



Asset Management



Housing and Mortgage Market Update Q1 2021

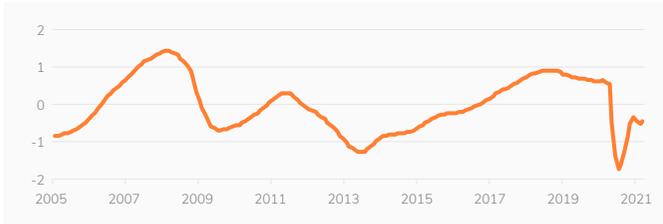
DUTCH MORTGAGE MARKET QUARTERLY



ECONOMIC INDICATORS

CBS Business Cycle Tracer

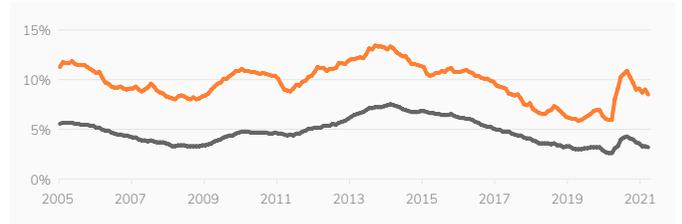
Source: CBS



According to CBS' Business Cycle Tracer the Dutch economy remains in deep recessionary stage

Unemployment

Source: CBS

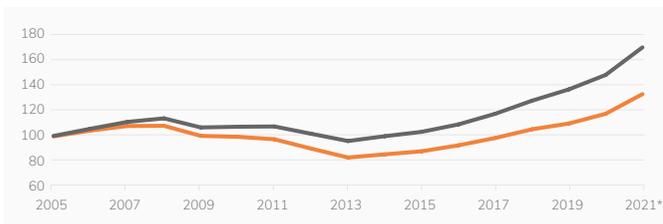


— Age 15-75 — Age 15-25

DUTCH HOUSING MARKET

House price index

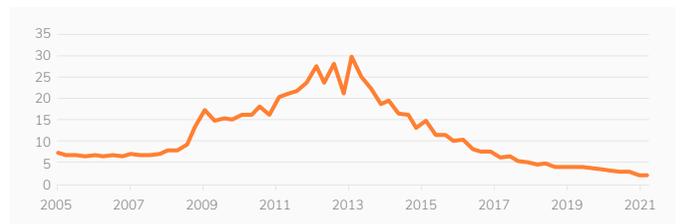
Source: CBS / Kadaster / DMFCO



— Price index — Price index adjusted for inflation

Market tightness indicator

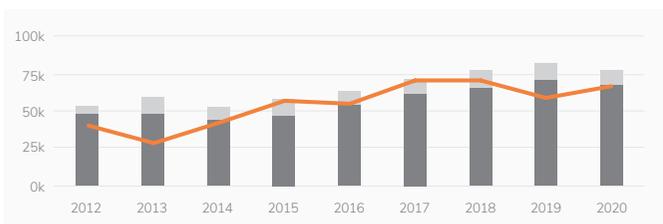
Source: NVM



The number of buying opportunities per buyer in Q1 2021: 1.7

New construction

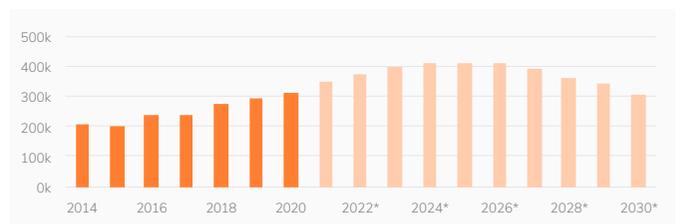
Source: CBS



■ New properties ■ Transformations — Permits

Housing shortage

Source: ABF research

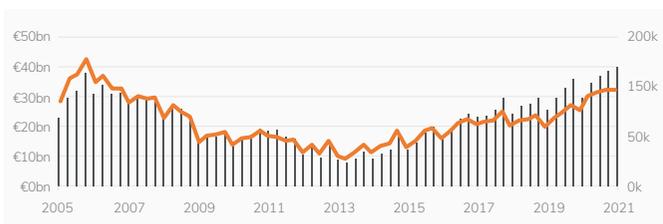


■ Registered ■ Forecast

DUTCH MORTGAGE MARKET

Mortgage origination

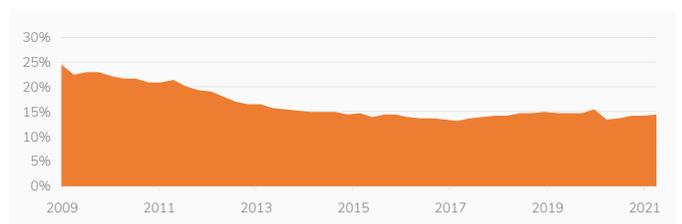
Source: Kadaster / DMFCO



■ Origination volume (LHS) — Number of Originated mortgages (RHS)

Housing affordability index

Source: Calcasa



Average net household income spent on housing costs

Mortgage spread

Source: DMFCO



Main developments in Q1 2021

The Dutch housing market remains buoyant with a YoY house price growth of 11.3%. Mortgage origination volumes also remain at historic highs, with a record first quarter volume of €39.8 billion.

