



Rabobank

Dutch Housing Market Quarterly

February 2008

Economic Research Department

Contents

Introduction and summary	3
Second-hand housing market	4
New housing output	6
Interest rate development	7
Affordability of buying a house	8
Mortgage market	9
Rental sector	10
Population ageing	13
Housing market outlook	17
Key figures	18

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Dutch Housing Market Quarterly

Introduction and summary

- House prices continued to rise in 2007, although less markedly than in previous years. The median house price currently amounts to € 247,000, which is 3.3% more than at the end of 2006 and represents an increase of € 8,000. Remarkably, for the first time ever, the absolute NVM house price (of the Netherlands Association of Real Estate Brokers) was lower than the Land Registry price for almost the entire year of 2007. This is probably a consequence of the increased NVM market share, particularly at the lower end of the Dutch housing market.
- Movement on the Dutch property ladder is easing off as fewer people are trading up. Despite strong economic growth, there has been no further increase in the number of house sales. In 2007 a total of 202,401 houses changed hands, which is 3.5% less than in 2006. Furthermore, there are more houses for sale. NVM figures show that current supply of houses for sale is 5.4% above that of a year ago.
- In 2007 the number of forced auctions dropped by 8% compared to 2006. The favourable economic climate and a further decline in unemployment made a significant contribution to this development. However, there was a rise in the number of houses sold at a loss, as registered with the WEW Homeownership Guarantee Fund (which includes NHG mortgages).
- New housing output is rising steadily. 12-month production has almost reached 75,000 housing units – for the first time since the spring of 2000. Most of the growth is being realised in economically strong regions. We expect housing demand to increase in these areas.
- The affordability of buying a home dropped sharply in 2007. This was largely due to the interest rate rise in the first half of the year. In addition, house prices rose further in 2007. For 2008 we anticipate a slight improvement in affordability.
- Mortgage output declined sharply in 2007. However, the drop is less acute in value than in numbers. In fact, the average mortgage sum rose again, in line with previous years. Net mortgages issued rose further to € 556 billion in 2007.
- In the rental sector, there is a degree of mismatch between supply and demand. A large number of inexpensive homes are available, offering insufficient quality to younger tenants in particular. The supply of more expensive and higher quality housing units is still rather limited, restricting the flow of movement on the housing market.
- In general, population ageing is more acute in the outer regions of the country than in the centre. The migration of younger people also contributes to this, as they are much more mobile than older people. Nonetheless, the proportion of older people will increase throughout the country. This group is less inclined to move house, and not until around 2020 will we see any great change in this scenario.
- We expect the average house price in the Netherlands to rise further. This is based on the continuing positive economic climate, an anticipated rise in wages accompanied by improved affordability of housing, and the ongoing fundamental housing shortage in the Netherlands. However, on account of stagnation in the housing market, we foresee a limited rise of 3¼% for 2008.

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Dutch Housing Market Quarterly

Second-hand housing market

House price development

In line with previous years, house prices also rose in 2007. However, the increase was less

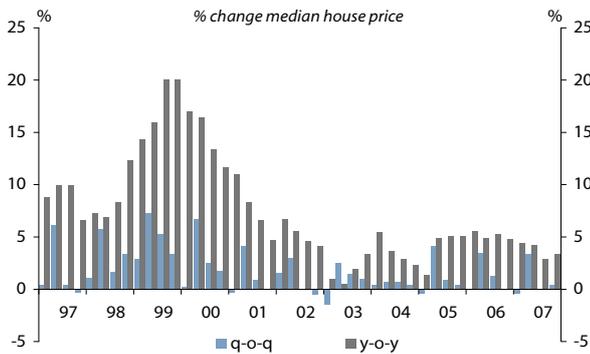
substantial than in 2005 and 2006 (figure 1). The median house price registered by the NVM increased by 3.3% last year to € 247,000. Compared to late 2006 the absolute increase amounts to € 8,000. Remarkably, the NVM announced after the second and third quarters that the median house price was € 248,000, and later adjusted these figures downward by € 2,000. This means that prices remained virtually stagnant during the second half of 2007, whereas we had forecast a limited rise to € 249,000. However, this price level transpired to be too high, which means our expectation of a price increase of 4¼% for the entire year of 2007 was not altogether realised.

If we distinguish between different house types, prices rose in all categories in 2007 (figure 2). The rise was most marked for apartments (+6.5%) whereas for semi-detached houses it was the lowest (+1.4%). Importantly,

the prices of more expensive houses are currently rising faster than of cheaper houses. The reduced affordability of purchasing a house, which makes it difficult for first-time buyers, has resulted in slow price development at the lower end of the market.

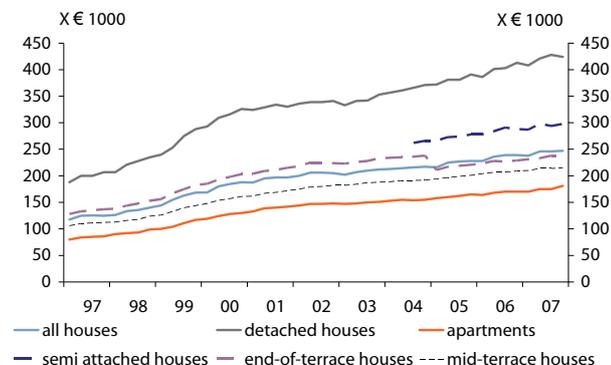
According to figures from the Dutch Land Registry, the average house price rose last year by 4.1% to € 247,650. Interestingly, this amount is higher than the median house price recorded by the NVM. Looking at past data (figure 3), we see that NVM figures were usually higher, partly because their measuring times are earlier than those of the Land Registry. In more recent years, however, both sets of figures have shown less divergence, and in 2007 for the first time ever, the Land Registry data has been virtually the same, or even higher than the NVM figures. This is likely to be the result of the increased NVM market share especially at the lower end of the Dutch housing market.

