



Asset Management

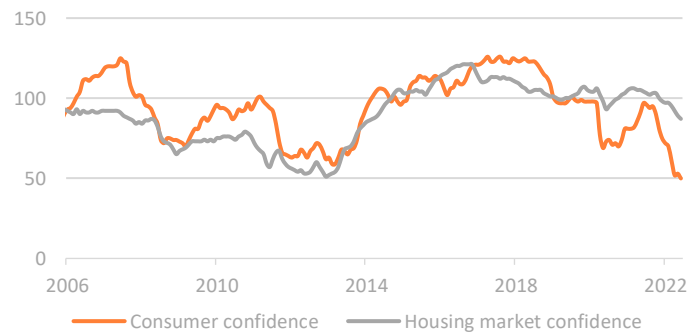


# Dutch housing and mortgage market Update Q2 2022

## Economic indicators

### Confidence indicators

Source: CBS & VEH



### Annual inflation rate

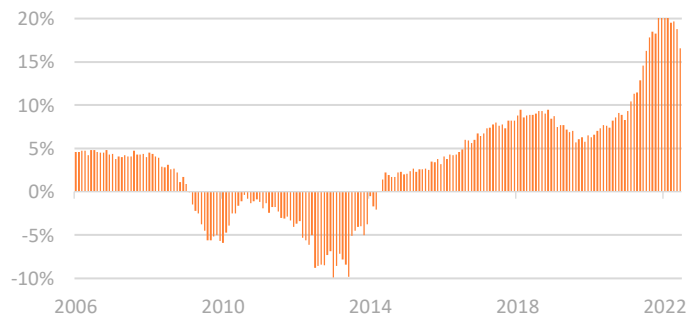
Source: CBS



## Dutch Housing market

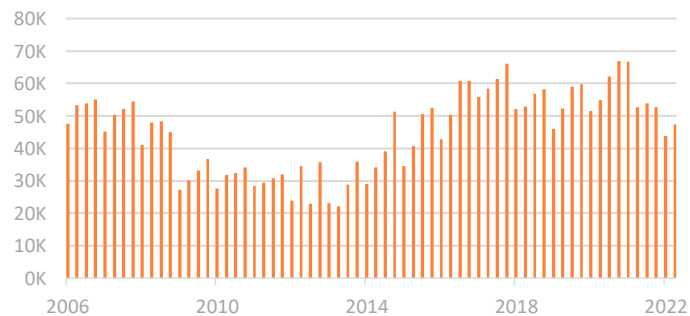
### Price development

Source: Land Registry / CBS



### Transactions

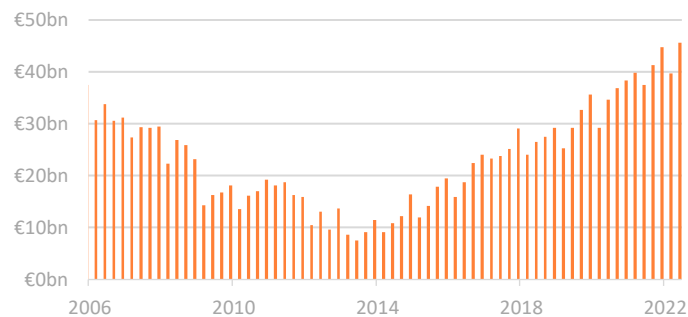
Source: Land Registry / CBS



## Dutch Mortgage market

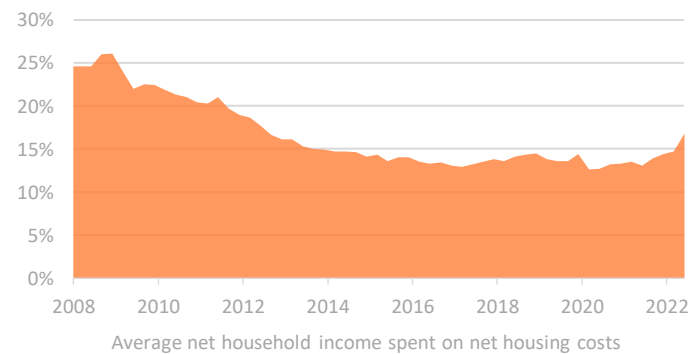
### Market volume

Source: Land Registry / DMFCO



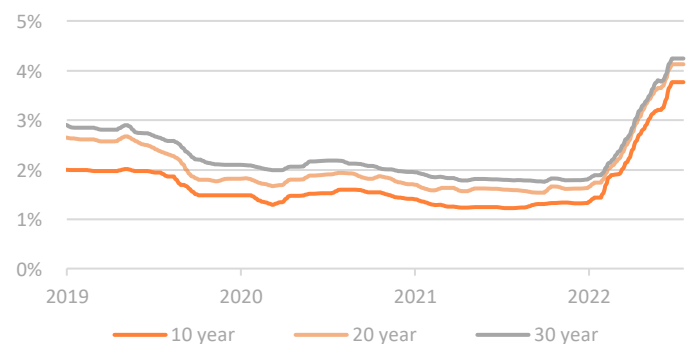
### Affordability index

Source: Calcsa



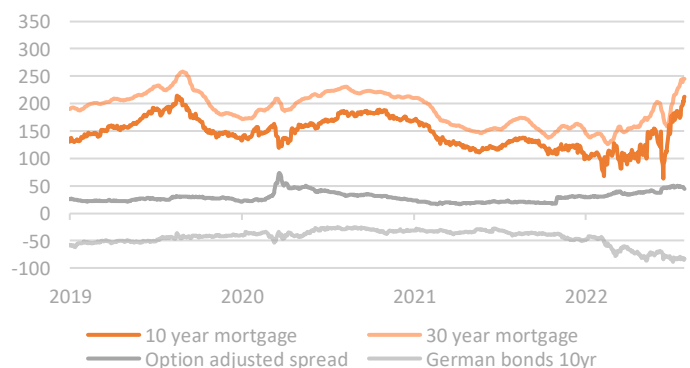
### Mortgage rates

Source: DMFCO, end of July



### Spreads (BPS)

Source: DMFCO / Bloomberg, end of July



**During Q2 2022, the Dutch mortgage market made a substantial turn. What was assumed to be the status quo in the last few years in terms of borrower preferences, changed significantly due to rapidly rising interest rates. As a consequence, volumes of shorter fixed interest rate periods became higher, while the share of refinancers declined substantially. Nevertheless, the mortgage market continued to perform well with a high number of applications.**

## Main developments

During Q2 2022, growing concerns about inflation increasingly started to impact daily life. Besides boosting interest rates, inflation increasingly affected various industries. The spillover of inflation was and still is reflected in higher energy and production costs, which subsequently raised the price of commodities. As a result, the European Central Bank (ECB) took various actions, such as strongly increasing its key interest rates (+0.5%).

Currently, the economy is still performing relatively well, however, inflationary pressures and rising interest rates have a negative impact on consumer confidence. The decline in consumer confidence is mainly driven by a negative outlook for the next 12 months in terms of financial and economic stability.

