DMFCO
Asset Management

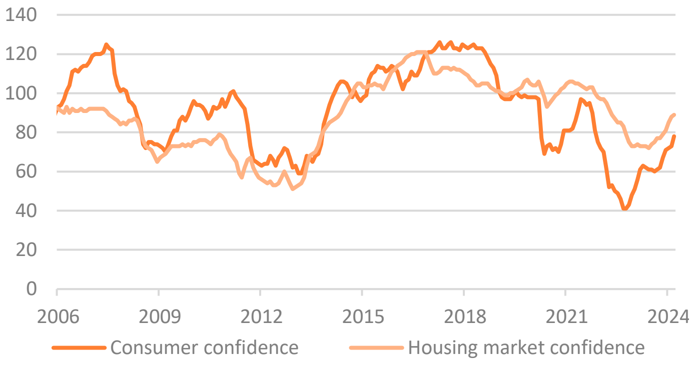
Dutch housing and mortgage market
Q1 2024

DASHBOARD DUTCH HOUSING AND MORTGAGE MARKET Q1 2024

Economic indicators

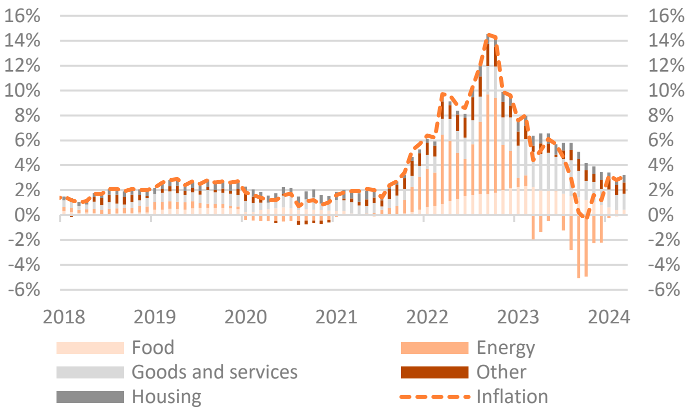
Confidence indicators (100 = neutral)

Source: CBS & VEH



Annual inflation rate

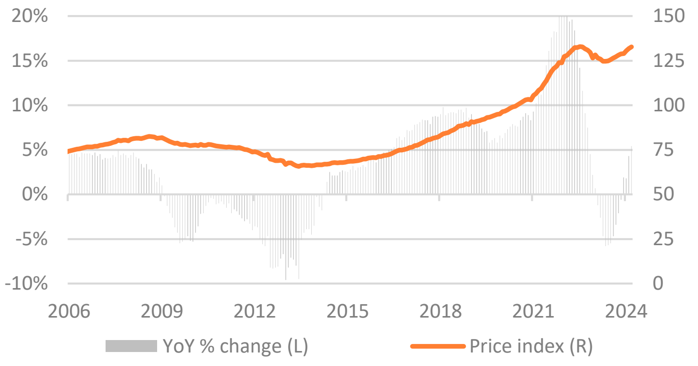
Source: CBS



Dutch Housing market

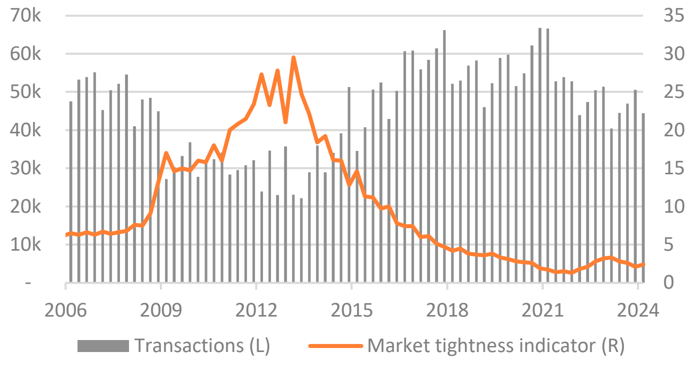
Price development (2020 = 100)