Figure 1: Price development in the second-hand housing market



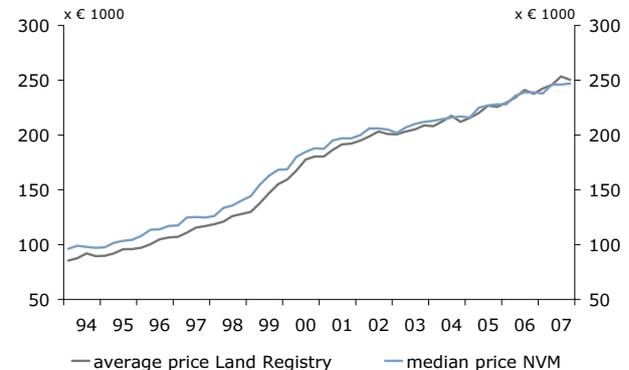
Source: NVM, Rabobank

Figure 2: Absolute price development by house type



Source: NVM, Rabobank

Figure 3: Price development of houses, Land Registry and NVM



Source: Land Registry, NVM, Rabobank

Dutch Housing Market Quarterly

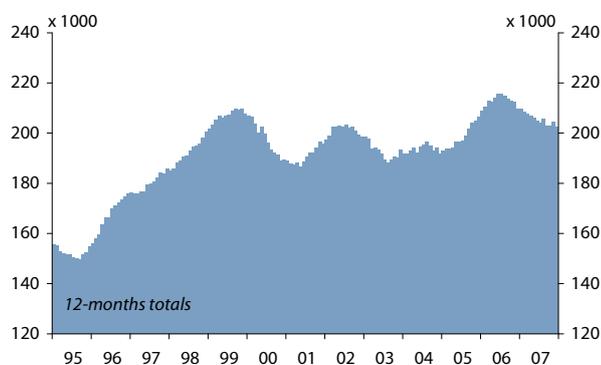
Sales transactions

Despite the strong economic growth in 2007, the number of house sales did not increase further (figure 4). This is not a good sign for those wishing to trade up, and in fact movement on the property ladder has slowed down. This is evidenced by, for instance a drop in the 12-month total of houses sold, which was down to 202,401 at the end of the year. This is 3.5% less than last year, when the total was 209,767. In terms of the total supply of houses for sale, the number of transactions is also showing a decline. In late 2006, this percentage was 5.4%; it has since dropped to below 5.2% which is not far from its lowest level of the past ten years in early 2005. The further deterioration in the affordability of purchasing a house in 2007 is linked to this development. At the same time, with the declining number of transactions, the supply of houses has increased. Because, relatively speaking, a large number of houses came onto the market in the fourth quarter, supply increased by 7%, according to NVM data. Compared to the supply of houses for sale a year ago, this represents an increase of 5.4%. Apartments are currently changing hands fastest (29.3% of total supply), whereas detached houses are the slowest to sell (16.3%). The combination of increasing supply and fewer transactions indicates some stagnation in the market.

Enforced auctions

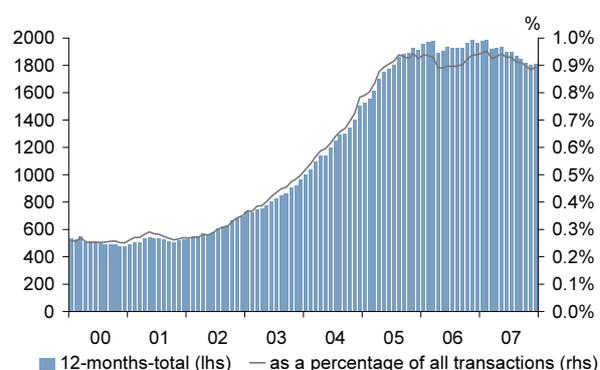
On an annual basis, the number of enforced auctions has dropped for the first time since 2000. This development is largely due to the favourable economic climate in the Netherlands, with the further decline in unemployment. In 2007, the Dutch Land Registry registered 1,811 enforced auctions, which is 157 less than last year, and represents a drop of 8.0%. Besides a drop in the absolute number of enforced sales, we also see a drop in the percentage of enforced transactions in the total number of sales transactions in the market. For some three years, this ratio has fluctuated around 0.9%. However, a downward trend was set in motion, which we expect to continue in 2008. Notwithstanding the decline in the number of enforced auctions, there has been a rise in the number of forced sales at a loss, as declared to the WEW Homeownership Guarantee Fund (NHG-mortgages). This number has risen by 21.4% to a total of 966. The losses are strongly concentrated in the lower bracket of the NHG target group. For example, 32% of the losses are located in the so-called 40 Vogelaar-housing districts, while these account for only 6% of total NHG mortgage value, because of the relatively low number of non-rental houses. There is also some geographical concentration of this phenomenon in the regions of greater Rotterdam, The Hague and in parts of the province of Limburg.

Figure 4: Transactions in the second-hand housing market



Source: Land Registry, Rabobank

Figure 5: Enforced auctions



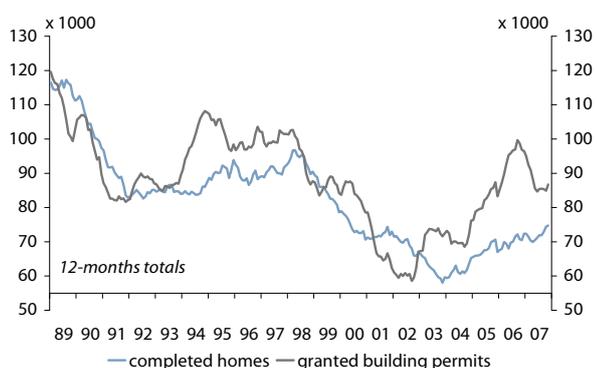
Source: Land Registry, Rabobank

Dutch Housing Market Quarterly

New housing output

New housing production is growing steadily (figure 6). In the first 11 months of 2007 a total of 57,118 new housing units were completed: almost 2,400 more than in the same period in 2006. Output was below par at the start of the year, but from May on, building production was higher than in 2006 on an almost monthly basis (figure 7).

Figure 6: Building permits and completed houses



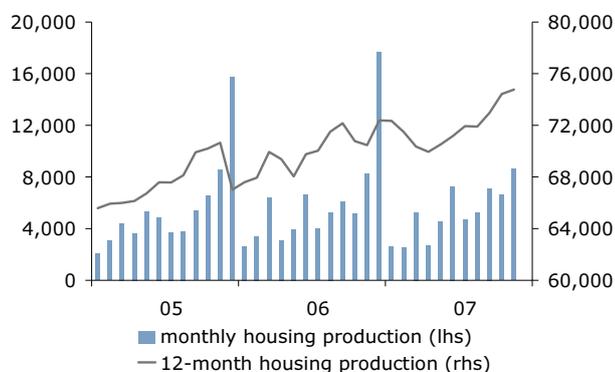
Source: CBS, Rabobank

Output was below par at the start of the year, but from May on, building production was higher than in 2006 on an almost monthly basis (figure 7). Currently, the 12-month output amounts to 74,776 housing units. This has not been achieved since spring 2000 and is the result of the large number of building permits issued in 2006. On the basis of completion figures for the first 11 months of 2007, we are adjusting our forecast upward slightly to (over) 75,000 houses. For this year too, we expect to benefit from the number of permits issued in 2006, and we predict further growth towards a total of 80,000 housing units. The main source of growth in the new construction output is found in the non-rental sector (figure 8). In view of the current tightness in the Dutch owner-occupier housing market, this is a favourable development. Looking at a regional breakdown of development, it appears that almost half (47.2%) of new housing output realised in 2007 took place in the west of the country

(the provinces of Noord-Holland, Zuid-Holland and Utrecht). Furthermore, the four major cities account for a considerable share of the output at 31.6% of the total. This is a positive development in view of the above average growth of the economies of Amsterdam and Utrecht, reflected in an expected further increase in demand for housing.