The current economic environment has affected the housing and mortgage market significantly. The most important development was the significant decline in the share of refinancers. Besides that, the higher interest rates caused a reduction in the maximum borrowing capacity of households. As a result, borrower preferences concerning fixed-rate periods have shifted from longer to shorter term.

Supported by the extremely high number of applications during Q1 2022, the mortgage market experienced a record number of originated mortgages (136,000) and mortgage volume (€46bn) during Q2 2022. The number of applications remained roughly the same (142,000) as in the same period in previous years. In July however, the number of mortgage applications dropped significantly compared to previous years, mainly driven by a sharp decline of refinancers (-72% YoY).

Contrary to the consistently high mortgage volumes, the number of housing transactions declined to roughly 47,000 (-10.2% YoY). While this is consistent with recent quarters of gradual decline, the number of transactions is still at a higher level than prior to 2016.

Although the descending trend is often attributed to the persistent housing shortage, NVM brokers are also noticing a slowdown in housing transactions due to cautious buyers as a result of the changing dynamics in the housing market. Consequently, this leads to an increase in houses for sale.

In line with the declining number of transactions, the slowdown in house price growth currently appears to be turning into stabilisation of house prices.

Despite rapidly rising mortgage interest rates, the Dutch mortgage market continued to perform very well with historically low levels of losses and arrears. Additionally, the attractiveness of the asset class has also improved in recent months due to the significant widening, more than 100 basis points on average, of mortgage spreads as a result of decreasing risk-free rates.

## Economic indicators

Although the Dutch economy benefitted from the reopening of the economy and a strong labour market during the first quarter of 2022, the economy is currently facing several challenges. With the continuing war in Ukraine, energy supplies will remain disrupted, thereby sustaining the high level of inflation. In addition to inflationary pressure, economic uncertainty will further dampen consumer confidence, potentially leading to a deceleration of economic growth.

