DMFCO
Asset Management

Dutch housing and mortgage market
Q2 2024

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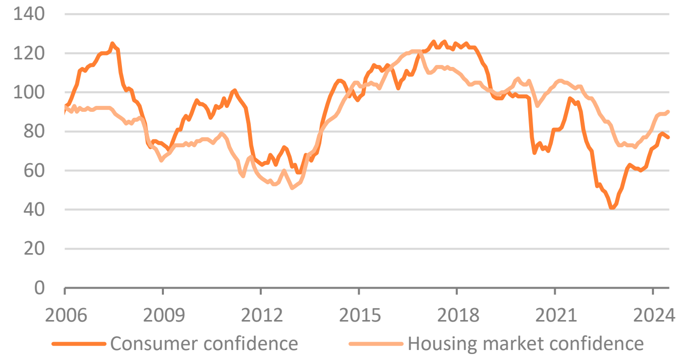
DASHBOARD DUTCH HOUSING AND MORTGAGE MARKET Q2 2024

Economic indicators

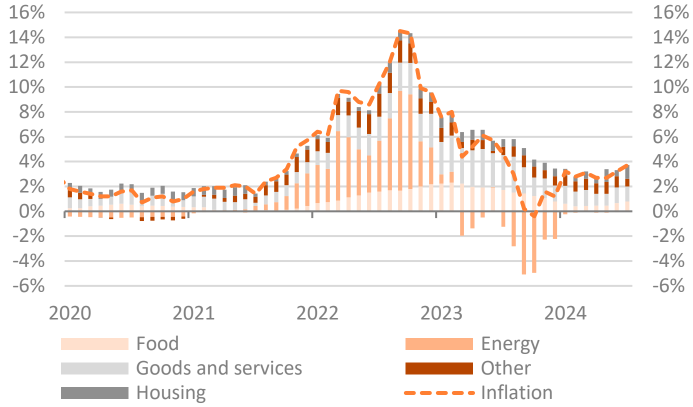
Confidence indicators (100 = neutral)

Source: CBS & VEH



Annual inflation rate

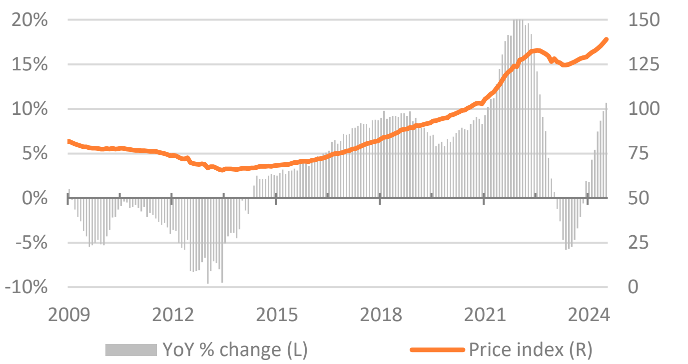
Source: CBS



Dutch Housing market

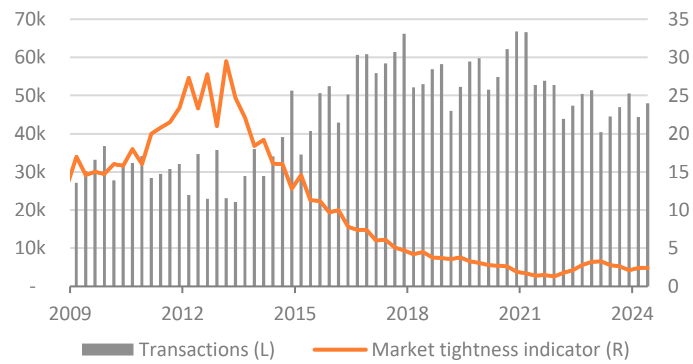
Price development (2020 = 100)

