



Ministry of the Interior and
Kingdom Relations

Investing in the Dutch housing market



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Useful facts and figures about the Dutch housing market and housing policy

Introduction

This booklet presents key facts and figures that may be of interest to investors in the Dutch housing market. Its aim is to give investors more insight in the characteristics and developments on the housing market and government policies affecting the housing market, and in doing so to help identify possible investment opportunities.

The Dutch residential investment market can be characterized as transparent, investable and relatively stable. Since 2009, more than €1bn in investment transactions have been registered annually in the residential market. This amounts to roughly 20% of total investment in Dutch real estate, a share expected to increase in the coming years. There is a strong demand for housing in the medium term, driven by fundamental demographic and economic trends. Furthermore, important government policy reforms are taking place aimed at creating a more flexible housing market with more opportunities for private investors.

This booklet is divided into three chapters:

- Chapter 1 goes into the basic characteristics of the Dutch housing market and the Dutch economy.
- Chapter 2 provides further insight into the owner occupied market, with specifics on regulations and government policies, as well as investment opportunities.
- Chapter 3 provides further insight into the rental market, with specifics on regulations and government policies, as well as investment opportunities.

WANT TO STAY UP TO DATE?

The information in this publication mostly dates from the second quarter of 2014. Some of it will inevitably become outdated over time. That is why we are planning to make up to date information available online in the coming months, via www.government.nl/issues/housing.

1. Characteristics of the Dutch housing market and economy

In a nutshell...

- The Dutch economy is gradually taking a turn for the better and showing modest growth. Consumer confidence in general, as well as on the housing market in particular, has been increasing since the beginning of 2013. Also, house sales are picking up, while the decrease of house prices appears to be flattening out.
- Fundamentals are strong. In the past decades, the average total return on residential property investments in the Netherlands was around 9%. Total return volatility is relatively low. This is primarily due to stable returns from rental incomes, which were around 4% in the 2003 – 2012 period. Capital returns were more volatile, especially in the 2008 – 2012 period, as a result of the worldwide economic downturn.
- Population growth and an increasing number of households in the coming decades mean that demand for new housing will be strong in the medium term. Furthermore, developments in the economy and the labor market, as well as changes in government policies, are expected to drive housing demand.

1.1 Performance and characteristics of the Dutch housing market

Performance of dutch residential property investments

Residential property investment had an average total return of around 9% over the last few decades. Returns from rental incomes averaged 4% during the 2003 – 2012 period, and were highly stable. Capital growth returns averaged 5,5% and were more volatile. Over the last years, total returns have been lower, mainly because of negative capital growth as a result of falling house prices, while rental returns have remained stable. However, this also means that investors can now purchase steady rental incomes at a more attractive price.

Housing stock and costs of housing

The Dutch housing market consists of 4.4 mln owner-occupied homes, accounting for 60% of housing stock, and 2.9 mln rental homes, accounting for 40% of housing stock (figure 1). The rental sector is made up of 0.6 mln privately owned rental homes (20%) and 2.3 mln rental homes owned by social housing associations (80%).

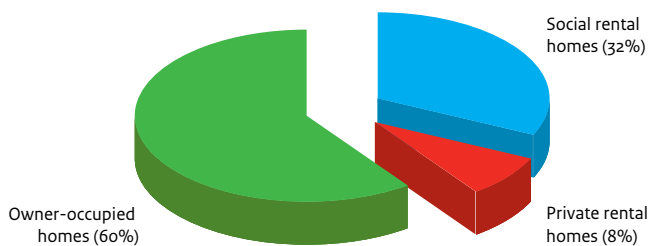


Figure 1: Housing stock, 2012 (Dutch Housing Survey, Ministry of the Interior)

The average Dutch renter spends 26% of his income on rent, and 36% on total housing costs. For owner occupiers these figures are lower, at 17% and 25% respectively (table 1). This difference does not mean that renting is more expensive. Many older home-owners have repaid (part of) their mortgage over time, resulting in lower average housing costs for home-owners, whereas the costs for renters remain constant. Also, additional costs of owning a home, such as maintenance and insurance costs, have not been included in the figure.

Costs of housing (% of income)	renters	home-owners
Direct costs of housing (rent, mortgage)	26%	17%
Additional costs of housing (utilities etc.)	10%	8%
Total costs	36%	25%

Table 1: Costs of housing, 2012 (Dutch Housing Survey, Ministry of the Interior)

Recent history of the housing market

The Dutch housing market, and the owner-occupied market in particular, has seen a substantial boost during the 1990s. This boost has been the result of a number of developments. Most importantly, during the 1990s an increasing number of women entered the labor market, leading to an increase in the disposable income of many households. Around the same time, regulations regarding home financing were relaxed, effectively increasing the borrowing capacity of most households. Like most of Europe, the Netherlands enjoyed mostly steady economic growth and rising consumer confidence. Although supply of housing increased as well, supply could not keep up with rising demand. This was partly the result of the fact that, the Netherlands being a rather densely populated country, land policies are quite strict, which affects the development of new housing. As a consequence, increased demand resulted in steady price increases as well.

In 2008, the Netherlands like many countries was hit by the financial crisis and the subsequent economic downturn. The crisis hit the housing market particularly hard, especially the owner-occupied market, since Dutch owner-occupiers are dependent on mortgage financing, and many Dutch banks finance mortgages via the international financial markets. Also, consumer confidence in the housing market fell to an all-time low, causing many potential home buyers to postpone or rethink their purchase. The rental sector was much less affected.

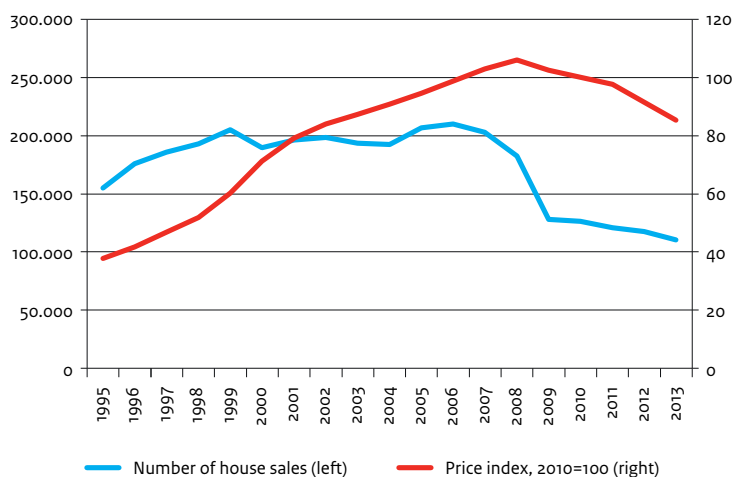


Figure 2: House sales and house prices (Statistics Netherlands)

The crisis: the housing market suffered a blow, but fundamentals remained strong

The crisis affected the owner occupied sector more than the rental sector. House sales fell by 30% between 2009 and 2012, while house prices dropped some 20% (figure 2). Transactions in the rental market showed a 6% decrease.

Although prices decreased, the decrease was in fact quite gradual, at an average of 3% per year. Sales witnessed a sharp decrease in 2008, but flattened out from 2009 onwards. This indicates that the Netherlands has been experiencing the ‘soft landing’ of a moderately overheated housing market, rather than the implosion of an overvalued housing bubble.

Supporting this view, the number of first-time movers remained more or less stable in both the owner-occupied and rental markets, showing that affordability and accessibility of housing did not suffer and new demand remained strong throughout the crisis (figure 3).