The accelerating house price growth seems counter-intuitive given the ongoing COVID-19 pandemic, which has resulted in prolonged lockdowns in the Netherlands and most of its major trading partners. However, the international trading system has proven surprisingly resilient, thanks to persistent government support measures. Although the Dutch economy has been negatively affected, the decrease in GDP was among the lowest of the EU countries.

Unemployment decreased from 3.9% at Q4 2020 to 3.5% at Q1 2021. Consumer confidence has slightly rebounded after a strong decrease at the start of the pandemic, while the housing market confidence indicator has fully recovered, indicating a strong demand from house buyers. Demand is further fuelled by the structural housing shortage of over 330,000 homes and the historically low mortgages rates, which have resulted in good affordability for house buyers.

Transaction volumes are high, with almost 67,000 houses sold in Q1 2021. This is the 2nd highest volume since 2005. Meanwhile, the number of houses for sale is extremely low with only ~17,500 houses for sale in mid Feb-21. This is the lowest number since records began in 1995.

Performance of existing mortgages has remained strong, with a continued low level of arrears. Average LTVs of existing borrowers are decreasing due to the continued house price appreciation.

After a sharp increase at the start of the pandemic, spreads on mortgages have decreased since Q3 2020. This decrease has been in line with general spread tightening in credit markets, where large availability of liquidity has driven down spreads on virtually all asset classes. Current mortgage spread levels are at the lower end of what we have observed over the last 6 years. Despite this, Dutch mortgages continue to offer an attractive return relative to their risks and relative to other asset classes.

In Q1 2021 the 3 large domestic banks (Rabobank, ING and ABN AMRO) lost some of their the market share compared to Q4 2020. However, together with smaller banks, which gained market share, their combined market share is still the major part of the market (56%). Besides the banks, lenders on behalf of institutional parties increased their market share as well. Despite strong competition, MUNT's market share remained constant at 4% at the end of Q1 2021.

Macro-economic factors

2021 is expected to be a year with two faces. The first part of the year is mainly dominated by the increase in the number of COVID-19 infections and resulting lockdown measures, causing another period of setback for the economy. However, the second part of the year could be one where economic recovery is gradually gaining momentum and a reversion to pre-COVID is possible.

Expected GDP growth

In the forecast of the Dutch bureau for Economic Policy Analysis (CPB), the economy will receive a significant boost in the second half of the year because social distancing measures can be largely abandoned. GDP growth is projected to increase by 2.2% in 2021.

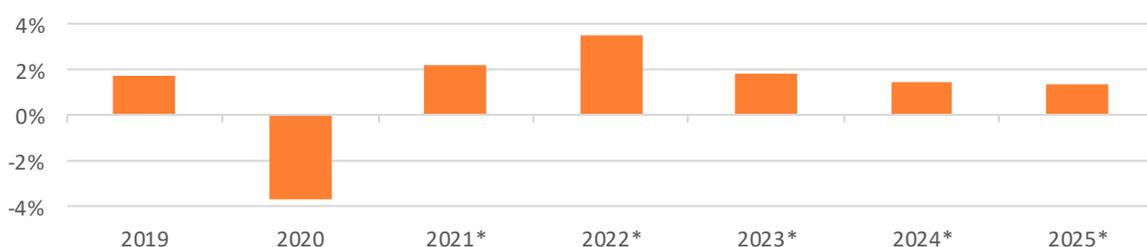


Figure 1: Expected growth of GDP in the Netherlands (Source: CPB)

Business Cycle Tracer

The business cycle tracer¹ has remained negative in Q1 2021. 8 of the 13 underlying indicators are worse than their long-term average and suggest that the Netherlands remains in a deep recessionary state. Especially declining household consumption, lower levels of worked hours and a depressed GDP have contributed to a deterioration of the economic situation. On a more positive note, the lower number of bankruptcies, property price appreciation, and increase in investments and exports have contributed to an improved situation compared to the second half of 2020.

