourth quarter of 2008 and the first quarter of 2009. If we look at the NVM quarter-on-quarter figures for the past two quarters, then the picture is much more positive. After the low of the first quarter of this year, the median house price rose by € 10,000 (Q2 +7,000 and Q3 + 3,000) to reach € 229,000. The spread during the two quarters is in line with the usual seasonal pattern.

The upward curve of the past half year applies to all house types, with one exception, viz. apartments. In the preceding period these declined the least sharply, and in the third quarter they only lost € 1,000 on average vis à vis the second quarter. Now that all other house types appear to have found the path upwards, we may assert that the main price drop is behind us.
Other series, such as Statistics Netherlands/Dutch Land Registry (PKB) and ABF Valuation (WOX) still record a decline in prices. However, these series are published some three months after the NVM figures. Logically, a recovery in the Dutch housing market would first be manifest in the NVM data, followed by the other series with a lag of one or two quarters.
At the same time, we should not be surprised if even the NVM statistics show a further drop during the coming quarters. This would probably be the result of seasonal effects. As a rule the prices fetched by second-hand houses are less vigorous in the coming fourth and first quarters than is the case in the recent second and third quarters. Accordingly, we do not expect to see a strong rise in the median house price for the coming half year, but we do envisage stabilisation at the current level.

**Major impact of compositional effects**

Looking at the period during which the median house price fell, we see that the decline from peak to trough amounts to € 32,000. This corresponds to a price drop of 12.7%. In our previous Quarterlies we indicated that the decline is not an accurate reflection of developments in the market. This is because compositional effects mean that the median house in the second quarter of 2008 (the peak) is not comparable to the median house in the first quarter of 2009 (the trough). Particularly since considerably fewer houses in the expensive bracket were sold during the slump, this means the median house sold in the trough was of poorer quality and/or smaller than at the top of the market. Figure 2 illustrates this for the various house types, although it leaves out compositional effects within the various house types. The relatively low number of detached houses sold (median price € 382,000) and the increased share of apartments (median price € 168,000) illustrate this. Furthermore, the pickup in the median house price may also be partly attributed to the compositional effect. This is clear from the correction towards the trend in the second quarter of 2009 that we see for detached houses (relatively more transactions) as well as apartments (declining share in total transactions).

**Figure 2: Compositional effects**




Source: NVM, Rabobank

Figure 2 also shows a noticeable drop in three of the four trend lines. Only apartments have increased in share over time, even though these are the cheapest form of housing. This may well explain the decline in the median house price in the other house price series - all the more so because both the WOX and the PBK take account of the quality of the house in question. The Land Registry purchase price series has the same problem in this respect as the NVM median house price.[1]

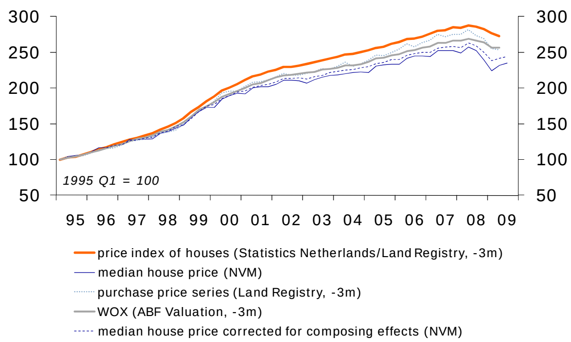
Partly because compositional effects also occur within the various house types, we are unable to fully chart the entire picture of compositional effects. However, it is possible to re-calculate the existing series for the median house price by keeping the ratio between the various house types constant. Nonetheless, it must be emphasised that this only illustrates part of the compositional effect (cheaper and more expensive mid-terrace houses, for instance).

[1] You can read more about the differences between the Dutch housing market price series in TB 2009/10 *Meten en weten op de woningmarkt* of May 2009. This Dutch written publication can be found on our website: www.rabobank.com/kennisbank.

If we keep the relative weights constant over time at the level of early 1997 (end-of-terrace houses 30.1%, mid-terrace houses 29.0%, apartments 25.9% and detached houses 14.9%), this generates a higher median house price (Figure 3). Furthermore, the peak-to-trough decline in this corrected series is smaller, at € 25,000, which represents a price drop of 9.7%. This decline is 3%-points less than the uncorrected median house price.

If we only look at 2009, then the price decline is obviously smaller. Including the compositional effect, we expect a fall of some 7% in the median house price for this year. This estimate is based on virtually stagnant pricing in the current fourth quarter. If we base our estimate on the corrected median house price, then we can expect a less severe price drop for 2009 of about 6%.

**Figure 3: Corrected median house price**




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

**Other numbers will likewise stabilise**

Turning our attention to the other Dutch house price series, we see that all the series have declined in value. However, the relative percentages differ. The peak-trough decline shown by the PBK is 5.8%; the WOX registers 4.8% and the Land Registry (purchase prices) shows a decline of 10.1%. These percentages are actually based on quarterly data, with the trough represented by the most recent third quarter number.

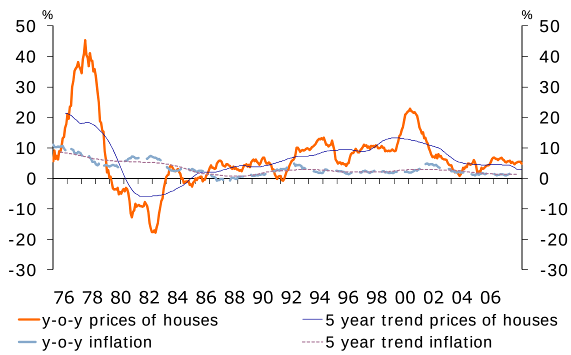
It is not surprising that these series still show a decline on a quarter-on-quarter basis, whereas the NVM median house price has been rising for the past two quarters. Certainly, the rise in the median price of the second quarter vis à vis the first quarter is clearly influenced by the compositional effect described above (Figure 2). Accordingly, our corrected series show a smaller rise in the second quarter (of only € 3,000).

