DMFCO Asset Management

Dutch housing and mortgage market
Update Q1 2022

The first quarter of 2022 was characterised by quickly rising interest rates, driving consumers to lock-in the – still low – mortgages rates. As a result, the mortgage market reached a record in mortgage applications leading to a total mortgage volume of nearly €40 billion.

Overall, the first quarter resulted in a balanced picture. However, as of the second quarter, the impact of the conflict in Ukraine, inflationary pressure as a result of higher energy prices and further interest rate developments will play a defining role.

Main developments

At the beginning of 2022, the government decided to lift all restrictions after a prolonged period. This allowed the economy to continue the initiated trajectory of economic recovery from Covid-19.

Despite the reopening of the country, the first quarter was also characterised by unstable financial markets due to increased economic uncertainty worldwide. These uncertainties stemmed from the conflict in Ukraine and related sanctions, changed ECB policy, inflationary pressure due to increased energy costs and supply chain bottlenecks. As a result, market interest rates rose after which mortgage lenders reacted by sharply increasing mortgage rates back to 2015 levels. Meanwhile, consumer confidence only declined further.

Despite the existing global uncertainties, the Dutch housing- and mortgage market continued to perform strongly. The number of mortgage applications in the first three months of this year has exceptionally increased compared to last year (+37.1% YoY). The rush in the mortgage market can be explained by the sharp increase in the mortgage interest rate resulting in a refinancing wave.

Consumers believed that remortgaging their current mortgage or financing a renovation through a mortgage could become more expensive in the near future. Consequently, consumers considered the increased interest rates as a reason to bring forward the decision to still benefit from a relatively low mortgage rate.

Contrary to the large number of mortgage applications, the number of sold houses declined to just below 50,000 (-25.2% YoY). The sharp decline can be explained by a large increase of home purchases during the first quarter of last year, prompted by new legislation for first-time buyers. Despite the lower number of transactions, the number of originated mortgages (118,000) and mortgage volume (€40bn) was still at a continuously high level during the first quarter of 2022.

In addition to the aforementioned factors of the housing and mortgage market, house prices experienced the largest increase ever reported (+20.3% YoY) during the first quarter, reaching an average house price of €427,000. However, the first signs of slowing house price growth are visible.

Even though the mortgage market continues to perform at high levels and mortgage interest rates are back at the levels of 2015, spreads on Dutch mortgages were still lagging behind. Especially during the first month of 2022, mortgage spreads were tight. Recently, however, spreads have become wider. Nevertheless, it is expected that the financial markets will continue to incorporate a higher risk premium in their pricing due to the global uncertainties.

Economic indicators

As of Q2 2021, the Dutch economy experienced a strong and rapid recovery from the Covid-19 recession. Although the initiated path of recovery was expected to continue throughout 2022, in particular due to the loosening of various restrictions at the beginning of the year, the economy faced various uncertainties due to the conflict in Ukraine, a further rise in inflation and problems with the supply of raw materials.

Economic growth

According to the Dutch Central Bureau of Statistics (CBS), the gross domestic product (GDP) grew by 7.0% YoY in the first quarter. Over the course of 2022, GDP is expected to grow by 3.6% (YoY). The expected economic growth is primarily attributed to the profound recovery of the economy in 2021.

The expected economic growth is subject to various uncertainties, of which the conflict in Ukraine is the most decisive one. At the moment, the most important economic consequence for the Netherlands is an even higher energy price and subsequent level of inflation.

Other effects such as on trade are still limited since the interwovenness of the Dutch economy with those of Russia and Ukraine is rather small. However, any long-term consequences are uncertain and depend, among other things, on the scope of the sanctions and duration of the conflict.

Inflation

Throughout the second half of 2021, the Dutch economy was facing inflationary pressure. One of the reasons for rising inflation were problems on the supply side of the global economy, among others, due to a shift in consumer demands (more goods, fewer services) as a result of Covid-19.

