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Contents

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Summary and conclusions

The Dutch market for existing owner-occupied homes continues to be dominated by low transaction volumes and falling prices. With the confidence of potential buyers undermined by continuing uncertainty about issues including the European debt crisis and retirement pensions, it seems unlikely that this situation will change in the foreseeable future. Meanwhile, rising unemployment and the on-going debate on a possible reform of the mortgage interest rate deductibility have not improved consumers' willingness to buy. Due to these and other factors, the expected positive effects of the lower transfer tax have seemingly failed to materialise. The limited rise of the interest rates does not change the picture, as there are other factors that cancel out the interest rate increase, which have resulted in increased affordability over the past three years. It is important to note that there are regional differences to be considered, as house price trends vary depending on the area.

Unless the confidence of potential buyers improves, sellers will need to further reduce their prices in order to persuade buyers, particularly as the number of owner-occupied homes for sale has increased further. The fact that sellers are not reducing their prices on a large scale is essentially a positive sign, as it means these sellers are not forced to sell their home at any price. This leads us to conclude that homeowners remain well able to meet their financial commitments, as is indeed demonstrated by the relatively small number of arrears and foreclosures.

We expect prices to further decline over the next few quarters: by an average of 2% in 2011. Prices will continue to fall somewhat more sharply in 2012, by 3%. The price drop in 2012 will be the same on a quarterly basis as in 2011. The more rapid decline is due to the fact that property values at the end of 2011 are lower than the average level for 2011. A total of roughly 124,000 homes will be sold this year, a number that will increase to 130,000 in 2012. For both years, this number is markedly lower than during the period before the financial crisis. Unless we see some structural changes, neither transaction volumes nor prices will recover to any significant extent after 2012.

The market for new housing has also been badly affected by the current housing market situation. Building volumes remain low, and, based on the number of planning permissions granted, this is not likely to change in the next few quarters. The number and types of properties to be built is very different for each region, as the increase in the number of households varies by region.

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Market for existing residential properties

House prices drop further

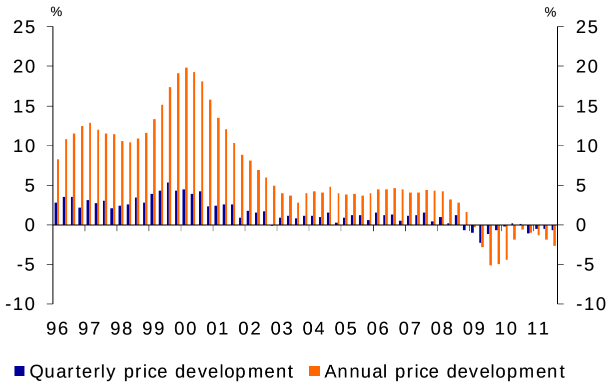
In the third quarter of 2011, the prices of existing owner-occupied homes dropped for the fourth consecutive quarter. Based on the Price Index of Existing Houses (Prijsindex Bestaande Koopwoningen — PBK index) provided by Statistics Netherlands/Land Registry, prices in the third quarter were down 0.7% from the previous quarter. The rate at which prices are currently falling matches that for the three previous quarters (see Figure 1). Current price levels are 2.7% lower than one year ago.

The recent decline marks a new low in house prices since the start of the crisis in late 2008. Nominal prices have fallen by 9.1% since. If inflation is taken into account, the price decline is 14.0%. This means that real prices have reached the level of year-end 2001 (see Figure 2).

The continued price decline does not come as a surprise, and the fact that demand has risen only moderately despite the lower transfer tax is the result of uncertainty about the economy and political policies. For one, the European debt crisis gives cause for uncertainty, as reflected in the sharp drop in consumer confidence. With the economic forecast having been revised downward as well, this effect has been compounded. Reports on the government's austerity plans, the decline in purchasing power, the possible reduction in pensions and continuing uncertainty regarding the mortgage interest rate deductibility are playing a role as well.

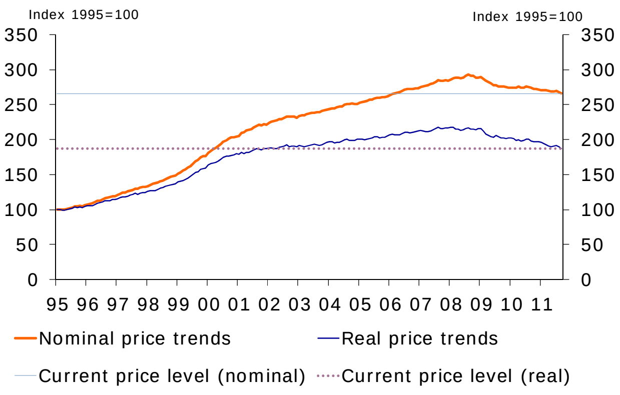
Contrary to demand, supply has only been increasing (see the paragraph titled 'Supply of homes'). The transaction volumes registered by the Land Registry also reached a new low in the third quarter of 2011 on an annual basis (see the paragraph titled 'Transaction numbers'). It is important to note, however, that

Figure 1: Accelerated price decline



Source: Statistics Netherlands

Figure 2: Price trends and the role of inflation



Source: Statistics Netherlands

the effects of the lower transfer tax are not yet reflected in these figures, as these transactions are recorded with a delay of several months. However, there is every indication that these effects are limited: the NVM (Netherlands Association of Real Estate Agents), for example, noted only a limited increase in the number of transactions during the third quarter.