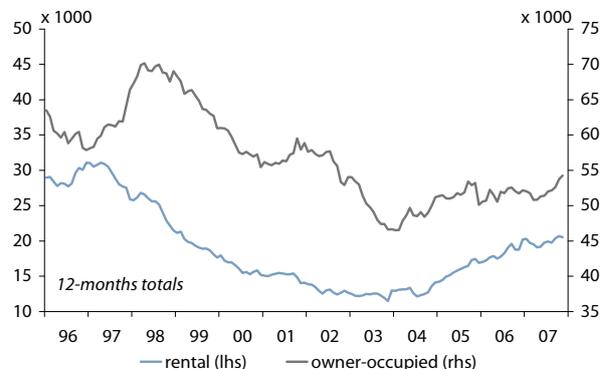
A recent publication by the Economisch Instituut voor de Bouwnijverheid (economics institute for the construction industry) shows the emergence of a three-pronged development in the Dutch housing market. In the peripheral regions of the country the supply of houses could exceed demand. Secondly, 'high pressure regions' are emerging where there is a shortage of houses, while thirdly, there will be a more relaxed housing market in the intermediate regions in between. Despite the high demand for housing in the high pressure areas, it remains crucially important to continue to invest in diversification of the housing supply. Local authorities are familiar with their regions and are in a position to prevent future one-sided housing development.

Figure 7: New housing production



Source: CBS, Rabobank

Figure 8: New-build completions by ownership



Source: CBS, Rabobank

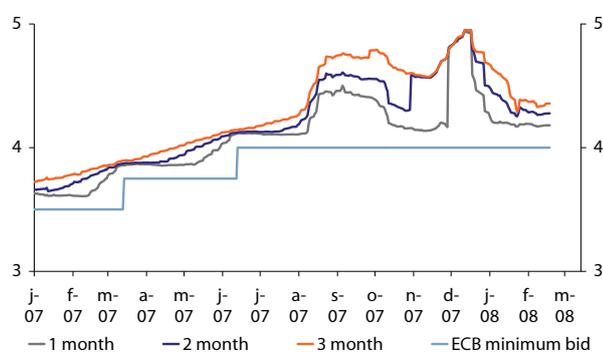
Dutch Housing Market Quarterly

Interest rate development

Owing to a confidence crisis between banks the three-month interbank interest rate has risen sharply since summer 2007. This has pushed the difference between the market rate and the official ECB rate to historic highs. There has been a gradual decline in this interest rate since the start of 2008. Nonetheless, the difference between the market rate and the ECB policy rate remains substantial (figure 9). This can be partly ascribed to the expectation among financial markets that despite the current high inflation, the ECB will reduce its policy rate in the coming months. The likelihood of an interest rate cut in the eurozone has indeed increased somewhat, now that it has gradually become clear that the problems in the US are wafting over to Europe. The turmoil in the financial markets has so far restrained the ECB from combatting current high inflation with an interest rate rise. Economic growth will weaken during the course of 2008 in the eurozone. However, inflation will remain on the high side throughout the year, and the ECB tends to be more concerned about inflation than the US central bank. Ultimately, the ECB's only statutorily defined policy aim is to maintain price stability. The sharp interest rate cuts that have taken place in the US and are still expected will not be emulated in Europe. Only if inflationary development permits sufficient scope do we expect that the ECB may cut the policy rate in 2008 on possibly two occasions by 0.25 percentage points.

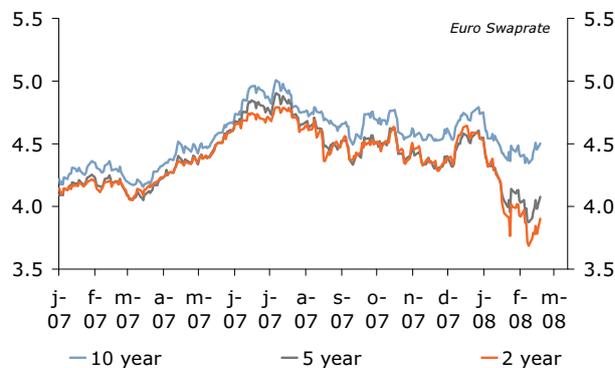
The unremitting uncertainty at the financial markets is now compounded by a real fear of a recession in the US and growth slowdown in Europe. Both factors are steering investors towards government bonds, which have been functioning as a safe haven within the financial markets since the summer of 2007. This resulted in a spectacular drop of especially the two-year and five-year interest rate on government bonds during the first month of this year (figure 10). For the time being, the ongoing unrest on the financial markets, coupled with uncertainty about economic growth in the US and the eurozone will keep capital market rates under downward pressure. The market can be expected to normalise in the second half of the year, when investors will venture outside the safe haven of government-backed bonds again. Investors will also become more focussed on the continuing high level of inflation. Furthermore, we expect the ECB will adopt a more cautious policy than the market now believes. All these factors will ensure that capital market interest rates will rise beyond their current very low level. Furthermore, the current drop in the swap rate does not translate into lower financing costs for companies and banks. Because of the uncertainty on the financial markets, the risk spreads have risen sharply; and even more for financial institutions than for other companies. Consequently, the low capital market interest rates are only weakly reflected in the mortgage interest rate.

Figure 9: Interbank money market settles down



Source: Reuters EcoWin, Rabobank

Figure 10: Sharp drop in capital market rates



Source: Reuters EcoWin, Rabobank

Dutch Housing Market Quarterly

Affordability of buying a house

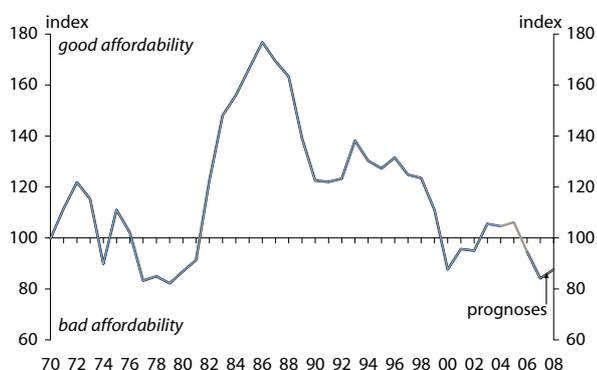
The Rabobank affordability index is a measure of the affordability of purchasing an average house for a household with an average income in the Netherlands. A distinction is made between affordability for first-time buyers (110% financing) and those who want to trade up (70% financing). If the affordability 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.

The affordability of buying a house deteriorated sharply in 2007 (figure 11). This was largely due to the rise in capital market interest rates, particularly in the second quarter. This was exacerbated by a further rise in house prices during this period. Consequently, households had to dig deeper to purchase a house in 2007 than in previous years. Accordingly, the financing burden of newcomers to the Dutch housing market increased substantially. However, homeowners who are paying a mortgage at long-term fixed rates, as is the case for many Dutch people, remained unaffected by these developments.