Source: Land Registry & CBS



Transactions and tightness

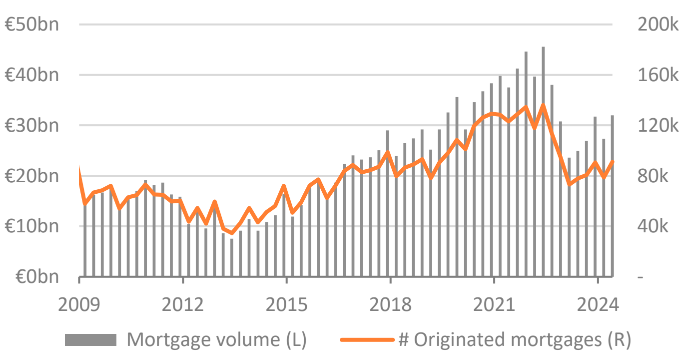
Source: Land Registry / CBS & NVM



Dutch Mortgage market

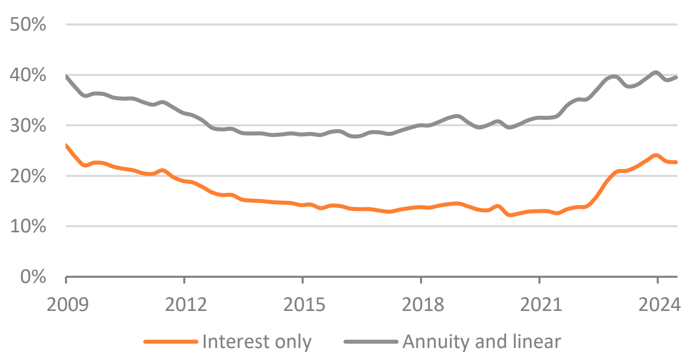
Market volume

Source: Land Registry & CBS



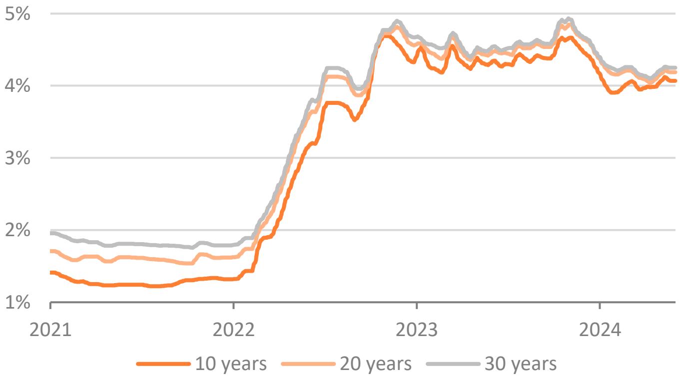
Net income spent on net housing

Source: Calcasa



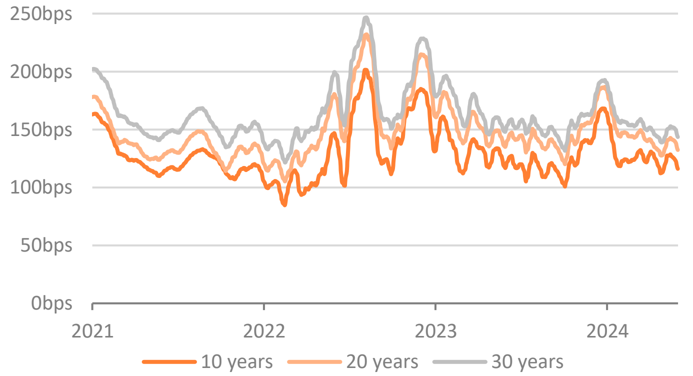
Mortgage rates

Source: DMFCO, end of June 2024



Mortgage spreads

Source: DMFCO, end of June 2024



Please see annex I for an overview of all key indicators

Economic growth in the Netherlands is picking up as inflation is reducing. Amid the cautious monetary policy of the European Central Bank (ECB), key economic indicators, including unemployment and consumer spending, remain robust.

This strength is reflected in the Dutch housing and mortgage markets. Higher wages combined with relatively stable mortgage rates allow households to borrow more. As a result, the number of mortgage applications and housing transactions continues to rise. Increased consumer demand coupled with limited supply continues to push up house prices.

Main developments

The Dutch economy showed renewed strength in Q2 2024 with GDP growth of 1.0%. Easing inflation and strong wage growth helped to increase household purchasing power. This economic resilience was supported by a stable labour market. Unemployment remained stable at 3.6% and wages rose by 6.8% YoY, fuelling consumer confidence and spending. Inflation eased to 2.9%, largely due to falling energy prices. This prompted the ECB to cautiously cut interest rates by 25 basis points in June — a move aimed at balancing growth with financial stability across the eurozone.

The housing market reflected the broader economic recovery with transaction volumes rising to 47,942 homes, an 8% increase both QoQ and YoY. This has partly been driven by buy-to-let investors selling off investment properties due to stricter rental regulations. The housing shortage remains persistent, but there is a first positive sign on the supply side with a significant increase in granted building permits during the last quarter. Meanwhile, house prices continue to increase with the pace of growth accelerating.

Mortgage volume experienced significant growth (28.3%) YoY, driven by both a higher number of transactions and larger mortgage amounts on the back of increased house prices. Wages have also risen significantly, helping to keep mortgage affordability stable. Throughout Q2 2024, mortgage rates were relatively stable, with only minor fluctuations. Rates rose slightly by 5 to 10 basis points at the beginning of the quarter and eventually stabilised following the ECB's rate cut in June.