Source: Land Registry & CBS



Transactions and tightness

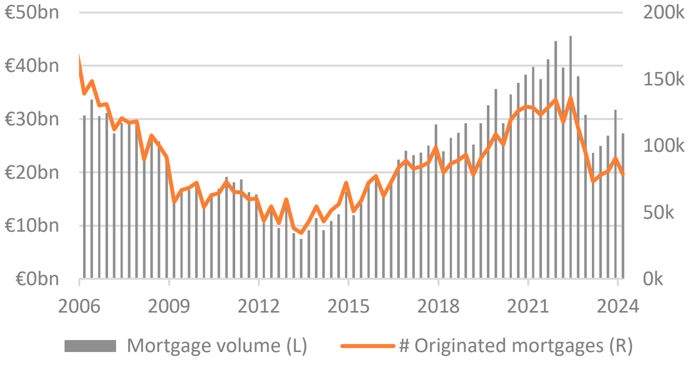
Source: Land Registry / CBS & NVM



Dutch Mortgage market

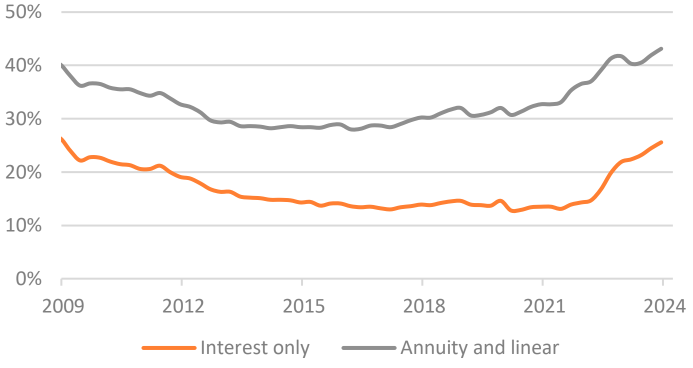
Market volume

Source: Land Registry & CBS



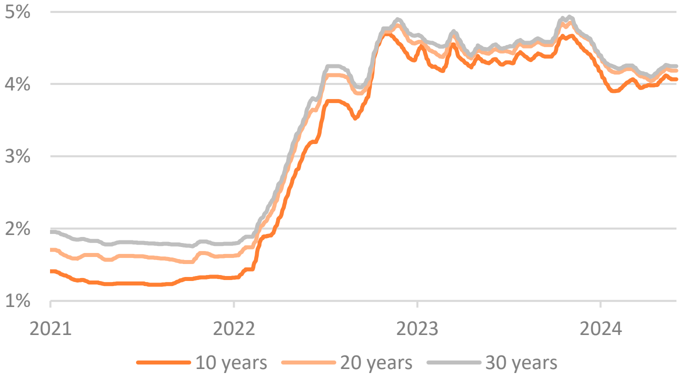
Net income spent on net housing

Source: Calcasa



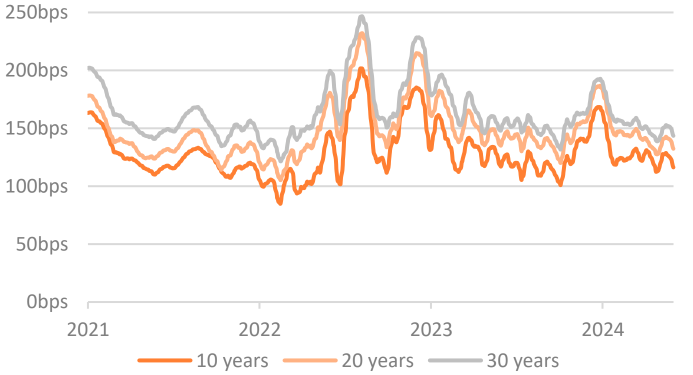
Mortgage rates

Source: DMFCO, end of May-2024



Mortgage spreads

Source: DMFCO, end of May-2024



Please see annex I for an overview of all key indicators

Economic sentiment in the Netherlands is improving now that the inflation rate is falling. And despite the restrictive monetary policy of the European Central Bank (ECB), economic indicators such as the unemployment rate, the number of bankruptcies and household spending continue to perform well.

This positive sentiment is also reflected in the Dutch housing and mortgage market. Higher wages combined with relatively stable mortgage rates enable households to borrow more. As a result, the number of mortgage applications and housing transactions continues to rise. Increased demand and limited supply are allowing house prices to rise again.

Main developments

Sentiment in the Dutch economy has slowly improved for several months. This is partly due to the decline in inflation and strong wage growth over the past year. This allowed households to compensate for much of the loss of purchasing power, thereby boosting consumer confidence and consumption. Consequently, more and more Dutch households are in a healthy financial position.

There are also parts of the economy where conditions are not yet as good as before. For example, the volume of exports and imports of goods shrank in the last quarter. This is particularly important for a trading country like the Netherlands. The reason for the deterioration in trade volumes is that the Dutch economy is suffering from subdued global demand for goods. In addition, the competitive position of the Netherlands has been weakened since the energy crisis due to its dependence on gas.

Inflation slowly approaches 2%. As such, the ECB has stated that it is open to discussing lower interest rates, provided that i) inflation in the Eurozone continues its downward trend, ii) the economy maintains its current level of (limited) growth, and iii) new wage figures remain supportive. However, persistently high core inflation remains a concern that could delay these rate cuts. The improved financial situation of households and a generally more positive perception of the general economy are also reflected in an improvement in the housing market sentiment. This resulted in a pick-up in demand and a recovery in house prices. Consequently, the house price index (CBS) stands at 132.7, close to the record level of July 2022 (132.9).

Increased demand in the first quarter of 2024 resulted in more than 44,000 housing transactions (+9.9% YoY). On a 12-month rolling basis the number of transactions still dropped slightly with 1.7% from 203,000 (Q1 2023) to 186,000 transactions (Q1 2024). Despite the increase in transactions, the lack of houses for sale (23,000) and the limited inflow of newly built houses are expected to put pressure on the number of future transactions.

The shortage of houses for sale and the limited inflow of newly built houses are increasingly becoming a problem for households as they struggle to find a suitable new home. In addition, the shortage is further worsened by a strong growth in the number of single-person households and the preference of households to first buy a new property before putting their home on the market. Prospective buyers currently have an average of only 2.4 houses to choose from.