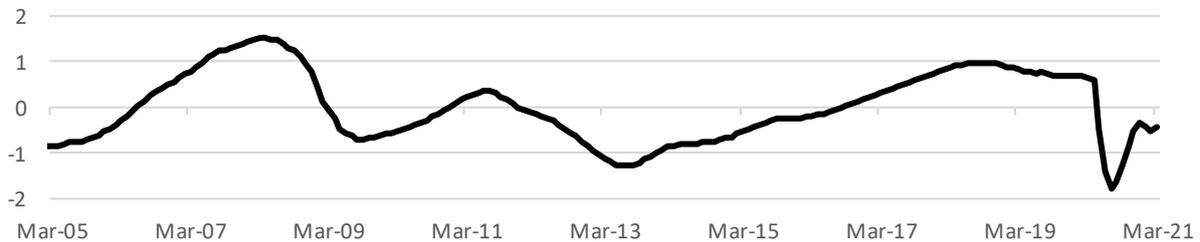


Figure 2: Business Cycle Tracer (Source: CBS)

Confidence indicators

After the outbreak of COVID-19, consumer confidence dropped significantly and remained low for several months. However, the drop in the VEH indicator, which tracks housing market confidence, was limited and recovered relatively quickly to above the neutral level of 100. One year after the outbreak, the VEH indicator has returned to pre-COVID levels, while consumer confidence remains subdued.

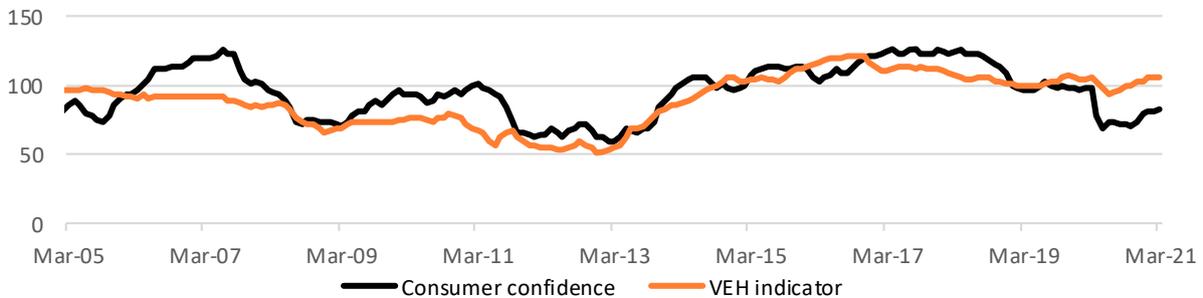


Figure 3: Confidence indicators (Source: CBS & VEH)

Unemployment

Following the lockdown in March 2020, both unemployment among younger people as well as general unemployment increased. In August 2021, the unemployment rate for younger people was 11.3%, while general unemployment increased to 4.6%. This is relevant as young people seldom own a house and it helps to explain why unemployment appears to have little effect on the owner-occupied housing market. In March 2021, the unemployment rate for these two age groups fell to 8.9% and 3.5% respectively.

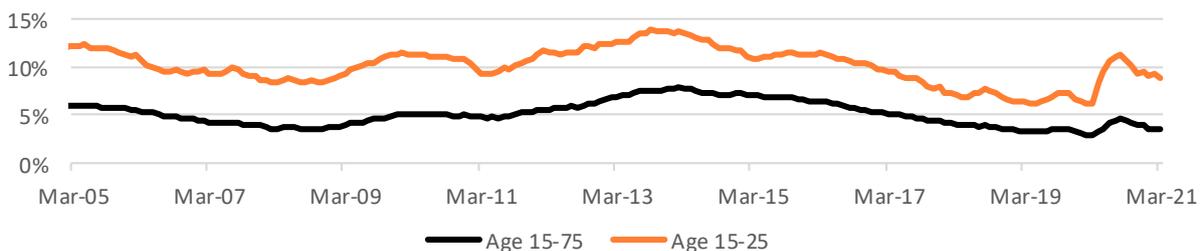


Figure 4: Unemployment rate (Source: CBS)

¹ Please see Appendix II: Explanation of the indicators, for an explanation of the business cycle.

Housing market

As a result of the COVID-19 support measures by the government, relatively few households appear to have been financially affected by the pandemic. Falling mortgage rates (which has positively impacted mortgage affordability) and continued high demand for housing in combination with the structural housing shortage, may explain the continued strong upward pressure on house prices and the high transaction volume during Q1 2021.

Transaction volume and housing supply

Kadaster reported almost 67,000 transactions in Q1 2021, a significant increase compared to Q1 2020 (+22.6%) and the second-highest quarterly number since 2005 (see figure 5).