### Economics

According to the International Monetary Fund (IMF), the outlook for the global economy has become significantly less positive since April. This is primarily driven by the impact of high inflation on household purchasing power, continuous supply constraints and higher economic uncertainty.

The above-mentioned factors are also reflected in the conditions of the financial markets globally. As a result of the more aggressive approach to monetary tightening by the Fed compared to the ECB, the euro fell to its lowest point in twenty years and is now worth roughly as much as a dollar<sup>1</sup>. As a negative side effect, the depreciation of the euro exchange rate has an additional upward effect on inflation.

Policymakers are facing a dilemma now that the economic outlook is rapidly deteriorating. On the one hand, it is undesirable to allow interest rates to rise further since this has a negative effect on indebted households and businesses, but also on government bonds of some European countries with high government debts relative to their economy. On the other hand, persistently high inflation is not an option either because it will erode consumers' purchasing power and therefore general confidence in the economy.

The ECB expects that inflation will remain undesirably high for some time, particularly in the short term. Therefore, the ECB accelerated the tightening of monetary policy by increasing the key ECB interest rates by 50 basis points rather than the aforementioned 25 basis points, in order to bring down inflation in the medium term.

### Inflation

Induced by supply and demand shocks during the COVID-19 pandemic, inflation in the Netherlands started to rise in the second half of 2021. At that moment, this was primarily caused by global supply chain bottlenecks as a result of the pandemic. Problems concerning supply chain bottlenecks worsened when economies started to ease restrictions and consumer demand increased again.

Together with persistent supply bottlenecks for industrial goods, rising prices for energy and food are the main contributors to the current record level of inflation (8.6% in June, YoY).

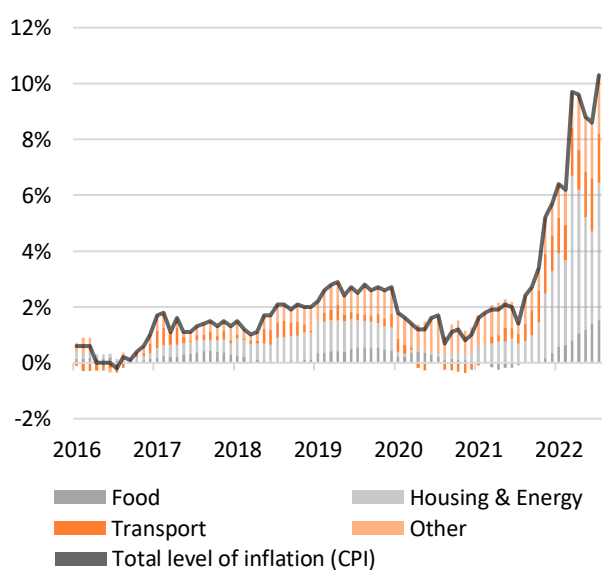


Figure 1: Inflation in the Netherlands, end of June 2022 (Source: CBS)

<sup>1</sup> On 22 July, the euro reached the same value as the dollar, resulting in parity for the first time in 20 years.

Energy costs are driving up production costs which has a ripple effect on the prices of goods across more and more sectors. In addition to higher energy prices, some industries have difficulties sourcing agricultural goods, since the production and supply of these goods are limited due to the war in Ukraine.

Widespread inflation is currently affecting low and middle-income households. Therefore, the Nibud and the central planning agency (CPB) are concerned households will experience problems with higher prices for basic needs such as energy, food and other important commodities.

Because of the growing concerns, the government intervened through financial measures such as tax cuts and compensation for low incomes to partially cover rising energy bills. Besides the support from the government, households are also changing their consumption habits, paying more attention to the price of products.

### Confidence indicators

The economic environment, with high inflation and rising interest rates, is causing several problems for consumers, resulting in a sharp decline in consumer confidence.

At the end of Q2 2022, consumer confidence<sup>2</sup> in the Netherlands reached its lowest point ever (50). The lack of confidence is mainly driven by pessimism about the economic outlook and their financial situation for the next 12 months. As a result the willingness to buy non-essential and more expensive goods declined.

In line with consumer confidence, housing market confidence<sup>3</sup> declined to the lowest point (87) since early 2014. Whereas uncertainty previously stemmed from the lack of available properties, the recent decline was primarily driven by higher mortgage interest rates.