Economic indicators

The Dutch economy showed considerable growth of 1.0% in the second quarter. This growth can mainly be attributed to increased export and government consumption. Inflation has eased to an average of 2.9% over the quarter, helping to increase household purchasing power. Together with the more accommodative monetary policy of the European Central Bank, these factors have contributed to a stable level of consumption and consumer confidence.

Economics

After nearly two years of stagnant growth, with quarterly GDP changes hovering around zero, the Dutch economy started to pick up again in Q2 2024, with GDP growth reaching 1.0% QoQ. This growth resulted from strong consumer spending and increased government investment, although it occurred in a complex environment where these positive domestic factors were tempered by external pressures. The main risks to the Dutch economy currently stem from international uncertainties, including severe geopolitical tensions and potential trade conflicts. These external factors could lead to inflation, lower economic growth and reduced purchasing power, as noted by the Netherlands Bureau for Economic Policy (CPB) and the Dutch Central Bank (DNB) in their latest Financial Stability Report from the beginning of 2024.

The eurozone economy as a whole demonstrated continued resilience, with GDP growing by 0.3% for the second consecutive quarter. In response to the current economic landscape, the ECB made a cautious interest rate cut in June 2024, reducing its key interest rate by 25 basis points. This decision was influenced by a significant decline in inflationary pressures and an improved economic outlook.

Inflation

Inflation remained relatively stable throughout the first half of 2024, with the average inflation rate settling at 2.9% in Q2 2024. This is slightly lower than the 3.0% recorded in Q1 2024 and significantly lower than the 5.7% recorded in the same period last year. The decrease in inflation is largely due to falling energy prices after the energy crisis of 2022-2023.

Goods and services continue to exert inflationary pressure, driven by high consumer spending patterns. Food prices have also continued to contribute to inflationary pressures, although at a slower pace than in previous quarters. The impact of global supply chain disruptions and higher agricultural input costs has kept food prices elevated, although the rate of increase is beginning to decelerate.

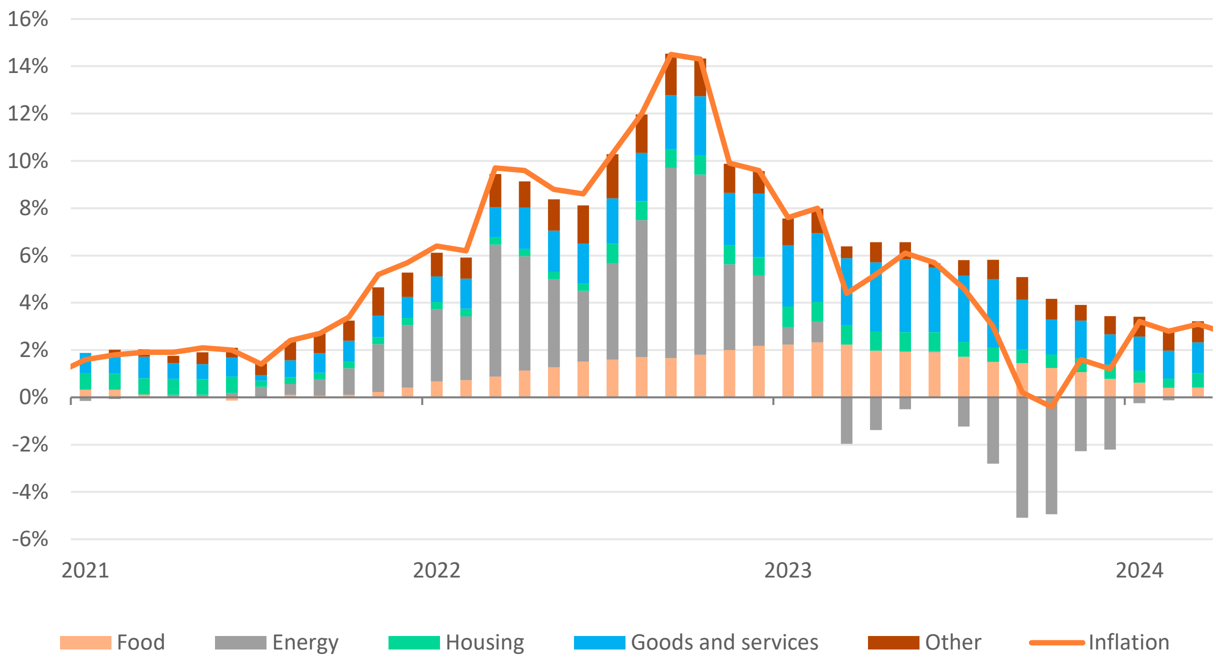


Figure 1: Inflation in the Netherlands, end of June 2024 (Source: CBS)

Sentiment indicators

Overall consumer confidence[1] improved in Q2 2024, with the average confidence level rising to 78, compared to 74 in Q1 2024. This reflects a growing sense of optimism among Dutch households, although confidence remains below pre-pandemic levels and still below the neutral level of 100. On an annual basis, overall consumer confidence improved significantly by +16 points, highlighting a significant recovery in sentiment compared to last year. 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.