Expected price trends

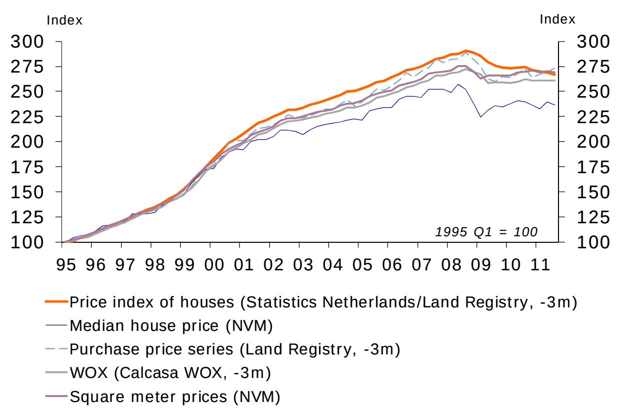
Prices of existing owner-occupied homes are expected to decline further in the fourth quarter of 2011, and for 2011 as a whole we are expecting a price drop of more than 2%. In 2012, prices are expected to fall by 3%. The decline will accelerated as price levels at year-end 2011 are lower than the median level for 2011; on a quarterly basis, the price drops are not likely to be greater than in 2011. The decline itself is the result of uncertainty about the economy and political policies. As a result, supply will continue to outpace demand. Disposable income will also continue to decline in 2012 due to the government cuts, resulting in lower household borrowing capacity.

Forecasts for the period after 2012 are more tentative, but based on the current outlook we expect no nominal price stabilisation until the end of 2013. The key factor here is inflation. Higher inflation and wage trends can accelerate this process, and vice versa. In real terms, prices will not stabilise for some time, as purchasing power will remain weak over the next several years. A catch-up demand should be able to mitigate this downward effect in the long term, although this would require an increase in confidence in the economy and the housing market.

Different indicators

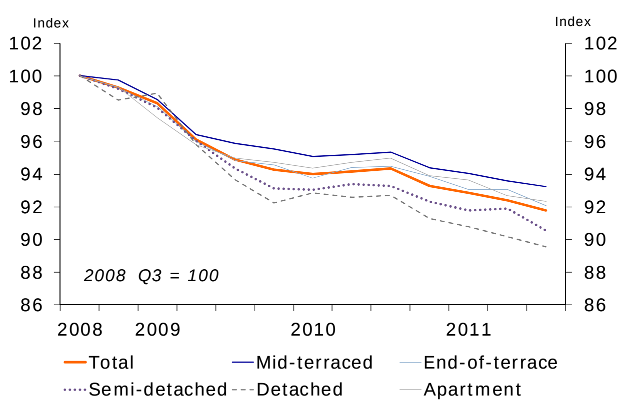
In addition to the PBK index, Figure 3 shows four other indicators that monitor the price trends of existing owner-occupied homes. The average house price and the price per square metre set by the NVM both show a quarterly decline of 1.3

Figure 3: Five indicators of price trends



Source: Statistics Netherlands, Netherlands Association of Real Estate Agents, CALCASA WOX, Land Registry

Figure 4: Price trends per segment



Source: Statistics Netherlands

and 0.5%, respectively. The advantage of the two series is that they are two to three months ahead of the Statistics Netherlands series, while the disadvantage is that the data provided by the NVM are based on approximately 70% of the market and are significantly more sensitive to changes in the composition of homes sold.[1] In contrast to the other series, the Land Registry's purchase price series shows an increase of 1.6% from the previous quarter. However, this series is also not adjusted for composition effects, nor does it have the advantage of earlier registration of transactions.

Price trends by segment

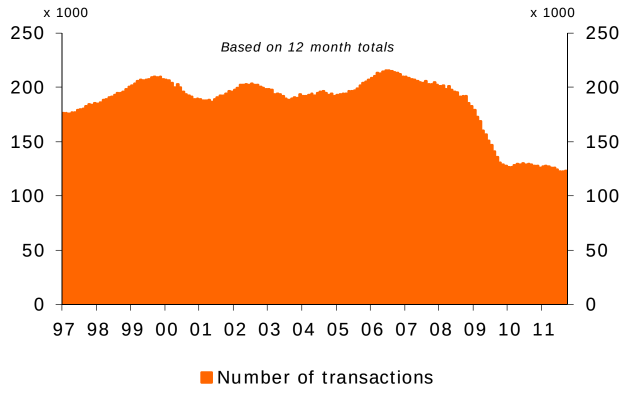
The extent to which and speed with which prices are declining differs by segment (see Figure 4). During the third quarter of 2011, the prices of semi-detached houses dropped most sharply from the previous quarter: by 1.4%. The value of mid-terrace houses and apartments dropped the least – both by 0.4%. If we look at the total extent of the decline since the beginning of the crisis, we clearly see that property values in the higher-end segment – i.e. semi-detached and detached houses – fell most sharply: by 9.4% and 10.4%, respectively. The total price decrease was less dramatic in the lower-end segment, with percentages ranging from 6.8% to 7.9%. The reason is that in the higher-end segment the relationship between supply and demand has deteriorated more strongly than in the lower-end segment. For example, detached houses remain on the market 1.5 times as long as mid-terrace houses.

Transaction numbers continue to decline

A total of 30,769 transactions were completed in the third quarter of 2011 – 5% less than for the same period in 2010. On an annual basis, the number of

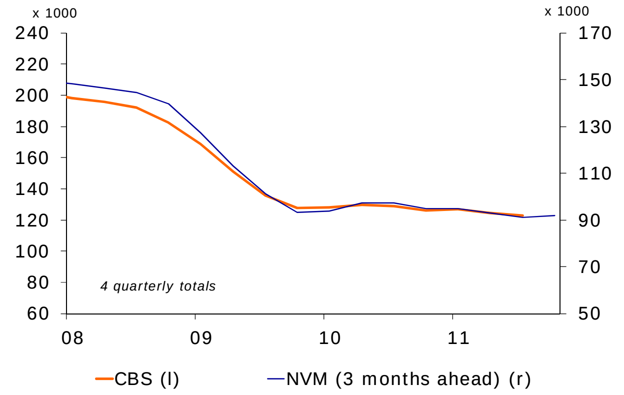
[1] See the Quarterly Report for May 2011 for more details.

Figure 5: Further decline in transaction volumes



Source: Statistics Netherlands

Figure 6: Transactions: Statistics Netherlands versus NVM



Source: Statistics Netherlands and Netherlands Association of Real Estate Agents transactions in the third quarter reached 122,752, representing a new low (see Figure 5).

