The Netherlands

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IN A NUTSHELL

- → Economy grew by 4.5%.
- → House prices declined after sharp price increase.
- → Interest rates increased rapidly (10 year fixed from 1.3% to 4.3%).

MACROECONOMIC OVERVIEW

The economy expanded by 4.5% as the final lockdowns ended in the first quarter, GDP increased significantly, especially in the second quarter. The main growth driver was consumption, as many consumers were eager to buy more recreational, cultural and hospitality services post-lockdown. It was facilitated by strong employment growth, accelerating wages and generous government support for households in light of the energy crisis. HICP-inflation increased significantly to 11.6%, due to global supply chain issues, the crisis in Ukraine, rising demand and especially high energy prices.

As covid testing and vaccination capacity was reduced, the growth in public consumption (1.5%) was less than in 2021 (5.2%). But the new government that came into power in February continued expansionary policies, even more ambitiously than the previous government. Public investment fell considerably (4.3%), as some infrastructure projects struggled with tight environmental policies (Economisch Instituut voor de Bouw, eib). Private investment grew by 3.8%. Expenditure on commercial real estate, ICT equipment, and intangible assets expanded particularly. Generous public covid-support for businesses and employment was largely terminated by the second quarter and firms started repaying deferred taxes as of October. While the number of bankruptcies increased, it remained historically low.

International trade grew, goods exports by 2.3% and service exports by 12.7%. Imports increased more moderately, leading to an increase in the current account surplus.

Amidst high energy prices, manufacturing held up production. While some firms went bankrupt and some facilities were temporarily shut down in energy-intensive sub-sectors, manufacturing still managed to expand its value added by 3.4%. In part, this is due to strong performance of (especially semi-conductor) machinery, electronics and pharmaceuticals. The travel business, culture, recreation and sports and the hospitality sector showed the highest growth rates, all in double digits as covid-restrictions faded.

LOOKING AHEAD

Disposable income of (potential) homeowners is expected to increase significantly in 2023, due to reductions in the labour income tax and especially due to the tightness in the labour market that leads to contractual wage increases of on average close to 6%, a growth rate last seen in 1982. The expected increase in household incomes results in increased maximum borrowing capacity. Specifically, wage increases are at a minimum translating into a 1:1 increase in the maximum mortgage amount, but depending on household income can even be somewhat higher than the increase in income. In any case, affordability improves, supporting demand for homes. Relatedly, the second income in dual-income households counts for 100% in the mortgage underwriting standards in 2023, up from 90% previously, and so income gains are further amplified when it comes to borrowing capacity for dual-income households.

Finally, a key contributor to households' ability and willingness to buy a house is expected to be buoyed by continued low unemployment. Whilst unemployment is generally expected to increase, the increase is anticipated to be quite modest, keeping unemployment at very low levels in a historical context.

HOUSING MARKETS

The year had two phases: A sharp price increases followed by a period of price decline. It started with a new record; prices were 21.1% higher in January than one year before. The highest ever average price of EUR 446,000 was reached in August. Subsequently, prices fell to an average of EUR 401,000 in December. However, the price increase was still 2.7% y-o-y in that month. The four major cities in the Netherlands showed a more subdued price development of only 0.1% y-o-y. In the capital, Amsterdam, the average price fell by 5% over 2022.

There are several reasons for this price development. One was the uncertainties caused by the political conflict in Ukraine and the subsequent rise in energy prices and reduced economic growth, which led to a drop in consumer confidence and potential home buyers adopting a wait-and-see attitude. Another reason was the rise in mortgage interest rates, which immediately resulted in lower maximum mortgages (which are limited by law based on the interest rate and household income). Next, inflation, driven by sharply increased energy costs, also affected the number of total transactions.

The impact of rising energy costs is clearly reflected in the price development for houses with different levels of energy efficiency. The average prices of homes with a red energy label (D, E, F, G) fell further than homes with a green energy label (A, B and C). The most energy-efficient homes (A) hardly dropped at all.

Fewer homes were bought in 2022 (193,000) than in 2021 (226,000). During the year, the yearly difference increased from -12% to -20%, but then fell to -11%. Experts expect that a tipping point will be reached in 2023 and that more homes will be sold than in 2022.

FIRST TIME BUYERS (FTB) AND INVESTORS

In recent years, national and municipal policies have discouraged the purchase of homes for rental. Municipalities can impose a ban on purchases of properties intended to be for rental use below a certain value, in order to allow first-time buyers to access the market. Specifically, in Q3 and Q4 small private landlords sold more homes than there were bought. FTBs benefitted from this, buying up to 60% of these homes. These homes tend to be of lower energy quality, but FTB can apply for a subsidy for sustainability investments when purchasing.

MORTGAGE MARKETS

MARKET DYNAMICS

2022 proved to be a year of extremes for the Dutch mortgage market. Mortgage interest rates started the year at historical lows with the rate for a 10 year fixed-rate loan at around 1.3% before rapidly increasing and ultimately ending the year at 4.3%. Rates for the 20 year and 30 year fixings more than doubled as well. The unprecedented rise in mortgage rates impacted the market in a number of ways. Initially, increasing interest rates triggered a massive wave of refinancing activity as borrowers wanted to lock in still low rates before they increased even further. This 'last round' effect drove mortgage application volumes (from Hypotheken Data Netwerk) up 37.3% y-o-y in Q1. However, with refinancing volumes collapsing in Q2 and house purchase volumes gradually declining from Q2 onwards total mortgage origination fell sharply. In the last quarter of the year, mortgage application volumes were down 52.6% y-o-y. Application volumes in 2022 were down 12.1% y-o-y to EUR 130.3 bn, driven by refinancings (-35.5% y-o-y) and subsequent buyers (-6.7% y-o-y) whilst first-time buyers were the relative beneficiaries with only a 1.3% y-o-y decline. Finally, the category Other (e.g. further advances) rose by 29.9% but this is only a small part of the overall market (EUR 11.5 bn).