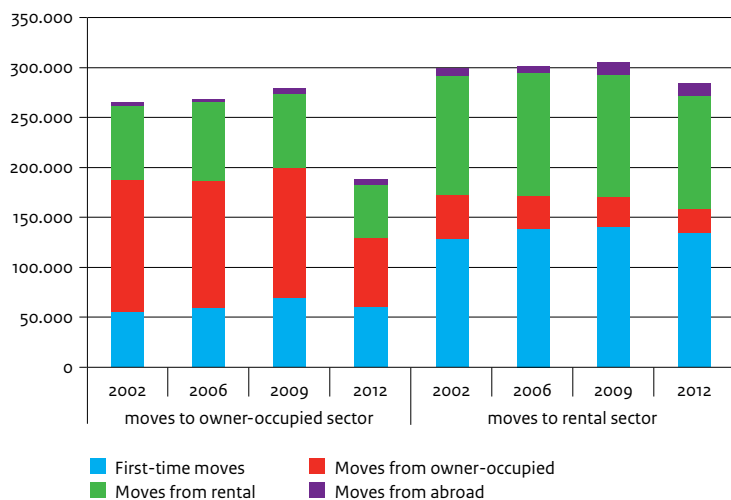


Figure 3: Average number of house moves from/to housing market segment per year (Dutch Housing Survey, Ministry of the Interior)

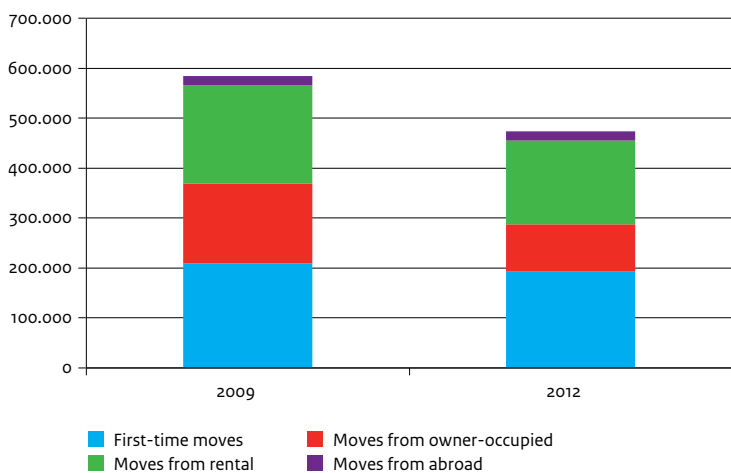


Figure 4: Number of house moves by housing market segment (Dutch Housing Survey, Ministry of the Interior)

Housing market now showing first signs of recovery

The Dutch housing market is currently showing the first signs of a gradual recovery. 2013 witnessed a sustained increase in both consumer confidence and sales. This trend continued into the first quarter of 2014, which outperformed the first quarter of 2013.

House prices are still decreasing, but since the beginning of 2013 this decrease has been flattening out. Housing experts expect that prices will stabilize throughout 2014 and gradually pick up from 2015 onwards. In some areas, such as Amsterdam and The Hague, house prices have already started to rise.

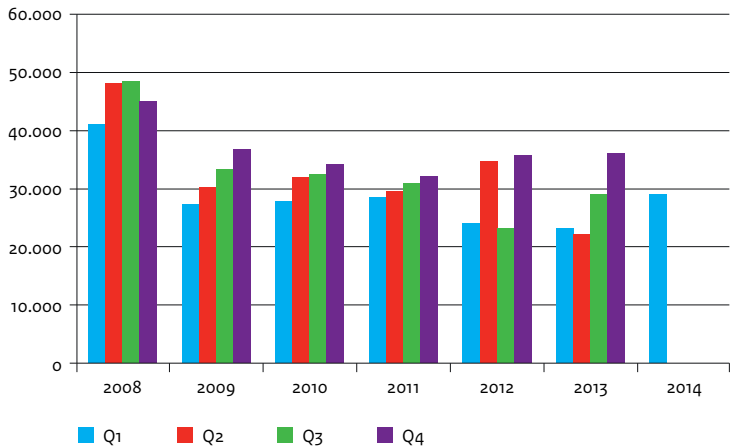


Figure 5: Number of sold homes (Dutch National Land Register)

Another sign of a possible turn for the better is the consumer confidence on the housing market. Housing market confidence has increased continuously since the beginning of 2013, and is now almost back at levels seen before the crisis.

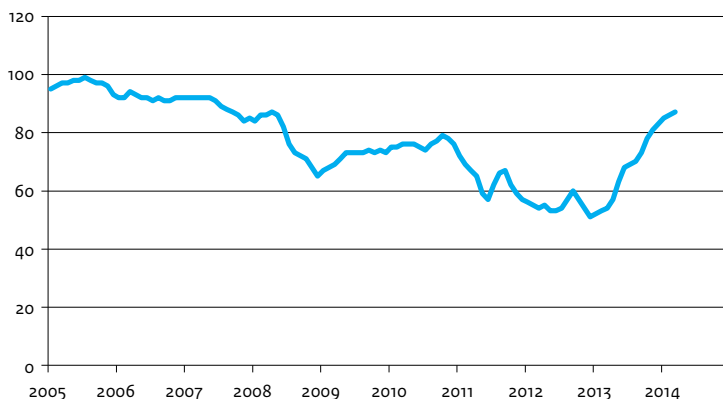


Figure 6: Consumer confidence on the housing market, 100 = neutral (Association of Home-owners VEH)

1.2 Development of housing demand

The future: increasing housing demand and increasing housing shortages

New demand for housing in the medium term is supported by population growth and an increasing number of households. The number of households is expected to increase by 483,000 between 2012 and 2020. Partly as a result of the crisis, production of new housing has slowed down, making future housing shortages likely. At the current rate, housing supply is expected to increase by 358,000 by 2020. This means that supply falls 125,000 dwellings short of demand. Added to the existing housing shortage of 160,000 (2012), the total shortage will amount to almost 290,000 dwellings in 2020. Between 2020 and 2040, the number of households is expected to increase still further, to a total of around 8,5 mln.

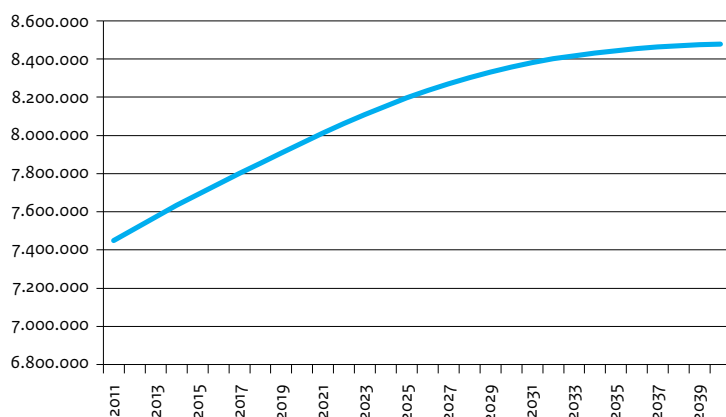


Figure 7: Forecasted number of households (Statistics Netherlands)

Increasing demand for rental housing, recovery of the owner-occupied sector

Between 2009 and 2012 demand for all types of housing has increased, but the increase in demand for rental housing has been strongest, while the demand for owner occupied housing has suffered under the economic crisis. Figure 8 shows that while the number of current renters wanting to buy a home decreased, the number of owner-occupiers wanting to rent a home increased. It also shows that the number of first time movers wanting to rent a home increased, while the number of first time movers wanting to buy a home decreased.

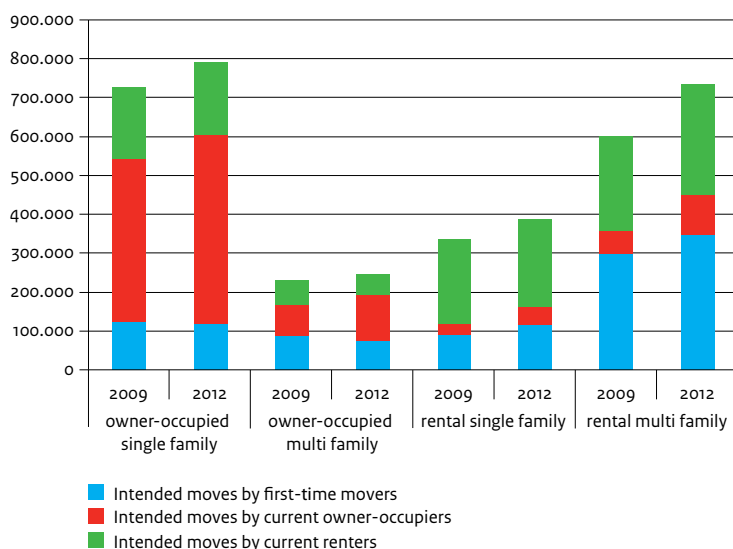


Figure 8: Desired type of home after next move of renters, owner-occupiers and first-time movers (Dutch Housing Survey, Ministry of the Interior)

The demand for owner occupied homes is expected to recover in the following years. Many people who postponed the purchase of a house during the crisis, still want to buy. On the other hand, the popularity of renting is expected to show a sustained increase, especially where the private rental sector is concerned.