Confidence in the housing market continued to recover as well, driven by households' more positive outlook on their financial situation and the general economy, supported by the stabilisation of mortgage rates. Government measures to support home ownership, particularly for first-time buyers, also contributed to the recovery. However, concerns remain about the limited supply of new homes, which could weigh on future confidence levels if not properly addressed.

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

Labour market

The Dutch labour market remained robust in Q2 2024, with the unemployment rate stable at 3.6%. While this tight labour market poses challenges for companies in attracting talent, it also provides consumers with a high degree of job security and stable incomes, supporting overall economic stability.

Wage growth continued to be strong, with nominal wages rising by 6.8% YoY in June 2024. However, when adjusted for inflation, wage growth was 3.6% YoY. Inflationary pressures differed across sectors, with some sectors experiencing wage increases that did not fully compensate for inflation, leading to varying impacts on real purchasing power. Despite these challenges, the overall wage growth has been important in partially offsetting the significant loss of purchasing power experienced during 2022 and early 2023, contributing to sustained consumer spending.

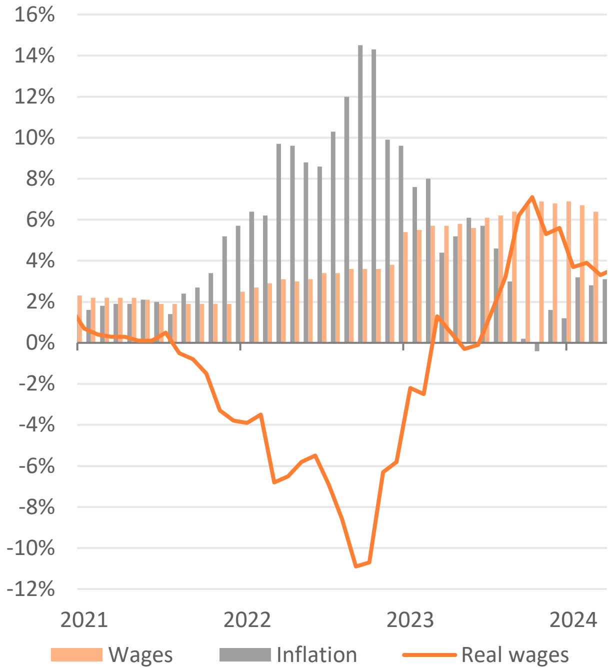


Figure 2: Real wage development, end of June 2024 (Source: CBS)

The number of bankruptcies rose sharply, with 404 cases in June 2024 (+11.5% QoQ and +25.2% YoY). This significant increase largely reflects a catch-up effect from the pandemic, as many companies that were kept afloat by government support are now facing financial difficulties. Nevertheless, the overall number of bankruptcies remains relatively low by historical standards, indicating that the broader economic environment remains supportive for most businesses.

Housing market

The Dutch housing market continues to gain momentum as sentiment among households strengthens. This is evident in the rising number of housing transactions, driven by persistent demand in a tight market. The limited supply is pushing house prices higher. With properties selling quickly, the market remains fast-moving and competitive.

Transaction volume and housing supply

The Dutch housing market saw a notable increase in transaction volume during Q2 2024, with 47,942 transactions—an 8% rise compared to both the previous quarter and the same period last year. The 12-month rolling average of transactions also improved, reaching 190,302 by the end of Q2 2024, up from 186,409 in Q1 2024.

The market tightness indicator remained steady at 2.4, the same level as in Q1 2024. This means that, on average, prospective buyers have only 2.4 homes to choose from. The housing market is particularly tight in the provinces Utrecht and Flevoland. Only in peripheral areas such as Limburg and Zeeland the indicator is above 5. This suggests that the market remains competitive, with prospective buyers still having limited options.

In Q2 2024, the number of houses for sale rose to 28,239, a 21.3% increase from the previous quarter. This increase can be partly attributed to seasonal effects, but also to buy-to-let investors selling investment properties due to stricter rental regulations and less favourable tax treatment. Land Registry (Kadaster) calculated that approximately 5,000 properties were sold by private landlords during the second quarter, more than 10% of total transactions.

Overall, the housing supply remains constrained while transaction volumes (temporarily) increased. The combination of a slow recovery in housing availability and continued strong demand limits the options available to buyers, leading to increased competition in the housing market.