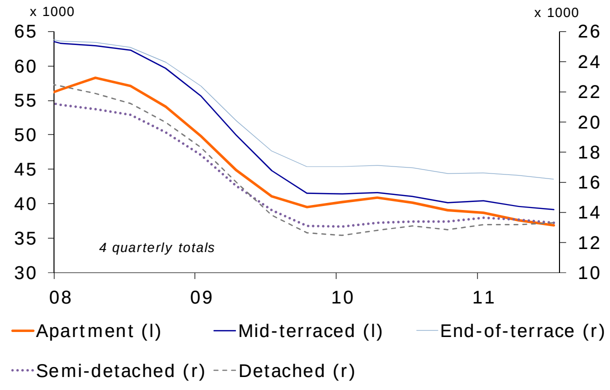
During the period from the fourth quarter of 2009 to the first quarter of 2011, the number of transactions fluctuated within a range of 126,000 to 130,000. However, in the second quarter of 2011 this range was broken in a negative sense. Any positive effects of the reduction in the transfer tax have not yet been incorporated into these figures, as the Land Registry registers transactions upon transfer of the property. Unlike the Land Registry, the NVM records the transactions at the time of sale. This means the registration of transactions is two to three months ahead. Therefore, the effects of the transfer tax reduction are reflected in the figures of the NVM.

In the three quarters preceding the third quarter, transaction numbers at NVM-affiliated estate agents declined by an average of 5.3% on a year-on-year basis. The third quarter saw the number of transactions rise again by 3.9% from the third quarter of 2010 (see Figure 6), representing a significant improvement. However, the NVM has already indicated that this was due mainly to the month of July, reporting that the positive effect of the transfer tax reduction had all but disappeared by September. It is also important to note that the NVM's market share is not consistent. If this has decreased from a year ago, Statistics Netherlands/Land Registry will note an increase in the number of transactions of more than 3.9% in the next quarter, and vice versa.

Not all homes sell equally well

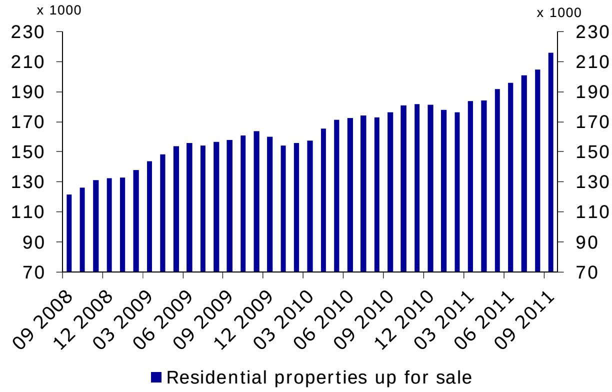
As described above, the total number of transactions declined in the third quarter of 2011. However, there are differences between the various segments. For example, a total of 3,531 detached houses were sold in the third quarter, representing an increase of 4.3% from one year ago (see Figure 7). However, the number of apartments sold dropped by 8.1%. The other housing types – i.e.

Figure 7: Transaction volumes by segment



Source: Statistics Netherlands

Figure 8: Supply of owner-occupied homes



Source: Huizenzoeker.nl

mid-terrace houses, end-of-terrace houses and semi-detached houses – showed a decline of 4 to 6%. Transaction numbers, based on annual totals, have fallen by 36% since the beginning of the crisis. Contrary to recent trends, the percentages of the various segments barely diverge from one another. At 34.9%, semi-detached houses showed the smallest decline. Transactions of detached houses declined the most: by 37.2%.

Supply continues to increase

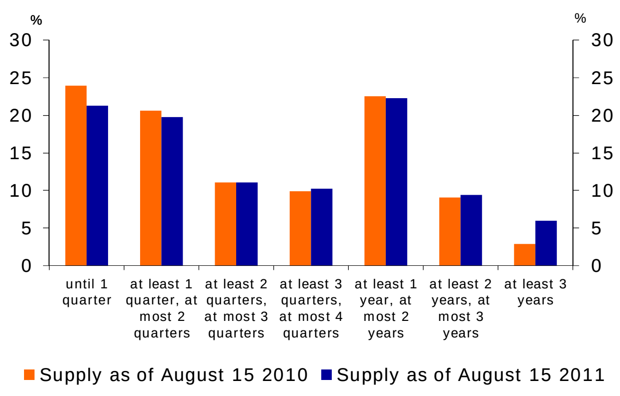
The lower transaction volume is coupled with an increase in the number of homes for sale. In September, a total of 216,145 homes were on the market, representing an increase of 11,268 from August (see Figure 8). This is the sharpest increase within one month since the launch of the series in September 2008.

Duration of supply

As the number of homes for sale has increased, so has the time these homes are on the market: currently an average of 268 days. This is 11 days longer than in the previous quarter. However, the differences between housing types are substantial: whereas mid-terrace houses remain on the market for an average of 212 days, detached houses take the longest to sell: 357 days on average.

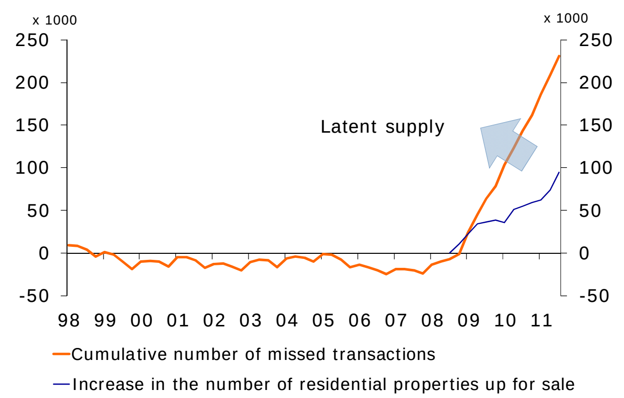
Figure 9 shows that a proportion of the homes have been on the market for some time. The percentage of homes that have been for sale longer than three years increased from 2.9% to 6% in one year. In absolute numbers, this involves around 13,000 homes. The owners of these homes, who also purchased new properties in 2008, will lose their entitlement to double mortgage interest rate deduction on 1 January 2012. In the coming months, they will feel pressured to complete a transaction, causing prices to drop. The impact on the market as a whole is limited, as this involves a maximum of 13,000 homes. In fact, the actual number is likely to be significantly lower, as a proportion of these households will want to sell their old home first before looking for a new one.