In view of the leading nature of the NVM data, we may assume that the other series for the rest of 2009 will not show any more large quarter-on-quarter price drops. We do, however, expect the year-on-year numbers to remain negative for some time. It will take at least half a year for the severely negative figures of the first quarter of 2009 to work their way out of the statistics. Based on more or less unchanging prices for the rest of the year, the price drop for 2009 according to both the WOX and the PBK would amount to 3½%.

**IMF**

In its World Economic Outlook published in September 2009, the IMF again conducted a comparison of international house price developments. This analysis included a comparison between current price declines on national housing markets and negative price developments in the past. Based on the assumption that the past can predict the future, the analysis concluded that house prices in the Netherlands could decline by as much as a further 20% or so.

**Figure 4: House price development and inflation**




Source: Statistics Netherlands, Land Registry, Rabobank

However, this reflects only one of the approaches chosen by the IMF. On the basis of their econometric model, for example, houses in the Netherlands were overvalued by some 5% during the first quarter of 2009. This model calculates national house prices according to the following variables: per capita growth, disposable income and the prices of credit and equity; short-term and long-term interest rates; and construction costs. However, country-specific differences can interfere with the expectations generated by the model. In the case of the Netherlands, the most important variable in this respect is the limited flexibility of the housing supply. This IMF approach is closer to our own appraisal of the Dutch housing market. Accordingly, we certainly do not expect a decline in prices at the rate that occurred historically. If we briefly revisit the late 1970s and early 1980s, we will see that there is no comparison between then and now in the Netherlands.

**Current situation cannot be compared to the 1970s**

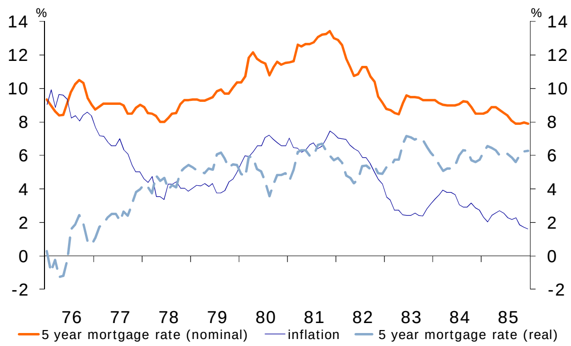
In the early 1980s the Netherlands had its own version of the sub-prime mortgage crisis. In the late 1970s high-risk mortgages had also been sold by Dutch mortgage lenders. At that time inflation was high – certainly by today's standards. And simultaneously, house prices were soaring by tens of percentages annually (Figure 4). High inflation also put strong upward pressure on nominal wages.

Confronted with these developments, which persisted for several years, Dutch banks issued mortgages which were based on assumed wage rises, even though these rises were not fixed. An example of this is the 'climbing mortgage', which has not been sold in the Netherlands for decades.

We now know how things turned out: the assumptions transpired to be unrealistic. Inflation declined in the second half of the 1970s, but nominal interest rates remained high, which meant that real interest rates climbed rapidly (Figure 5). A few years later, inflation rose again, and nominal interest rates followed suit. This quickly pushed up the financing costs of short-term mortgages, which in turn pushed house prices down.

Subsequently, a policy of wage restraint was agreed by trade unions, employers and government (the famous Wassenaar agreement). This was good for the economy, but many home-owners had to bear the brunt of this policy, particularly those who had bought their house at the top of the market, many of whom got into severe financial difficulty. Since those days, Dutch banks have been more restrictive in their lending. Expected wage rises are no longer factored in as income, unless these are contractually fixed. More recently, the code of conduct on home loans has been introduced to determine the maximum acceptable mortgage amount based on household income and current interest rates. The aim of this code is to prevent over-extension of credit and thus limit mortgage risks.

**Figure 5: Nominal and real interest rate trends**




Source: Statistics Netherlands, DNB, Rabobank

This brief step back in time shows that the Dutch housing market is now in a much healthier state than was the case 30 years ago. House prices may have lost a few percent, but the major problems of those days are fortunately not with us today. Accordingly, a further 20% drop in Dutch house prices cannot be considered a plausible scenario, as long as the structure of the Dutch housing market remains in place.

**Outlook for house prices in 2010**

If we look at the expected house price development for 2010, we run into the differences in the various series again. For example, the purchase price series and the median house price are expected to drop this year by 6½% and 7%, respectively, giving rise to an expected for price increase in 2010. Since the NVM-data are leading indicators, and show the sharpest decline this year, we expect this series to likewise show the steepest rise, at 3%, followed by a rise of 1% for the purchase price series. This rise is partly based on a positive contribution from compositional effects. Since both this year and next year these effects have no role in the PBK and WOX data, we expect these series to also show negative growth of 1% in 2010. By contrast, both series are expected to register a decline of 'only' 3½% this year. You can read more about our expectations for 2010 on pages 18 and 19.

**Conclusion**

Second-hand house prices in the Netherlands have already dropped by a few percent. This applies to all the house price series. Differences are found, however, in the extent of the price decline. Much of this difference can be explained by compositional effects. On the whole, we expect that for Dutch house prices, the bottom is in sight.