Figures 9 and 10 show the development of housing demand vs. supply in the existing dwelling stock. There is clearly a shortage of supply. Total demand exceeds supply by 7%, but the figure is higher for rental homes than for owner-occupied homes. Demand for rental homes exceeds supply by as much as 10%, whereas demand for owner-occupied homes exceeds demand by 5%.

This indicates a shortage of rental homes. To combat present shortages and meet future demand, an estimated 125,000 – 155,000 additional rental homes are needed in the next few years. The highest increase is expected in the demand for non-regulated rental homes. An estimated 59,000 – 74,000 non-regulated rental dwellings are needed in the next few years.

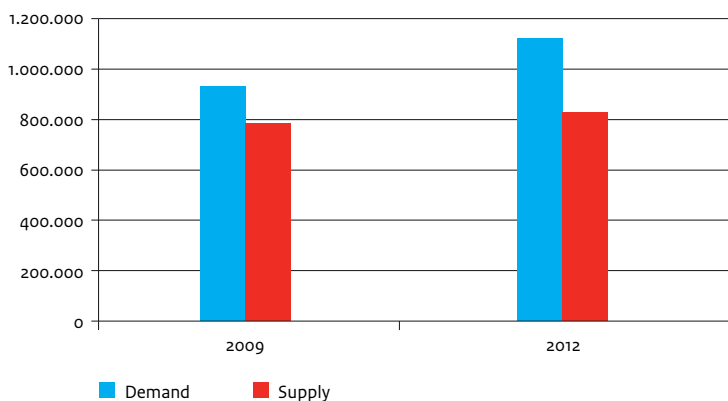


Figure 9: Demand and supply in the rental market (Dutch Housing Survey, Ministry of the Interior)

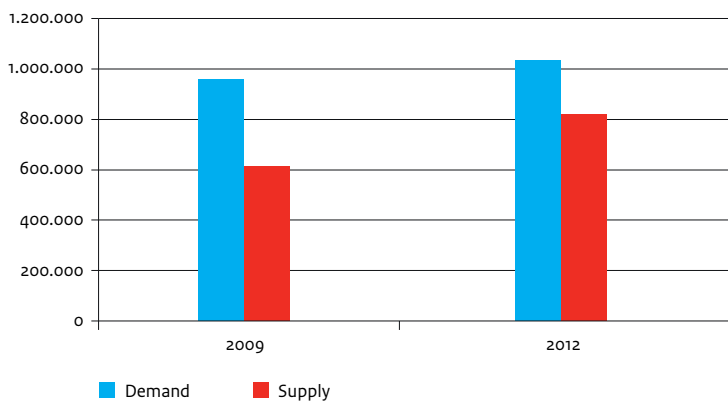


Figure 10: Demand and supply in the owner-occupied market (Dutch Housing Survey, Ministry of the Interior)

Demand differs between different regions in the Netherlands

Future housing demand shows differences between different parts of the Netherlands. While the total number of households will increase by almost 500,000 in 2020, over 50% of this increase will be concentrated in three of the country's twelve provinces: the western provinces of Zuid-Holland (up 110,000)

and North-Holland (up 100,000) and the southern province of Noord-Brabant (up 70,000).

This trend persists in the following decade. Figure 11 shows the expected percentage increase of the number of households between 2012 and 2025 for different parts of the Netherlands. The red areas indicate an increase of over 10%. Clearly the number of households is expected to increase in large parts of the country, most markedly in the western provinces of Noord-Holland and Zuid-Holland, the central provinces of Utrecht and Flevoland, as well as parts of the southern province of Noord-Brabant. A decrease is expected in some areas in the north, east and south.

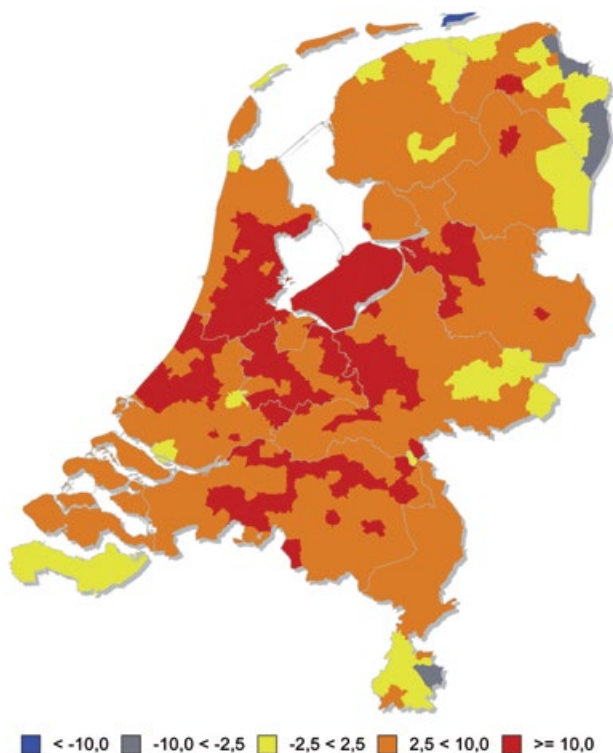


Figure 11: Percentage change of number of households 2012 – 2025 (PRIMOS housing demand forecast, ABF Research)

Figure 12 shows the expected housing shortage or surplus in 2040 for all local communities, where a negative sign indicates a number of additional dwellings needed to match demand, and a positive sign indicates a number of dwellings in excess of demand. It is clear that most shortages are again concentrated in the western and central parts of the country, while the highest shortages are expected in and around the urban areas of Amsterdam, Utrecht, Den Haag, Rotterdam, Almere and Amersfoort. Pockets in the southern province of Brabant also show shortages, as well as some urban areas in the south (the cities of Breda and Tilburg) and the north (the cities of Groningen and Zwolle).

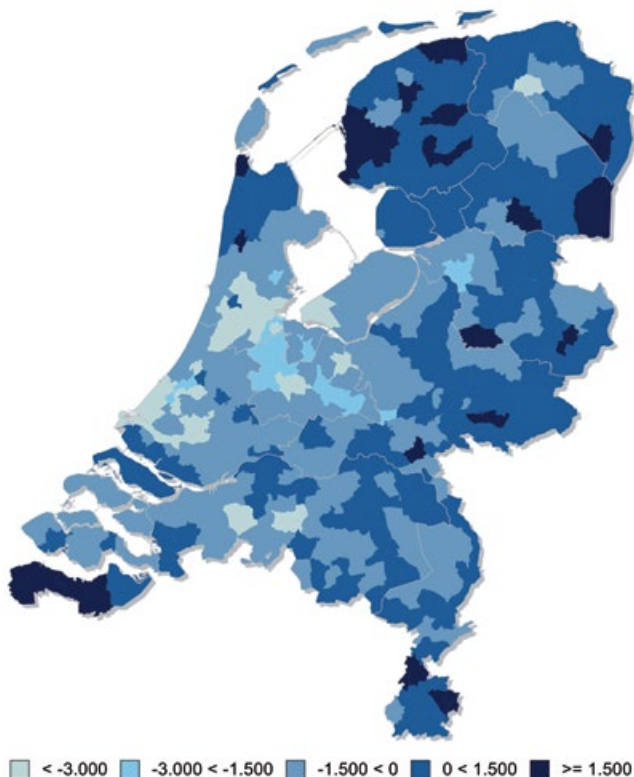


Figure 12: Housing shortages (-) and surpluses (+), 2040 (PRIMOS housing demand forecast, ABF Research)

1.3 Characteristics of the Dutch economy

Economic outlook improving, confidence returning

While the Dutch economy has seen a prolonged period of contraction in the wake of the global financial crisis and the economic downturn in the Eurozone, developments have recently taken a turn for the better. In the last quarter of 2013, economic growth of 0.7% was reported.