The improved financial position of households is also reflected in the mortgage market. Homeowners and (potential) buyers applied for significantly more mortgages (115,000) than in the same period last year (91,000). The increase in mortgage applications is mainly attributable to first-time buyers, who continue to benefit from the government's tightened rules for private investors in the housing market, the increased price ceiling for the transfer tax exemption, and the higher price ceiling for the National Mortgage Guarantee (NHG).

The number of originated mortgages fell to 79,000 (-13.3% QoQ and +7.4% YoY) in 1Q 2024. Mortgage volume fell to 27 billion euros (-15.0% QoQ and +14.2% YoY). On an annual basis, both figures increased significantly with 7.4% and 14.2%, respectively.

Economic indicators

The Dutch economy has not yet recovered to a normal growth path as the economy contracted by 0.1% QoQ. Despite this decline, Dutch consumers' purchasing power recovers as a result of rising wages and falling inflation. The resulting increase in consumption, together with higher government spending, is improving households' sentiment.

Economics

The Dutch economy contracted for the fourth time in the past five quarters. Although the contraction was relatively small with 0.1% QoQ and 0.7% YoY, the period of economic stagnation continued. Contrary to the negative economic growth, inflation is falling steadily (although labour-intensive services are causing core inflation to fall more slowly) and households are experiencing strong wage increases as a result of the historically tight labour market. In addition, indicators such as consumer and business confidence in the economy and order books are improving. Despite that, neighbouring countries performed better last quarter. The economies of France and Germany, for example, grew slightly. The economic growth in the Eurozone was on average 0.3%.

The fact that the Dutch economy has not yet fully recovered is mainly due to a deterioration of the trade balance. The volume of goods exported fell by 5.9% YoY in March, while the volume of goods imported shrank by 0.3% YoY. These figures are especially important for the Netherlands, as the Dutch economy is heavily dependent on trade. Fortunately, industrial firms are reporting an increase in export orders, which is expected to have a positive impact on economic growth going forward.

Falling inflation, rising wages and high government investments are helping to restore the purchasing power of Dutch households. This is also reflected in the newest Nibud report (National Institute for Family Finance Information), which concludes that more and more Dutch households are in a healthy financial position. The number of households struggling to make ends meet is falling and is currently at its lowest level since 2012. This is also reflected in mortgage arrears, which are at historically low levels.

Given the positive economic developments in the Eurozone, the likelihood of rate cuts by the ECB is increasing. The ECB itself confirmed this at its last meeting in April. If all the signals are green, they will not hesitate to cut rates later this year. It is important to note, however, that although the ECB will cut its rates, it will continue to keep them at a restrictive level with respect to financing conditions.

Inflation

After peaking in 2022, inflation has started to fall in 2023. This trend continues in 2024 although at a slower pace. With an average of 3.0% in Q1 2024, inflation is significantly lower than in Q1 2023 (6.7%). There is growing confidence in the market that inflation will continue to fall towards the ECB's 2% target, especially now that core inflation is falling too.

Core inflation fell as energy costs declined and wage growth has slowed. Furthermore, current wage growth is not seen as a reason for inflation to rebound, but rather as a reason for a longer tail of the inflation peak. On the contrary, inflation stemming from services is always somewhat more persistent and tends to respond with a lag to other prices.

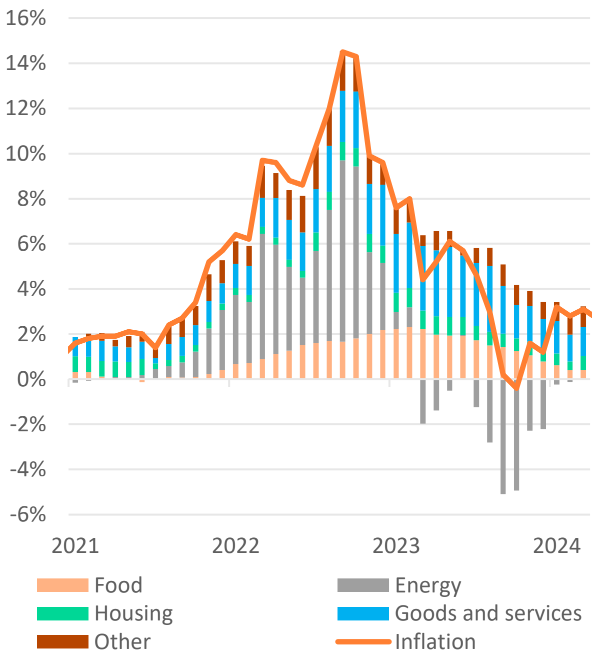


Figure 1: Inflation in the Netherlands, end of March 2024 (Source: CBS)

The main drivers of inflation are shifting. In the past, inflation was mainly driven by a change in energy prices, whereas food and commodity prices have now become more important.

Sentiment indicators

Overall consumer confidence[1] improved to 78 at the end of Q1 2024 (+7 points QoQ) but remains negative. On a yearly basis, overall consumer confidence improved significantly by +17 points. The overall score is based on economic sentiment, propensity to buy, household economic and financial situation and whether it is a good time to make major purchases.

Households were mainly less optimistic about the economy as a whole. When asked 'What do you think the general economic situation will be like in the next 12 months', 44% said it would get worse, while only 18% were optimistic, thinking it would improve. A third of the respondents expect no change.