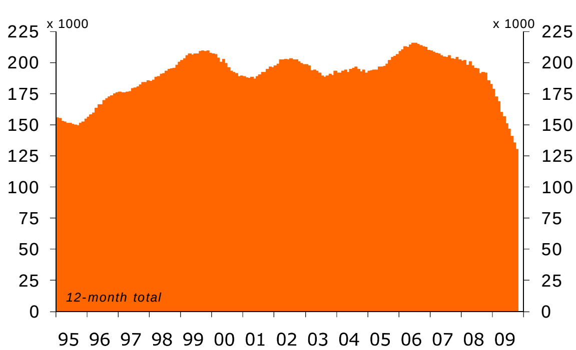
## Less transactions; market not closed

Relatively few houses are changing hands on the Dutch housing market. During the third quarter the Land Registry recorded a total of 33,234 transactions in the second-hand housing market. Although this is some 3,000 more sales than in the second quarter, it is still around 15,000 less than in the same quarter last year.

So far in 2009, a total of 90,721 transactions have taken place. On the one hand, this shows that the Dutch housing market has by no means closed shop. In that case, virtually no properties would change hands and that is far from the truth. On the other hand it must be admitted that the number of sales is well down on last year. Compared to the same period last year, transactions have declined by 34%. The upper echelons of the market are particularly under pressure.

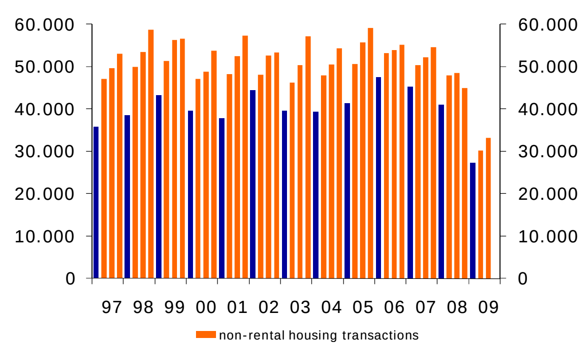
The downward trend is also evident from Figure 6. Rabobank expects that this year some 127,000 existing houses will change hands. This implies that in the coming months the declining trend in Figure 6 will be broken. We can assume this on the basis of the way the statistics are calculated. For 12-month totals, a new number is added every month and an old number is removed. During the course of this year, a relatively large number of low numbers were added – particularly in relation to the months that were deleted from the statistics. Since the year is almost over, months with relatively low transaction numbers will be dropped from the statistics from January 2010. Stabilisation and perhaps even growth in the 12-month totals may then be expected. In principle, growth in housing transactions in the Netherlands can be expected to accelerate once the economy picks up. And in the third quarter of this year, the Netherlands left the recession behind and has returned to economic growth. This will inject some momentum into the housing market.

**Figure 6: House transactions down sharply**




Source: Land Registry, Rabobank

**Figure 7: Seasonal pattern unchanged**



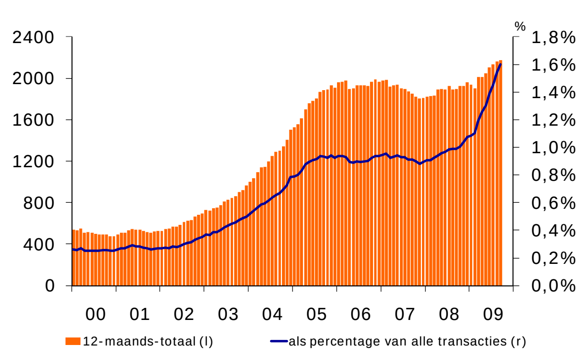

Source: Land Registry, Rabobank

**Forced sales do not affect the housing market**

In the third quarter, there was a slight increase in the number of forced sales (Figure 8), rising to 415 for the whole country. This puts the yearly total at 1,542. Due to seasonal effects there were fewer forced sales in the third than in the second quarter. Since 2001, the rate of forced sales has been lowest in the third quarter each year, and 2009 has been no exception to this trend. If we compare the numbers for 2009 to the same period in 2008, there is an increase of 211 transactions, which corresponds to a rise of 15.9%. As a percentage of total housing market transactions, forced sales have risen sharply this year to 1.6% (Figure 8). This is chiefly due to the denominator effect: over 30% fewer house sales took place.

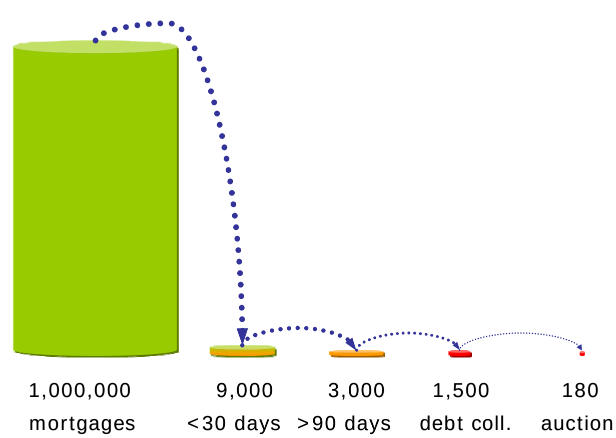
Informed by current economic developments, including the expected rise in unemployment, we predict a further increase in the number of forced sales. However, it is important to place this development in perspective. Data from FitchRatings show that already for some time, the Netherlands is the European country with the lowest percentage of clients in mortgage arrears (less than 0.5%). Furthermore, despite the current state of the economy, this percentage has scarcely increased. This picture is confirmed by Rabobank's own portfolio in Figure 9, in which the green cylinder represents outstanding mortgage loans in 2008, and the second cylinder shows mortgage payment arrears of up to 30 days. The third cylinder shows arrears of over 90 days, and the fourth stands for debt collection (= selling the house). Only in the case of the last group do forced sales or auctions take place. Indeed, most repayment problems can be traced to sudden events such as couples separating and work disability, rather than to the credit crisis. Poor money management is also at fault in some cases. The main conclusions are that (i) only a small number of clients fall into (temporary) repayment arrears and (ii) the majority of these recover.