The shift in demand together with a stop-and-start pattern of the global economy during Covid-19 eventually led to global supply chain bottlenecks. These bottlenecks existed not only in terms of products but also in raw materials, limiting production as well.

With the loosening of various restrictions and the rapidly recovering economy, households started to increase their spending. The increased spending of households caused additional supply problems on top of the existing shortages, boosting inflation even more. The additional supply problems were especially reflected in capacity problems in container transport.

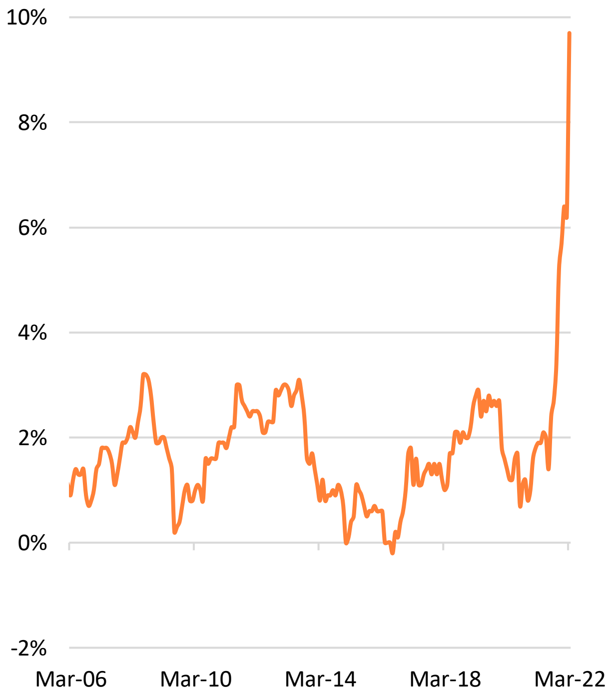

Figure 1:Inflation in the Netherlands (Source: CBS)

Besides the problems on the supply side of the economy, higher prices for energy (gas and oil) were added to the already higher rate of inflation. While the increase in energy prices already started in 2021, it accelerated at the beginning of 2022, fuelled by the incursion of Russia into Ukraine.

Since the Dutch economy is sensitive to the price of energy, the level of inflation in the Netherlands is currently one of the highest in Europe. Therefore, the government felt obliged to intervene through financial measures such as tax cuts.

Nevertheless, according to Nibud, the fear has arisen that low-income households will experience problems with the higher prices of basic needs like energy, food, and other important commodities.

Confidence indicators

As a result of the pandemic, both consumer confidence and confidence in the housing market declined. In particular, consumer confidence showed a sharp decline, suggesting that consumer confidence reacts more strongly to macroeconomic developments. However, eventually, both indicators recovered gradually to pre-pandemic levels until the newly imposed restrictions at the end of 2021.

On top of the negative effect of the newly imposed restrictions on consumer confidence, high inflation due to increased energy prices and the conflict in Ukraine resulted in a sharp decline in consumer confidence (-14 points), to one of the lowest levels ever measured by the Dutch Central Bureau of Statistics.

In line with consumer confidence, housing market confidence fell too (-3 points), however it is still at a continuous high level. The small loss in confidence can be partly explained by the difference between the buyers and seller market. With regards to the buyers' side, confidence is at its highest point since March last year. In addition, the intention to buy has stabilised for the first time after a year. On the seller side, there is a tentative decline in confidence and intention to sell. Sellers expect that the market will become more unfavourable in the coming months due to rising interest rates.

Unemployment

As a result of various government support programs during the pandemic, a huge wave of lay-offs was prevented since companies were able to keep many of their employers. However, these programs have also increased the tightness of the labour market even further since employees did not enter the market to fill vacancies in other occupations.

Especially since the economy is recovering, the mismatch in personnel between sectors and the tightness in the labour market is becoming evident. For some sectors, such as Energy, Food, Healthcare and Construction, it is increasingly difficult to find staff to fill in vacancies.