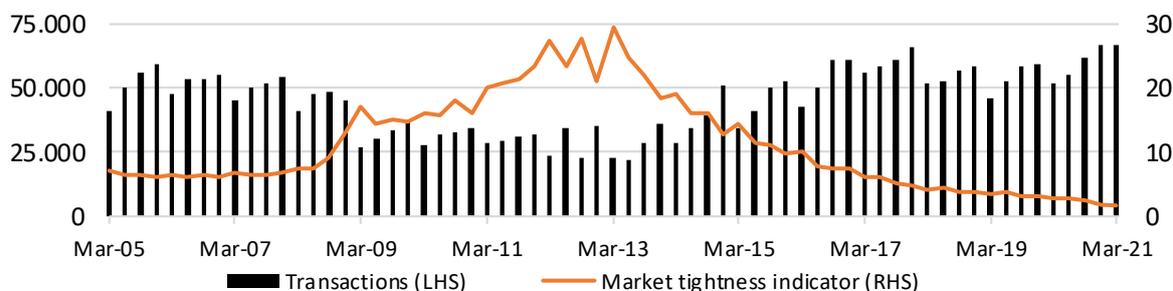


Figure 5: Quarterly number of transactions (Source: CBS, Kadaster) & tightness indicator (Source: NVM)

The high level of transactions combined with a continued low number of properties offered for sale resulted in increasing tightness in the Dutch housing market. The tightness of the market is defined as the ratio between the number of properties available for sale and the number of transactions that actually occur. In Q1 2021, market tightness was 1.7, indicating that prospective buyers, on average, have the choice between 1.7 properties on offer.

New construction and housing shortage

In Q1 2021, slightly more than 19,000 newly built properties were added to the housing stock. Compared to Q1 2020, this is an increase of 13%. When comparing 12-month rolling volumes, the number of newly built properties increased by 3.4%. The same applies to building permits granted for new properties. The number of building permits granted increased by 2.8% in January and February this year compared to the same periods in 2020.

A third indicator regarding new construction is the number of building plots. Contrary to the number of newly built properties and granted building permits, the number of building plots decreased by 4.9% in Q1 2021, compared with Q1 2020.

In recent years, the number of granted building permits for new properties lagged behind the target of 75,000 dwellings (2019: 58,000 and 2020: 66,000). The rationale for this is multifold: environmental hurdles (nitrogen and PFAS), a shortage of construction workers, rising building costs and a scarcity of building plots all contribute to a reduction of newly built homes.

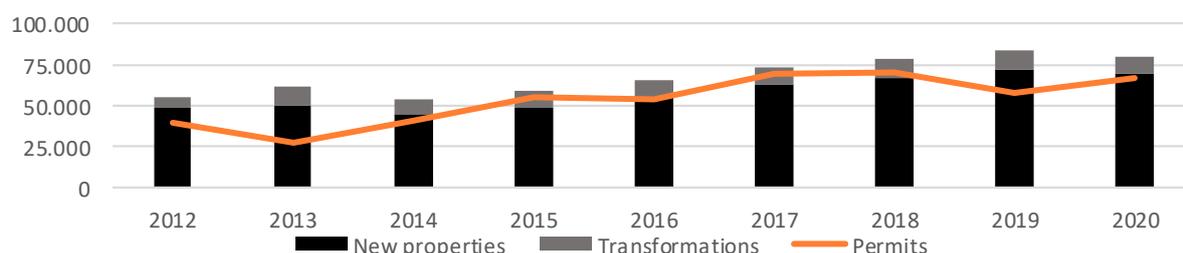


Figure 6: Newly build properties, transformation and granted permits (Source: CBS & Kadaster)

ABF Research recently estimated a current housing shortage of 331,000 properties and expects the shortage to rise further to 415,000 houses in 2025. This is because the production of new properties is expected to be unable to keep up with the growth of the total number of households. According to ABF Research, the production of new properties will increase from 2023 due to an increase in planned capacity and new government construction incentive programs, which come into effect in 2025. By contrast, the growth in the number of households will mainly take place within the next five years and is expected to slow down from 2025 onwards, at which point the housing shortage is also expected to decline. Over the course of 2020-2035, the expected number of households and net new build properties will increase by 924,000 and 1,000,000 respectively (ABF Research).