The economic outlook is moderately positive. The Bureau for Economic Policy Analysis (CPB) expects economic recovery to push through, and forecasts a modest growth figure of 0.75% for 2014. Forecasts by the European Commission are slightly more positive, at 1%. Economic growth is expected to increase further in 2015.

Consumer confidence is on the rise again since the summer of 2013, after having suffered a 4 year decrease. Consumer confidence is now back at levels seen in 2011.

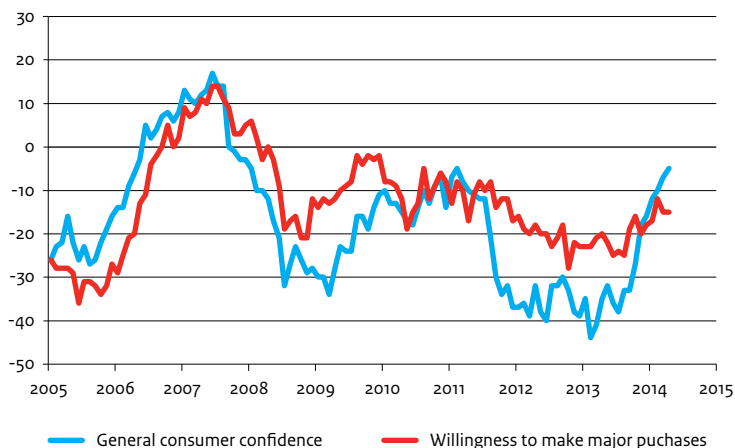


Figure 13: Consumer confidence, 0=neutral (Statistics Netherlands)

Strong fundamentals

The Dutch economy ranks the 5th in the EU and 17th in the world, with a nominal GDP of just over €600 bln (2012). GDP per capita is the tenth highest worldwide, at €36,000. There is a relatively even distribution of wealth, with low levels of income inequality.

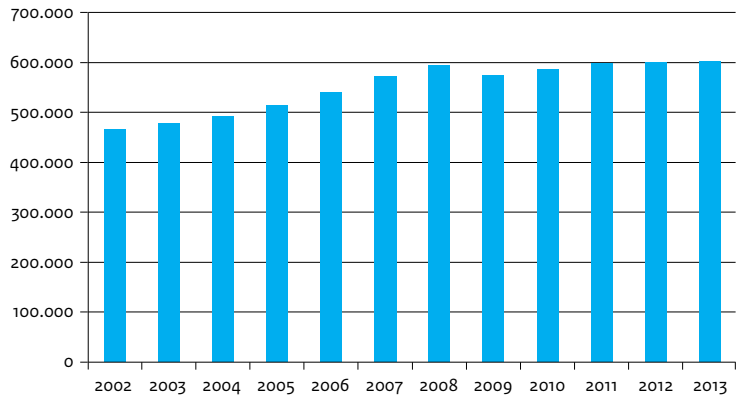


Figure 14: Development of GDP of the Netherlands (Statistics Netherlands)

Largely thanks to its unique geographical situation in Europe, the Netherlands is a very open economy. International trade plays an important role, with exports and imports equaling 88% and 80% of GDP respectively (2012). A sizeable surplus on the current account (8.2% of GDP and the highest in Europe in 2012) does not only show a strong competitive position, but also implies that the economy as a whole is achieving a surplus of savings.

From a wealth perspective, Dutch pension savings are also important. In 2012, Dutch pension funds' assets amounted to well over €900 mln. With total pension savings amounting to 155% of GDP, the Netherlands has the highest pension savings to GDP ratio in the world.

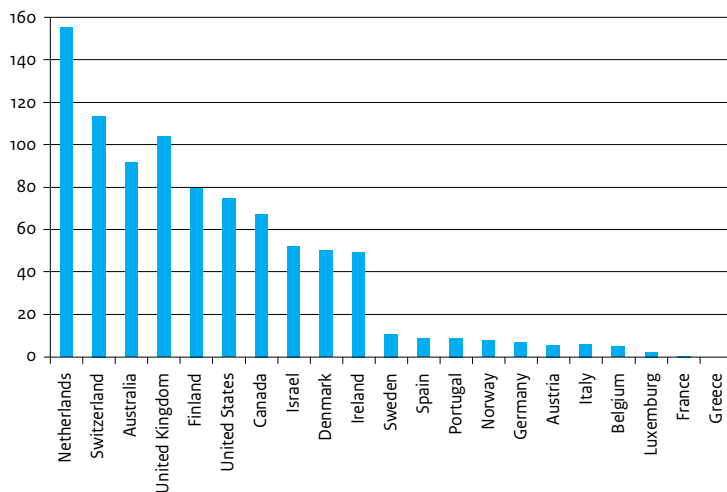


Figure 15: Pension funds' assets as % of GDP, 2011 (Statistics Netherlands)

Government finances improving

Government finances are improving. After having exceeded the EMU-ceiling of 3% for a number of years, the government budget deficit fell to 2.9% in 2013. The budget deficit is expected to decrease further to 2.1% in 2015. At the same time, government debt is at 74% of GDP.

The government has been working on a number of reforms to fundamentally improve economic resilience, focusing on a more flexible labour market, a more market oriented and less debt driven housing market and a sustainable pension system.

While Standard&Poors has lowered its credit rating of the Netherlands from AAA to AA+, Moody's and Fitch have retained their rating of AAA, citing strong fundamentals, competitiveness and the commitment of the Dutch government to implement the necessary economic reforms.

Interest rates on 10 year government bonds are low when compared to other EU member states, at around 2%. This reflects the confidence of investors in the Dutch economy and the steps taken by the government.

In the past ten years, interest rates for 5 -10 years fixed interest mortgages (the most common type of mortgage in the Netherlands) were relatively stable and varied roughly between 4% and 5.5%. Mortgage rates generally show a strong correlation with government bond interest rates, although this has lessened during the crisis.

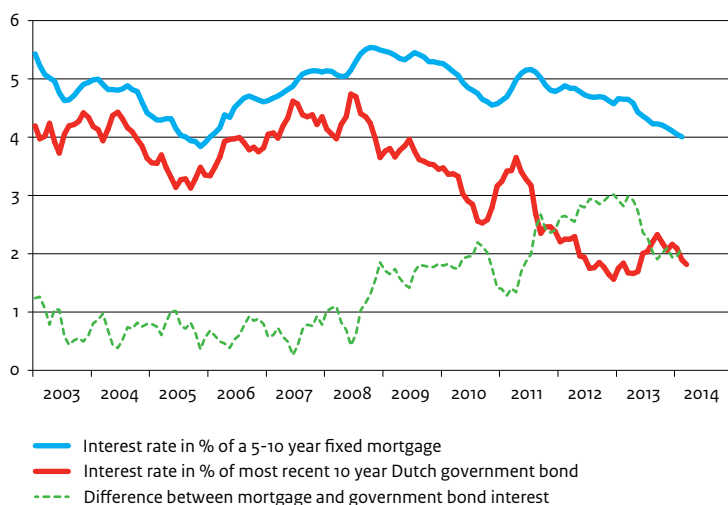


Figure 16: Development of mortgage and government bond interest rates (Statistics Netherlands)

Stable institutions and happy people

The Netherlands has a tradition of stable and trustworthy public institutions. Public institutions enjoy a high degree of professionalism and transparency. The Netherlands was ranked as the 8th most transparent country in Transparency International's 2013 survey.

The Netherlands scores high (0.921) on the Human Development Index (HDI). According to the UN sponsored World Happiness Report 2013 the Netherlands was the fourth happiest country in the world. Decisive factors contributing to this result are the aforementioned level of wealth distribution and the comprehensive and effective social support system and health care.

Consumer spending on housing

Housing (including housing related costs such as utilities, insurance etc.) is one of the most important categories of consumer spending in the Netherlands. Although disposable household income did not significantly increase over the past decades (as real GDP growth mainly benefitted businesses and the healthcare sector), housing consumption has nevertheless risen continuously.

High spending on housing is a result of the typical demand and spending preferences of Dutch consumers, as well as a number of government incentives that favour housing.