One component of the survey ended on a positive note. More people expect their financial situation to improve than to deteriorate. Consumers were particularly optimistic about their financial situation over the next year.

Confidence in the housing market[3] is recovering slightly, as the indicator rose to 89 at the end of Q1 2024 (+8 points QoQ). On a yearly basis, confidence in the housing market improved by +8 points. The reason is two-fold. First, households have become more positive about overall economic conditions and their financial situation. Second, the improved outlook for interest rates has boosted consumer confidence. Both factors are likely to contribute to increased demand in the housing market.

Labour market

The Dutch labour market remained tight, with an overall unemployment rate of 3.7% in Q1 2024 (+0.2% QoQ and +0.1% YoY). In addition, the net labour participation rate - the share of employed people in the population - reached a new record in January 2024. The robustness of the Dutch labour market remains an important fundamental for the performance of the Dutch economy.

Average wage growth has slowed to 6.4% YoY in Q1 2024. Despite strong wage growth, consumers' loss of purchasing power has not yet been fully recovered. Prices for goods and services have risen faster than wages over the past three years. According to CBS, they have risen by an average of 12.6% since 2020, while inflation has been 17.3% over the same period.

Though wage growth is expected to be somewhat lower this year, it is still relatively high compared with previous years. There are three reasons for this: i) purchasing power losses are increasingly compensated, ii) inflation expectations are positive, and iii) employers are more cautious due to economic uncertainty.

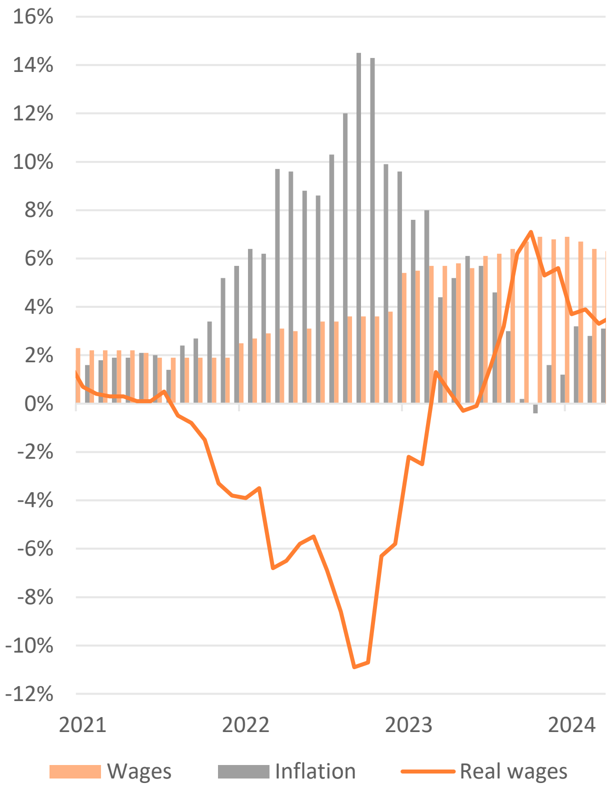


Figure 2: Real wage development, end of March 2024 (Source: CBS)

[1] The indicators range between 0 (negative) and 200 (positive). A value of 100 represents neutral.

The number of bankruptcies has witnessed an upward trend for almost two years, returning to pre-COVID levels. With 361 declared bankruptcies in March 2024, the current figures reflect economic conditions well. Although the number of bankruptcies is higher than in previous periods, it is still very low.

The high demand for labour by companies and the government means that the upward trend in the number of bankruptcies will not necessarily lead to a sharp rise in unemployment. Moreover, in the medium term, ageing will also put pressure on labour supply and thus on unemployment expectations.

Housing market

The Dutch housing market is picking up as sentiment among Dutch households improves. This is reflected, among other things, in an increasing number of housing transactions. Due to the tight market, increasing demand is leading to rising house prices.

Transaction volume and housing supply

The number of transactions fell by 12% QoQ in Q1 2024 after a strong increase in Q4 2023. On an annual basis, transactions increased by 10%. The rising number of transactions on an annual basis is attributed to a recovery in sentiment, wage increases and government support. When looking at the 12-month rolling basis, the market increased slightly by 2% to 186,000 transactions in Q1 2024 compared to 182,000 in Q4 2023.

Increased interest from households is reflected in a more competitive market. While the number of transactions is improving on a 12-month rolling basis, there is still a shortage of supply, mainly because the number of new homes being built cannot keep up with demand.

The Dutch Association of Estate Agents (NVM) confirms this in its more recent figures. The number of houses for sale fell for the fourth consecutive quarter to 23,000 in Q1 2024 (-7.0% QoQ). The shortage is worsened by the strong growth in the number of single-person households and by the fact that households prefer to buy first before putting their home on the market.