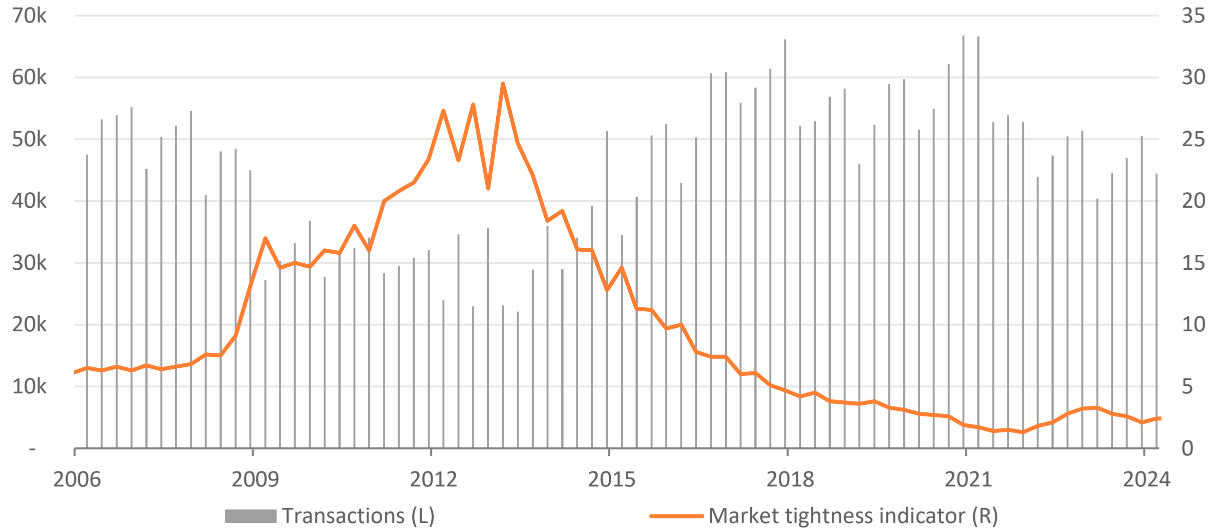


Figure 3: Number of transactions and market tightness, end of June 2024 (Source: CBS / Land Registry & NVM)

New construction and housing shortage

In Q2 2024, the number of newly built houses reached 17,113, reflecting a growth from the previous quarter (+9.8%). However, the overall trend shows that the construction sector continues to struggle to meet demand for new homes. On a 12-month rolling basis, 72,111 new houses had been built by the end of June 2024, slightly down from 72,740 in Q1 2024. This decline highlights the ongoing challenges to significantly increase construction.

The number of building permits issued during Q2 2024 increased by 17.42% from the previous quarter and by 34.74% YoY. Despite this increase, the housing shortage remains a pressing issue. The inability to meet the government's target of constructing 100,000 houses annually widens the gap between supply and demand. Regulatory and environmental constraints continue to have an impact on the approval process for new projects. Stricter building codes, zoning laws, and environmental regulations, while essential for sustainable development, have inadvertently contributed to bottlenecks in housing supply. Additionally, high construction costs, labour shortages, and administrative delays in permitting hinder the completion of new projects, leading to a slower-than-expected recovery in housing availability.

These trends suggest that the housing shortage could persist for several years, particularly if these challenges are not addressed through policy intervention. The continued shortage may increase inequalities in the housing market, making it increasingly difficult for lower-income households to access affordable housing options.

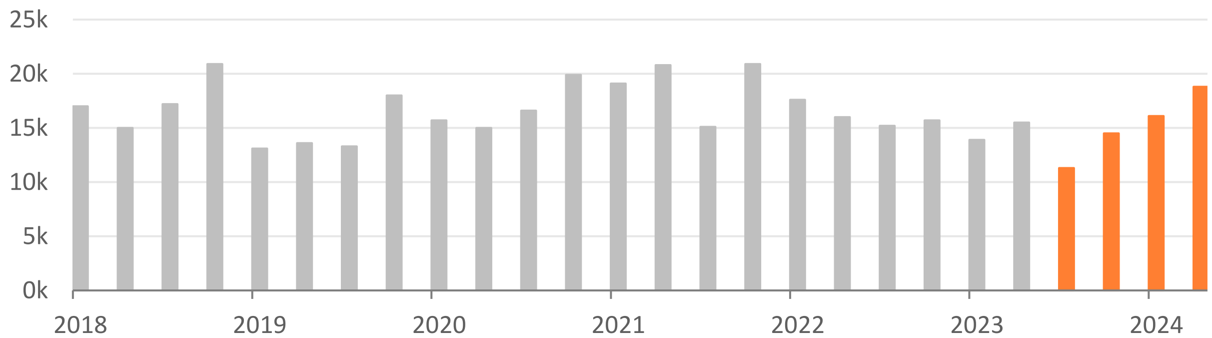


Figure 4: Quarterly number of new building permits, end of June 2024 (Source: CBS)

House prices

House prices continued to climb during Q2 2024, in line with a positive trend observed since late 2023. Year-on-year house prices rose significantly with 7.5%, 8.7% and 9.8% in April to June respectively.