**Figure 8: Limited rise in forced sales**




Source: Land Registry, Rabobank

**Figure 9: Rabobank portfolio payment arrears low**

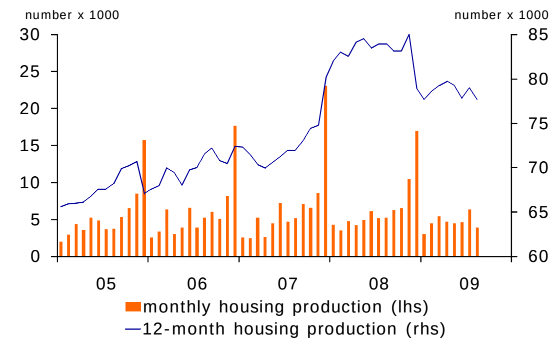



Source: Rabobank

## House-building at a low ebb

The consequences of the credit crisis have been visible in the construction sector for some time. In 2008 there were almost 80,000 new housing completions. By comparison, the first eight months of 2009 show over 37,000 completions, which is some 3% less than in the same period last year (Figure 10). The decline is chiefly due to an 8% drop in the number of completions in the rental sector, which in turn is mainly the result of the deteriorating liquidity position among housing corporations (declining equity and poorer rental revenues), negatively impacting on investment in new housing construction. Construction in the rental sector may also indirectly suffer as a result of declining house sales. This is because some rental projects include owner-occupier or buy-to-let units, of which not enough are being sold. Since mid-2008, sales of new houses have declined to an average rate of 1,700 monthly, which is half the rate achieved in the 2005-2007 period. These disappointing sales figures are reflected with a lag in new housing output. Because there is an average delay of two years between the application for a building permit and a house completion, most of the houses currently under construction or being completed were actually sold two years ago.

**Figure 10: House-building at a low ebb**



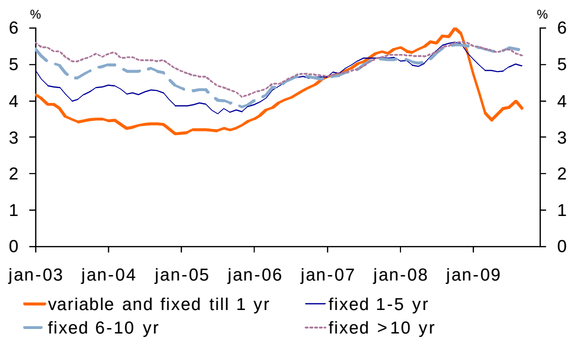

Source: Statistics Netherlands

Although it might seem that new housing output in the first eight months of this year has suffered little under the crisis, the numbers flatter to deceive, because they conceal major problems for developers and builders. The first 8 months of 2009 saw the number of bankruptcies in the construction sector almost double compared to the same period in 2008. And housing corporations have shown little appetite for taking over unsold expensive new projects from the developers, even though the guarantee limit for corporation loans was temporarily raised to €350,000. The negative consequences of lower new home sales, the reluctance of house buyers to enter the housing market, plus financing problems in new housing developments are all reflected in the sharp drop in the number of applications for building permits. For the year to September, permission has been granted for only 42,000 housing units. This is the lowest number since the first 8 months of 2004 and is down by almost 17% on last year. Whether the licences issued will ultimately result in housing-starts remains to be seen. Accordingly, we expect the number of completions this year to be considerably lower than in 2008. The decline in housing output is extremely disadvantageous for the market. Once the economy picks up, there may be severe housing shortages, particularly in economically stronger regions, sowing the seeds for soaring house prices in the future.

## Mortgage rates set to rise

After rising for four consecutive months, the average variable mortgage rate dropped in September. Fixed-interest rates also fell in that month, albeit at a more moderate pace (Figure 11). However, we expect that both money market and capital market rates will rise in due course in the wake of economic recovery and the accompanying turnaround in monetary policy. This upward pressure will also affect the variable mortgage rate and fixed-interest mortgages.