As a consequence consumer spending on housing ranks among the highest levels seen in Europe. In 2008 the average household spent over a quarter of disposable income on housing, the third highest figure after Great-Britain and Belgium.

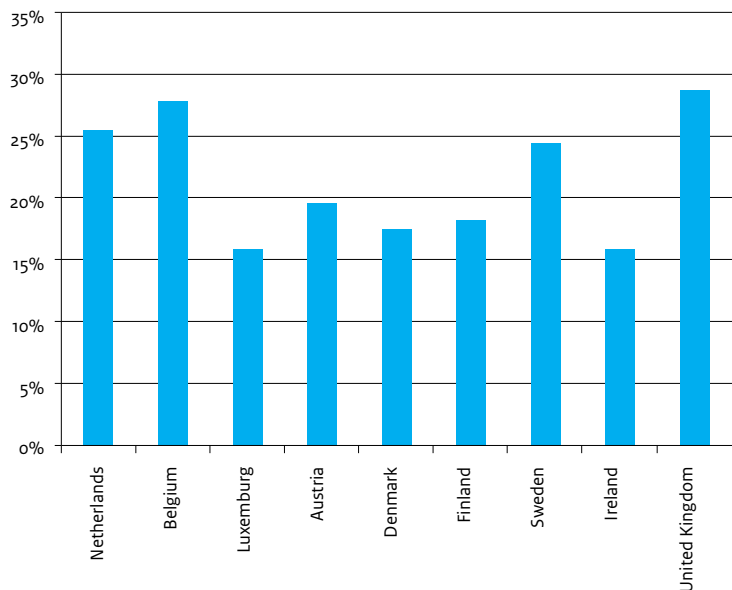


Figure 17: Housing related spending as % of disposable income, 2008 (Eurostat)

2. Investing in the owner occupied and mortgage market

In a nutshell...

- As the owner-occupied market is showing the first signs of a gradual recovery, house sales are increasing. This also results in a growing demand for mortgages. Since mortgage lending and funding by domestic parties has been constrained, demand may exceed supply, offering opportunities for foreign investors.
- The Dutch mortgage market offers possibilities for foreign banks to supply new mortgages directly to consumers, or to invest in mortgages through RMBS or covered bonds. The government promotes entry of new parties to the mortgage market, in order to increase competition and lower interest rates.
- Although LTV's are relatively high, arrears and defaults on mortgage payments by borrowers are very low. Additionally, the government is taking a number of steps to curb high LTV's, reduce credit risks for consumers and banks and increase transparency in the mortgage market.

2.1 Characteristics and outlook for the owner occupied and mortgage market

Demand for owner-occupied housing has increased steadily ever since the 1950's, and nowadays owner-occupied homes account for about 60% of total housing stock. Homeownership is supported with a number of tax incentives by the central government. The crisis in the eurozone has adversely affected the owner-occupied market, but the first signs of recovery are showing. Since 2008, house prices have fallen ca. 20% (30% in real terms). House sales have fallen over 30%. However, in 2013 house sales started to recover. More importantly, consumer confidence is on the rise. Under the influence of rising confidence and sales, the decrease of house prices has slowed down over the course of 2013 and has now almost flattened out. Housing experts expect prices to stabilize in 2014 and pick up from 2015 onwards.

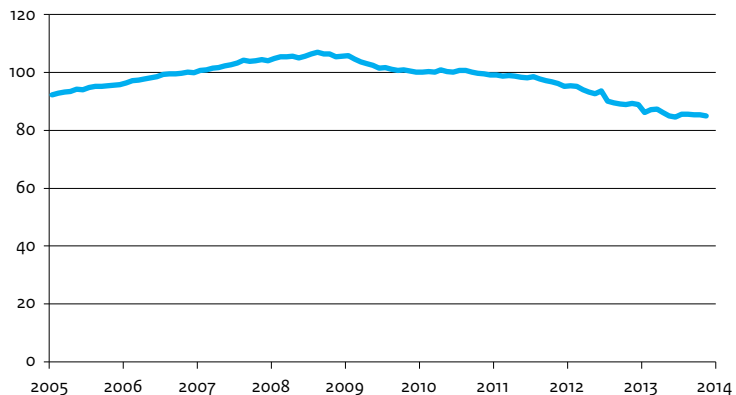


Figure 18: Price index of existing owner-occupied homes, 2010 = 100 (Statistics Netherlands)

Fundamentals of the Dutch mortgage market

Mortgages supplied by private banks are by far the most important means of home financing. Loan-to-value (LTV) ratios are typically quite high, often exceeding 100% for first time buyers. This is the result of the Dutch legal framework and banking practices of the past decades, under which mortgages exceeding the value of the property were permitted in order to finance

additional costs, such as taxes and renovation. In addition, interest only loans were widespread. Mortgage financing is also promoted by a number of tax incentives.

The government has taken steps however, to curb high LTVs and interest only loans, in order to reduce debt levels and financial risks voor households and banks and improve transparancy and competition in the mortgage market. Also, there is a system of government-backed guarantees for mortgages up to a certain amount, that protects banks against default and minimizes risks.

The Dutch mortgage market has strong fundamentals. The risk of default by borrowers is small. Arears on mortgage payments are limited. Although arrears increased during the crisis, they still affect less than 2% of the total number of mortgages. The number of forced sales is also limited, constituting less than 2% of the total number of home sales in 2013. Although this figure increased throughout 2008 – 2011, it has fallen since and is now back at levels seen before the crisis.

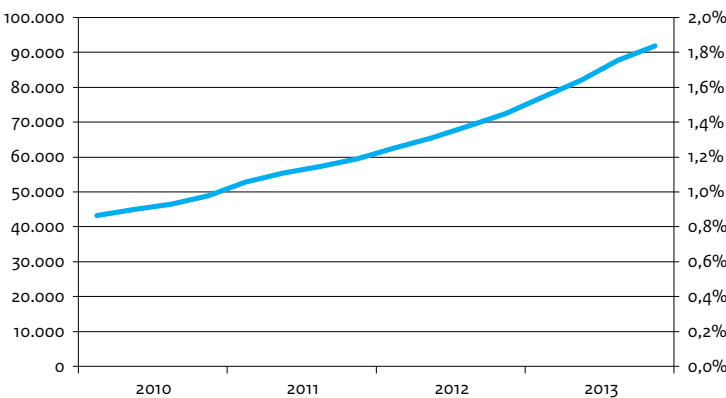


Figure 19: Arrears on mortgage payments, in total number of cases (left) and in % of total number of mortgages (right) (Bureau for Credit Registration)

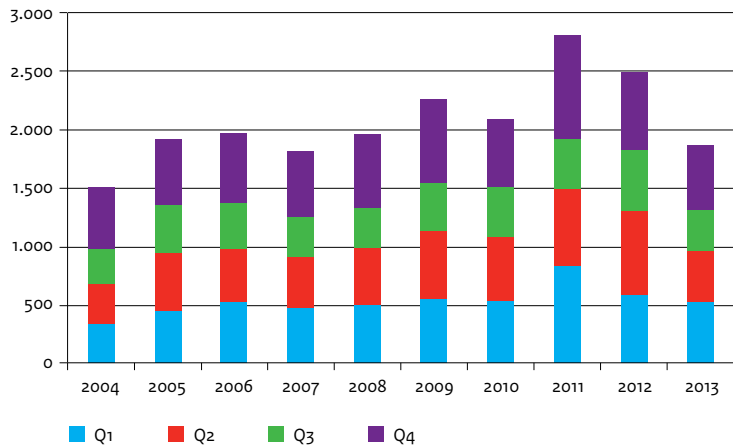


Figure 20: Number of forced house sales (Dutch National Land Register)

2.2 Government policies

Fiscal aspects of home ownership

There is an elaborate tax system in place affecting homeownership and homefinancing. In short, owner-occupied homes are subject to a real estate tax levied by local communities. They are generally exempt from capital taxes. Imputed rent is taxed at a modest percentage of the value of the property. As far as homefinancing is concerned, interest over mortgage loans is tax-deductible, as are the administrative costs associated with the purchase of the dwelling. Transaction taxes apply when purchasing a home, but these have been significantly reduced in recent years.