The rise in house prices can be attributed to a number of factors, including tightness in the housing market, improved buyer sentiment and borrowing capacity as a result of wage increases.

Average purchase prices followed a similar upward trend, although with some fluctuations. In April 2024, the average purchase price was €435,984, which rose to €445,430 in May, before falling slightly to €441,112 in June. This dip may be attributed to buy-to-let investors selling off their properties, which are generally in the lower price segment. Despite this small dip, the overall trend indicates a robust recovery in the housing market, with YoY price increases peaking at 10% in May 2024.

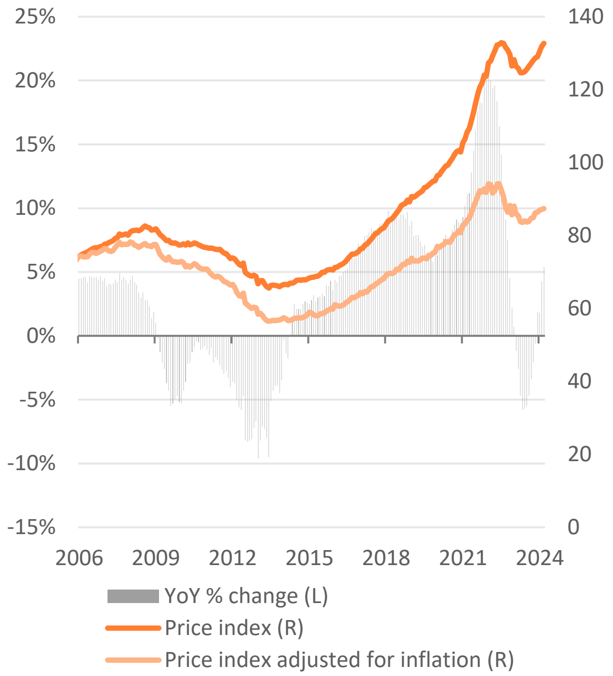


Figure 5: Development of the house price index, end of June 2024 (Source: CBS & Land Registry)

The housing market is characterised by significant overbidding, with two out of three properties being sold above the asking price. On average, buyers are paying 4.3% more than the asking price. This indicates strong buyer demand and a highly competitive market. Furthermore, the time it takes to sell a house has decreased, now averaging 27 days from listing to sale, indicating a very fast-moving market.

Mortgage market

The Dutch mortgage market saw a significant increase in mortgage volumes, driven by rising house prices and higher mortgage amounts. The increase in house prices led to a greater share of non-NHG applications, as more loans were originated above the NHG threshold. The number of mortgage applications continued to grow, reflecting strong demand and a positive outlook for the rest of the year.

Mortgage volume and applications

The Dutch mortgage market continued to grow in Q2 2024. Total mortgage volumes reached €32 billion, up 17% from the previous quarter and 28.3% YoY. This growth was driven by an increase in the number of transactions and an increase in the average mortgage amount. Consumers are borrowing significantly more in response to continued house price increases. The average mortgage amount increased by 9% YoY, an additional €31,000. Even compared to the first quarter of this year, there is a significant increase: from € 346,640 in Q1 to € 360,750 in Q2, an increase of 4%.

The number of applications in Q2 rose to 120,228, marking a 4.4% increase compared to the previous quarter and a significant 27.7% YoY growth. This marks the third consecutive quarter of increasing mortgage applications, reflecting the ongoing strong demand in the housing market. This upward trend in applications could be an indicator of further growth in the coming quarter, suggesting continued momentum in the market.

The porting option remains appealing to existing borrowers as mortgage rates stay relatively high. In Q2 2024, the total porter mortgage volume based on applications rose to €8.7 billion, accounting for 27% of the total market. This is in line with levels observed in the previous 12 months. The preference for shorter fixed-rate periods (mainly 10 years) remains dominant in the market, still accounting for over 70% of new mortgage origination.

The second quarter saw an increase in the use of NHG (National Mortgage Guarantee) compared to a year ago. Although the number of NHG applications rose by 16%, this was significantly less than the 31% increase in non-NHG applications. This trend can be attributed to the increase in the average house price observed among mortgage applications (+9.4%) to €487,347, well above the newly raised NHG limit of €435,000.

First-time buyers increased their own contribution with a significant increase of 11.1% YoY to €42,989. This trend may be attributed to higher household savings and a growing willingness of parents to help their children financially with the purchase of a home.