The change in the interest rate environment also resulted in different kinds of mortgages being originated. Initially, affordability worsened significantly, driving borrowers to prefer shorter fixed-rate periods with lower interest rates. The share of new applications with 10 year fixed rates rose from 20% to 55%, at the expense of 20 year and 30 year fixings which fell from 75% to 25% of the total. Additionally, fixings below 10 years also gained in popularity.

Secondly, interest-only originations dropped rapidly last year as IO is less attractive at higher rates and refinancing activity that typically features IO parts declined.

Lastly, in the house purchase segment, the market share of guaranteed Nationale Hypotheek Garantie (NHG) mortgages rose markedly as the lower interest rate for NHG, reduced attractiveness of IO (which is not possible with NHG) and economic uncertainty made NHG more attractive. The share of NHG mortgages rose from 18.7% in January to 39.2% in December, first-time buyers in particular making use of NHG much more (up by 26 pps).

The average LTV for new mortgage applications continued to decline in 2022 to 55.4%, down from 61.8% in 2021 and 68.5% in 2020. For applications for the purchase of a house, the decrease was less pronounced at 75.9%, from 79.6% in 2021 and 83% in 2020, and driven by stretched affordability requiring greater use of own equity. Similarly, average LTI ratios declined to 3.21x after being generally stable the last few years (around 3.55x in 2021/20). For house purchase loans, the LTI dropped to 4.21x, from 4.43x in 2021 and back to 2020 levels. Overall, mortgage applications at the end of 2022 had a markedly different and lower risk profile (shorter fixed-rate periods, less IO, more NHG, lower LTVs/LTIs) than those at the start of the year.

NON-MARKET LED INITIATIVES

There were no major regulatory or fiscal changes in 2022, with only the statutory underwriting norms having changed. The DTI rules were tightened slightly due to higher inflation, with households able to borrow less under the assumption of stable incomes. Hence, only households with an increase in their income were able to borrow more in 2022, but this was relatively limited to increases between roughly EUR 5,000- EUR 8,000 depending on income.

The LTV remained capped at 100% (106% when financing energy saving measures). Meanwhile, the deductibility of interest payments from taxable income continued to be reduced as planned to 40% in 2022, and as of 2023, the maximum deduction rate will be kept stable at 37.05%. The effects of this change are limited given the small ~3% reduction and the fact the rate has been reduced already the past couple of years. Finally, for NHG loans, the house price limit was raised to EUR 355,000, from EUR 325,000, so more properties were eligible for NHG, particularly later in the year as house prices declined relatively rapidly. This, combined with a lower guarantee fee of 0.6% (0.7% before), likely contributed to the increased share of NHG in new mortgage applications.

MORTGAGE FUNDING

The mortgage lending landscape is diverse. New originations came from banks, third-party originators, insurers, foreign parties and others. Banks use various sources of funding but depend heavily on customer deposits (over 60% on average), followed by wholesale funding such as secured and unsecured debt. Wholesale funding was slightly higher due to some (early) TLTRO replacement despite continued strong growth in deposits, tightening credit conditions and a slowing housing market reducing funding needs. Covered bonds remain the preferred wholesale funding tool for mortgage portfolios due to favourable funding costs and the good asset-liability match whilst securitisation is generally not used. At the end of 2022, Dutch banks' total amount of outstanding non-retained EUR benchmark covered bonds equalled EUR 66.6 bn as issuance rose by more than EUR 2 bn to EUR 9.75 bn in 2022, with net supply of EUR 4.5 bn. For non-banks, mortgage funding is diverse. Insurers invest for their own book whilst third-party originators are typically funded by institutional investors. Meanwhile, a number of small, non-bank lenders are funded by a combination of bank warehouse facilities, whole loan funding and Prime RMBS, though the latter saw little issuance in 2022 due to market disruptions and wide spread levels.

	NETHER-LANDS 2021	NETHER-LANDS 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	4.9	4.5	3.5
Unemployment Rate (LSF), annual average (%) (1)	4.2	3.5	6.2
HICP inflation (%) (1)	2.8	11.6	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	70.1	70.6	69.1
Gross Fixed Investment in Housing (annual change)(1)	3.3	0.7	1.5
Building Permits (2015=100) (2)	136.4	116.0	125.8
House Price Index - country (2015=100) (2)	163.4	185.6	164.6*
House Price Index - capital (2015=100) (2)	180.2	200.1	163.8*
Nominal house price growth (%) (2)	15.2	13.6	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	785,477	813,300	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	55,442	56,915	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	178.6	178.4	71.5
Gross residential lending, annual growth (%) (2)	17.4	-5.6	-6.5
Typical mortgage rate, annual average (%) (2)	1.7	n/a	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:
(1) Eurostat
(2) European Mortgage Federation - Hypostat 2023, 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?	Not available
Which entities hold what proportion of outstanding mortgage loans in your country?	Not available
What is the typical LTV ratio on residential mortgage loans in your country?	Maximum LTV in 2022 is 100% (106% when financing energy saving measures). The average LTV for all new mortgage applications at HDN in 2022 was 55.4%, and 75.9% for house purchase mortgage loans.
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?	Deposits and wholesale funding.
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 355,000 and meeting certain conditions, the NHG guarantees the repayment of the remaining mortgage debt in case of foreclosure (again subject to certain conditions).