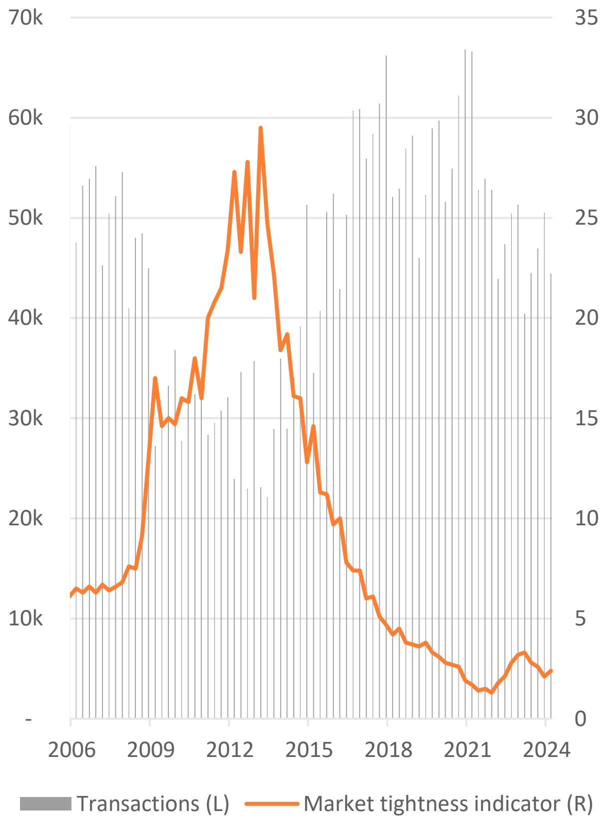


Figure 3: Number of transactions and market tightness, end of March 2024 (Source: CBS / Land Registry & NVM)

The above supply and demand dynamics are also reflected in the market tightness indicator. This indicator measures the ratio of the current number of houses for sale (supply) to the number of transactions recorded (demand). The ratio slightly increased to 2.4 (+0.3 points QoQ) in Q1 2024, indicating that prospective buyers have an average of 2.4 houses on offer to choose from.

The tight housing market, characterised by a limited number of available properties, is making it increasingly difficult for homeowners to find suitable houses. As a result, more and more homeowners (who often have surplus value in their property) are deciding to increase their mortgage to fund renovations, often combined with making their home more sustainable. The lack of interest in moving to a new house is a large problem in the current housing market. Due to this deadlock the housing shortage not only grows in quantity but also inequality: there are too few houses and increasingly households live in an unsuitable house.

Of course, building more houses can ease the tight housing market. Although the number of new-build sales rose for the fourth consecutive quarter in Q1 2024, estate agents of NVM have voiced concerns about the fact that new-build homes do not meet household demand.

New construction and housing shortage

The limited inflow of newly built houses is the result of a continued decline in the number of granted building permits. This is in line with last year's trend, where the number of granted permits fell from 75,800 in 2021 to 64,500 in 2022 and 56,000 in 2023. On a 12-month rolling basis (March 2024), 57,000 permits have been granted, which is almost 6% lower than in March 2023.

The limited number of permits granted is partly reflected in the number of newly built houses. In 2023, 73,000 houses were added to the housing stock, compared with 74,560 in 2022 and 71,200 in 2021. On a 12-month rolling basis (March 2024), 72,000 houses were added, which is more than 4% lower than in March 2023. As the number of building permits issued is expected to continue to fall, the number of newly built houses will also decline in the coming years.

In addition to the limited number of granted permits and procedural issues, there are several other problems plaguing the construction sector. For example, project costs have increased due to higher interest rates, there is a shortage of affordable building land, building materials are expensive due to energy prices, and labour costs are high due to staff shortages.

House prices

After a period of falling house prices, prices have started to rise again since autumn 2023. The recent sequence of price increases can be attributed to improved housing market sentiment, stabilising interest rates and higher wages. In addition, the increasing tightness of the housing market continues to play an important role, as overbidding has returned in the market.

In the most recent quarter, house prices rose by 1.2%, 1.0% and 0.7% MoM in January, February, and March, respectively. On a yearly basis, house prices rose by 1.8%, 4.3% and 5.4% respectively even more. The strong increase leaves the house price index at 132.7 at the end of Q1 2024, just 0.2 below the peak in July 2022. For houses in many provinces, such as Noord-Brabant, Groningen and Overijssel (all outside the Randstad region), the price index is already higher than ever before.

In nominal terms, the trend is more apparent. In Q1 2024, the average nominal house price was €431,000, compared with €422,000 in Q4 2023 and the peak in 2022 with €443,000.

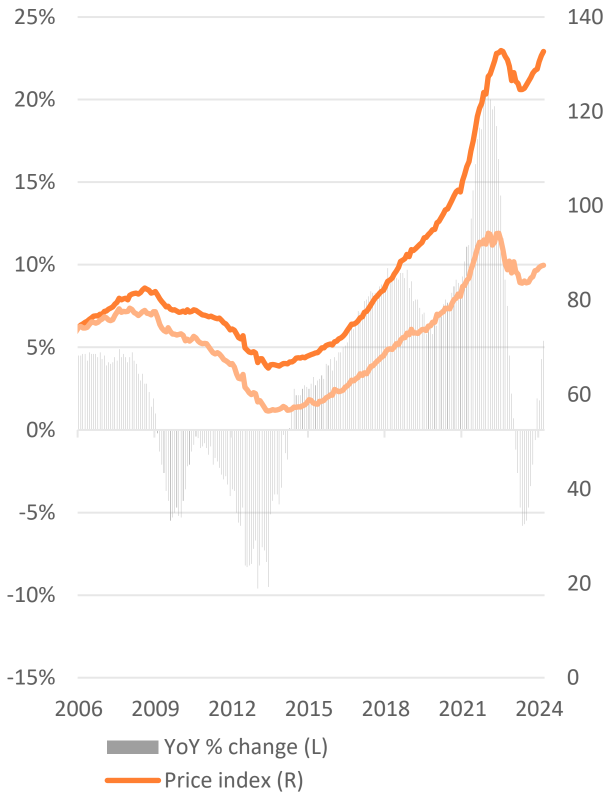


Figure 4: Development of the house price index, end of March 2024 (Source: CBS & Land Registry)