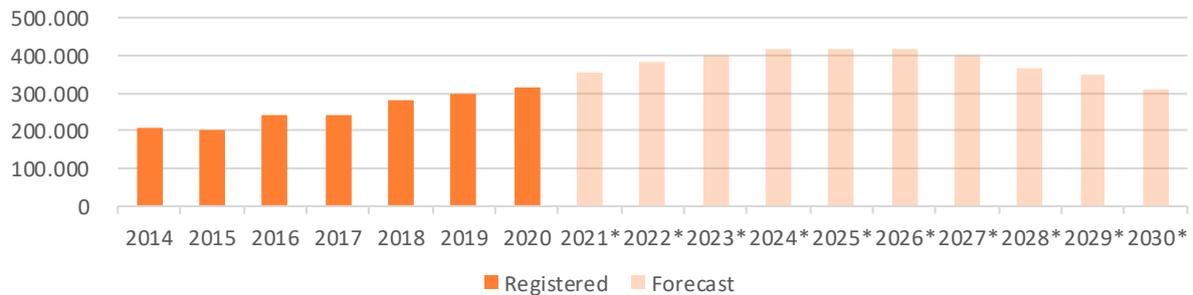


Figure 7: Housing shortage (Source: ABF Research & Primos)

House prices

In Q1 2021, house prices increased by 14.1% (YoY) resulting in an average house price of €378,000.

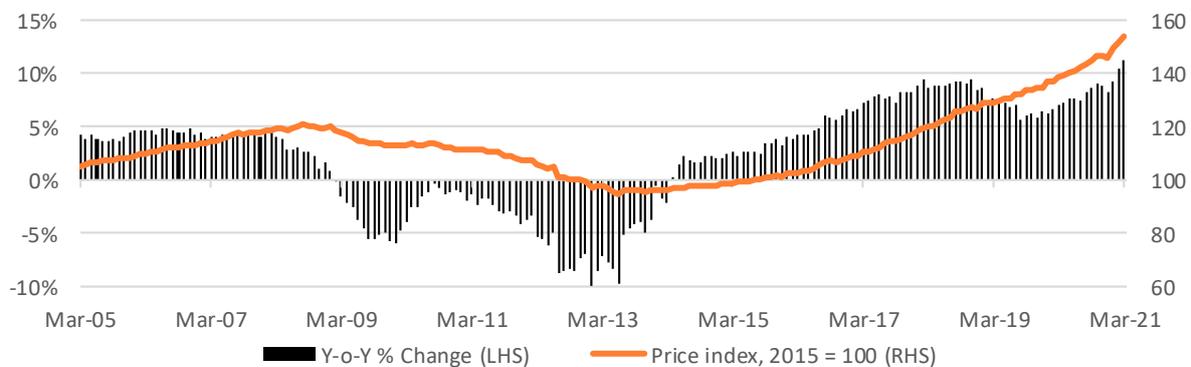


Figure 8: House price development (Source: CBS & Kadaster)

For 2021, ABN-AMRO and Rabobank expect house prices to rise with respectively 7.5% and 8% due to positive market fundamentals:

- structural housing shortage; and
- low mortgage interest rates; and
- stable consumer confidence in the housing market; and
- (record) high level of transactions and low level of houses for sale.

Another aspect related to rising house prices is the upward trend of houses sold above the asking price. According to NVM, in more than 60 per cent of the transactions in Q1 2021 houses were sold above the asking price. This overbid percentage is expected to rise further in Q2 2021. In comparison, in Q1 2016, the percentage of homes sold above asking price was only 10%.

Affordability

Affordability has significantly improved from 2008 until 2015 and has remained relatively stable since then. Affordability is measured from the perspective of a first-time buyer and is calculated as the percentage of net household income needed to pay net housing costs (consisting of net mortgage interest, taxes and maintenance). In the past few years, the increasing house prices have been offset by decreasing mortgage interest rates.

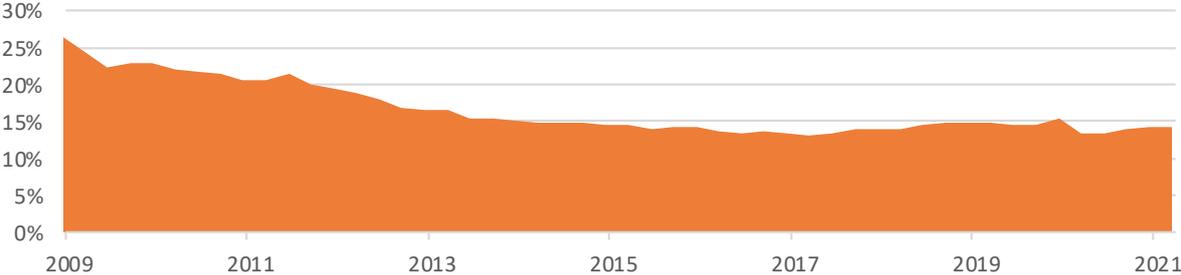


Figure 9: Affordability Index (Source: Calcasa)

Mortgage market

The mortgage market also experienced significant growth, with record mortgage origination volumes and increasing mortgage applications.