**Figure 11: Mortgage rates down again**

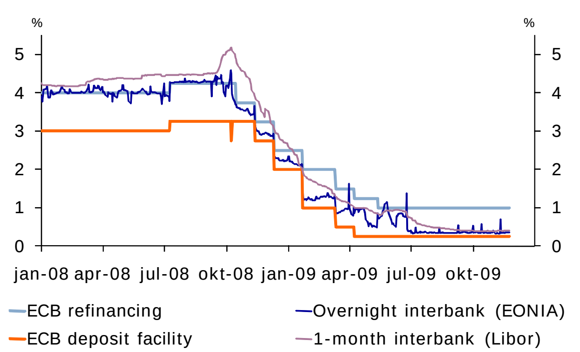



Source: DNB

### End to low money market rates in sight

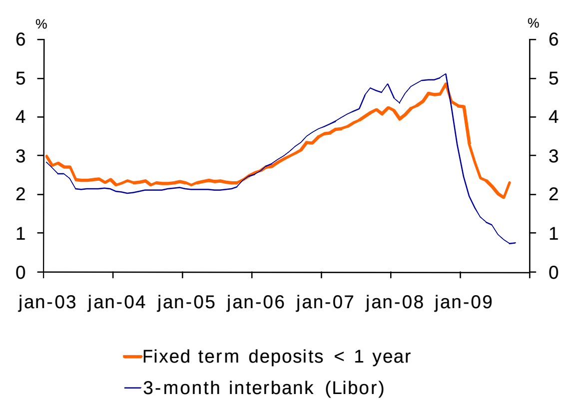
Money market interest rates have declined further during the past three months as a result of the substantial liquidity that the ECB has made available to the banking system. The global loose monetary stance has restored some confidence in the markets, pushing down the risk premiums that are incorporated in the money market rates. Thus, short-term money market rates remained below the official ECB policy rate (Figure 12). Although the extremely expansive monetary policy is only temporary, the ECB has indicated that for the time being it is not in a rush to turn off the liquidity tap. Economic recovery is still too fragile, and the risk of inflation is low. This means that in the short term, money market rates will remain at a low ebb. As the economy picks up further however, it would seem inevitable that the ECB will withdraw a number of liquidity creating measures during the course of next year. This will eventually push money market interest rates up. The upward trend will be reinforced by an expected initial policy rate increase by the ECB in the second half of 2010.

**Figure 12: Money market rates low**




Source: Reuters EcoWin

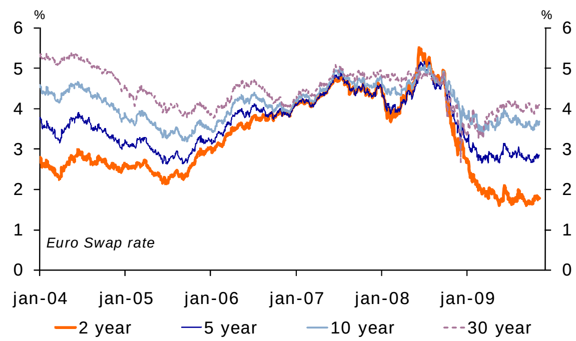
**Figure 13: Decline in deposit rates lags behind**




Source: DNB, Reuters EcoWin

In recent months, low money market interest rates have not had a large effect on the variable mortgage rate, because banks have only been making limited use of the interbank money market to finance their activities. Traditionally, the main source of bank financing is derived from savings and deposits. However, deposit interest rates have fallen less sharply in the past months than the interbank rates. In September, the deposit rate even rose a little (Figure 13). The development of deposit rates, combined with an expected upward trend in money market rates will push the variable mortgage rate up in the course of the coming year.

**Figure 14: Capital market rates climbing but slip**




Source: Reuters EcoWin

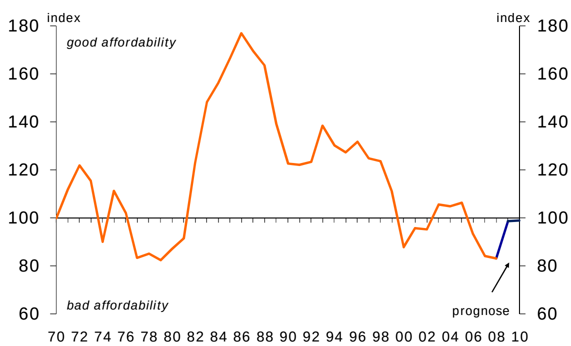
### Capital market rates: will eventually go up

After a strong surge at the beginning this year, capital market rates have been marking time since early summer (Figure 14). Between early June and the start of November, the 10-year swap rate in the eurozone fell 30 basis points to 3.6%. Against a backdrop of global economic recovery, low but rising inflation expectations in the market and growing appetite for risk among investors, a decline in capital market rates is remarkable. It seems the gloomy labour market outlook coupled with ongoing deleveraging in the financial sector have given bond buyers reasons to doubt the strength of the recovery. At the same time, bond yields would appear to be under downward pressure from low inflation combined with the decision of central banks not to hasten the withdrawal of liquidity measures. Nonetheless, we are assuming that capital market rates will be significantly higher by mid-2010 thanks to economic growth. The withdrawal of extra liquidity by the ECB as discussed earlier will be accompanied by a rise in money market rates, which will also push up the short end of the yield curve in particular. Furthermore, concerns about the poor state of government finances and question marks over the successful implementation of the proposed exit strategies may increase the upward pressure on the capital market. In 12 months we expect that the 10-year swap rate will reach an average level of 4%. In light of developments on the capital market, a gradual upward trend in fixed interest rates is likely during the course of next year.

## Improved affordability in 2009

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.

**Figure 15: Affordability temporarily improved**




Source: CPB, Land Registry, Reuters EcoWin, Rabobank

The affordability of purchasing a house in the Netherlands improved greatly in 2009 – the biggest improvement since 1983. Comparing the current situation with that of 25 to 30 years ago, we see considerable differences, however. In those days, the affordability of Dutch houses improved substantially for a number of years in succession. The driver behind this development was the decline in house prices. The peak-to-trough drop back then was some 30%.

While the current lower house prices are the main reason for today's improvement in affordability, prices have only dropped by a few percent, and the decline is not expected to last long. In fact, because the current developments are not permanent in nature, the improved affordability will be merely temporary. Prices are expected to stabilise as soon as 2010, which will likely be followed by a deterioration in affordability. The fundamental shortage of housing and the lower-than-expected number of new completions means that demand for houses will exceed supply. This will be particularly acute in regions with a relatively strong economy that attract job-seekers. We expect house prices to rise first in these areas.