Even though it is difficult for industries to attract staff and the number of vacancies is increasing, the general unemployment rate declined to 3.5% during Q1 2022. The same holds for the unemployment rate of youngsters (15-25 year) which further declined to 7.3%, making both unemployment rates historically low.

The current low unemployment rate and economic prosperity are important for the mortgage market, since they are important factors in ensuring households are able to consistently meet their mortgage payments. Nevertheless, affordability could become under pressure from rising inflation, especially if rising inflation is not corrected by a growth in households income, as this may affect households' ability to meet their mortgage payments.

In line with the historically low levels of unemployment, the number of bankruptcies declined to the lowest level in thirty years supported by the wage-subsidy scheme (NOW) and the ability to defer taxes. However, as the governmental support ended in April 2022, bankruptcies are expected to increase in sectors which were affected most during the pandemic and inflation.

Housing market

After years of records, the overheated housing market seems to be cooling down slightly, supported by rising mortgage rates, growing economic uncertainties and structural housing shortage. Even though the market seems to be cooling down, it is still performing at a structural high level.

Transaction volume and housing supply

During Q1 2022, the number of transactions was with almost 50.000 transactions below average. When compared with the same period last year, the number of transactions fell by 25%. However, this comparison is somewhat skewed since the government changed the legislation concerning the property transfer tax in the first quarter of 2021. Therefore, first-time buyers postponed the purchase of their home en masse to the first quarter of last year.

When comparing the number of transactions in Q1 2022 to the years prior to 2021, a more representative view can be established. Compared to the first quarters of 2020 and 2019, transactions have changed by -3.4% and +8.3%, respectively.

When considering the number of transactions on a 12-month rolling basis, the market still performs at a continuously high level between 200,000 and 250,000 transactions, which is in line with the past 5 years.

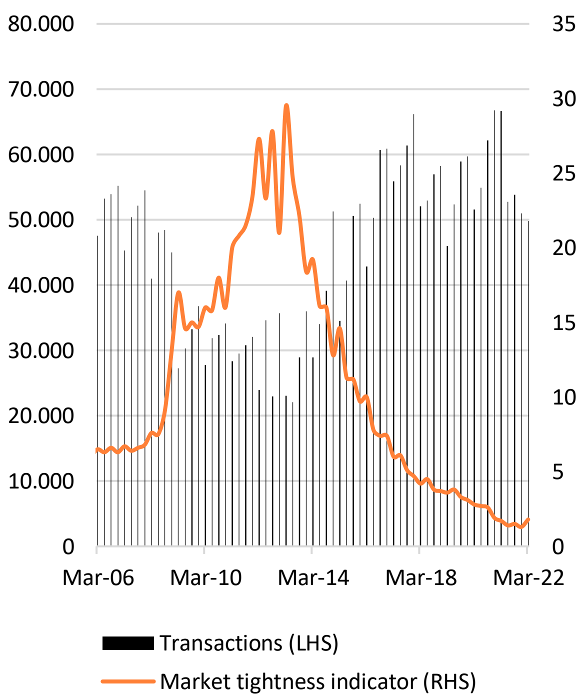

Figure 2: Number of transactions & tightness indicator per quarter (Source: CBS, Kadaster) & (Source: NVM)

Another relevant indicator is market tightness, measured as the ratio between transactions (demand) and the current number of houses for sales (supply). During Q1 2022, market tightness increased slightly from 1.3 to 1.8, indicating that prospective buyers, on average, have the choice between 1.8 properties on offer.

New construction and housing shortage

With the start of the new cabinet, a Minister for Housing & Spatial Planning has been made responsible for overseeing the market and accelerating housing construction to around 100,000 homes per year. To achieve this, the Minister has introduced the National Housing and Construction Agenda and the Housing Program.

Even though it is good practice to have a program with guidelines, it will not solve the problems in the short run as there is still a substantial backlog of issued permits.

First, the backlog in the number of granted building permits must be reduced. While the number is increasing, it is still below target (73,000 in 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 March, the number of newly built homes over the past 12 months was only 66,000, far below the government's ambition of 100,000 homes a year.