Figure 9: Homes remain on the market longer



Source: Netherlands Association of Real Estate Agents

Figure 10: Latent supply remains high

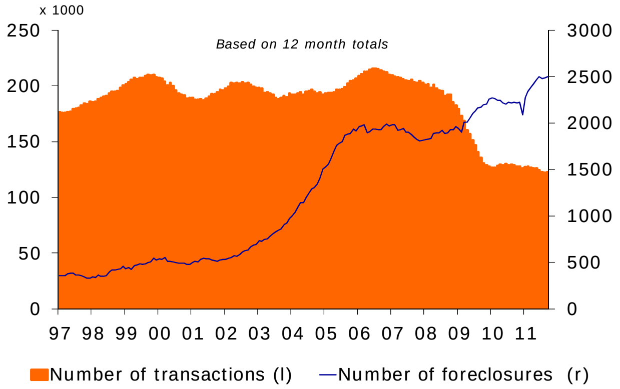


Source: Statistics Netherlands and huizenzoeker.nl

Latent supply

Before the crisis, an average of 0.73% of homes changed owners on an annual basis. Based on the current housing stock of 7.2 million homes, this corresponds to 52,560 transactions per quarter. However, in the third quarter of 2011 this number was 30,769. If homeowners were to sell their homes in the same volumes as before, this means that, in the third quarter, nearly 22,000 more homes would have been offered for sale than would have been sold (this is referred to as 'missed transactions'). The latter also corresponds to an increase in supply by 20,362 homes.

Figure 11: Number of foreclosures



Source: Statistics Netherlands/Land Registry

The increase in supply and the 'missed' transactions have not always kept pace (see Figure 10). Latent supply is calculated by deducting the increase in supply from the number of 'missed transactions'. Since the third quarter of 2008, the cumulative supply that is not publicly offered in the market increased to 136,000.

Expected transaction numbers

The reduction in the transfer tax has not resulted in the expected 10% increase in the number of transactions. In the fourth quarter of 2011, transaction numbers will increase by roughly 4% from the same period last year. This brings the total for 2011 to 124,000. Due to the uncertain situation in Europe, the bleak economic outlook, the declining purchasing power and the debate on pensions, there is little reason to expect a sharp increase in the number of transactions for 2012. The average number of transactions will be 130,000, where the increase is attributed mainly to sellers reducing their prices.

Foreclosures

A total of 432 foreclosures were effected in the third quarter of 2011. Based on the total results for four quarters, this represents 2,500 homes (see Figure 11). Compared to two years ago, there is an increase of 15.1% on an annual basis. This increase is sizeable, albeit still at a very low level: as a percentage of the total number of owner-occupied homes, it accounts for only 0.06%. Compared to other countries, the Netherlands also scores well.

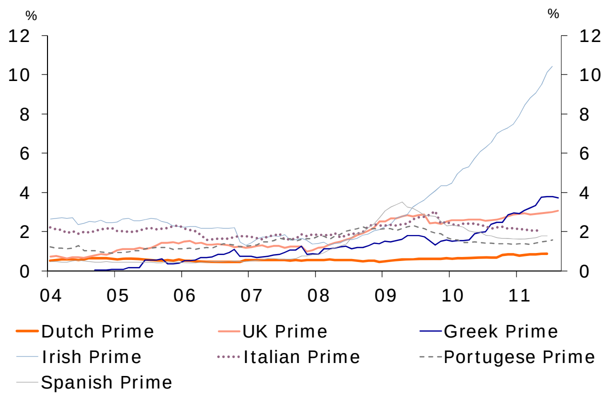
Comparison with other countries

The percentage of households that has fallen behind on their mortgage payments is an indication of the future number of households whose homes will eventually be foreclosed.[2] Figure 12 shows that, while the percentage of payment arrears of 60 days or more has increased in the Netherlands, it remains at a low level. In June 2011, 0.9% of households had payment arrears of more than 60 days (this represents securitised mortgages; to the best of our knowledge, figures for the market as a whole are not available). In Spain, Ireland and the United Kingdom, this percentage was significantly higher. The fact that Dutch households are well able to meet their financial commitments is due in part to the fact that unemployment in the Netherlands remained relatively low during the crisis. In addition, the country also has an extensive social safety net in the form of unemployment benefits, which ensure that households do not immediately land in trouble when they lose their jobs. Finally, many Dutch households have taken out mortgages with a fixed-interest period of five years minimum. This means they are unaffected by interest rate fluctuations until the time of the re-mortgage (see Figure 13).[3] In countries such as Spain, Ireland and the United States, by contrast, people took out mortgages with a relatively short fixed-interest period.

The ability of Dutch homeowners to meet their financial commitments also goes some way to explaining why the decline in house prices has been slow to date. Households without payment problems will be less likely to reduce their asking price, as they are not forced to sell their home.

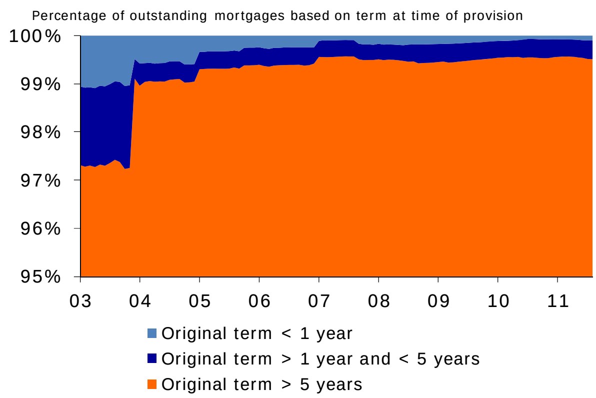
[2] Based on 4 million households with mortgages, the number of payment arrears for 2008 was 24,000, of which 2,000 foreclosures on an annual basis (8.3%).
[3] Maarten van der Molen and Hans Stegeman (2011), *De ongekende stabiliteit van de Nederlandse woningmarkt* ('The unprecedented stability of the Dutch housing market'), *Me Judice*, 7 May 2011.