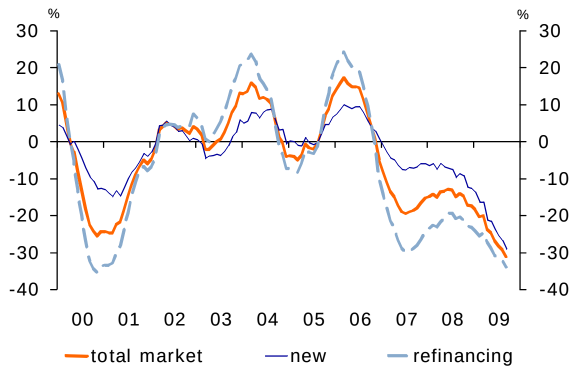
After the crisis, risk premiums in interest rates may drop, but this will be offset by a rise in the ECB's policy rate. Furthermore, risk perception has changed as a result of the credit crisis. Consequently, interest rates are very likely to remain higher after the crisis than before. This naturally has implications for mortgage rates.

Income development will also do little to help affordability. That's because incomes react with a lag to economic growth. When the economy picks up, it will take some time before wages start to rise.

## Mortgage issuance remains low

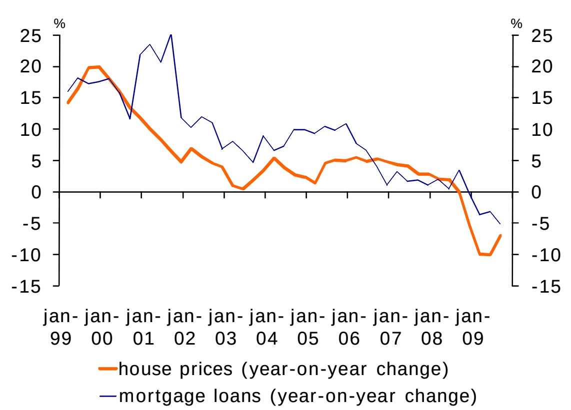
In the third quarter of 2009, some 66,500 mortgages were issued – the second successive quarterly rise. The increase can chiefly be attributed to newly issued mortgages. The recent temporary raising of the national mortgage guarantee (NHG) limit may possibly have had a positive effect on mortgage output. But the number of mortgages issued remains clearly well short of the 2005-2007 period, when per quarter an average of 129,000 mortgages was issued. In the 12 months up to and including September, the year-on-year mortgage production declined by some 30% (Figure 16). Mortgage issuance growth has been negative for some time, and this trend was exacerbated after the eruption of the credit crisis. In the third quarter of this year, mortgage issuance shrank by some 5% vis à vis the same period a year ago (Figure 17). A sharp deterioration in sentiment and a growing tendency to save are important factors in the declining demand for financing from potential house buyers. In addition, various financial institutions have become more cautious in their lending policy. Although there has been a sharp drop in the number of house transactions and in house prices since autumn 2008, outstanding mortgage debt continues to rise. Total outstanding mortgage debt of Dutch households amounts to over €600 billion (Figure 18). This can chiefly be attributed to the strong price rises in the past. Despite the recent drop in prices, houses are still being sold for higher prices than the purchase price previously paid – often years earlier. For the same house, today's buyer generally has to take out a higher mortgage than the previous owner.