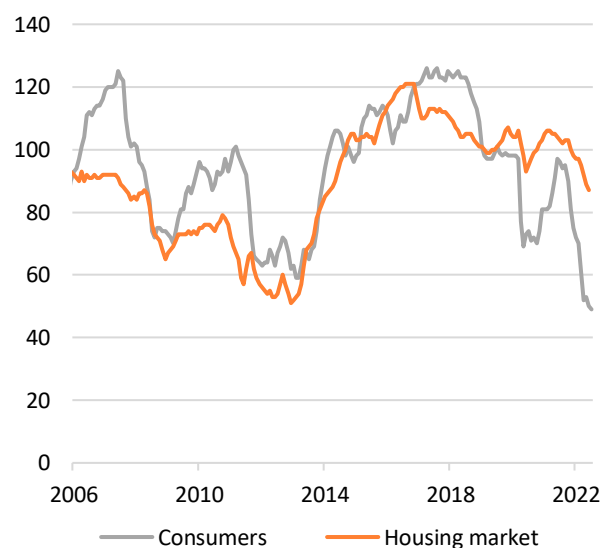


Figure 2: Confidence indicators, end of June 2022 (CBS & VEH)

### Unemployment

Since the financial position of households has deteriorated, a strong and robust labour market is essential. With a general unemployment rate of only 3.3% and an unemployment rate of youngsters (15-25 year) of 7.2%, the labour market offers some counterbalance to the loss of purchasing power of households.

The current low level of unemployment and a particularly large number of vacancies have translated into gradually increased wages over the last few months. Although the wage growth is insufficient to fully compensate for the rise in inflation, it provides workers a more comfortable feeling about their future income despite the economic setback. In addition to wage growth, most Dutch pension funds have indexed their pensions.

<sup>2</sup> The indicator has a range between 0 (negative) and 200 (positive). A value of 100 is neutral.

<sup>3</sup> The indicator has a range between 0 (negative) and 200 (positive). A value of 100 is neutral.

## Housing market

Rising mortgage interest rates and growing economic uncertainty seems to be cooling down the Dutch housing market slightly. This is also reflected in the number of transactions and stabilising house prices.

### Transaction volume and housing supply

During Q2 2022, the number of transactions was roughly 47,000, 7.9% higher than in the previous quarter. However, when compared with the same period last year, the number of transactions fell by 10.2%.

When considering the number of transactions on a 12-month rolling basis, the market has declined sharply over the past year. Whereas the 12-month average reached a record in June 2021 with almost 250,000 transactions, the number of transactions in June 2022 was down to almost 200,000. From a historical perspective, however, the nearly 200,000 transactions are still high.

The declining number of transactions is not a stand-alone effect, but a result of the changing situation in the housing market. Whereas the persistent housing shortage used to be the main problem, increased interest rates and economic uncertainty are now causing additional challenges.

According to the NVM, the market dynamics are changing. Sellers are bringing their sales forward, while buyers seem to be more cautious. NVM brokers are also noticing a slowdown in housing transactions, with fewer viewers, fewer bids and less outbidding. Despite the slowdown, the period a home is for sale is at 24 days still relatively short.

In order to illustrate these market dynamics, we consider the market tightness indicator. This indicator measures the ratio between transactions (demand) and the current number of houses for sale (supply). While the ratio reached its lowest point of 1.3 in Q4 2021, market tightness improved slightly to 2.1 during Q2 2022. This indicates that prospective buyers, on average, have the choice between 2.1 properties on offer.

Although the number of transactions is decreasing and number of houses for sale is increasing at the national level, there are still large disparities at the regional level. While the number of transactions appears to be decreasing in urban areas, the number of transactions is increasing in rural areas.

### New construction and housing shortage

Unfortunately, the growing number of houses for sale in recent quarters cannot be attributed to new constructions. This is because there are several challenges related to obtaining permits and the completion of construction projects.

When applying for permits, contractors are faced with a shortage of building sites, complex project development, capacity problems in municipalities to process applications, and perhaps most importantly, environmental problems such as nitrogen emissions.