Income growth was only partly able to compensate for the increased financing burden. This is despite the fact that economic growth was strong in 2007 and unemployment dropped further, in line with the trend set in 2006. The ensuing tightness on the labour market should give rise to scope for wage rises. Nominal disposable household income rose as a result of more people being in paid employment and because of a rise in wages. Nonetheless, the affordability of buying a house in the Netherlands deteriorated further in 2007 because the wage development only partly offset the increasing burden of financing one's own home.

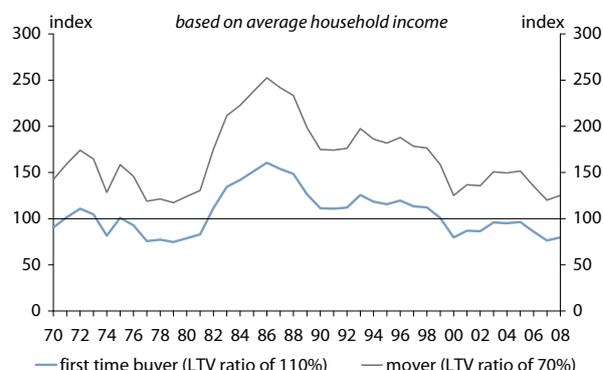
In 2008 the affordability of purchasing a house should improve somewhat on balance. This is because incomes will rise further and the upward interest rate trend of recent years is expected to discontinue. At the same time, however, house prices will continue to increase, which will dampen affordability somewhat. Despite improved affordability on balance, home ownership will remain beyond the scope of a large number of would-be first-time buyers in particular (figure 12). Given the current mortgage regulations, an average priced house cannot be financed by one and a half median incomes.

Figure 11: Rabobank Affordability Index



Source: CPB, Land Registry, Reuters Ecwin, Rabobank

Figure 12: Affordability Index by buyer type



Source: CPB, Land Registry, Reuters Ecwin, Rabobank

Dutch Housing Market Quarterly

Mortgage market

Mortgage output declined sharply in 2007, amounting to a total number of 452,335 (figure 13), which is over 80,000 fewer mortgage loans than in 2006. This corresponds to a drop of 15.2%.

Although the number of newly issued mortgages has declined, this drop is mainly in the number of refinancing mortgages. In recent years a relatively large number of households have already refinanced in order to benefit from low interest rates. They generally tended to opt for long-term fixed interest rates. Now that interest rates have risen in 2007, refinancing becomes a less attractive option.

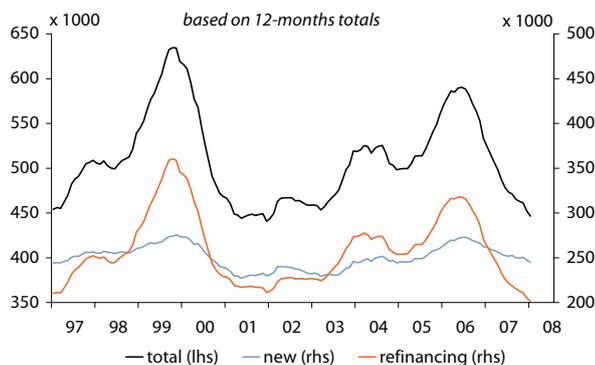
In terms of value too, mortgage output dropped significantly in 2007. In total, mortgages to the value of € 107.578 billion were issued, which is 9.5% less than in 2006. However, this drop is smaller than the drop in the number of mortgages, which means that the average mortgage sum has increased further, in line with previous years (figure 14). We also see that the average principal for new mortgages is fundamentally higher than for refinancing mortgages. This makes sense, as house prices have risen during this period. After all, new mortgages are issued in order to finance a house

purchase at that point in time, whereas refinancing mortgages are for houses that were bought in the past at a lower price level.

Despite the drop in mortgage output, the net value of mortgages issued in the first three quarters of 2007 grew by € 28 billion (figure 15). This brings total outstanding mortgage debt in the Netherlands to € 556 billion, according to data from the Dutch Central Bank (DNB).

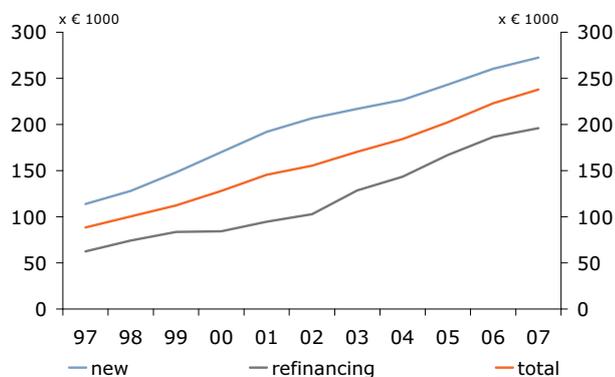
It is highly important for the stability of the Dutch housing market that mortgage lending should be tailored to the personal circumstances of individual households. Independent financial advice should therefore be guaranteed. Counterproductive incentives, such as those offered by Elq Mortgages to brokers, in the form of junkets and other rewards for the broker in return for pushing up mortgage output are therefore ill-advised. In the wake of the recent problems in the US involving sub-prime mortgages, this is increasingly true for mortgages that bear an elevated risk.

Figure 13: Volume development of mortgage output



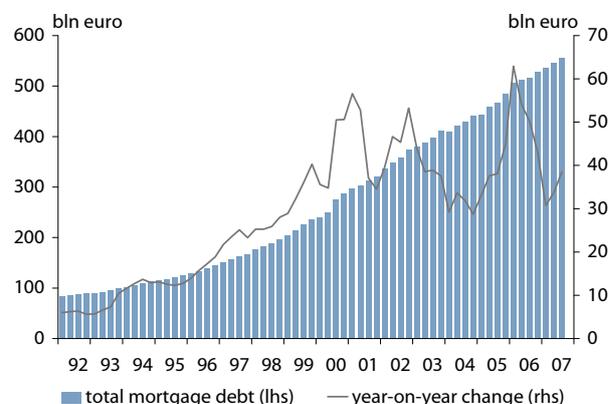
Source: Land Registry, Rabobank

Figure 14: Annual average mortgage sum



Source: Land Registry, Rabobank

Figure 15: Outstanding mortgage debt



Source: Land Registry, Rabobank

Dutch Housing Market Quarterly

Rental sector

When following developments in the housing market, the focus is largely on the non-rental sector. This is especially true for newly built houses. Although the market share for new homes in the rental sector is substantially smaller than for new owner-occupier houses, this does not make it less important. New homes in the rental sector can also play an important part in how the housing market functions. For this reason we have decided to take a closer look at recent development in the market for newly constructed housing units in the rental sector.