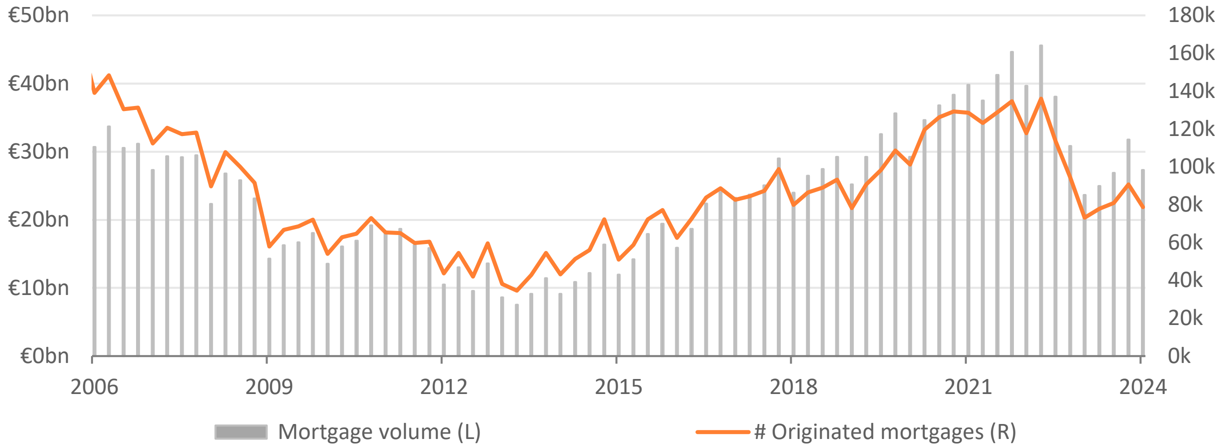


Figure 6: Mortgage volume and number of originated mortgages, end of June 2024 (Source: Land Registry)

Mortgage interest rates and spreads

Mortgage interest rates remained relatively stable in Q2 2024, with only minor fluctuations throughout the quarter. Mortgage rates rose slightly by 5 to 10 basis points at the beginning of the quarter. Following the rate cut by the ECB, mortgage rates stabilised as the market adjusted to the new economic environment.

Mortgage spreads, which had shown some volatility in previous quarters, also stabilised during Q2 2024. Spreads for 10- and 20-year fixed-rate mortgages returned to levels similar to those observed in previous quarters. We generally observe that mortgage spreads tend to be more volatile in a fluctuating interest rate environment.

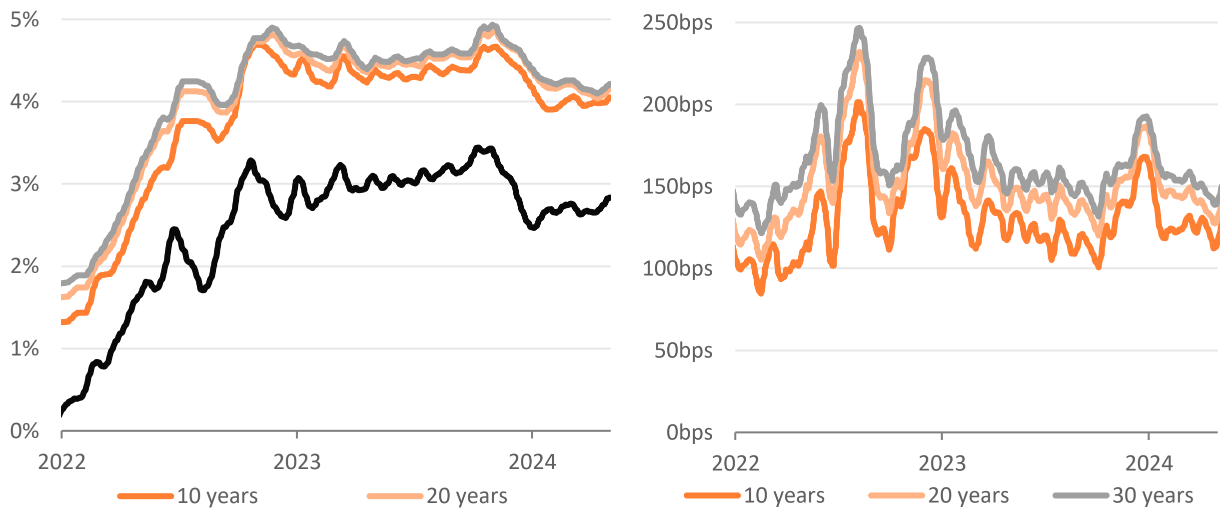


Figure 7: Interest rates (left) and spreads on 10-, 20- and 30 years mortgages (10-day moving average) (right), end of June 2024 (Source: DMFCO)

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 the Russia-Ukraine war ends much faster than anticipated as pandemic fears subside. This results in a boost in aggregate demand and expansion of aggregate supply. On the demand side, these positive developments relieve recession concerns, causing an uptick in consumer and business sentiment. On the supply side, improved energy security, a total removal of supply bottlenecks, and efficiency gains driven by NextGenerationEU funding usher in a period of rapid productivity growth. The strong economy eases domestic political tensions, which supports effective reforms and investment.