**Figure 16: Y-o-y mortgage issuance stays low**



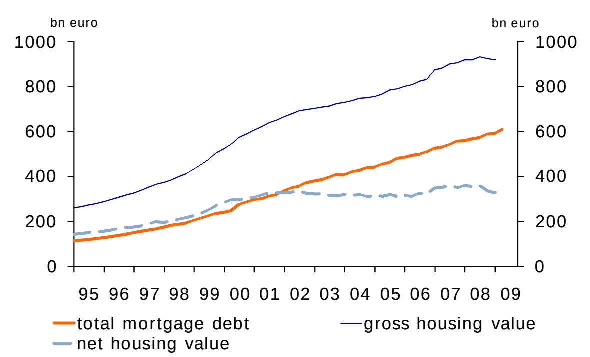

Source: Land Registry, Rabobank

**Figure 17: House prices and mortgage credit**




Source: Land Registry, DNB

**Figure 18: Mortgage debt rises further**




Source: ABF Valuation, DNB

## Regional variation in affordability

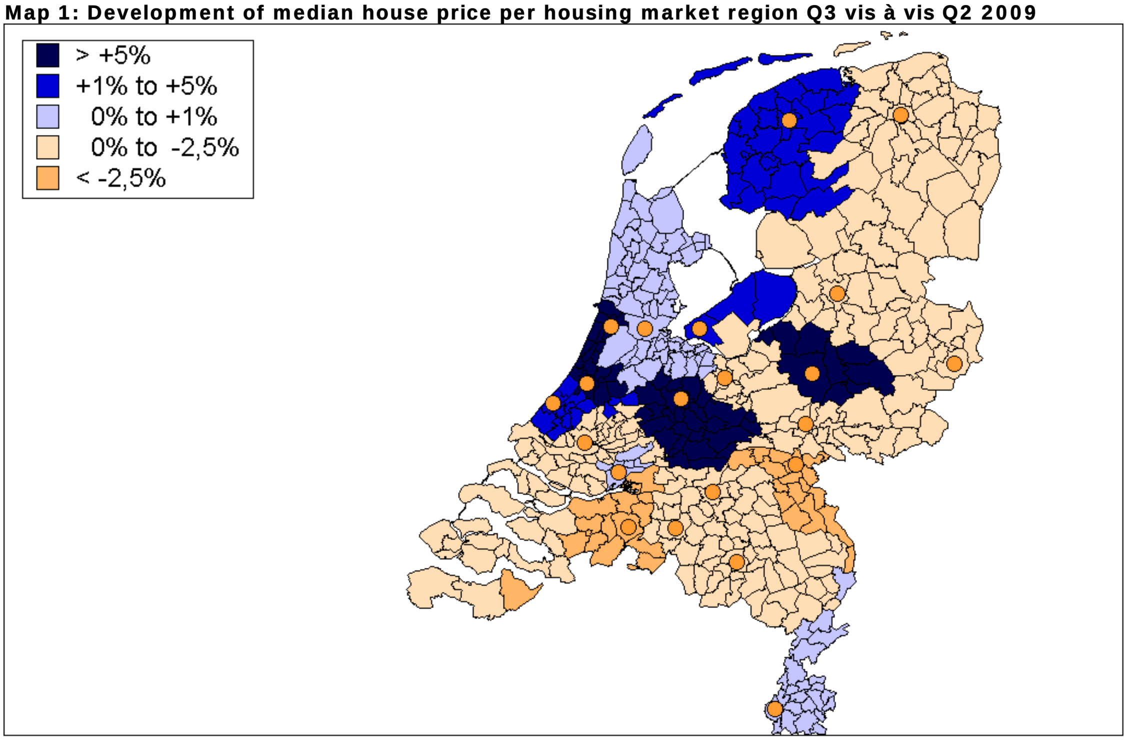
*After the slump of recent quarters it seems the average house price in a good many housing market regions has found the way upwards. In these regions affordability is therefore on the decline again.*

**Quality has its price**

Again, in the third quarter of 2009, there were sizeable regional differences in house purchase affordability. The Haarlem region led the posse in price growth (+12%), followed by the regions of Leiden, Utrecht and Apeldoorn, all showing a rise of over 7% (map 1). The price rise in the regions of Dordrecht, Leeuwarden and Maastricht is surprising. These regions have limited demographic dynamism and in recent years have seen little price growth. Perhaps the recent price slump in these regions has boosted demand for houses. Strong prices are also seen in the Almere region. This may be an indication that for many people, living in a polder town has become an attractive alternative to the more expensive established locations. At the same time, it must be pointed out that the number of houses being sold in the region is far lower than was the case a few years ago. Partly on account of compositional effects, price fluctuations may increase (see also from page 5 on). At the other end of the spectrum the average house price increased in almost all regions in the north-east and south-west of the country. However, the regions of Nijmegen and Breda showed the sharpest declines.

Considerable variation can be seen among the 21 housing market regions. In general, prices were strongest in the more desirable areas near the major cities. These include coastal areas, the Utrecht Heuvelrug, the islands of Zuid-Holland

**Map 1: Development of median house price per housing market region Q3 vis à vis Q2 2009**




Source: Rabobank

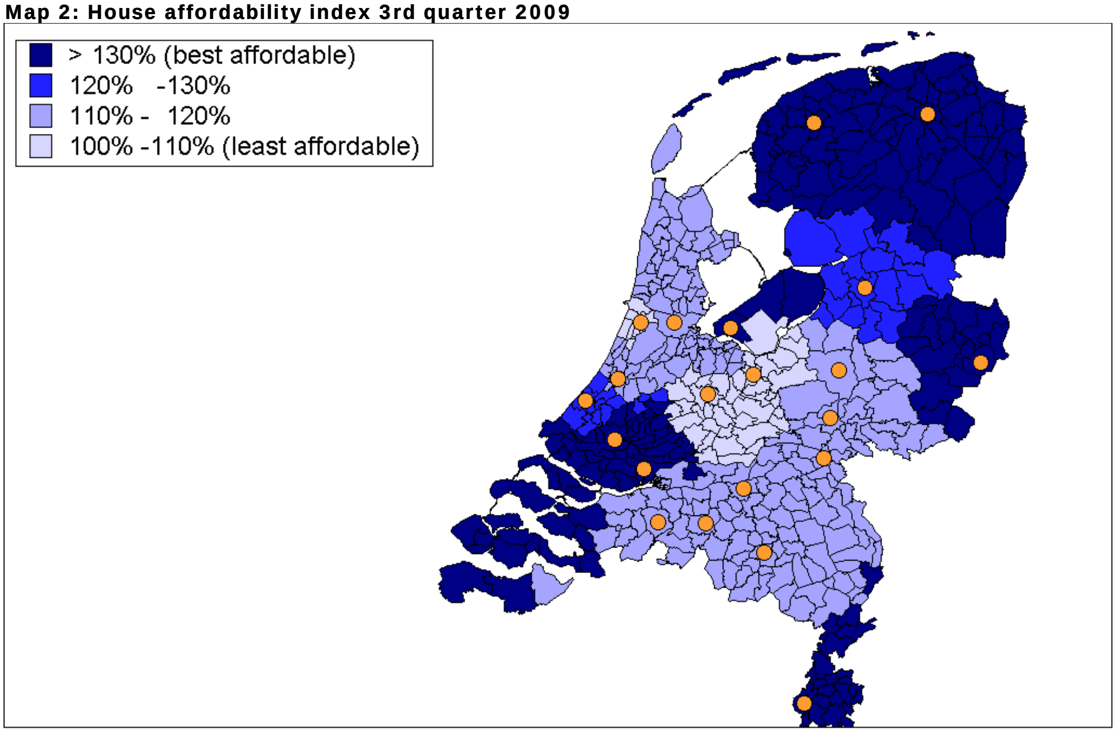
and south-east Brabant. People are still prepared to pay for quality and a desirable location. Most large and medium-sized municipalities experienced rising prices in the third quarter. Showing a decline alongside the smaller cities of Groningen, Enschede, Nijmegen and Breda, Amsterdam seems remarkably out of place. The capital was the only major city which registered a price decline and was the odd one out in its own region. After all, in the Haarlemmermeer and the vast majority of towns north of the North Sea Canal house prices went up. By contrast, declining prices in the regions of Rotterdam, Eindhoven, Amersfoort and Arnhem can be attributed to a slump in the more rural areas in the regions and not in the cities.