And even if enough permits are granted, it remains uncertain whether everything can be built due to environmental difficulties and rapidly increasing shortages of labour and building materials in the construction sector. Besides that, the construction industry also suffers from inflation, which makes some projects financially unviable.

House prices

Over the past years, Dutch houses have become increasingly expensive. During Q1 2022 house prices increased by 20.3% YoY, which is the largest increase since measurement began.

Nevertheless, it seems like the peak in price growth has been reached and will gradually level off due to a higher interest rate. Counterbalancing the effect of rising interest rates, the structural housing shortage will continue to stimulate price growth.

Within the housing market, nominal house prices remain high. During Q1 2022, the nominal value of an average house increased to €427,000. This marks an increase of more than 12% YoY.

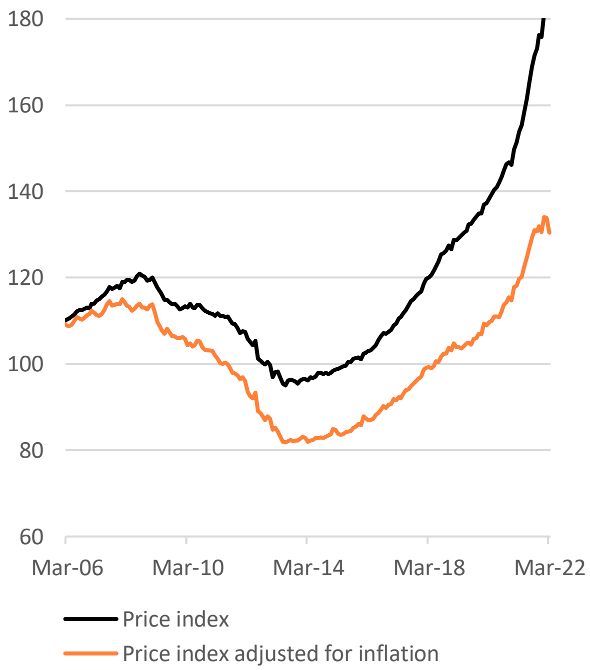

Figure 3: House price development, 2015 =100 (Source: CBS & Kadaster)

The affordability (the percentage of net household income needed to pay net housing costs) of a house is still relatively good and stable at 13-15% versus a historical average of over 20%. However, since inflation has risen sharply in recent months, households might face some restraints. It is conceivable that households will have to spend a greater proportion of their income on basic needs like energy, food, and other important commodities.

Eventually, this will leave them with less to spend on other things. Currently, the higher level of inflation due to rising energy costs are not yet included in the borrowing capacity tables of Nibud. However, if these costs are included and subsequently household income does not rise, this could potentially impact the borrowing capacity of Dutch households.

In addition to the constraints that households may face because of higher inflation, mortgage rates are rising too. For now, higher mortgage rates will primarily affect new mortgage applications, as households will not be able to borrow as much as before. This is because the cost of borrowing has increased significantly due to higher interest rates which reduces the borrowing capacity of households.

Mortgage market

The Dutch mortgage market has been performing very well for several years. This resulted in record mortgage volumes, good affordability and very low payment arrears. Against expectations, the first quarter of 2022 reached a record number of mortgage applications primarily driven by the large number of refinancers locking in the relatively low mortgage rates for a longer period of time.

Origination and volume

In Q1 2022, mortgage volume decreased to €40 billion (-11.2% QoQ and -0.3% YoY). In the same period, the number of originated mortgages decreased to 118,000 (-12.6% QoQ and -8.5% YoY).

In line with the number of housing transactions, the comparison with 2021 is somewhat skewed since the government changed the legislation concerning the property transfer tax in Q1 2021.

Therefore, when comparing the mortgage volume and origination of Q1 2022 to Q1 2020, a more representative view can be established. Compared to Q1 2020, mortgage volume has increased by 35.8% and the number of originated mortgages has increased by 16.4%.