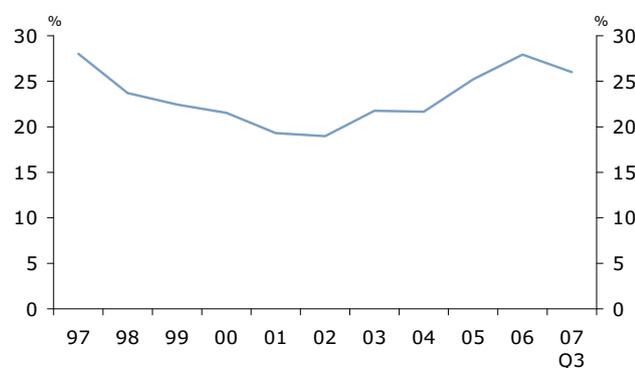
New construction

During the last 10 years new housing output in the rental sector initially underwent a sharp decline. This is illustrated by the fact that in 1997 there were 25,876 new completions, whereas by 2002 this had dropped to 12,654 new housing units. Since 2003 the construction of rental accommodation has gradually undergone a revival. In 2006 over 20,000 new units were completed and in November 2007 the 12-month total amounted to 20,517. During the past 10 years there was a drop in total new housing construction, both in the rental and non-rental sectors, but the initial decline in the non-rental sector was less sharp than in houses built for rent. Consequently, there was an initial marked reduction in the share of rental accommodation in new housing output from 28% in 1997 to 19% in 2002 (figure 16). The number of completed houses in the rental sector has risen since 2003. Likewise, the share of rental houses in total new housing output has recovered ground, reaching virtually the same level in 2006 as that of 1997.

Breakdown of new construction

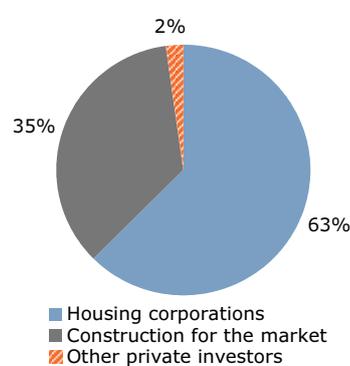
In 1997 over 71% of newly completed housing units in the rental sector consisted of multi-household construction (apartments). In the ensuing period, the proportion of apartments declined until it reached some 46% in 2004. From 2005 its share climbed up again to over 64% in 2006. The increase in the number of new rental housing units was largely caused by the strong growth in the number of new multi-household construction. This can partly be attributed to changes in planning policy, which increasingly emphasises housing construction in existing urban areas. Interestingly, the increase in the share of apartments has been even greater in the non-rental sector – rising from 12.5% in 1997 to 26% in the first 9 months of 2007. As a consequence of this development, total new apartment construction now consists more often of owner-occupier units and less often of units built for rental purposes: in 1997 69% of new apartments were constructed in the rental sector; in the first 3 quarters of 2007, this had dropped to 45% of completed units.

Figure 16: Share of rental homes in new construction output



Source: CBS, Rabobank

Figure 17: New rental homes by developer (2006)



Source: CBS, Rabobank

Dutch Housing Market Quarterly

Type of lessor

Housing corporations account for the majority of clients who commission the construction of new housing in the rental sector. In 2006, their share in output consisted of some 62%. The remainder is for the account of commercial lessors, such as institutional investors or private landlords (figure 17). However, the share of housing corporations in the construction of rental housing is declining. This is partly a result of increased market-related activities among builders (property developers and investors) in this sector. It is also because the corporations were increasingly faced with unprofitable positions that hamper the commissioning of new housing construction in the rental sector.

Characteristics of newly-built rental accommodation

The average rent charged for newly-built homes in the rental sector in 2004 and 2005 was € 545 per month. The average apartment had 3.3 rooms, living room space of 31.8m² and total living space of 92.9m². More expensive apartments, with a rent of over € 500, are significantly larger than the cheaper flats, and have on average 8m² more living room space and over 27m² more total living space. Approximately 31% of rental sector homes are earmarked for older people.

Occupants of newly-built rental accommodation

Newly-built homes in the rental sector are chiefly occupied by small households. Some 46% of tenants of a new rental apartment consist of single person households. In the cheaper rental segment, this rises to 58%, which is significantly higher than is the case in the more expensive segment of the rental market (34%). In the more expensive segment, two-person households are the largest category (42%). Occupants of newly-built rental accommodation have an average household income of € 22,540. Occupants of the more expensive apartments have a significantly higher income than those in the cheaper market segment: € 36,148 as against € 22,496. This is partly due to the larger proportion of dual income households among the tenants of more expensive flats: 59% compared to 33%, which is a logical consequence of the larger share of two-person households in this segment. Accordingly, occupants of the cheaper apartments are more often in receipt of rent subsidies (46%) than those in the more expensive segment (15%). Newly-built rental apartments are chiefly occupied by those moving along the property ladder. The number of new entrants and semi-new entrants¹ is limited, at only 22%. This group occurs relatively often in the cheaper apartments. Of houses with a rent of less than € 500, 29% of the tenants consist of first-time lessees; of houses with a rent of over € 500, this figure is 15% (figures 18 and 19). Those moving up the property ladder account for the largest group in the cheaper rental sector. Likewise, in the more expensive sector, those moving up account for the lion's share, but the number from the owner-occupier sector is substantially greater in this group, at 31% (figure 19). The rental sector and particularly the more expensive segment plays an important role in the market movement from home ownership to home rental, particularly for older home owners. 73% of those moving from home ownership to a newly-built rented property are aged over 54. Those moving from a rented house are considerably younger: the number of those aged from 55 account for 39% of this group. Occupants of new builds in the rental sector tend to have made a deliberate choice for this kind of home. 78% indicate having specifically chosen the apartment and/or the neighbourhood, and far less often (22%) on account of the apartment's availability at short notice. Although occupancy was relatively short-lived, 62% of occupants indicated having become attached to their home.

¹ A household that lives independently after moving house, but whose former independent home does not become available for the housing market.

Dutch Housing Market Quarterly

Willingness to move house

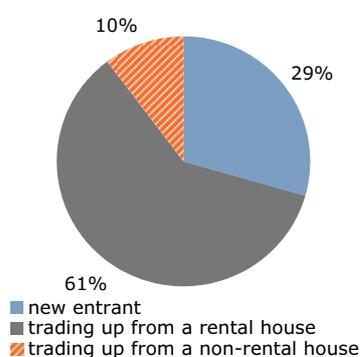
Despite the fact that occupants of newly built rental accommodation only recently took up occupancy, a quarter of those surveyed already have plans to move house again in the next two years. The desire to move house is highest among newcomers to the sector (34%), younger households aged up to 35 (49%) and among tenants of small apartments consisting of two rooms or less. These groups overlap to a certain extent. Insufficient quality of accommodation is the main reason for a large part of this group to want to move house again so soon. They often find their current accommodation too small or too large, or the layout unsuitable. Furthermore, they are often less happy with their living environment, compared to non-movers. All these reasons are related to the fact that those who want to move house, are relatively more likely (43%) not to have made a conscious choice for their current apartment. The main reason for choosing their current home was that it was the first one available.