ANALYSIS

Fiscal aspects in detail

Tax deductability of interest on mortgage loans

Paid interest is tax-deductible at the marginal tax rate. Starting in 2014, the applicable marginal tax rate will be decreased by 0,5% /yr, starting from 52% to, ultimately, 38%.

Rental income and capital tax

While capital assets are subject to capital tax at a rate of 1.2% of the value, a home that is used for one's own residence is considered a consumable rather than an asset under the Dutch tax system, and thus exempt from capital taxation. An imputed rental income ("eigen-woningforfait") is added to taxable income. Imputed rental income is a proportion of the value of the house (0,7% in 2014). If a property is rented out, capital taxes will apply at a flat rate of 30% based on the assumption that a taxable yield of 4% is made on the net assets. The effect is an annual tax of 1.2% on the value of the assets.

Capital Gains

No capital gains tax is levied on the profits realized on the sale of Dutch real estate owned by a non-resident individual unless the non-resident is engaged in a trade or business in the Netherlands and the real estate is one of the capital assets of the business. If sale of real estate is part of a business enterprise, capital gains are taxed as part of income in Box 3 at a flat rate of 30% on the deemed yield of the asset.

Real Estate Tax ("onroerende zaak belasting")

Real estate taxes on residential real estate, levied by the municipalities, are based on the estimated value of the property and are paid by the owner. Each municipality is entitled to determine its own tariffs for real estate taxes. The tariffs for the real estate taxes are typically between 0.1% and 0.3% of the property value.

Transaction Costs

Total transaction costs for the buyer are ca 5% (including the Transfer Tax (2%), legal fees and registration fees) of the total dwelling price for existing houses.

Mortgage rules and the safety net for homeowners and mortgage lenders

Rules for mortgage lenders are listed in the Code of Conduct for Mortgage Financing, which is implemented by the Financial Markets Authority (AFM). The maximum LTV and loan-to-income (LTI) ratios for mortgages are determined by the government. The LTV may currently not exceed 104%. From 2018 onwards, the maximum LTV will be set at 100%. LTI limits depend on the level of household income, and are determined for each income class by the National Institute for Family Finance Information (NIBUD). There are a number of possibilities, as listed in the Code of Conduct, in which mortgage lenders can be more lenient towards prospective home-owners, e.g. in the case of an anticipated job promotion or rise of income.

Mortgage loans are secured by vested mortgage rights on real estate property. The originator has the right to foreclose this property if the borrower is no longer able to fulfill his obligations. This right is legally embedded in Dutch mortgage legislation. The recourse to the borrower is in most cases wider than only to the underlying property. If a bank mortgage right is vested, the originator has full recourse to the borrower and can make claims to his or her wealth and even to future income. This recourse is often limited in case of personal bankruptcy of the borrower, which has to be determined by a court of law. Nevertheless, the Dutch personal insolvency regime is rather strict and is a scenario that many borrowers try to avoid by all means.

There is a national guarantee fund in place for mortgages up to an amount of € 290,000. This amount will be reduced to € 265,000 as of July 2014. If the homeowner can no longer pay for the mortgage, ultimately the fund can take over the mortgage and repay the bank. This fund is maintained through a onetime fee that is levied over each mortgage that is brought into the fund. Furthermore, the guarantee fund is backed up by the central government, in the unlikely case that its own funds would prove insufficient.

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The National Mortgage Guarantee Fund: how does it work?

In case a borrower can no longer fulfill his obligations, the bank may foreclose the property. If the proceeds of a forced sale are insufficient to redeem the mortgage, the National Mortgage Guarantee fund (NHG) will pay the difference to the bank, so the bank is paid and the homeowner is not left with a residual debt. The fund can also contribute to the monthly mortgage payments for a maximum period of two years, thereby postponing foreclosure, and giving the homeowner the opportunity to arrange for a solution for his financial problems.

National Mortgage Guarantee is available from all mortgage lenders in the Netherlands. They assess whether a homeowner meets the criteria for NHG and arrange the guarantee with the fund. Because of the government guarantee, banks are not required to put aside capital buffers for NHG-mortgages. Therefore they can offer lower mortgage interest-rates to consumers.

Government policy reforms

In 2012 the government has implemented policy reforms to improve the resilience of the housing market and the stability of the financial system. To accomplish this, the government is working to reduce debt risks for households and banks and create a more competitive mortgage market with improved funding possibilities.

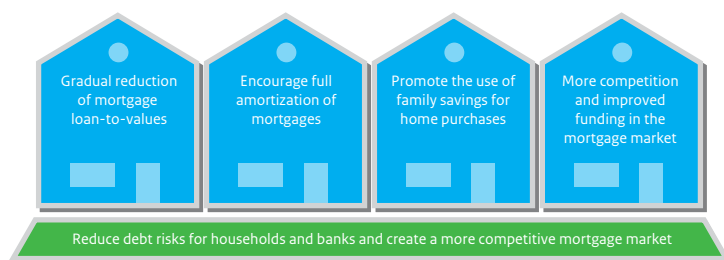


Figure 21: Reforming the owner-occupied market

What specific steps are being taken?

- *Reduce loan-to-value*

In 2014 the maximum LTV is 104%. This will be gradually reduced to 100% in 2018. A higher LTV will still be possible for certain investments concerning renovation and energy-efficiency.

- *Encourage full amortization*

The government has recently imposed two important changes to the tax system in order to reduce mortgage debts and encourage amortization:

- (1) First, all mortgage loans originated from 1 January 2013 onwards must amortise according to a full annuity scheme in no more than 30 years in order to benefit from interest tax deductibility. Other types of loans, including interest-only loans or loans with partial annuity, no longer qualify for any favourable tax treatment.
- (2) Second, the government has announced to limit the maximum tax deductibility from 52% at present to 38% in 2042. This gradual reduction will commence in 2014.

- *Promote the use of savings*

Steps are being taken to promote the use of family savings when buying a home. For instance, it has been made easier for parents to donate savings to their children on a tax free basis when these savings are used to purchase a home or to repay the mortgage on an existing home.

- *Creating a more competitive mortgage market with improved funding possibilities*

The afore-mentioned steps will reduce risks and increase transparency in the Dutch mortgage market, increasing opportunities for new entrants. Additionally, the government is considering setting up a special institute in order to enable government guaranteed funding for mortgages. This institute will fund itself by issuing Dutch Mortgage Bonds. These bonds will offer similar security as government bonds at a slightly higher yield. These bonds may offer interesting investment opportunities.

2.3 Investing in the mortgage market

Due to the crisis and stricter mortgage criteria since 2012, the growth of the total mortgage-portfolio has been reduced and demand has been weakened. However, house sales have increased throughout 2013. As a result of the price drop owner occupied homes have become more affordable for first time movers, which is clearly a positive factor.

As a result of the crisis mortgage financing by major Dutch banks has seen constraints in recent years. Increasing sales may thus lead to demand exceeding supply. This may open up possibilities for investors. In the view of many experts, stabilization in house prices could occur from mid 2014.

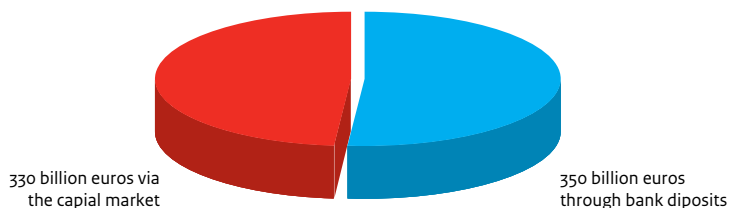


Figure 22: Sources of mortgage funding, 2012 (Central Bank of the Netherlands)

Mortgages are funded through deposits as well as via the capital market. In 2012 bank deposits of households and firms amounted to € 545 billion, whereas loans to these sectors totalled € 997 billion. Total mortgage loans amounted to ca. € 680 billion, funded for ca. € 350 billion through bank deposits. The difference is financed via the capital market. Common instruments are RMBS and covered bonds.