The Dutch Association of Estate Agents (NVM) has already reported a stronger increase in house prices (9.1% YoY in Q1 2024). As the NVM usually registers a transaction two to three months before the Land Registry, the figures can be seen as an indicator of the Land Registry's future estimates.

The improved sentiment and tightness are not the only reasons for the rise in house prices. First-time buyers in particular have benefited from stricter rules for buy-to-let investors, the increase in the price ceiling for the transfer tax exemption (from €450,000 to €510,000) and the higher price ceiling for the

NHG (from €405,000 to €435,000). The higher ceilings will allow a large proportion of the housing stock to be financed on favourable terms, thereby increasing demand (for example from first-time buyers).

Households became more aware of the energy label when buying a house when energy prices rose sharply. However, with falling energy prices and a limited number of houses for sale, many buyers are paying less attention to the energy label of a house.

The renewed interest in moderately rated houses may also have been fueled by the extra borrowing capacity in the new lending standards for buyers who want to make their homes more sustainable.

Mortgage market

The mortgage market performed very well, with a significant increase in the number of mortgage applications. The increase was mainly driven by the improved position of first-time buyers, who accounted for the highest number of mortgage applications since 2020. Although applications are not yet reflected in market volumes, the outlook for the rest of the year is positive.

Mortgage applications

The number of mortgage applications rose significantly in Q1 2024 (26.4% QoQ), continuing the trend in 2023. When comparing the number of mortgage applications with a year ago, 2024 has started much better than 2023.

In line with the improved position of first-time buyers in the housing market, the first quarter of 2024 saw the highest number of mortgage applications from first-time buyers since the start of the Corona Pandemic in March 2020. Mortgage advisers also noted that parents are regularly involved in their first-time buyer's purchases. For example, through a donation, loan, or co-signing.

The porting option remains attractive to existing borrowers as current mortgage rates are still relatively high. Porters account for 25% of market volume (including mortgage increases). These borrowers will remain with their existing mortgage provider. Hence the available volume of new mortgages is lower than reported mortgage volumes. The impact of porters on mortgage volumes is particularly large in the longer fixed rate periods (>10 years).

Number of originated mortgages and market volume

The significant increase in the number of mortgage applications is not yet reflected in the number of mortgages granted and the total mortgage volume. This is because it usually takes a few months for the increase in mortgage applications to be fully reflected in the number of mortgages originated or the market volume.

In the first quarter of 2024, the number of mortgages originated fell to 79,000 (-13.3% QoQ). The volume of mortgages fell to EUR 27 billion (-15.0% QoQ). The reason for the decline is not that the market performed poorly, but that the last quarter peaked compared to previous quarters. Comparing the number of mortgages and the mortgage volume on a yearly basis, the positive trend in the mortgage market is evident. Compared to the first quarter of 2023, the number of mortgages originated increased by 7.4%. The volume of mortgages increased by 14.2%.

