

The Netherlands

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IN A NUTSHELL

- Young first-time buyers exempted from transfer tax.
- Shortages result in falling house transactions after first quarter.
- House prices increase to record level.

MACROECONOMIC OVERVIEW

The economy expanded by 4.9%, with GDP recovering fully from the pandemic and at a faster rate than in peer economies. The second lockdown had a substantial negative effect on economic activity in the first quarter of 2021, but GDP remained stable during the third lockdown in the fourth quarter. International trade performed particularly well: goods exports grew (8.6% year-on-year) while service exports fell further (-4.0%). Pandemic containment measures and consumer hesitancy reduced household consumption substantially in the first quarter, but hardly in the fourth.

Household consumption grew by 3.6%. Government consumption was a driver of growth, including creating employment in covid testing and vaccination facilities. Public investment fell by 2.0%, with some infrastructure projects delayed due to tighter environmental policies, while private investment partially recovered with 4.3% growth. Expenditure on ICT equipment, machinery and software & databases expanded particularly.

HICP-inflation accelerated during 2021, due to increasing energy and fuel prices, to 2.8%. As unemployment was temporarily higher due to the first lockdown of spring 2020, contractual wages increased by only 2.1% in 2021. Unemployment fell quickly, from 5.5% in the third quarter of 2020 to 4.2% by year end, even below the level of 2019. The number of bankruptcies reached new record lows, as generous government support for businesses and employment was maintained for the full year (although it was initially intended to stop by the end of September).

The new government that came into power in February 2022 had expansionary policies and maintained the bulk of covid support measures until March 2022.

LOOKING AHEAD

Shortages are ongoing. Demand continues to rise due to demographic effects in particular an increase in young buyers and increase of one-person households and the supply side lags despite government actions and is hampered by green and emission regulations. Furthermore, the ageing population continues to occupy larger homes in the absence of smaller 'elderly' houses and the small not social housing rental sector.

However, high energy prices inflation generally and the increase in mortgage rates will reduce housing affordability housing, resulting in a slower increase of the house prices.

The social problem of lack of affordable housing will grow, which, in combination with the ongoing refugee inflows, will put a strain on Dutch society.

HOUSING MARKETS

CHANGES IN TRANSFER TAX RESULT IN FEWER INVESTMENTS

The housing market was dominated by changing transfer tax regulations. Young buyers up to the age of 35 are exempt from transfer tax from 1 January 2021. From 1 April, this exemption only applies to purchases under EUR 400,000. Investors - buyers who are not going to live in the house or are a business - pay 8% transfer tax. Individuals who buy a home for their own use pay 2%.

These changes and the deterioration in available returns for investors as house prices have risen have resulted in house purchases by investors falling by 41% whilst purchases by first time buyers increasing by 12%. Young buyers are particularly evident in the cheaper suburbs than the urban areas.

NUMBER OF HOMES SOLD AT RECORD LEVEL, DECREASING

In the first quarter of the year, there was a further increase in the number of transactions (+ 15,048 compare to 2020Q1), a trend had been going on for eight years. In the 12 months until the end of April, a record number of homes were sold (250,659). After which, the rate slowed. Over the whole year 226,087 homes were sold, 4% less than in 2020.

HOUSE PRICES RISE BY RECORD PERCENTAGES

House prices rose by 15.2% in 2021, from 7.8% in 2020. Only in 1999 and 2000 did prices rise faster. This is mainly the result of high demand evidenced by a very high numbers of transactions. The relationship between the demand for and the supply of housing is historically tight. The tight indicator for the Dutch owner-occupied housing market fell in 2021 from 1.7 in Q1 to 1.3 in Q4. This indicator indicates that a buyer can choose from 1.3 properties. The normal shortage for the Netherlands is 5.0.

Price rises in Amsterdam has been below average since the 2nd quarter of 2019, This trend may have been caused by changes in housing preferences, as people increasingly prefer houses outside big cities.

House prices are rising much faster than household income, as has been shown for six years in statistics on the accessibility of owner-occupied houses. For example, an average household with a gross income of 60,000 euros was able to buy 70% of all homes for sale in 2017, by 2021, that percentage had dropped to 38%.