Opportunities in the Dutch mortgage market

- The Dutch mortgage market offers opportunities to new entrants to either supply new mortgages directly to consumers, or by investing in mortgages through RMBS or covered bonds. Because defaults on mortgage payments are very low, despite relatively high LTV's, Dutch mortgage products (RMBS) offer interesting investment opportunities.
- Entry to the Dutch mortgage market is facilitated by a large network of mortgage intermediaries, outsourcing administration services and the National Mortgage Guaranty.
- The Dutch residential mortgage-backed securities (RMBS) market distinguishes itself from other investment instruments by resilient structures and strong collateral performance. Even so, the crisis prompted substantial spread widening on the securities, which clearly do not reflect robust fundamentals, for example delinquency and foreclosures rates that have remained very low. This disconnect between market and collateral performance has largely corrected over the last few years.
- Substantially lower house prices combined with generally high LTV levels and higher unemployment are resulting in higher credit risks. However, the structure of Dutch RMBS are an important strength. All prime transactions contain ample loss absorbing capacity in their structures, meaning that further deterioration in the housing market is very unlikely to result in losses for senior note holders.

3. Investing in the Dutch rental market

In a nutshell...

- The Dutch rental market, which makes up about 40% of the total housing market, consists of a regulated sector, where rents are determined by the government, and a non-regulated sector, where rents are free.
- Demand for rental homes has been increasing in the past years, most notably in the non-regulated sector. While the non-regulated market has traditionally been quite small, this market is expected to show strong growth, driven by fundamental demographic and economic trends as well as government policy reforms.
- Furthermore there is rising demand in a number of niche markets, most notably in student housing and housing for the elderly.

3.1 Characteristics and outlook for the Dutch rental housing market

There are just under 3 million rental dwellings in the Netherlands. The rental home market accounts for 40% of the total housing market.

The majority of rental homes, around 90%, are so-called 'regulated dwellings', which means that rents are regulated by the government. Regulated rental homes are allocated primarily to lower income households. There is an income limit for access to regulated rental dwellings. The remaining part of the rental market is not regulated, which means that prices may be set freely by suppliers and there are no access criteria.

Outlook: Increase in demand for rental homes, with a focus on the non-regulated market

In past years demand for regulated as well as non-regulated rental homes has increased. This is partly the result of the crisis on the housing market, which has led to a shift in demand from owner-occupied housing to rental housing. The most profound increase in demand can be seen in the non-regulated rental market.

The non-regulated rental market has traditionally been quite small. This is the result of a number of circumstances:

- Fiscal incentives promoting owner-occupied housing, combined with easy access to mortgage financing, led many middle and higher income households to prefer buying over renting.
- While there is an income limit in effect to regulate access to the regulated rental market, the income is only tested at the start of the rental period. If the income increases and exceeds the income limit during the rental period, the household does not have to vacate the regulated rental dwelling. As a consequence, a fair share of households in regulated rental homes actually have an income above the income limit.

While the non-regulated rental market has been quite small for a long time, demand for non-regulated rental housing has been increasing substantially in recent years, and this increase is expected to continue in the future. Rentals in the non-regulated sector almost doubled between 2009 and 2012, by almost 100.000 dwellings.

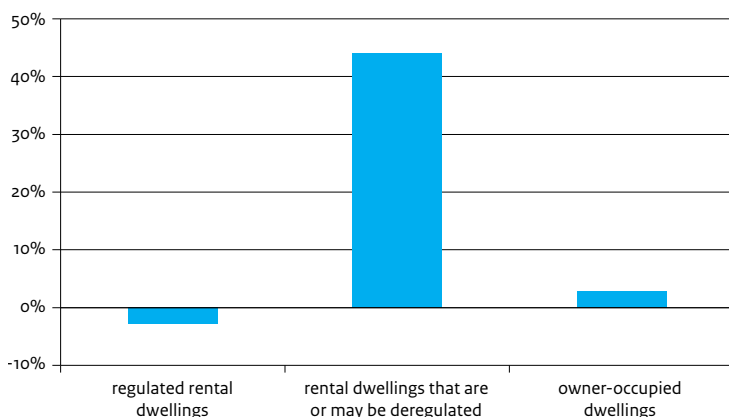


Figure 23: Percentage change of rentals in the regulated and non-regulated rental market between 2009 - 2012. (Dutch Housing Survey, Ministry of the Interior)

An estimated 125,000 – 155,000 additional rental homes are needed in the next few years. The highest increase is expected in the demand for non-regulated rental homes. An estimated 59,000 – 74,000 non-regulated rental dwellings are needed in the next few years. As most households looking for a non-regulated dwelling are middle incomes, rents between 700 and 1000 euros per month are most in demand.

ANALYSIS

Why is demand for rental housing increasing?

Long-term socio-economic trends

- Population growth and an increasing number of households lead to a rising demand for housing. An increasing part of this demand is expected to find its way to the rental market.
- Increasing flexibility on the labour market contributes to a rising demand for rental housing. Demand for flexible and temporary housing solutions is expected to increase as labor contracts are becoming more flexible and temporary employment is on the rise.
- Home ownership has become less popular since the crisis, which saw a 20% drop in house values.
- Increasing niche demand for rental homes, e.g.:
 - a growing number of elderly is looking for a rental home, for instance with on site care.
 - another niche market is made up of the increasing number of students looking to rent living space.

Government policy reforms push demand for non-regulated rental housing

- Affordable rental homes will be allocated primarily to lower incomes, limiting access to affordable homes for middle and higher incomes and increasing demand for non-regulated rental housing.
- As a result of policy reforms rents of affordable homes are being increased for higher income households, resulting in an increase of demand for non-regulated rental housing.

3.2 Government policies for the rental market

Rent policies and tenant protection policies

Anyone may rent out a home in both the regulated and non-regulated markets. The most important difference between the two is that the government determines the rents in the regulated market in order to promote the supply of affordable housing, while rent-setting is free in the

non-regulated market. Tenants are protected by security of tenure in the regulated as well as the non-regulated market.

In order to determine whether a rental dwelling should be regulated or not, the government applies the rent deregulation threshold. Any rental dwelling with an actual rent at start of tenancy beneath the threshold is considered a regulated rental home. If the actual rent at start of tenancy exceeds the deregulation threshold, the dwelling is considered a non-regulated rental home. The deregulation threshold is currently fixed at 699 euros per month. The threshold is normally adjusted with the inflation figure on a yearly basis.

- *Rent policies*

Regulated rental homes are awarded points by the government in accordance with the quality they offer on a number of predetermined criteria, such as floor area and amenities. A number of points are also determined by the dwelling's location. The total number of points of a regulated rental dwelling determines the maximum rent that may be asked for that dwelling at the start of the rental contract. Rents may be changed once a year. The government determines the maximum yearly rent change. In the non-regulated market, rent-setting is free. After the start of the contract, as in the regulated market, rents may be changed only once a year but the government does not set any limits to the amount of rent change.

- *Rental housing allowance*

Households with an income up to € 29,325 may apply for a rental housing allowance provided by the central government (the income limit is normally adjusted on a yearly basis). This allowance is only applicable to regulated rental homes, i.e. homes with a maximum monthly rent of 699 euros, and the exact amount is determined by both the rent level and the income of the applicant.

- *Tenant protection policies*

Under Dutch tenancy law a rental contract may start and end at any moment as long as this is in agreement with both the letter and the renter. There is no minimum rental period. Tenants are protected

through security of tenure, which means that a rental contract cannot be ended by the landlord without a valid reason. In the regulated market, a rent arbitration committee can settle disputes between tenant and landlord. In the non-regulated market, disputes will have to be brought before a court of law.

Social housing associations

Social housing associations are the main suppliers of regulated rental homes. At present they supply over 90% of all regulated rental homes. They are private institutions, but have to abide by special government regulations regarding their investments and finances. All social housing associations take part in a mutual guarantee fund, the Social Housing Guarantee fund (WSW), which provides guarantees to lenders granting loans to the housing associations. The housing associations are also subject to a special financial regulator, the Central Housing Fund (CFV).