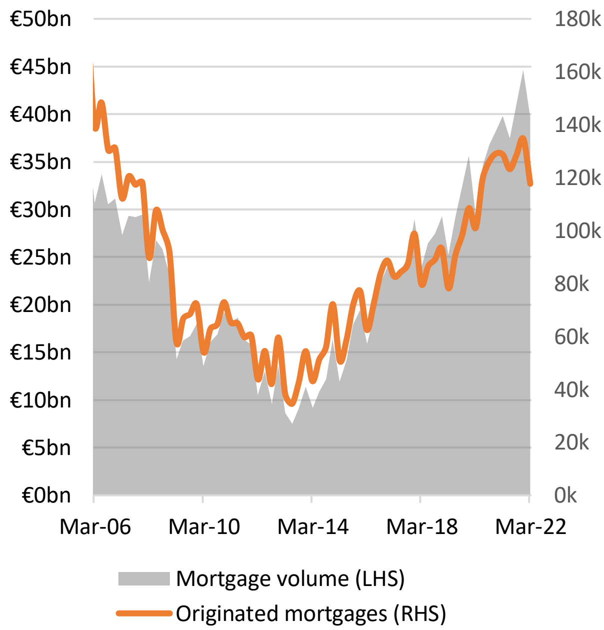

Figure 4: Mortgage market origination and volume per quarter (Source: Kadaster)

Contrary to the decreased total mortgage volume, the average mortgage amount increased from €434,000 in Q4 2021 to €462,000 in Q1 2022 (+6.35%). Looking at the same period last year, the increase is even higher (+16.0%).

The Dutch mortgage data network (HDN) reported a new record in the number of mortgage applications. During Q1 2022, HDN recorded more than 191,000 mortgage applications. After a long period of a structural high level of more than 140,000 applications per quarter on average, the increase to 191,000 in Q1 2022 was exceptional.

The high level of mortgage applications can be attributed to the increase in interest rates. As a result, consumers are bringing forward their decision to still benefit from the relatively low mortgage rates.

Although the large number of applications is good for the Dutch mortgage market, the processing of all applications puts strains on the mortgage operations of lenders. The huge inflow of applications created pressure on the application processes of intermediaries and mid-offices. Some lenders could no longer process all applications within the desired time frames. The process time of an application for some lenders even ran into weeks instead of days.

Mortgage rates

After years of low-interest rates and a relatively low level of inflation, things changed in 2021 with increasing inflation rates. This eventually led to significant volatility in capital market rates. As a result of the increased volatility and number of applications, mortgage lenders increased their interest rates at the end of 2021.

Due to those uncertainties within the financial markets and the high level of inflation, financial markets will continue to incorporate a higher risk premium in their pricing, resulting in higher mortgage rates. Currently, the mortgage interest rates have already risen to 2015 levels.

As a result of higher market interest rates, consumers might be more inclined to opt for shorter maturities because it offers more room financially. Whether this trend will continue, however, will become clear in the near future.