MORTGAGE MARKETS

MARKET DYNAMICS

There was a record amount of new mortgage originations, EUR 163 bn according to the Land Registry, an increase of 17.4% y-o-y. Rapidly rising house prices combined with relatively high transaction volumes pushed up the origination

volumes for mortgages for the purchase of a house. This was largely driven by first-time buyers (up 36.5% y-o-y), who benefitted from a cut in transfer tax, whilst subsequent buyers' volumes grew less rapidly (7.3% y-o-y). Moreover, continued low mortgage rates through the year drove strong refinancing (and further advance) activity, which rose by 27.1% y-o-y.

The average LTV for all new mortgage applications at Hypotheken Data Network declined in 2021 to 61.8%, from 68.5% in 2020. An important contributor to this is the high share of (typically low LTV) non-purchase mortgages (refinancings, second mortgages, further advances). Nevertheless, the average LTV ratio for mortgages for the purchase of a house also declined to 79.6%, from 83% in 2020, as house price growth exceeded growth in borrowing capacity, requiring greater own funds. The average debt-to-income (DTI) ratio was virtually unchanged in 2021 at 3.55x compared to 3.54x in 2020. However, DTI ratios for home purchases increased to 4.43x, from 4.2x in 2020 as the sharp house price increases led to more borrowing relative to income.

Mortgage interest rates started 2021 at historical lows but declined further during the year until Q4 before subsequently rising slightly. Despite these relatively minor movements, mortgage rates were ultimately quite stable throughout the year, this despite rising swap rates compressing margins as competition remained fierce. The low rates caused refinancing activity to remain high, the small rise in rates towards the end of the year saw a new spike in refinancings. The share of interest-only (IO) loan parts continued to rise because of the increase in refinancings, typically older loans that feature more IO, but a similar trend was observed for house buyers for whom IO reduces monthly payments. Mortgage applications with a majority IO loan part rose to 42.1%, from 35.6% in 2020. Finally, long fixed-rate periods remained the norm in 2021 with the 20 year fixing the most popular and 30 year fixings becoming more popular at the expense of 10 year fixings. Nearly 75% of new mortgage application volumes in 2021 were fixed for 20 years or longer.

NON-MARKET LED INITIATIVES

The most important fiscal change was the abolition of the transfer tax on the purchase of a house for young buyers. As of 1 January 2021, buyers under the age of 35 (both first-time and subsequent buyers) no longer have to pay transfer tax, previously 2% of the purchase price, when purchasing a house (the tax cut can only be granted once). As of 1 April 2021, only homes less than EUR 400,000 have been eligible for this. The tax changes led to a record high number of home sales in the first quarter and a disproportionate number of homes above EUR 400,000 were bought ahead of the tightening of the rules in April. Consequently, origination volumes were also distorted by the transfer tax changes, with first-time buyer origination volumes up significantly y-o-y.

The statutory underwriting norms changed slightly in 2021. The LTV remained capped at 100% (106% when financing energy saving measures) but the DTI rules were eased somewhat. For dual-income households the second income counted for 90%, up from 80% in 2020 and student debt was treated more favourably. The deductibility of interest payments from taxable income continues to be reduced as planned. Over the next years, the deduction rate decreases by 3.0 ppts per annum. The deduction rate was equal to 43% in 2021 (46% in 2020) and as of 2023, the maximum deduction rate will remain stable at (roughly) 37.0%. The effects of this change are expected to remain moderate.

MORTGAGE FUNDING

The mortgage lending landscape is diverse. New originations came from banks (53.5%), third-party originators (22.6%), insurers (13.6%), foreign parties (6.7%) and others (3.7%). Banks have varied funding sources, the majority is from customer deposits, followed by wholesale funding. According to the EBA, deposits comprised 56% of funding, long-term secured/unsecured debt 21%, repos/interbank deposits 12% and short-term debt 5%. Continued high deposit levels and TLTRO uptake continued to reduce banks' needs for wholesale funding. Covered bonds remain the preferred wholesale funding tool for mortgages due to low funding costs and asset-liability matching. Smaller banks are mainly funded by deposits, and covered bonds for their wholesale funding, although some also use securitisations. At the end of 2021, the total outstanding of non-retained EUR benchmark covered bonds of Dutch banks was EUR 61.2 bn. For non-banks, mortgage funding is diverse. Insurers invest for their own book whilst third-party originators are funded by institutional investors, e.g. forward flow mandates. Meanwhile, a number of small, non-bank lenders are largely funded by a combination of bank warehouse facilities and Prime RMBS.