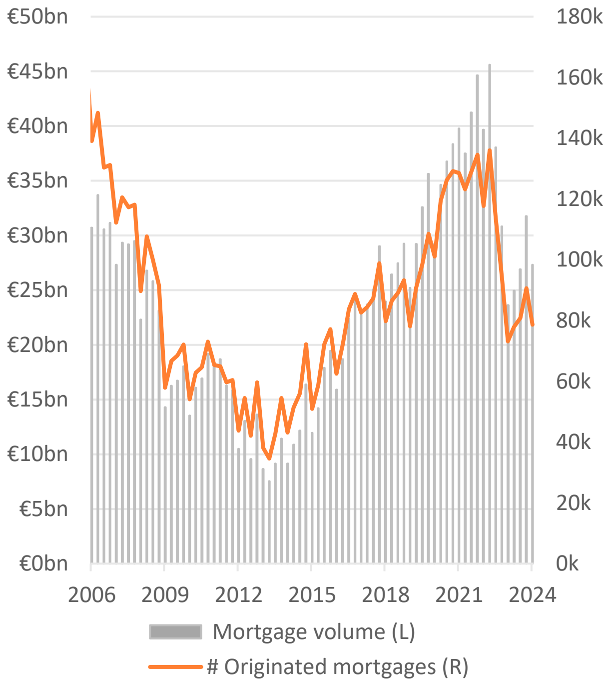


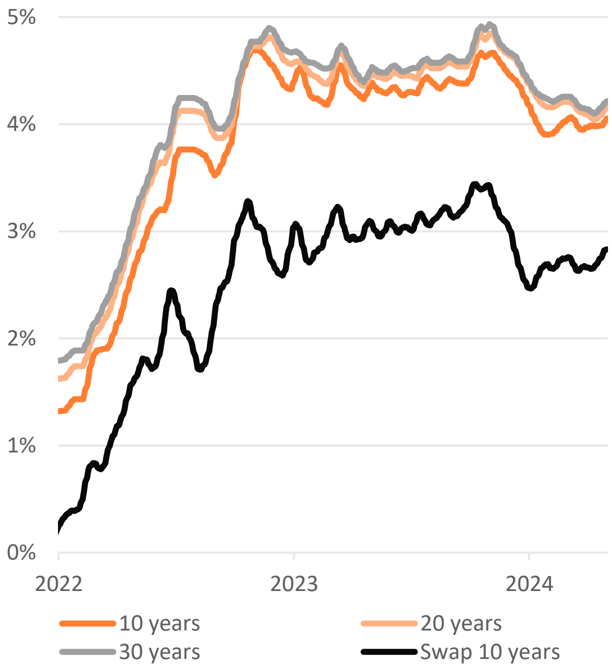
Figure 5: Mortgage volume and number of originated mortgages, end of March 2024 (Source: Land Registry)

Mortgage interest rates and spreads

By the end of 2023, financial markets were already speculating on rate cuts as inflation had fallen. The optimism in the financial markets about possible rate cuts in 2024 had a downward impact on risk-free interest rates, subsequently resulting in lower mortgage rates.

In the first month of 2024, the idea of an ECB rate cut seemed plausible, but this was however postponed as the ECB stated that it was simply too early to make the decision. In particular, the impact of wage developments was unknown and the ongoing conflicts in Ukraine and the Middle East introduced other unknown factors. As a result of the increased uncertainty of a rate cut in the foreseeable future, market interest rates rose again, but stabilised at much lower levels than in previous quarters.

Mortgage spreads briefly benefited from the limited increase in mortgage rates, but soon stabilised at lower levels.



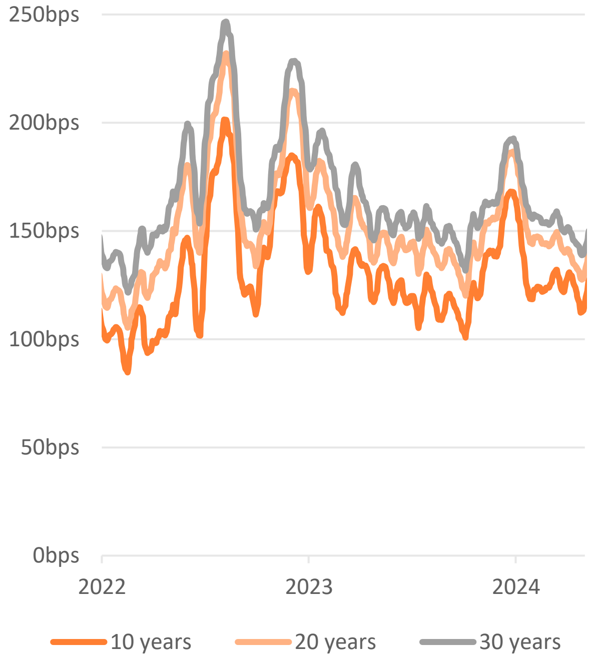


Figure 6: Interest rates and spreads on 10-, 20- and 30 years mortgages (10-day moving average), end of March 2024 (Source: DMFCO)

Mortgage performance

The Dutch mortgage market continues to perform very well, with stable, low levels of losses and arrears. The Dutch National Credit Register (BKR) also noted a downward trend in their latest report on payment arrears on mortgages.

To provide a projection of losses for the upcoming year in the Dutch mortgage market, public mortgage loan data (European Data Warehouse) is used as input for stress tests in Moody's Portfolio Analyser. The stress tests are based on different scenarios as described below.

In all scenarios, losses are expected to remain exceptionally low:

1. **The baseline scenario (S0)** assumes that Russia's invasion of Ukraine continues but does not expand beyond Ukraine. Israel's declaration of war against Hamas does not escalate into an all-out regional conflict. Global oil prices remain around current levels for several quarters. The supply-chain situation worsens following problems in the Red Sea, but the disruptions remain contained and do not lead to shortages. The ECB starts cutting rates in the spring of 2024, and it proceeds quickly.

2. **The stronger near-term growth scenario (S1)** assumes Russia ends the war in Ukraine, which reduces geopolitical tensions. Supplies of commodities such as oil, gas and food from the region increase. The global economy picks up robustly, boosting manufacturing output. The supply side of the economy expands strongly, driven by productivity gains. Given the stronger economy and slightly higher inflation, the ECB feels more confident and proceeds with normalisation more slowly.

3. **The Protracted Slump scenario (S4)** assumes tensions over Russia's invasion of Ukraine increase steadily and worries arise that Israel's declaration of war on Hamas as well as tensions in the Red Sea and Suez Canal will spiral into a broader regional conflict weigh on financial markets and confidence more broadly. In addition, tensions between the U.S. and China persist and intensify, damaging supply chains, exacerbates shortages, and pushes up prices. Business investment declines as does the demand for labour. The ECB takes the deposit rate to zero.