In the past decades the housing associations expanded their activities, and also started investing in non-regulated rental homes and owner occupied homes. The government however feels that the housing associations should focus more on their core business, supplying lower income households with affordable housing. Therefore the law is being amended to limit the activities of the housing associations in the free market. This should also improve the level playing field and investment opportunities for private investors in the non-regulated rental market.

Additionally, the government has created more opportunities for housing associations to sell housing stock to private investors. Regulations regarding these sales have been significantly reduced, providing private investors with more opportunities to acquire existing complexes of rental homes.



Figure 24: Development of housing association owned rental stock and privately owned rental stock (Dutch Housing Survey, Ministry of the Interior)

Changes in government policies for the rental sector

The government has initiated reforms in order to increase the diversity of the rental stock. The government aims to improve the allocation of regulated homes to lower-income households, increase the supply of non-regulated rental homes for middle-incomes, and improve opportunities for private investors.

To accomplish this, the government is improving the level playing field for private investors in the non-regulated sector. The system used to determine rents for regulated homes is being changed so maximum rents at start of tenancy can be raised closer to levels seen in the free market. This means that rents for regulated homes can go up, so demand for non-regulated homes may increase. Activities of social housing associations in the non-regulated market are being limited, to create more opportunities for private investors. Also, fiscal incentives for homeowners are being reduced, increasing demand for rental housing.

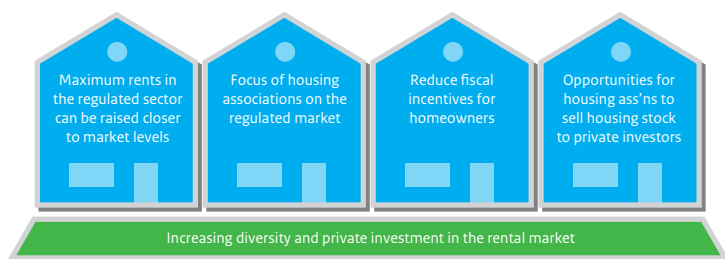


Figure 25: Reforming the rental market

What specific steps are being taken?

- *Rent policy*

The system that is used to determine the rent for a regulated home will be changed so that the maximum rent at start of tenancy can be raised closer to levels in the free market. Also, under existing tenancies, greater yearly rent increases have been allowed for households with higher incomes. These steps lead to higher rents in the regulated market and an increase in demand for non-regulated homes. Finally, the rent deregulation threshold will be frozen, i.e. will not be adjusted for inflation in the next few years, effectively leading to a lower threshold in real terms and thus a larger market share for non-regulated rental housing.

- *Focusing the activities of social housing associations*

Activities of social housing associations will be focused on the supply of regulated housing. Activities in the free market will be limited. This will also contribute to a level playing field for private investors in the non-regulated rental market. In the future, regulated housing will be allocated primarily to households with an income under the income limit of 34,000 euros, meaning that households with a higher income must find a home in the non-regulated rental market. Since there is at present still a shortage of non-regulated homes, the income limit is temporarily set at 38,000 euros.

- *Opportunities to sell housing stock to private investors*

It has been made easier for social housing associations to sell housing stock that is not needed for affordable housing to private investors, giving private investors an opportunity to gain a foothold in the rental market.

- *Reducing fiscal incentives for homeowners*

The steps that are being taken in the owner occupied market to curb LTV's and reduce mortgage tax deductability, lead to a reduction of fiscal incentives for homeownership, and may lead to an increase in demand for rental housing.

3.3 Investing in the rental market

Especially in the up-market non-regulated rental sector gross rental yields can be good. Rental yields in the Netherlands are currently among the highest in Europe and exceed those in neighbouring countries. Rental yields have risen in the past years under the influence of decreasing house prices and increasing demand for rental housing. Rent increases in the entire rental market, including the affordable market, generally exceed inflation.

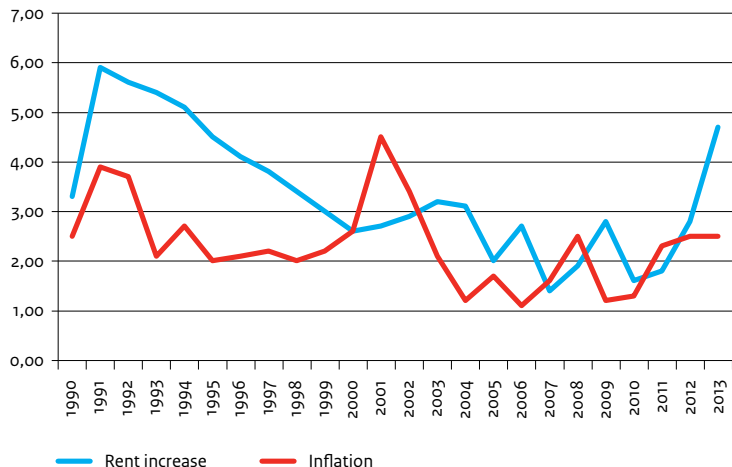


Figure 26: Development of rent and inflation (Netherlands Statistics)

Occupancy levels and rent prices have been high throughout the crisis. The market has seen an average occupation level in the 95%-97% bandwidth in recent years.

Total rental returns averaged about 4% in recent years. Rental yields are higher in the urban areas in the western part of the country. Rental yields on non-regulated apartments in Amsterdam varied between 4.4% and 6% in 2011. Yields were somewhat higher in The Hague, varying between 6% and 7%.

Niche markets

Student homes

The Netherlands has a shortage of student rental homes. Student registrations have been rising, in part because of the weakened labor market as a result of the economic downturn. The number of students will increase by 48,000 (8%) between 2013 and 2021. It is expected that an additional 18,000 student homes are needed. The Dutch government has lifted building regulations to facilitate and speed up the construction of new student homes. Monthly rents for student homes presently vary between € 356 (for a room in a flat with shared amenities) to € 470 euros (for a room in a house with private amenities). Students are eligible for rental housing allowance.

Homes for the elderly with on site care

The population over 65 will increase by 600,000 persons by 2020. In 2040 the elderly population will have increased by 74%, from 2.7 million to 4.7 million persons. A significant part of the housing stock is being converted to meet the needs of elderly people. At present there is still a shortage of 44.000 of such homes.

Because of health care policy reforms and budget cuts, the number of nursing homes is being significantly reduced, and an increasing number of elderly is expected to live on their own for as long as possible. This means that there is an increasing demand for housing solutions that enable elderly people to remain in their own home with on-site services and care. One such solution that has been suggested is the clustering of elderly homes with services and care. At present there is already a shortage of 40.000 homes with on site services and care. These shortages will increase in the future, as the number of elderly increases.

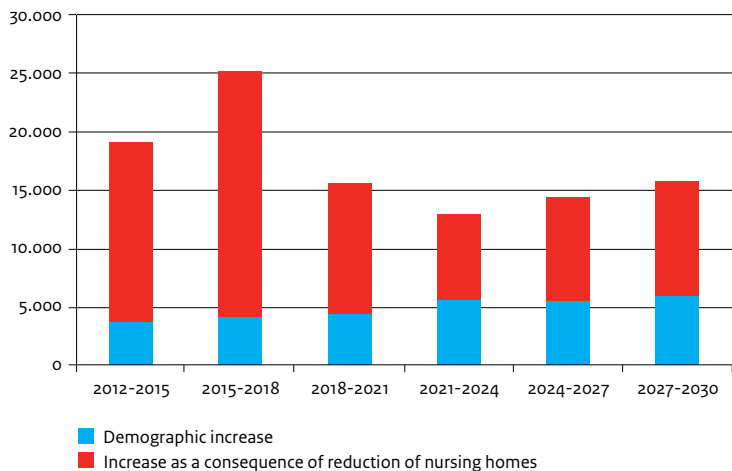



Figure 27: Increase of demand for housing with elderly care and/or services (* 1000 homes).

Opportunities in the Dutch rental market

- Purchase of top-end rental housing for private use and/or to rent out in the exclusive upper segment of the market.
- Investing in non-regulated rental homes in the 700 – 1000 euro segment. This segment will most likely experience the highest percentage increase in demand. Non-regulated housing stock can be newly developed, or acquired from existing private investors or social housing associations.
- Investing in niches in the rental market, such as rental homes for students and rental homes for the elderly.



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