2. **The stronger near-term growth scenario (S1)** assumes that the Russia-Ukraine war ends faster than anticipated as pandemic fears subside. This results in a boost in aggregate demand and expansion of aggregate supply. On the demand side, these positive developments relieve recession concerns, causing an uptick in consumer and business sentiment. On the supply side, improved energy security, a total removal of supply bottlenecks, and efficiency gains driven by NextGenerationEU funding usher in a period of rapid productivity growth. The strong economy eases domestic political tensions, which supports effective reforms and investment.

3. **The protracted slump scenario (S4)** assumes that the global economy fails to pick up and sentiment plummets in the euro zone. The risk that the war in Ukraine will escalate to the point where NATO is forced to enter the conflict becomes acute and heightened geopolitical tensions between the U.S. and China lead to significant barriers to shipping. Domestic political risks in the euro zone rise rapidly as populist parties seek to take advantage of disenchanted voters. This severe increase in geopolitical risk, along with a complete lack of confidence in the economy, leads to a sharp selloff in financial markets. As a result, the economy enters a severe and sharp recession.

		Expected loss (in bps)			Annualised probability of default (in bps)		
Horizon	Vintage	S0	S1	S4	S0	S1	S4
1Y	2023-08	0.11	0.10	0.20	8.27	7.32	15.10
	2024-05	0.11	0.10	0.13	7.48	6.91	10.47
	2024-08	0.10	0.10	0.12	7.28	6.68	10.29
Lifetime	2023-08	2.50	2.43	3.44	4.59	4.25	8.58
	2024-05	2.54	2.49	3.09	4.75	4.53	7.21
	2024-08	2.55	2.51	3.10	4.84	4.65	7.32

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.

For Q2 2024 we conclude that:

- The performance of Dutch residential mortgages has remained 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 have not led to significant changes in either the expected loss or the probability of default of the mortgage portfolio. Also due to the long term fixed rate nature of the Dutch mortgage market, borrowers are protected against sudden shocks in the interest rate environment.

Annex I: Key indicators

Indicator	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q-o-Q	Y-o-Y
Consumer confidence	61	61	71	78	77	**-1 point**	**+16 points**
Housing market confidence	72	77	81	89	90	**+1 point**	**+18 points**
General unemployment	3.5%	3.6%	3.5%	3.7%	3.6%	**-0.1%**	**+0.1%**
Inflation	5.7%	0.2%	1.2%	3.1%	3.2%	**+0.1%**	**-2.5%**
Mortgage applications	92,999	92,744	91,358	115,108	120,228	**+4.4%**	**+27.7%**
Mortgage volume (in billions)	€24.96	€26.90	€31.75	€27.32	€32.01	**+17.2%**	**+28.2%**
Number of originated mortgages	77,864	80,820	90,620	78.610	91.060	**+15.8%**	**+16.9%**
House price index (2020=100)	124.7	126.4	128.6	131.6	135.5	**+3.0%**	**+8.7%**
Average purchase price	€406,547	€417,656	€422,712	€431,871	€444,842	**+2.8%**	**+8.4%**
Transactions	44,500	46,948	50,518	44,443	47,942	**+7.7%**	**+7.9%**
ECB refinancing rate	3.00%	3.50%	4.00%	4.00%	3.75%	**-0.25%**	**+0.75%**
Swap rate	3.01%	3.41%	2.51%	2.59%	2.83%	**+0.24%**	**-0.18%**
10-years Dutch Government bond rate	2.74%	3.19%	2.32%	2.56%	2.83%	**+0.27%**	**+0.09%**
10-years German Government bond rate	2.39%	2.84%	2.03%	2.29%	2.49%	**+0.20%**	**+0.10%**
10-years mortgage interest rate	4.26%	4.49%	4.08%	3.98%	4.04%	**+0.06%**	**-0.22%**
20-years mortgage interest rate	4.42%	4.66%	4.31%	4.04%	4.19%	**+0.15%**	**-0.23%**
30-years mortgage interest rate	4.52%	4.73%	4.33%	4.10%	4.24%	**+0.14%**	**-0.28%**
10-years mortgage spread (bps)	113	106	156	134	116	**-18**	**+3**
20-years mortgage spread (bps)	140	126	177	143	134	**-9**	**-6**
30-years mortgage spread (bps)	157	138	183	154	145	**-9**	**-12**

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
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

Maarten Louwers

Analyst Investor Relations

E: louwers@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