		Expected loss (in bps)			Annualised probability of default (in bps)		
Horizon	**Vintage**	**S0**	**S1**	**S4**	**S0**	**S1**	**S4**
1Y	2022-10	0.18	0.17	0.28	1.34	1.31	1.49
	2023-07	0.18	0.17	0.21	1.32	1.31	1.38
	2023-10	0.17	0.17	0.18	1.30	1.29	1.32
Lifetime	2022-10	1.61	1.59	2.07	9.90	9.70	11.88
	2023-07	1.62	1.60	1.90	9.98	9.80	11.19
	2023-10	1.59	1.57	1.83	9.80	9.64	10.88

For Q1 2024 can be concluded that:

- The performance of Dutch residential mortgages remains strong. This is most likely due to the healthy financial position of borrowers as a result of rising wages and the continued tightness of the labour market.
- In general, the impact of economic developments over the past year has not led to significant changes in either the expected loss or the probability of default of the mortgage portfolio.

Please note that the 1Y and Lifetime horizons represent the expected impact of each scenario on the mortgage portfolio over the next year and until the portfolio matures, respectively. In addition, the scenario vintages are the scenarios as assumed by Moody's at the indicated time and are therefore based on the relevant economic dynamics at that time.

Annex I: Key indicators

Indicator	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q-o-Q	Y-o-Y
Consumer confidence	61	61	61	71	78	+7 points	+17 points
Housing market confidence	73	72	77	81	89	+8 points	+16 points
General unemployment	3.6%	3.5%	3.6%	3.5%	3.7%	+0.2%	+0.1%
Inflation	4.4%	5.7%	0.2%	1.2%	3.1%	+1.9%	-1.3%
Mortgage applications	91,341	92,999	92,744	91,358	115,108	+26%	+26%
Mortgage volume (in billions)	€23.63	€24.96	€26.90	€31.75	€27.32	-14%	+15.6%
Number of originated mortgages	73,178	77,864	80,820	90,620	78.610	-13.3%	+7.4%
House price index (2020=100)	126.8	124.7	126.4	128.6	131.6	+2.3%	+3.8%
Average purchase price	€416,786	€406,547	€417,656	€422,712	€431,871	+2.2%	+3.6%
Transactions	40,437	44,500	46,948	50,518	44,443	-12%	+9.9%
ECB refinancing rate	3.00%	3.50%	4.00%	4.00%	4.00%	0.00%	+1.00%
Swap rate	2.98%	3.01%	3.41%	2.51%	2.59%	+0.08%	-0.39%
10-years Dutch Government bond rate	2.65%	2.74%	3.19%	2.32%	2.56%	+0.24%	-0.09%
10-years German Government bond rate	2.31%	2.39%	2.84%	2.03%	2.29%	+0.26%	-0.02%
10-years mortgage interest rate	4.27%	4.26%	4.49%	4.08%	3.98%	-0.10%	-0.29%
20-years mortgage interest rate	4.37%	4.42%	4.66%	4.31%	4.04%	-0.27%	-0.33%
30-years mortgage interest rate	4.43%	4.52%	4.73%	4.33%	4.10%	-0.23%	-0.33%
10-years mortgage spread (bps)	130	113	106	156	134	-22	+4
20-years mortgage spread (bps)	147	140	126	177	143	-34	-4
30-years mortgage spread (bps)	160	157	138	183	154	-29	-6

Definitions

Indicator	Source	Definition
Unemployment	CBS	The number of people who are between 15 and 75 years old who are not in work but are actively searching for paid work and are directly available to work
Housing market confidence	VEH	A measure of confidence in the Dutch owner-occupied housing market or willingness to purchase a house
Consumer confidence	CBS	Data (seasonally adjusted) on Dutch consumers' sentiment and expectations regarding general economic developments and their financial situation. At a value of 100, the share of pessimists equals the share of optimists.
GDP	CBS	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	All sales transactions recorded by Kadaster as well as the municipal valuation of all houses in the Netherlands
Housing shortage	ABF research	The difference between the outstanding demand for housing (demand side) and the available supply
Market share	Kadaster	The market shares of different lenders are determined, based on mortgage registrations
Transactions	Kadaster	Number of house sales registered and conducted by a notary
Market tightness indicator	NVM	An approximation of the number of houses for sale per potential buyer in the housing market. The NVM covers approximately 75% of the market
Mortgage volume	Kadaster	The total annual mortgage turnover together with the total number of mortgages provided annually
Market share	Kadaster	The market shares of different lenders based on mortgage registrations
Newly built properties	CBS	Number of new constructions added to the existing stock, from the Key Register of Addresses and Buildings
granted permits	CBS	Number of granted building permits as documented in the Housing Act
Affordability	Calcasa	The percentage of the net monthly income spent on net housing costs
Mortgage spreads	DMFCO	The difference between the mortgage interest rate and the interest rate on a 7-year swap

DMFCO
Asset Management

Sjoerd van Dijck
Investor Relations

E: vandijck@dmfco.nl

Evelien van Hilten, CFA, CAIA, PRM
Head of Portfolio Management

E: vanhilten@dmfco.nl

www.dmfco.nl
www.munthypotheken.nl

Bezuidenhoutseweg 16B
2594 AV Den Haag

LinkedIn