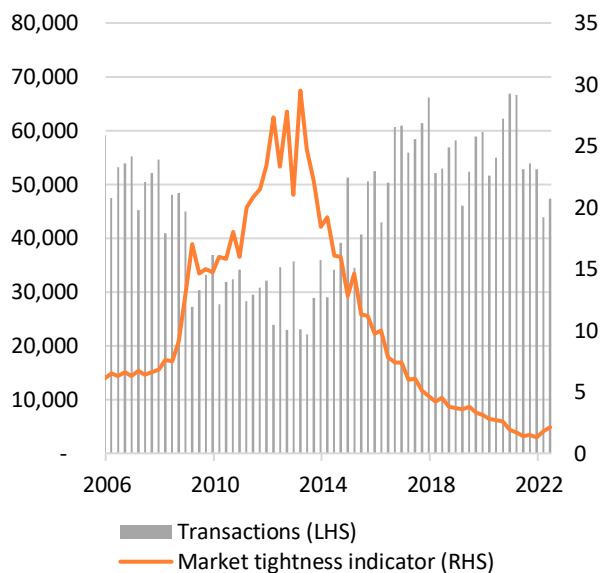


Figure 3: Number of transactions & tightness indicator, end of June 2022 (Source: CBS, Land Registry) & (Source: NVM)

When these problems are overcome, contractors face additional issues such as rising costs of construction projects, potentially resulting in financially unviable projects. This is due to increased prices of construction materials, but also the result of rising interest rates. Besides that, there is also a persistent shortage of workers in the construction industry.

The above has resulted in the current situation where the number of granted permits is still below target (71,000 on a 12-month average). In line with this, the number of new homes completed has not shown any significant increase for several years now. At the end of June, the number of newly built homes over the past 12 months was only 71,000, far below the government’s ambition of 100,000 homes a year.

### House prices

In Q2 2022 house prices rose by 18.4% YoY, which is from a historical perspective a record increase. However this is lower compared to the house price increase of 20.3% YoY during Q1 2022. The gradual flattening of house price increases in the Netherlands is presumably due to economic uncertainty, a higher interest rate and the changing dynamics between home buyers and home sellers. While these factors have a stabilising or even a decreasing effect on house prices, structural housing shortage will counterbalance this and will continue to push price growth.

When considering the nominal value of Dutch houses, the stabilisation of prices is apparent. Even though the nominal value of an average house increased to €429,000 (an increase of 17.3%YoY), the QoQ increase is only 0.5%.

During Q2 2022, the corresponding house price development on a monthly basis were 0.67%, 0.01% and -0.03%<sup>4</sup>. These growth rates are also more consistent with market signals. Therefore, the high annualised rate is currently a less representative measure, as it does not take the stabilisation of the nominal value of an average house into account.

### Mortgage market

As a result of rapidly changing interest rates, the mortgage market experienced a historical record high in mortgage applications during Q1 2022, followed by a strong shift of borrower preferences in recent months. Together with the shift in preferences, the share of refinancers has fallen sharply. Nevertheless, the volume of originated mortgages remained high in Q2 2022.

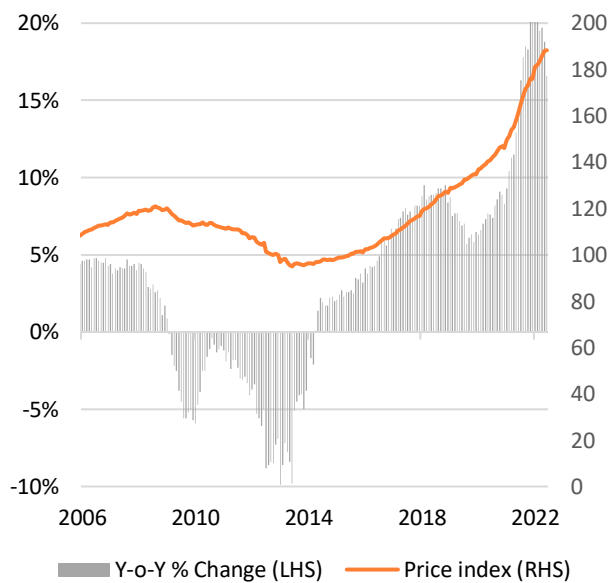


Figure 4: House price development 2015=100, end of June 2022 (Source: CBS, Land Registry)

<sup>4</sup> Respectively, March compared to April, April compared to May and May compared to June

### Mortgage interest rates

Due to the rapid rise in risk-free interest rates starting in February, mortgage lenders quickly increased mortgage interest rates in Q1 and Q2. Mortgage interest rates are now at 2015 levels and have stabilised at the end of Q2.

### Mortgage applications

While the number of mortgage applications rose significantly in the first quarter to a record level of 191,000, the number of applications declined in the second quarter (142,000) to roughly the same numbers as previous years. When combining both quarters, H1 2022 reached a record number of 333,000 mortgage applications. Compared with previous years, the number of applications increased by 17.1% (H1 2020) and 16.5% (H1 2021).