Compared to existing rental properties, newly built homes in the rental sector are more easily accessible to potential tenants. Their relatively higher rents mean that the waiting periods for these houses are shorter. However, this segment is subject to a higher level of turnover. For some tenants in this segment, the newly built rental accommodation is merely a brief interlude in their further housing plans. In general, occupants are satisfied with their newly built rental accommodation, although satisfaction is distinctly lower among potential movers (74%) than among those who want to stay put. In the latter group, 94% are satisfied or very satisfied with their current home.

Conclusion

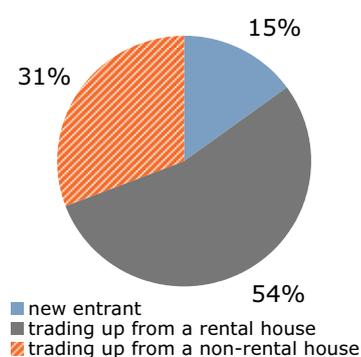
After a number of years of declining production, the supply of newly built rental accommodation is growing again. However, there is a degree of mismatch between new rental houses that are available and the demand. Much of the accommodation available consists of flats at the cheaper end of the scale owned by housing corporations. Younger tenants in particular find these new apartments to be of insufficient quality, leading them to plan another move in the short term. This high turnover level is not optimal for stable neighbourhood development. On the other hand, the share of the market sector and consequently the supply of more expensive and higher quality rental accommodation is rather more limited. The more expensive apartments play an important role in making it possible for older home owners to move house. In the future, the market for new rental accommodation will have to increasingly target the higher quality end of the spectrum.

Figure 18: Former situation regarding rental houses < € 500



Source: WoON 2006, Rabobank

Figure 19: Former situation regarding rental houses > € 500



Source: WoON 2006, Rabobank

Dutch Housing Market Quarterly

Population ageing

There is currently considerable focus on population ageing. There are major concerns about the affordability of providing for old age and about the volume of demand for care in the future. In addition, population ageing is expected to have considerable impact on developments in the housing market. Although the phenomenon of population ageing at national level is still a matter for the future, it is already much in evidence in a number of regions in the Netherlands. The paragraphs below indicate the extent of and the reasons for population ageing, followed by a regional breakdown of its development and the underlying factors.

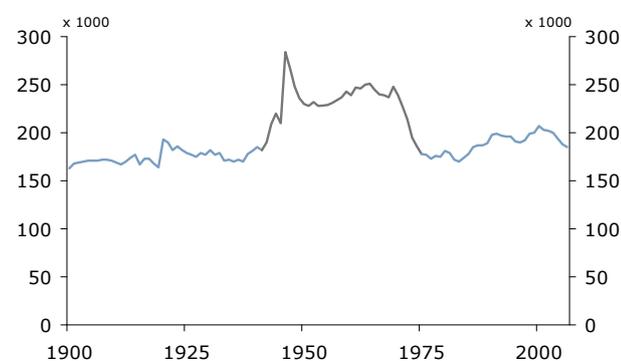
In the Netherlands the number of older people, both in absolute terms and as a percentage of the population, is increasing. In 1950, over three-quarters of a million inhabitants were aged over 65 (8% of the population). This compares to 2.3 million in 2006 (14.5%), which is expected to rise to 3.3 million in 2020, or 20% of the population (Primos). In addition, the 45-64 age category is rising strongly, both in terms of numbers and percentage of the population.

Population ageing is chiefly a result of the baby boom: the surge in births during the period 1943¹-1972², by comparison with subsequent decades (figure 20). These 'baby boomers' were preceded and followed by much lower birth rates, and consequently occupy a prominent position in the Dutch population. At the end of the baby boom period, in the mid-1970s, this group accounted for 51% of the population. However, their population has since shrunk, due to deaths and emigration, to 48% in 1990 and is expected to shrink further to 40% by 2020. However, the role of the baby boomers has been subject to change over time, as is clear from the waves evident in the graph depicting the size of the age categories in past decades (figure 21). As children in the fifties and sixties, and as young adults in the 1970s and 1980s, baby boomers kept the population looking young. However, now that they are middle aged and growing older, the profile of the population will appear older. Of the eight million people who will be over 45 in the year 2020, over 6.6 million will belong to the baby boom generation, who will then be aged between 45 and 75.

¹ As a rule, the year 1946, with the highest number of births ever in the Netherlands (284,000), is marked as the first year of the baby boom era. However, the birth rate in the three preceding years was far above that of the 1920s and 1930s. These years were also exceptional in terms of the number of births. While the number of births per 1000 inhabitants declined virtually throughout the entire 20th century, it rose in the years 1920, 1942, 1943, 1944 and 1946.

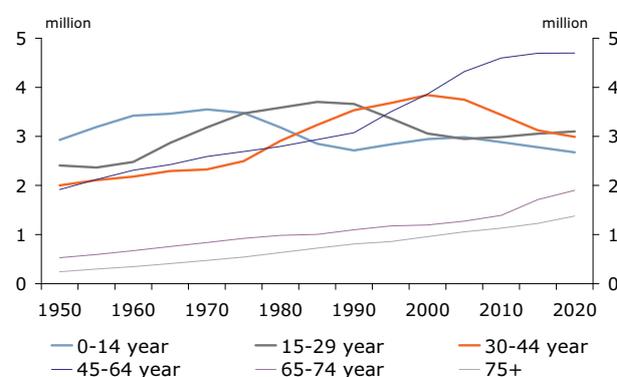
² In 1973, for the first time in 30 years, the number of births in the Netherlands dropped to below 200,000. This brought the number of births in absolute terms back in the region of normal 20th century levels.

Figure 20: Number of births in the Netherlands



Source: CBS

Figure 21: (Projected) size of age groups in the Netherlands

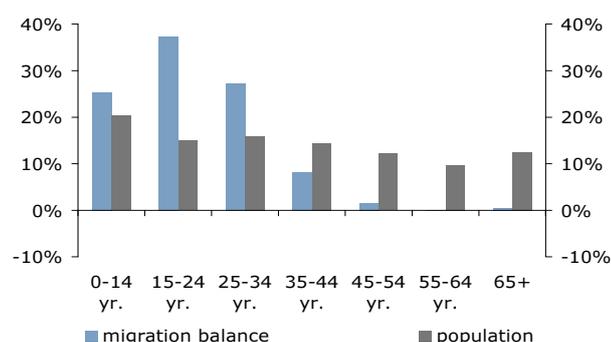


Source: ABF-Research, CBS

Dutch Housing Market Quarterly

During the subsequent quarter century, many of that generation will die, and the age group of 45 and older will shrink in size. Consequently, the Dutch population will gradually decline after 2020.

Figure 22: Average population age profile and migration balance in the Netherlands 1972-2006



Source: ABF-Research

Migration also plays a modest role in population ageing. Both incoming and outgoing migrants are generally young (figure 22). Net immigration in recent decades has boosted the age groups up to 45, by an average of 0.5% annually³. At the time that immigration takes place, it has a moderating effect on population ageing; however, assuming that the migrants remain in the Netherlands, the effect will be the opposite in the long term.