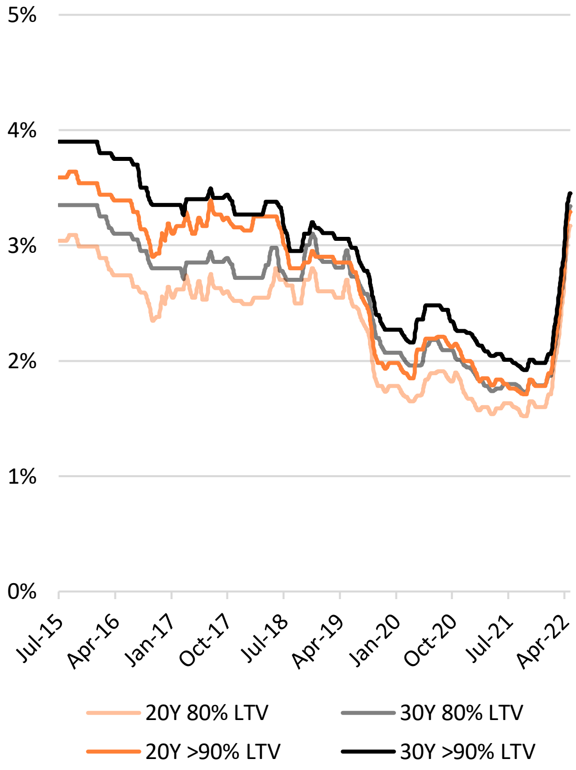

Figure 5: Mortgage rates (Source: DMFCO)

Glossary

Sources	Definition
ABF research	Research agency in the Netherlands focusing on people, areas, and organisations.
AFM	Dutch Authority for Financial Markets
Calcasa	Calcasa is an independent technology company specialising in real estate valuation.
CBS	Dutch Central Bureau of Statistics
CPB	Dutch Bureau for Economic Policy Analysis
DNB	Dutch Central Bank
ESB	Dutch economic journal (Economisch Statistische Berichten)
HDN	Hypotheken Data Netwerk: This is a cooperative association consisting of almost all mortgage providers, which covers ~80% of all mortgage applications in The Netherlands.
IG&H	IG&H is a leading consulting and technology firm specialising in the retail, financial and healthcare sectors.
Kadaster	Land Registry and Mapping Agency collects and registers administrative and spatial data on property and the rights involved.
Netspar	Network for Studies on Pensions, Aging and Retirement
NHG	National Mortgage Guarantee
NVM	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.
Primos	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.
Rijksoverheid	The Government of The Netherlands
VEH	An independent association helping households to buy/sell and to live in their homes sustainably and affordably.

Explanation of the indicators

Indicator	Source	Definition
Affordability	**Calcasa**	The percentage of the net monthly income spent on net housing costs.
Building plots	**Kadaster**	The number of pieces of land on which the zoning plan, as documented in the housing act, is housing or commercial property
Business Cycle Tracer	**CBS**	The Business Cycle Tracer offers a reliable representation of the current state of the economy by tracking the cyclical development of a selected set of lagging, coincident and leading economic indicators: GDP, consumer confidence, export, hours worked, manufacturing, house prices, unemployment, investments, consumption, bankruptcies, producers' confidence, turnover of temporary job agencies and vacancies. Click here for more information.
Consumer confidence	**CBS**	Consumers' sentiment about the general economic situation, the financial situation and whether now is the right time to make large purchases
GDP	**CBS**	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
House prices	**CBS /Kadaster**	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.
Housing shortage	**ABF research**	The housing shortage is the difference between the housing requirement that is not met (demand side) and the available supply.
LDI Assets	**Bloomberg**	LDI assets are Liability Driven Investments which in practice usually means a range of assets, such as swaps and bonds, to construct an investment strategy that closely matches the behaviour of the pension liabilities. In our market update we use German government bonds (10-year swap spread per end of November) and credits (Spread over swap Bloomberg Barclays Global Aggregate EUR hedged per end of November)
Market share	**Kadaster / DMFCO**	Based on mortgage registrations provided by Kadaster, the market shares of different lenders are determined.

Market tightness indicator	**NVM**	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.
Mortgage spreads	**DMFCO**	The difference between the mortgage interest rate and the interest rate on a 10-year swap.
Mortgage volume	**Kadaster**	The total annual mortgage turnover together with the total number of mortgages provided annually.
Newly built properties / granted permits	**CBS**	The number of granted *building permits* ('building environment permits with activity') as documented in the Housing Act. The number of *new constructions* added to the existing stock. The data comes from the Key Register of Addresses and Buildings (BAG).
Transactions	**Kadaster**	Number of home sales registered by the Kadaster and conducted by a notary
Unemployment	**CBS**	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.
VEH indicator	**VEH**	Indicator for confidence in the Dutch owner-occupied housing market/willingness to buy a house.

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