Mortgage origination

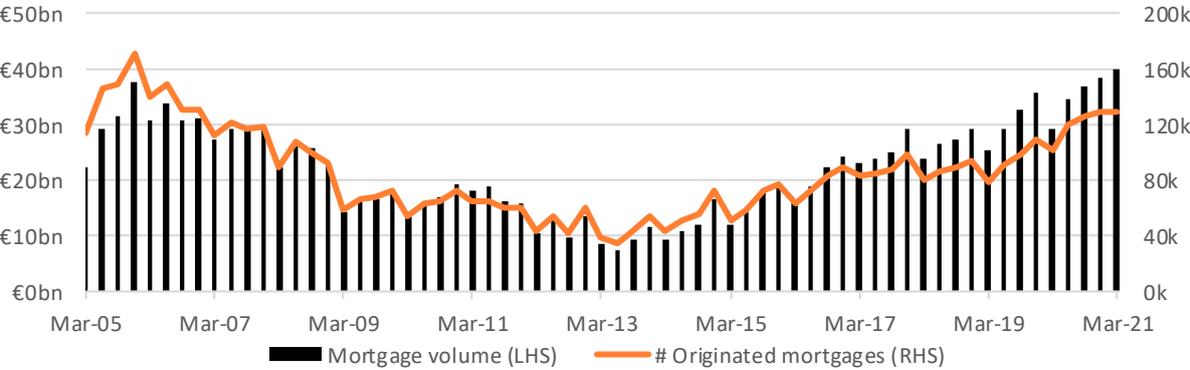


Figure 10: Mortgage market origination and volume (Source: Kadaster)

The number of mortgage applications remained on a high level with nearly 140,000 applications.

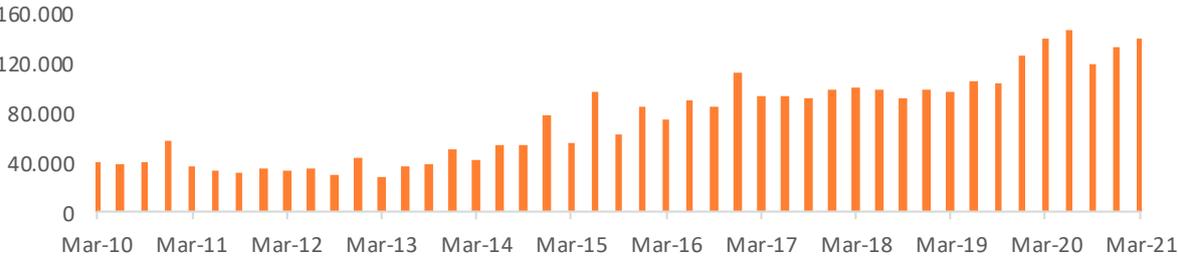


Figure 11: Number of mortgage applications (Source: HDN)

Due to the abolition of the transfer tax for first-time house buyers, a shift can be observed in mortgage origination volumes per age group. From 1 January 2021, first-time house buyers aged 18 to 35 are exempt from paying the 2% transfer tax while stamp duty for buy-to-let investors will be increased from 2% to 8%. It is worth noting that the number of young buyers and mortgage borrowers (aged 35 or younger) has steadily declined during the last 20 years, while the number of borrowers above 35 has grown. As the graph shows, this transfer tax abolition had an immediate effect on the behavior of borrowers.

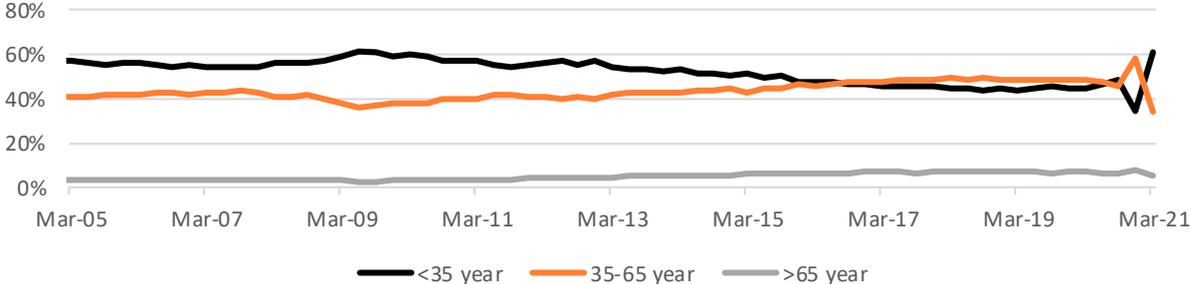


Figure 12: Originated mortgages per borrower type (Source: Kadaster)

Mortgage spreads

After a sharp increase at the start of the pandemic, spreads on mortgages have decreased since Q3 2020. This decrease has been in line with general spread tightening in credit markets, where a large availability of liquidity has driven down spreads on virtually all asset classes. Current mortgage spread levels are at the lower end of what we have observed over the last 6 years.