Young at heart, grey around the temples

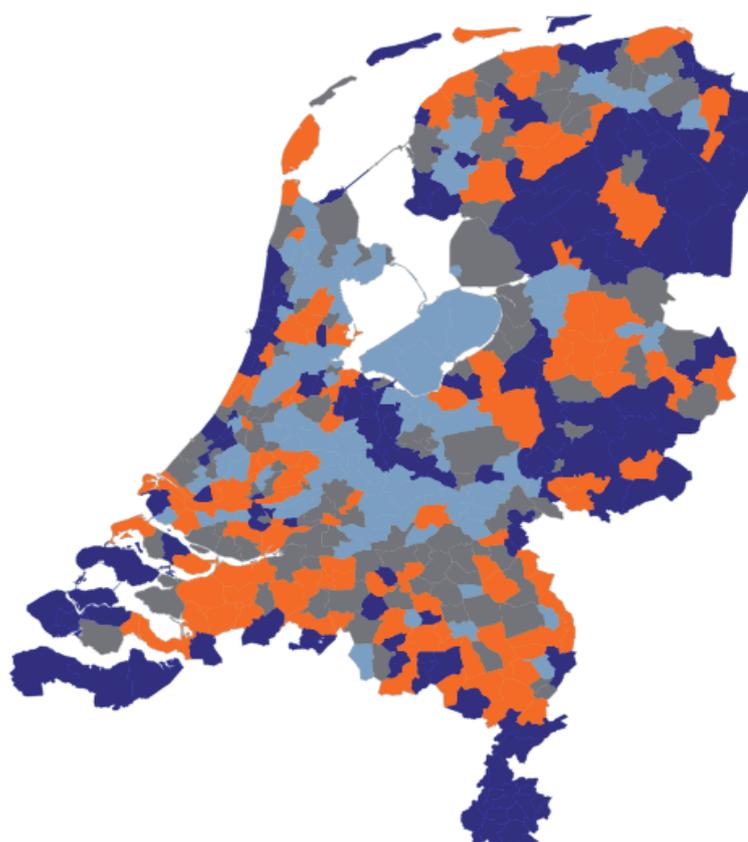
Population ageing is not equally advanced in all parts of the Netherlands (figure 23). In general, the population in the peripheral areas of the country is older than in the centre of the country; and communities have more advanced population ageing the more rural their character. Zeeland, Zuid-Limburg, Drente and the Achterhoek region are the areas with the most population

ageing. In the (economic) heart of the country, the leafy areas with tight restrictions on housing development, such as Kennemerland, Gooi and Veluwe are well advanced in population ageing.

³ The emigration rate remains stable, at 0.5% of the population; the immigration rate, however, and with it the migration balance, has varied with the economic climate from lower levels of around 0.6% in 1983, 1996 and 2005 to higher levels of some 0.9% in 1975, 1990 and 2001.

Figure 23: Proportion of 65+ per municipality 2007

- < 13%
- 13% - 14,5%
- 14,5% - 16%
- >= 16%



Source: Rabobank

Dutch Housing Market Quarterly

Among the generally 'young' cities, the cities of Zaanstad, Rotterdam, Dordrecht, Breda en Eindhoven are notable 'grey' exceptions.

Population ageing as a legacy of the past

Natural population growth also plays the main part, both in the past and today in this regional variation in population ageing. Until the sharp drop in the birth rate of the 1970s, natural population growth was particularly strong in the catholic regions in the south and east of the country. Now, over half a century after the start of the baby boom, these regions are undergoing a sharp rise in the number of inhabitants aged over 45 (figure 24). This means the population in these areas has shifted from a relatively young profile to a relatively old profile. Natural population growth in orthodox protestant circles has dropped less sharply than the national average. Consequently, the ageing effect is relatively limited in the so-called Bible Belt; the zone with a substantial proportion of orthodox protestants in the population.

Rejuvenation through immigration

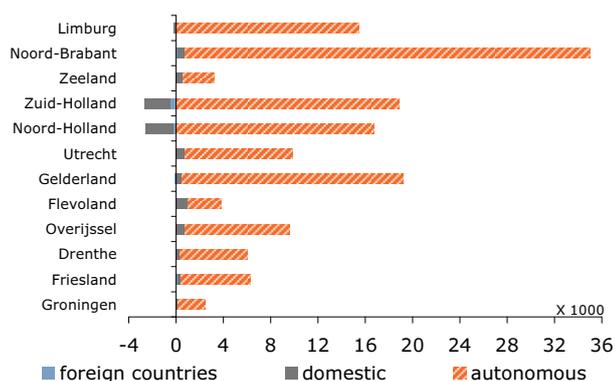
In the major urban areas of the west of the Netherlands, and in a number of regions in the north, immigration is also a significant factor that influences population ageing. Firstly, these regions on balance undergo a strong influx of mainly young foreign immigrants. In addition, a sizeable number of these migrants come from cultures where large families are customary. Although this traditional attitude has weakened over time, for Moroccan women in particular, the average number of children (3) is still well above the national average of 1.7⁴.

Age-related migration within the country

Finally, migration within the country plays a part in the regional differences in population ageing. Significantly, it is the migration of younger age groups rather than of older people that can affect the regional age profile. Younger age groups are far more mobile than older groups (figure 25). Less than 2% of older people move to a different municipality annually, whereas in the case of young adults, this is almost 9%. They relocate for work or study reasons to the (big) cities, often situated in the heart of the country. Consequently, the urban population is relatively young. Then, when they enter the phase of starting a family, many leave the city for the suburbs or dormitory towns, also mainly in the central part of the country. After the children have left home, older people often move to more rural areas. This migration flow also affects regions at the periphery of the country; in Zeeland, Drenthe and Friesland (figure 26).

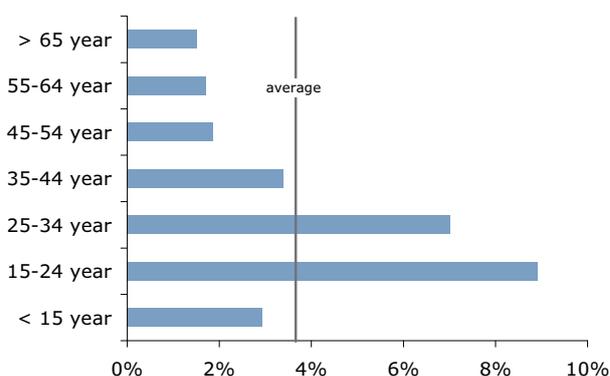
⁴ RPB, 2006: Background and assumptions underlying the PEARL model