There has been a remarkably fast shift in borrower preference for fixed-rate periods in recent months. Prior to August 2019, the market share of mortgage loans with a fixed-rate period of 10 and 20 years were roughly equal. However, after August 2019, mortgage interest rates started to decline more explicitly. As a result, borrowers were more inclined to benefit from these lower mortgages rates and consequently wanted to lock them in for a longer period of time.

At the end of 2021, almost 80% of mortgage applications consisted of mortgages with a fixed rate period of 20 years and longer. This trend has reversed completely, following the rate hikes in early 2022.

Another development is related to the different loan-to-value (LTV) categories. As mentioned, there was a substantial increase in refinancing during Q1. As refinancing occurs most frequently with low LTV mortgages, the demand for these loans (60% and 80%) increased significantly.

However, due to the increased mortgage interest rate, refinancing an existing mortgage became less attractive. The shares of 60% and 80% LTV mortgages declined and are now roughly at the same level as NHG and >90%.

### Number of originated mortgages and market volume

In Q2 2022, mortgage volume reached a record level of €46 billion (+15.0% QoQ and +21.6% YoY). In the same period, the number of originated mortgages increased to 136,000 (+15.6% QoQ and +10.4% YoY). However, an important disclaimer should be made about these levels.

The record volume as provided by the Dutch land registry is primarily based on the record high number of mortgage applications in Q1 2022 as a result of the record high refinancing market. This is because the number of applications, and therefore the volume, acts as a predictive factor for the actual volume in the mortgage market. For example, a typical mortgage application often takes a couple of months

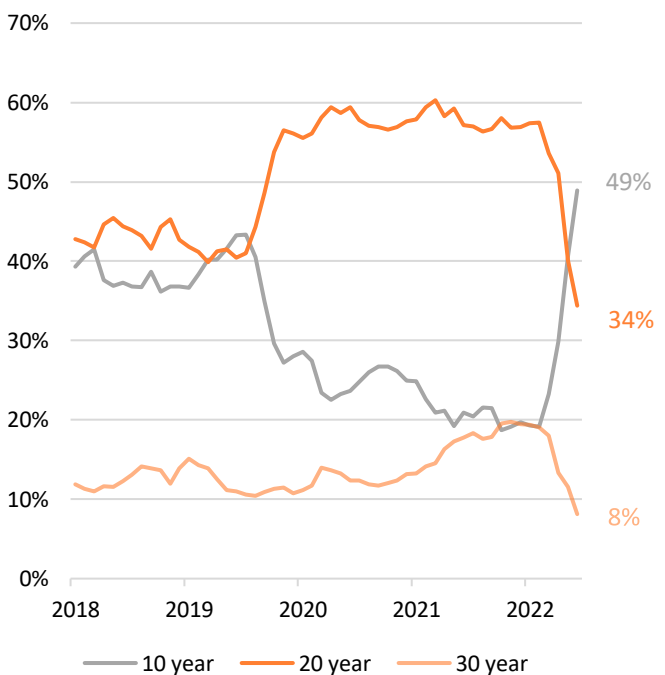


Figure 5: Market share distribution per fixed-rate period, end of June 2022 (Source: HDN)



to pass at the notary and to be registered by the Dutch land registry. Only after that has taken place, the mortgage is included in the mortgage volume data.

The same holds when the number of applications and hence the volume are decreasing, like in recent months. In such a situation, you may assume that the mortgage volume provided by the Dutch land registry will be lower too in the coming months.

### Affordability

While mortgage rates have doubled and inflation has soared, it does not necessarily result in problems for existing mortgages yet. This is because Dutch lending standards are generally conservative, and hence generous enough to cover unexpected shortfalls or extra costs. The standards are based on affordability criteria, such as housing costs and the income-based borrowing capacity of households, and advised by the National Institute for Family Finance Information (NIBUD) and set by the Dutch government.

However, the current situation with high interest rates and persistent inflation is expected to affect new mortgage loans, since the monthly costs of households' are rising. Therefore, to maintain the robustness of the Dutch housing market, the affordability criteria will be tightened from 2023, especially for households with a low-income.

The adjustment of the affordability criteria is based on a four-year timeframe, ensuring that the borrowing capacity is not over-extended when the economy is doing well, while it has to be restricted again when the economy is facing difficulties. Therefore, the effect of the current decline in purchasing power due to inflation will be limited in the new criteria.