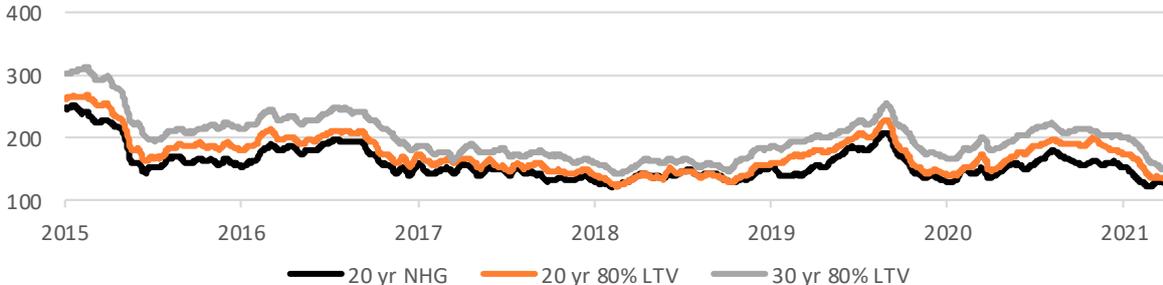


Figure 13: Mortgage spreads (Source: DMFCO)

Market share

Market shares are determined based on mortgage registrations by Kadaster. To provide insight in market share dynamics, DMFCO categorizes these registrations into 6 groups of lenders. Please note that both the data definitions and the categorization are reviewed in the first quarter of each year, resulting in lower comparability.

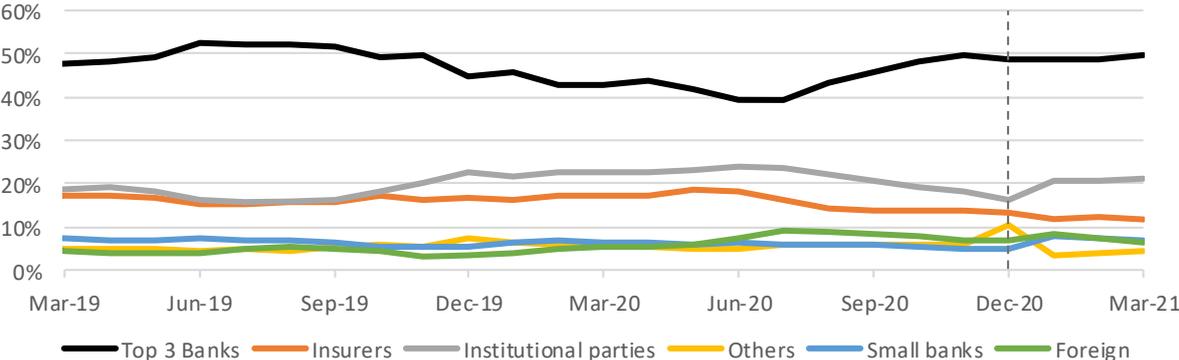


Figure 14: Development market share per lender (Source: Kadaster, interpreted by IG&H until Dec-20, DMFCO after Dec-20)

The longer term trend is still valid, with the top-3 banks gaining market share in the last 9 months. This can be explained by high savings and the TLTRO program, resulting in excess liquidity which is invested in mortgages. Another noteworthy factor is the high percentage of other lenders per Dec-20, which is driven by B2L borrowing which spiked as a result of the transfer tax increase per 1 January 2021.

Appendix I: Glossary

Term	Definition
AFM	Dutch Authority for Financial Markets
CBS	Dutch Central Bureau of Statistics
CPB	Dutch Bureau for Economic Policy Analysis
DNB	Dutch Central Bank
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.
Kadaster	Land Registry and Mapping Agency - collects and registers administrative and spatial data on property and the rights involved.
NHG	National Mortgage Guarantee
NVM	NVM is the largest association of real estate agents and appraisers in the Netherlands. Almost 75 per cent of Dutch houses are sold by NVM real estate agents.
Rijksoverheid	The Government of The Netherlands
VEH-indicator	Indicator for confidence in the Dutch owner-occupied housing market/willingness to buy a house.
ABF research	Research agency in the Netherlands focusing on people, areas and organisations.
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.
IG&H	IG&H is a leading consulting and technology firm specialised in the retail, financial and healthcare sector.
Calcasa	Calcasa is an independent technology company specializing in real estate valuation.