Figure 12: Payment arrears



Source: Moody's

Figure 13: Restricted payment arrears



Source: Dutch Central Bank

New housing completions

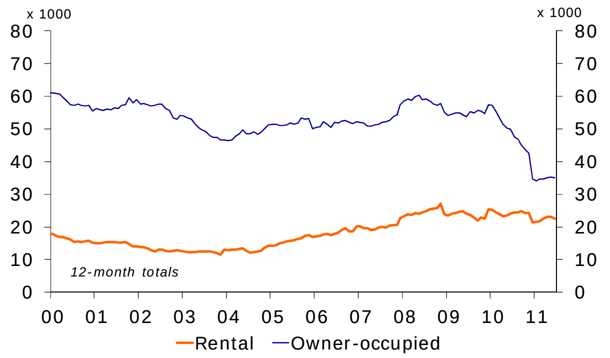
2010 decline did not continue

A total of 19,500 new homes were completed in the first half of 2011 – an increase of 9% from the first half of 2010. The increase was the sharpest in the rental market (16%) and slightly lower in the market for owner-occupied homes (5%). A record low was reached in 2010. The revival in the first half of 2011 shows that the decline in the number of new housing completions did not persist, although the numbers remain well below the 2009 level.

The low output of the new housing sector is attributable mainly to the small number of future owner-occupied homes completed: less than 12,000 in the first half of 2011 (see Figure 14). During the period up to 2010, more than 50,000 owner-occupied homes were built annually, of which nearly 20,000 were completed during the first six months. Construction in the rental market is more stable. In recent years, annual production remained within a range of 20,000 to 26,000 homes, of which generally 6,000 to 8,000 are completed during the first half of the year. The total number of new homes built in 2011 is expected to be around 55,000; this is virtually equal to the number of homes completed in 2010 (see Figure 15). Based on planning permissions granted in 2010, the expected number of homes completed in 2012 will be slightly lower (i.e. 52,000).

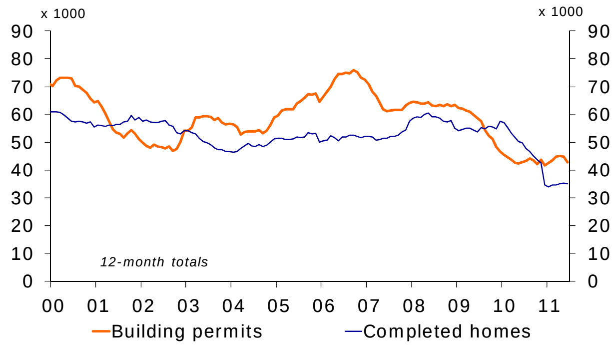
The number of planning permissions granted was also slightly higher in the first half of 2011 than in 2010, although it remained low. A total of nearly 27,000 planning permissions were granted during the first six months of 2011 – an increase of 6% from the same period in 2010, both in the owner-occupied and rental markets. In the latter market, the number of homes completed keeps pace with the number of planning permissions granted in the preceding period. In the owner-occupied market, however, the number of planning permissions granted exceeds the number of homes built.

Figure 14: Building output of rented homes and owner-occupied homes



Source: Statistics Netherlands

Figure 15: Market for owner-occupied homes



Source: Statistics Netherlands

Mortgage interest

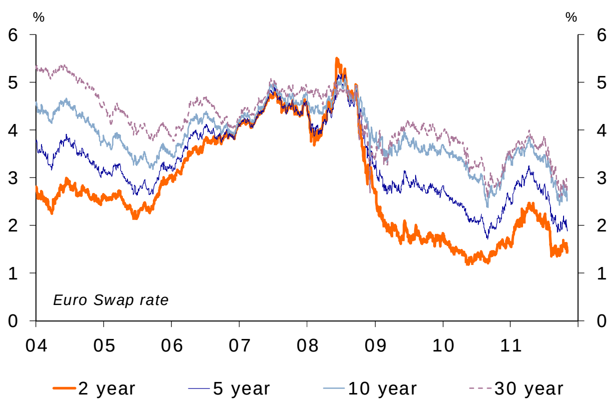
European impasse

The European debt crisis remains a cause for concern. Although the euro summit held in late October saw some important steps in the right direction, the question remains whether these steps are ambitious enough and can be developed effectively enough in order to regain the confidence of the financial markets and thereby curb the risk of contagion in the eurozone. If they fail to achieve this, tensions in the financial system will escalate again. The turbulence in the financial markets in recent weeks showed how vulnerable the situation is in the eurozone. Despite hopeful developments in both Greece and Italy, there continues to be a great deal of uncertainty. Dutch bond yields are expected to remain low (see Figure 16). If the confidence in the eurozone is restored, a shift in the 'safe haven flows' is to be expected, resulting in an increase in long-term yields on Dutch government bonds. Furthermore, structural reforms in separate European member states are necessary in order to ensure a sustainable debt position in the long term, which is vital to the eurozone as a whole.

ECB cuts interest rates

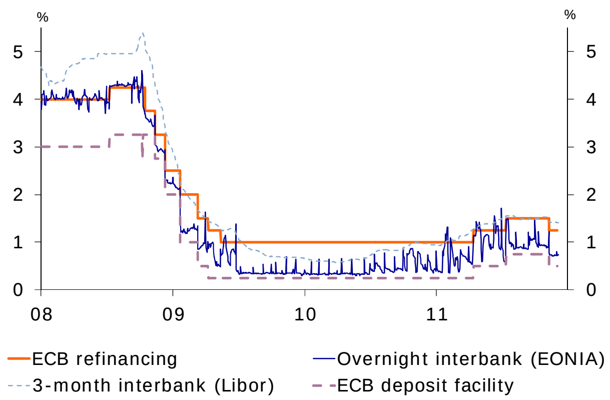
The uncertainty regarding the debt crisis also undermines confidence in banks located in the eurozone, as they have a substantial exposure to government bonds, and because at the same time governments have a 'guarantor' position when financial stability is compromised. This has damaged confidence between banks, resulting in rising interbank money market interest rates. In order to continue providing the banks with sufficient liquidity, the ECB has re-implemented refinancing operations with a term of 12 months. In addition, in view of the economic uncertainty in the eurozone, the new President of the ECB has decided to decrease the benchmark rate by 25 basis points to 1.25% (see Figure 17).
Due to the lack of a credible political solution to the current debt crisis, the ECB is also continuing its Securities Market Programme, which buys government bonds from – mainly – Southern European member states in order to prevent a sharp increase in their yields. However, this is merely a temporary solution,