### Mortgage spreads

In recent months, mortgage spread levels have been very volatile. These fluctuations were a direct reflection of the volatility in the financial markets and the rapid increase in risk-free interest rates. As a result, spreads were very tight during the first months of 2022 and even, briefly, reached historic lows.

After a decline in risk-free interest rates in recent weeks due to economic uncertainty, mortgage spreads have widened. The widening of spreads caused the aggregated spread for 10, 20 and 30 year fixed-rate periods to increase by more than 100bps on average compared to early 2022

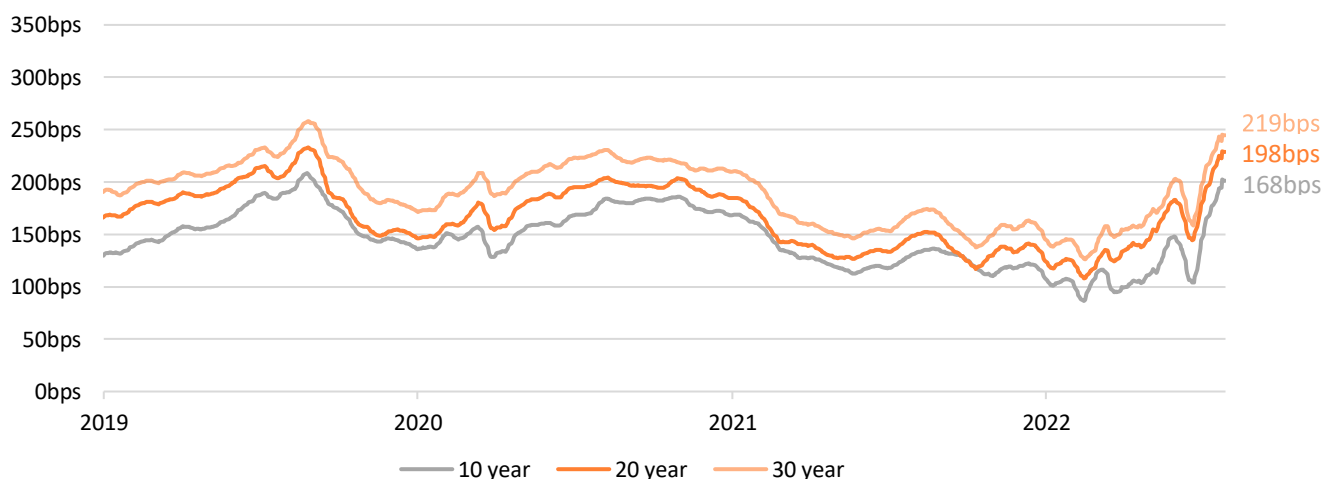


Figure 6: Dutch residential mortgage spreads w.r.t. EUR swap, end of June 2022 (Source: DMFCO)

## Annex I: Key indicators

Indicator	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q-o-Q	Y-o-Y
Consumer confidence	97	95	75	61	50	-11 points ↓	-47 points ↓
Housing market confidence	104	103	98	95	87	-8 points ↓	-17 points ↓
General unemployment	4.3%	4.1%	3.8%	3.5%	3.3%	-0.2% ↓	-1.0% ↓
Inflation	2.0%	2.7%	5.7%	9.7%	8.6%	-1.1% ↓	+6.6% ↑
Mortgage applications	146,655	119,393	157,042	191,293	142,019	-25.8% ↓	-3.2% ↓
Mortgage volume	€37.49	€41.25	€44.65	€39.66	€45.60	+21.62% ↑	+10.36% ↑
# of originated mortgages	123,228	128,726	134,609	117,692	135,997	+14.97% ↑	+15.55% ↑
House price index	158.4	168.6	175.1	182.4	187.5	+0.3% ↑	+18.4% ↑
Average purchase price	€365,702	€400,935	€402,726	€426,787	€429,010	+0.5% ↑	+17.3% ↑
Transactions	52,787	53,875	52,798	43,923	47,382	+7.9% ↑	-10.2% ↓
10 years mortgage interest rate	1.24%	1.30%	1.33%	2.21%	3.76%	+1.55% ↑	+2.52% ↑
20 years mortgage interest rate	1.62%	1.54%	1.63%	2.57%	4.12%	+1.56% ↑	+2.51% ↑
30 years mortgage interest rate	1.80%	1.76%	1.80%	2.66%	4.25%	+1.59% ↑	+2.44% ↑
10 years mortgage spread	118.70	121.83	105.34	104.37	167.53	+63.17 bps ↑	+48.84 bps ↑
20 years mortgage spread	133.84	121.28	121.43	139.97	198.46	+58.50 bps ↑	+64.63 bps ↑
30 years mortgage spread	153.64	142.44	142.46	156.59	218.60	+62.01 bps ↑	+64.96 bps ↑