Appendix II: Explanation of the indicators

Indicator	Source	Definition
Economic growth	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
Business cycle	CBS	The business cycle 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.
Unemployment	CBS	The number of people who are between 15 and 75 years old who don't have work and are actively searching for paid work and that are directly available to work.
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.
Market tightness indicator	NVM	The market tightness indicator shows the relationship between the houses supplied and the annual number of houses sold. Therefore, it gives a representation of the choice a consumer has. The NVM covers approximately 75% of the market.
Newly built properties / granted permits	CBS	The number of granted <i>building permits</i> ('building environment permits with activity') as documented in the Housing Act. The number of homes created by <i>transforming</i> existing buildings, such as offices, schools and shops The number of <i>new constructions</i> added to the existing stock. The data comes from the Key Register of Addresses and Buildings (BAG).
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
Housing shortage	ABF research	The housing shortage is the difference between the housing requirement that is not met (demand side) and the available supply.
Mortgage volume	Kadaster	The total annual mortgage turnover together with the total number of mortgages provided annually.
Affordability	Calcasa	The percentage of the net monthly income spent on net housing costs.

Appendix III: Justification

Both DMFCO and its data sources make use of mortgage data from Kadaster, which provides information about mortgages issued to private individuals with an owner-occupied home. Last year Kadaster has been able to significantly improve the mortgage data, thereby increasing market coverage. From 2021, DMFCO and their data sources will use the updated data.

The amendments are as follows:

Due to the higher quality and availability of data and the use of new techniques Kadaster can significantly improve their mortgage data. From 1 January 2021, it includes more private residential mortgages in the mortgage data. Making the mortgages provided better classified as private residential mortgages. At the same time, it is better to exclude investors' mortgages if private home mortgage.

- The numbers of private residential mortgages are therefore approximately 5% higher than before;
- The reported mortgage amounts on the market for private owner-occupied homes come about 10% lower than before.

We believe it is important to point out that the one-off revision of the Cadastral mortgage information is independent of market trends at a total level. The figures from Kadaster does not show a different picture than the published publications on the mortgage market for 2020. This can be seen as the actual market development and is independent of the change in methodology.

The change in methodology results in a one-off adjustment of the established statistics, in other words, a break in the trend. In order to be able to make a comparison between the old and new method, the market figures for the year 2020 have been calculated on both the old and the new method (this will follow for 2019). The number of mortgages registered as a private residential mortgage according to the old method is 451,981. The updated method will amount to 476,111 for 2020. The total mortgage amount in the old form amounts to €155 billion. According to the new method, the mortgage sum will total € 139 billion in 2020.

The graph below shows the differences per quarter at the market level for 2020 with the updated data in grey. We have chosen not to use the renewed data in this Mortgage Update in order to be able to make a good comparison with previous years and previous Mortgage Updates from 2020. From Q1 2021 we will report on the updated data, the data of 2019 and 2020 will then be adjusted retroactively.

The revision also has an impact on the breakdown by shutter type and the breakdown by individual mortgage lenders. We will discuss this in more detail in the next Mortgage Update.

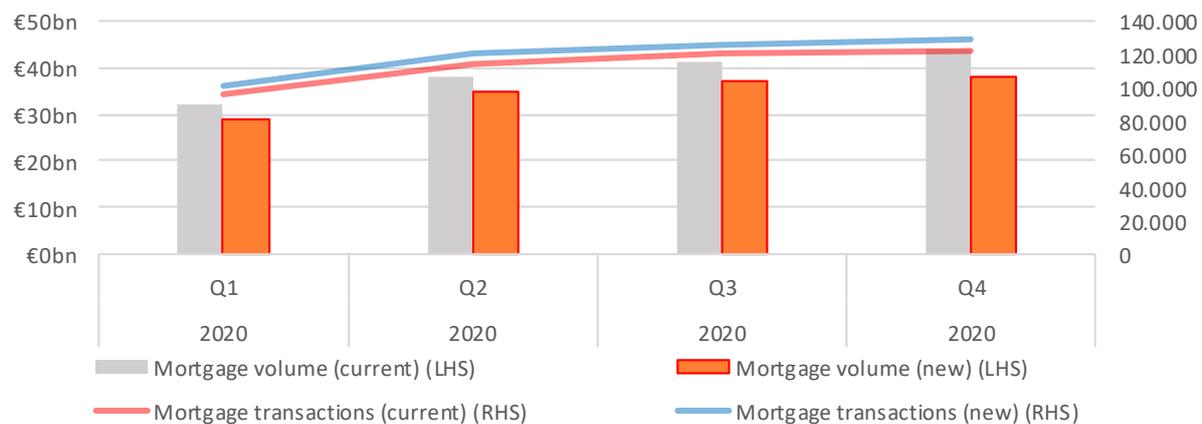


Figure 15: Market developments new versus old method (Source: Kadaster & IG&H)



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