Figure 16: Uncertainty in the capital market remains high



Source: Reuters EcoWin, Rabobank

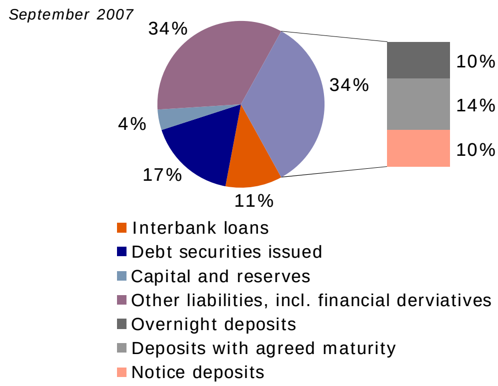
Figure 17: ECB cuts interest rates



Source: Reuters EcoWin, Rabobank

which neither addresses the underlying structural economic and budgetary problems nor provides an alternative for a credible European safety net.

Figure 18: Interbank funding is replaced...



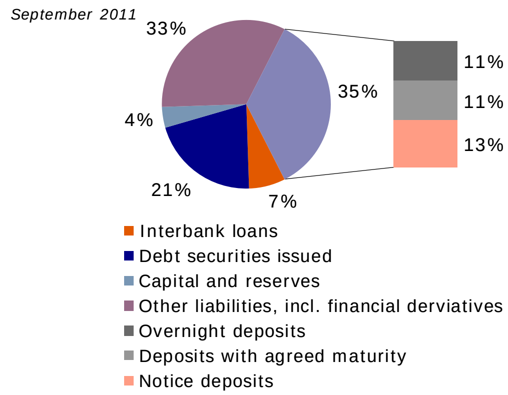
Source: Dutch Central Bank

Funding of banks during crisis

Recently published data by the Dutch Central Bank[4] reveals that the financial crisis caused a shift in the composition of bank balance sheets during the period 2007-2011. The decline in interbank confidence is reflected in the lower share of interbank financing in the total funding of the Dutch banking industry by 4 percentage points to 7%. This decline is fully compensated by capital market funding through the issue of debt securities (see Figures 18 and 19). Additionally, deposits account for more than one-third of the funding of the banking industry, although there are considerable shifts in terms as a result of interest rate changes. Since the banking industry funds its activities only to a limited degree in the interbank money market, the low money market interest rate has recently had a limited effect on the variable mortgage interest rate (see Figure 20). Furthermore, due to increased risk premiums the funding costs of banks are higher than the usual comparison with the money market interest rates and swap interest rates would suggest. If tension in the financial system increases further, banks' funding costs will rise accordingly, which may result in rising mortgage interest rates in the immediate future.

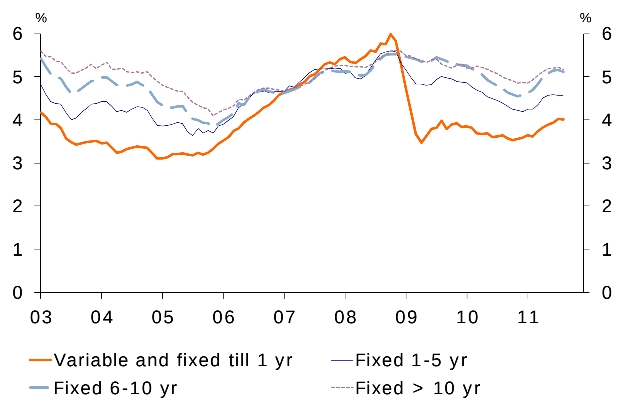
[4] Dutch Central Bank, *Ontwikkeling in de financiering van het bankwezen in Nederland* ('Changes in the financing of the Dutch banking industry'), statistical news, 28 October 2011.

Figure 19: ... for capital market funding



Source: Dutch Central Bank

Figure 20: Slight increase in mortgage interest rates

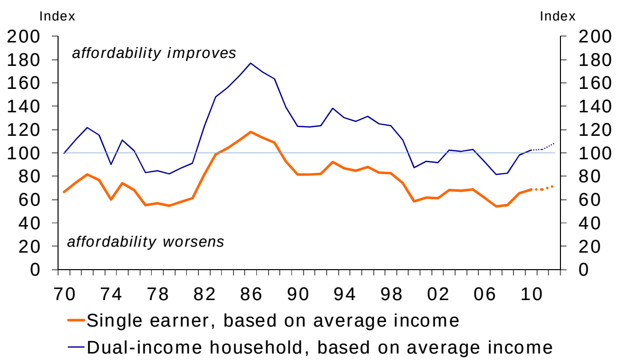


Source: Dutch Central Bank

Affordability

The Rabobank Affordability index measures the affordability of an average owner-occupied home for Dutch households. The index is calculated based on median income, interest rate and house price trends. If the index has a value of 100, gross monthly expenses account for 30% of gross income. If the index value exceeds 100, then gross monthly expenses account for less than 30% of gross income, and vice versa.

Figure 21: Affordability is increasing, but ...