## Glossary

Sources	Definition
<b>ABF research</b>	Research agency in the Netherlands focusing on people, areas, and organisations.
<b>AFM</b>	Dutch Authority for Financial Markets
<b>Calcasa</b>	Calcasa is an independent technology company specialising in real estate valuation.
<b>CBS</b>	Dutch Central Bureau of Statistics
<b>CPB</b>	Dutch Bureau for Economic Policy Analysis
<b>DNB</b>	Dutch Central Bank
<b>HDN</b>	Hypotheek Data Netwerk: This is a cooperative association consisting of almost all mortgage providers, which covers ~80% of all mortgage applications in The Netherlands.
<b>IG&amp;H</b>	IG&H is a leading consulting and technology firm specialising in the retail, financial and healthcare sectors.
<b>Kadaster</b>	Land Registry and Mapping Agency collects and registers administrative and spatial data on property and the rights involved.
<b>NHG</b>	National Mortgage Guarantee
<b>NVM</b>	NVM is the largest association of real estate agents and appraisers in the Netherlands. Almost 75% of Dutch houses are sold by NVM real estate agents.
<b>Primos</b>	The Primos model provides a forecast of the number of inhabitants, the number of households, the housing stock, and the quantitative housing requirement. Primos is part of ABF research.
<b>VEH</b>	An independent association helping households to buy/sell and to live in their homes sustainably and affordably.

## Explanation of the indicators

Indicator	Source	Definition
<b>Affordability</b>	<b>Calcasa</b>	The percentage of the net monthly income spent on net housing costs.
<b>Building plots</b>	<b>Kadaster</b>	The number of pieces of land on which the zoning plan, as documented in the housing act, is housing or commercial property
<b>Consumer confidence</b>	<b>CBS</b>	The consumer confidence indicator measures the consumers sentiment measured as percentage points of the total answers to the questions on the economic situation of the last and upcoming 12 months, the financial situation of the last and upcoming 12 months and whether now is the right time to make large purchases.
<b>GDP</b>	<b>CBS</b>	GDP is a quantity that expresses the size of an economy by taking the sum of final uses of goods and services (final consumption/gross capital formation) plus exports and minus imports
<b>House prices</b>	<b>CBS /Kadaster</b>	The house price index for existing owner-occupier homes is based on all sales transactions recorded by Kadaster as well as municipal valuation of all homes in the Netherlands.
<b>Housing shortage</b>	<b>ABF research</b>	The housing shortage is the difference between the housing requirement that is not met (demand side) and the available supply.
<b>Market share</b>	<b>Kadaster / DMFCO</b>	Based on mortgage registrations provided by Kadaster, the market shares of different lenders are determined.
<b>Market tightness indicator</b>	<b>NVM</b>	The NVM Shortage indicator gives an approximation for the number of options that a potential buyer has on the housing market. The indicator is normally calculated as the offer at the beginning of the month divided by the number of transactions in that month. The NVM covers approximately 75% of the market.
<b>Mortgage spreads</b>	<b>DMFCO</b>	The difference between the mortgage interest rate and the interest rate on a 10-year swap.

<b>Mortgage volume</b>	<b>Kadaster</b>	The total annual mortgage turnover together with the total number of mortgages provided annually.
<b>Newly built properties / granted permits</b>	<b>CBS</b>	The number of granted <i>building permits</i> ('building environment permits with activity') as documented in the Housing Act. The number of <i>new constructions</i> added to the existing stock. The data comes from the Key Register of Addresses and Buildings (BAG).
<b>Transactions</b>	<b>Kadaster</b>	Number of home sales registered by the Kadaster and conducted by a notary
<b>Unemployment</b>	<b>CBS</b>	The number of people who are between 15 and 75 years old who are not in work but are both actively searching for paid work and are directly available to work.
<b>VEH indicator</b>	<b>VEH</b>	Indicator for confidence in the Dutch owner-occupied housing market/willingness to buy a house.



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