Figure 24: Breakdown of average annual growth of 65+ per province 2001-2005



Source: ABF-Research

Figure 25: Average annual domestic migration per age category 2000-2004



Source: ABF-Research

Dutch Housing Market Quarterly

Continuation of the pattern

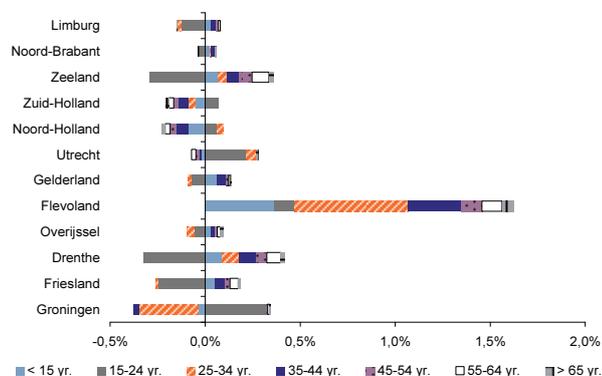
Despite these regional differences, the whole country is likely to experience an increase in the number and proportion of older people in the population. This increase will be lowest in municipalities where the natural population growth is highest. This is the case in a number of towns in the 'Bible Belt', such as Urk, Renswoude and Bunschoten, as well as in towns with large new housing development, such as Lansingerland, Barendrecht, Utrecht (Leidsche Rijn) and Almere. Besides, there will be little change in migration patterns, either externally or internally. Accordingly, the regional pattern of areas with greater or lesser degree of population ageing will remain unchanged. The population will remain relatively young in the centre of the country and in the cities; the north, east and south will have a relatively older population.

And the housing market?

In these regions, older groups will therefore account for a relatively large share of the demand for housing. However, this does not mean that house-building specifically for older people should take place as soon as possible. Renovating existing houses would appear to be a better and cheaper strategy. Older people are not uniform in their housing wishes: these can vary from 'secure and together' to total integration with other population groups, and from 'rural peace and quiet' to urban and lively.

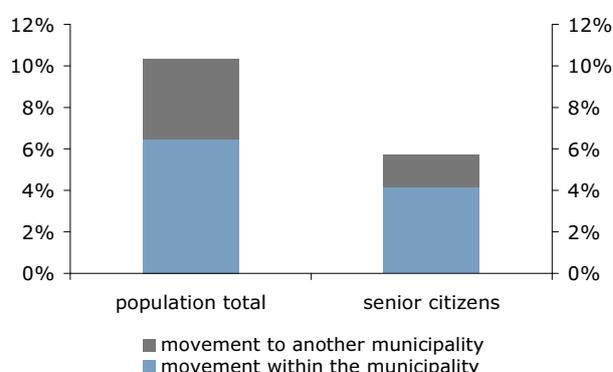
A factor that cannot be overlooked is that Dutch people remain in reasonably good health until around the age of 75. Until their health deteriorates or they lose a partner, there is little reason for older people to leave their familiar environment, and in fact they are less inclined than other population groups to move house. While on average, some 30% of the Dutch population indicate an intention to move house within two years, the rate among older groups is less than 15%. And when older people do move home, it is relatively often within the same municipality, and even then they are less mobile than average (figure 27). Not until the age of 75 do people generally start to find their lives seriously disrupted by health complaints and feel the need to move house. For this reason we will not see a marked increase in relocation willingness among older groups for quite some years. Not until around the year 2020, three-quarters of a century after the start of the baby boom, will older people move house in greater numbers.

Figure 26: Breakdown of average annual migration balance 2000-2004



Source: ABF-Research

Figure 27: Average annual domestic migration and within-municipality relocations 1995-2006



Source: ABF-Research

Dutch Housing Market Quarterly

Housing market outlook

The Dutch non-rental housing market is showing signs of some stagnation. In 2007, 3.5% fewer houses were sold than in 2006, while supply rose by 5.4%. These developments are not beneficial for movement on the housing market. At the same time, house prices rose further, albeit not at the same rate as in previous years. On a positive note, the 12-month total of new housing output in the non-rental sector rose by over 2,500 homes, and has now regained the level of 2002.

Economic prospects remain good for the Netherlands in 2008, but less positive than last year. The Dutch economy is still going at full throttle, but growth will let up somewhat this year. For 2008 we anticipate a growth rate of 2¾%, which will be accompanied by significant downward risks. One of these risks concerns economic growth among our European neighbours. If this should disappoint, then there will be a knock-on effect for growth prospects in the Netherlands. A second risk lies in the impact of the credit crisis on the real economy. The problem here may be that less credit will be issued, or that credit will become more expensive, due to higher risk premiums.

With regard to the labour market, we envisage a further drop in unemployment and employers struggling with labour shortages in certain sectors. The employment participation rate will therefore rise, and the ensuing tightness on the labour market may push up wages in 2008. Real disposable household income will increase as a result. Notwithstanding these developments, consumer confidence dropped sharply in September 2007 and has since levelled off at a lower level than previously. More favourably however, the sub-indicator of spending willingness which is important to the housing market, has returned to a positive level.

Despite the current favourable economic climate, the Dutch housing market is threatened with stagnation. The mismatch, both in terms of quality and quantity between demand and supply in various regions, is the main reason for this. The regions with the greatest degree of mismatch also show the greatest price development. Within regions there may also be differences relating to specific house types or neighbourhoods.

The affordability of purchasing a home may improve somewhat in 2008. This will be brought about by the expected wage rises on the one hand, and by developments on the capital market on the other. At the same time we do not expect the lower capital market interest rates to translate into lower mortgage rates to any great degree. This is because the risk premiums of financial institutions are higher than those of other companies. Although first-time buyers may be able to benefit from improved affordability, they will nonetheless have to dig deep in 2008 to purchase their first house. This may lead them to conclude that a home of their own in a specific region is still out of their reach for the time being.

We expect the average house price to rise further in the Netherlands. This is based on our expectation of ongoing strong economic growth, the anticipated rise in wages which will make houses more affordable, and the fundamental shortage on the Dutch housing market. However, stagnation in the market will result in a limited house price rise of 3¼% in 2008.

Dutch Housing Market Quarterly

Key figures

House Prices

Year-on-year change (%)	2005	2006	2007	2008 ^a
NVM (median house price)	5.1	4.8	3.3	3¼
Land Registry (average house price)	4.7	5.9	5.3	-

Totals

x 1000	2005	2006	2007	2008 ^a
Sales transactions	207	210	202	200
Newly built homes	67	72	75 ^a	80

Totals

	2005	2006	2007	2008
Enforced Sales	1,911	1,968	1,811	-

Key economic figures (December 2007)

	2005	2006	2007	2008 ^a
GDP (growth, %)	1.5	3.0	3¼ ^a	2¾
Inflation (%)	1.7	1.1	1,6	2¼
Unemployment (x 1000)	483	413	344 ^a	297

Rabobank affordability index

x 1000	2005	2006	2007	2008 ^a
Affordability index ^b	106	95	84	88

Interest rates^c

Level (%)	19 February 2008	+3m ^d	+12m ^d
3-month Eurozone	4.36	3.84	3.63
10-year Euroswap	4.47	4.23	4.50
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 November 2007 monthly average, DNB

Colophon

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Completion date: 19 February 2008

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