Source: CPB (Netherlands Bureau for Economic Policy Analysis, Statistics Netherlands/Land Registry, Reuters EcoWin, Rabobank

The affordability index for double-income households is expected to reach 102.9 this year and 108.2 next year (see Figure 21). This means that double-income households spend less than 30% of their gross income on housing expenses. The improvement can be attributed mainly to the expected decline in average house prices during the same period. Affordability is also increasing for first-time homebuyers: for double-income couples new to the housing market, the Affordability index will reach 93.6 this year, and it is expected to increase to 98.3 in 2012. Single-income households with a median income entering the housing market, however, continue to have difficulty becoming homeowners. For this group, the Affordability index is expected to reach 62.4 in 2011 and 65.6 in 2012. Unless they use their own financial resources, it is virtually impossible for single earners to finance the purchase of a home.

Actual borrowing capacity

In addition to house prices, gross income, and interest rates, there are other factors that affect affordability. Under 'normal' market conditions, these factors do not significantly change affordability, which is why they are not included in the calculation of the index. In the current situation, however, they merit additional attention. This concerns the financing burden scales of the Nibud (National Institute for Family Finance Information) and the Code of Conduct for Mortgage Financing. Since these factors are difficult to map going back all the way to 1970, we have included an analysis below of the index in the period from 2008 to 2011. Note that the maximum borrowing capacity only affects those households who need a large amount of external financing for the purchase of their home.

Factors limiting purchase options

The Nibud housing cost percentage, based on which the maximum monthly expenses are determined within the Code of Conduct, will be reduced again effective 1 January 2012. The reduction is prompted by the higher health insurance premiums and pension contributions, due to which households are left with less money to spend on housing expenses. Since 2008, households can borrow 8% less based on the same income and interest rate (see Figure 22).

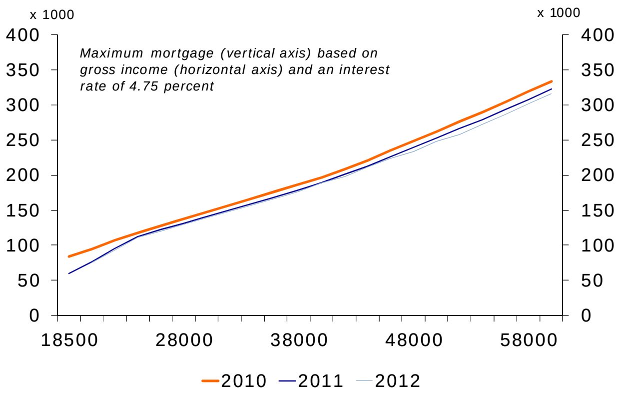
The new Code of Conduct that became effective on 1 August has not resulted in a reduction of borrowing capacity – the main change is that households are currently only able to take out mortgages of which no more than 50% is interest-only. For many households, this means their monthly expenses will increase when they move house and the amount of their mortgage remains the same. The reason that the borrowing capacity remains unchanged is that the method used to calculate the maximum mortgage sum has not changed: this method is still based on a 30-year annuity mortgage. However, banks have less leeway in making exceptions. As a consequence, the maximum loan to high-potential first-time homebuyers has declined by 15%. This is estimated to affect 10% of households.

Additional opportunities to buy property

Besides the limiting factors described above, a number of measures have been implemented that have increased opportunities to buy a home. For example, incomes have increased by 5% in recent years (excluding promotions). The fact that inflation has risen as well during this period is not relevant here, as this is already included in the tables provided by the Nibud.

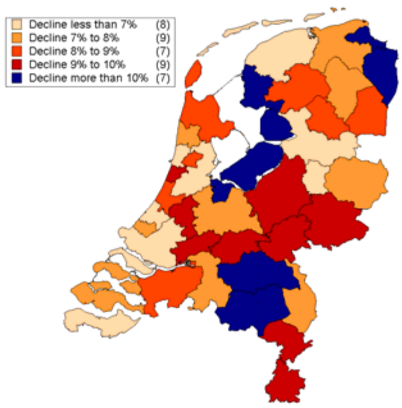
The reduction in the transfer tax from 6% to 2% has given households 4% more to spend when purchasing a home. The 4% previously payable in tax can now be spent on the house itself. The maximum loan amount will not be adjusted, as this amount is determined based on income. In addition, the interest rate on which the maximum mortgage sum is based declined from 5.6% to 5.4%, resulting in an average increase in borrowing capacity of 3%. Finally, the average

Figure 22: Change in the Nibud rates



Source: Nibud (National Institute for Family Finance Information)

Figure 23: Regional price trends



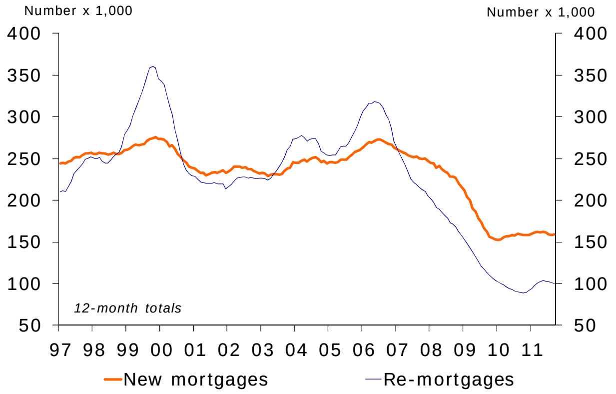
Source: Statistics Netherlands; edited by Rabobank house price dropped by 9% – this means the same home now requires a lower mortgage. The latter is an average for the Netherlands; as Figure 23 shows, the price drop is not distributed evenly across the country. If all factors that reduce and increase the borrowing capacity are set off against each other, we see that total borrowing capacity has increased by 13%. This corresponds to the simple analysis of the Affordability index: with the same income, buyers can purchase a home whose quality, on average, is superior.

Mortgage market

Data provided by the Land Registry shows that nearly 59,000 mortgages were provided in the Netherlands in the third quarter of this year. Since the peak in the fourth quarter of 2010, the number of mortgages provided has dropped by more than 13,000. This is caused mainly by the significantly lower number of re-mortgages (see Figure 24). This likely represents an adjustment of the trends witnessed during the first half of this year, as the lower mortgage interest rates in autumn 2010 made premature re-mortgaging an appealing option. Mortgage interest rates have been on the rise again since the end of 2010. In addition, the implementation of the stricter Code of Conduct for Mortgage Financing in August of this year may have promoted homeowners to re-mortgage at an earlier date.