GREEN FUNDING

Nearly all financial institutions have signed the Dutch climate agreement (commitment to work towards the 2050 Paris Agreement objectives). As for most Dutch institutions their mortgage loan book is the largest portfolio on their balance sheet, sustainability is key.

This has triggered nearly all traditional mortgage lenders to add sustainability or renovation product features to their mortgage offering in recent years and publicly state their ambitions to improve the energy efficiency of their mortgage loan book.

In addition, several new mortgage lenders have entered the market only providing 'green' mortgage loans: often offering clients a lower interest rate if the underlying property is energy efficient or a renovation is undertaken. In September the Energy Efficient Mortgages NL Hub (EEM NL Hub) was launched: an initiative by many stakeholders active in the mortgage market to support and promote the acceleration and adaptation of energy efficient housing in the Netherlands, and the financing thereof.

23 members and more than 20 affiliated members have been meeting on a regular basis to interpret section 7 of the EU Taxonomy for the Dutch market to arrive at a common understanding and application of the screening criteria. The aim is to create transparency and work together to collect and unlock the data necessary for the reporting requirements of the EU Taxonomy and SFDR. The objective is that a common definition and application of section 7 of the EU Taxonomy and consistent reporting thereof, will enhance the transparency of the overall market, mortgage loan books of originators and the related funding transactions.

The EEM NL Hub works closely with the Energy Efficient Mortgages Initiative (EEMI) and aims to publish a first version of the Dutch Framework for Energy Efficient Mortgages in 2022.



	NETHERLANDS 2020	NETHERLANDS 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-3.9	4.9	5.4
Unemployment Rate (LSF), annual average (%) (1)	3.8	4.2	7.0
HICP inflation (%) (1)	1.1	2.8	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	69.1	69.1	70.0
Gross Fixed Investment in Housing (annual change)(1)	-0.6	3.3	6.6
Building Permits (2015=100) (2)	120.8	135.9	134.0
House Price Index – country (2015=100) (2)	141.9	163.4	145.2*
House Price Index – capital (2015=100) (2)	162.1	180.2	146.1*
Nominal house price growth (%) (2)	7.9	15.2	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	751,949	785,288	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	53,442	55,442	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	180.8	178.6	62.8*
Gross residential lending, annual growth (%) (2)	13.3	17.4	12.2
Typical mortgage rate, annual average (%) (2)	1.89	1.70	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, Statistical Tables.

NETHERLANDS FACT TABLE

Which entities can issue mortgage loans in your country?

Mortgages are mostly being issued by banks and insurance companies. But also, the government, municipalities, companies in general and private persons may issue mortgages. However, for professional issuing of mortgages a company needs a license from the Netherlands Authority for Financial Markets. There are strict regulations for license holders to protect the consumer.

What is the market share of new mortgage issuances between these entities?

No available

Which entities hold what proportion of outstanding mortgage loans in your country?

No available

What is the typical LTV ratio on residential mortgage loans in your country?

Unknown; maximum LTV in 2021 is 100% (106% when financing energy saving measures).

How is the distinction made between loans for residential and non-residential purposes in your country?

A mortgage is registered at the Kadaster (Land Registry and Mapping Agency). At the time of registration of the mortgage, it must be specified whether a piece of land or object is meant for residential purposes.

What is/are the most common mortgage product(s) in your country?

Annuity and interest-only.

What is the typical/average maturity for a mortgage in your country?

30 years

What is/are the most common ways to fund mortgage lending in your country?

No available

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?

2% taxes; 4% other transaction costs (i.e. notary; real estate agent; taxation).

What is the level (if any) of government subsidies for house purchases in your country?

There is a guarantee fund, the Nationale Hypotheek Garantie (NHG). For mortgages lower than EUR 325,000 and meeting certain conditions, the NHG guarantees the payback of the remaining mortgage debt in case of foreclosure (again subject to certain conditions).