**Affordability on the decline again**

The consequence of this price development is that affordability has deteriorated during the third quarter in the regions of the northern wing of the Randstad urban belt and in Apeldoorn, Friesland and the south-east (map 2). In the north, east and south-west of the country, affordability improved.

However, the regional pattern in affordability has not changed. Houses are still more affordable in the regions along the periphery of the country, despite price rises in the past quarter. The centre of the country and the Haarlem region remain the least affordable, followed by Amsterdam and the regions in the provinces of Gelderland and Noord-Brabant. In the Haarlem region, an average house is just about affordable to an average household. Both here and in Utrecht, affordability is not far off the lowest level ever, reached in the third quarter of 2008.

**Map 2: House affordability index 3rd quarter 2009**



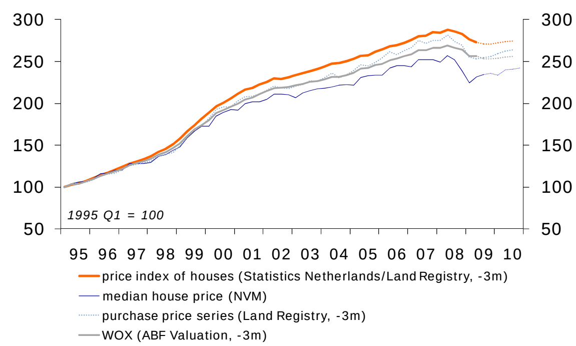

Source: Rabobank

## Outlook

The housing market in the Netherlands appears to be stabilising. The recession has dealt a heavy blow to consumer confidence, as evidenced by the ca. 30% fall in transaction numbers. House prices have also been hit and have dropped by several percent. However, in this respect, we believe the worst is now behind us (Figure 19).

Nor did the Dutch economy remain unscathed, although the third quarter has shown growth – for the first time since early 2008. We expect to see more positive growth data in the coming period. However, this does not herald a complete end to the crisis. Unemployment will continue to rise substantially next year, leading to an increase in mortgage repayment problems. In absolute numbers, however, this increase will be relatively limited and will therefore not directly impinge on the price development of the housing market.

**Figure 19: Stabilisation of house prices NL**




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

During the coming years, construction output in particular will continue to feel the effects of the credit crisis and the ensuing recession. While we were able until recently to avail of house-building projects started before the crisis, this will soon no longer be the case. There are dark clouds overhead for contractors and developers. For 2009 we expect a total of 70,000 new housing completions, but only about 62,000 next year. These disappointing output numbers mean that tightness will remain on the Dutch housing market, pushing Dutch house prices up again in the (near) future.

Accordingly, the current improvement in the affordability of houses in the Netherlands is only temporary. Prices are going to rise again, as will mortgage rates in due course. In addition, the expected income development will be too limited to offset the expected higher housing costs.

The Dutch housing market is reacting chiefly to the credit crisis and the recession. However, unlike other countries, in the Netherlands the housing and mortgage market are not part of the fundamental problem. This means the current drop in house prices will remain limited to a few percent.

The developments outlined above, combined with the end of the recession, lead us to envisage a stabilisation of house prices. Compositional effects in particular influence our expectations per series (page 19). Because these effects can distort the picture of current housing market developments, Rabobank bases its expectations on the second-hand housing market price index (PBK) of Statistics Netherlands/Land Registry. For 2009 we envisage a drop of 3½% in house prices and of 1% in 2010. The decline next year will be chiefly due to a lower starting price at the beginning of the year compared to 2009.

## Key figures

**House Prices**

| Year-on-year change (%) | 2007 | 2008 | 2009 [a] | 2010 [a] |
|---|---|---|---|---|
| NVM (median house price) | 3.6 | 0.0 | -7 | 3 |
| Land Registry (purchase price) | 5.3 | 2.7 | -6½ | 1 |
| CBS/Land Registry (PBK) | | | -3½ | -1 |
| ABF Valuation (WOX) | | | -3½ | -1 |

**Totals**

| x 1000 | 2007 | 2008 | 2009 [a] | 2010 [a] |
|---|---|---|---|---|
| Sales transactions | 202 | 182 | 127 | 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 | -4 | 1 |
| Inflation (%) | 1.6 | 2.5 | 1 | 1 |
| Unemployment (x 1000) | 344 | 305 | 400 | 575 |

**Rabobank affordability index**

| x 1000 | 2007 | 2008 | 2009 [a] | 2010 [a] |
|---|---|---|---|---|
| Affordability index [b] | 84 | 83 | 99 | 99 |

**Interest rates [c]**

| Level (%) | 19 November 2009 | +3m [d] | +12m [d] |
|---|---|---|---|
| 3-month Eurozone | 0.72 | 0.88 | 2.06 |
| 10-year Euroswap | 3.50 | 3.66 | 4.00 |
| Mortgage interest rate, 5-10 year fixed | 5.37 [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] September 2009 monthly average, DNB

## Colophon

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



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