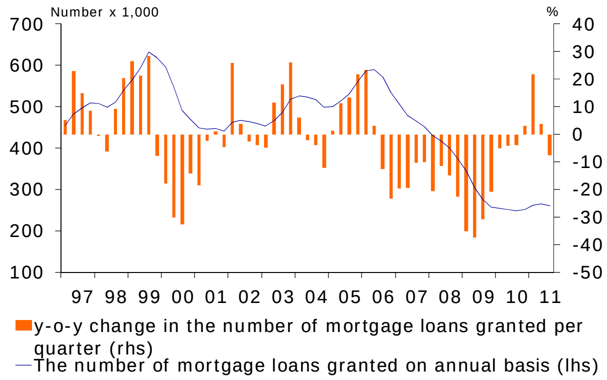
A total of 260,000 mortgages are currently provided on an annual basis – slightly more than during the low point of autumn 2010 (see Figure 25). As mortgages are registered by the Land Registry with a delay of several months, the effect of both the lower transfer tax rate and the more stringent Code of Conduct for Mortgage Financing will likely not be reflected in the figures until the fourth quarter. We do not expect any major increase in the number of mortgages provided either this year or next. This is because a) the borrowing capacity of potential homebuyers is limited by the stricter Code of Conduct, and b) the growing insecurity caused by the European debt crisis and the deteriorated economic climate and lower confidence are deterring this group from making quick purchasing decisions. An additional factor is that banks are operating in a highly uncertain environment in which they are faced with higher funding costs and are compelled to increase both the amount and the quality of their capital buffers in order to secure access to funding sources.

Figure 24: Notably, a lower number of re-mortgages...



Source: Land Registry, Rabobank

Figure 25: ...results in a reduction in the number of mortgages provided



Source: Land Registry, Rabobank

Housing market region Parkstad

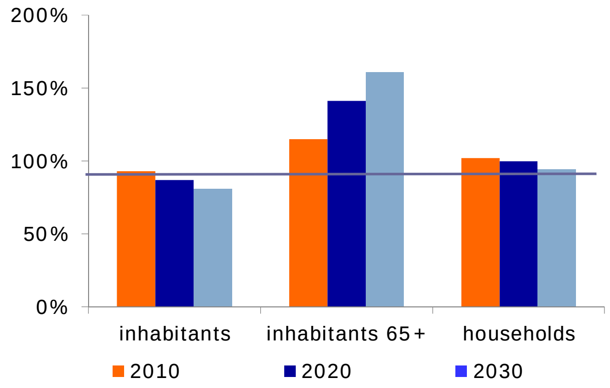
Several parts of the Netherlands are coping with a shrinking population, a demographic trend that has a significant impact on the housing market. Parkstad Limburg is the Dutch region most deeply affected by this trend, and has been playing a leading role in addressing the problem. The experiences gained in Parkstad could be relevant to a variety of other regions that are also set to be affected by a smaller population in the near future. This section therefore discusses the contraction and the restructuring plans for the Parkstad housing stock.

Contraction in Parkstad Limburg

Driven by the 20th-century mining industry, former mining area Parkstad Limburg evolved into one of the most dynamic, prosperous and urbanised regions in the Netherlands. Following the mine closures in the 1970s, the area lost its economic base and has experienced a slowdown ever since. While the mines once attracted workers from all over Europe, Parkstad[5] has been dealing with negative net migration rates since the closures, with younger inhabitants, in particular, leaving the area. This has left the region with an ageing population that is no longer growing. Since 1987, the number of elderly people living in Parkstad has exceeded the national average. Since 1995 the number of deaths has exceeded the number of births, and the population has been declining since 1997. Although the number of households is set to increase somewhat due to the smaller number of people per household, this growth will also change to a decline before the end of this decade.

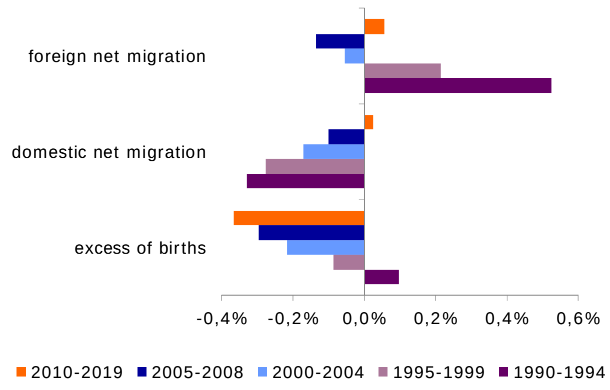
[5] Parkstad Limburg consists of the towns of Brunssum, Heerlen, Kerkrade, Landgraaf, Nuth, Onderbanken, Simpelveld and Voerendaal.

Figure 26: Forecast of demographic trends in Parkstad



Source: ABF-Research, edited by Rabobank

Figure 27: Forecast of composition of population growth in Parkstad



Source: ABF-Research, edited by Rabobank

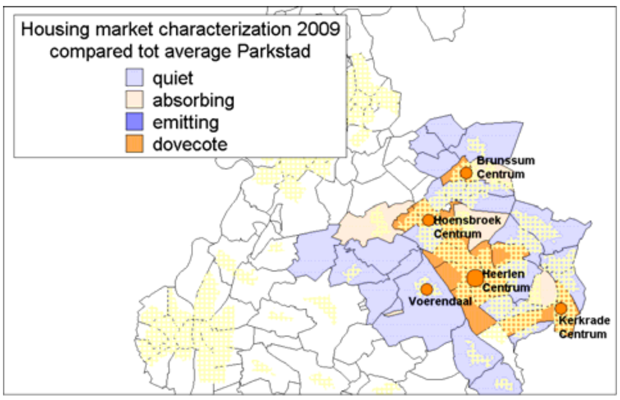
It is estimated that by 2030, Parkstad will have 52,000 fewer residents and 7,500 fewer households than it did in 1997 (see Figure 26). However, the senior citizen population will have increased by 26,000 by then. Consequently, Parkstad is shrinking as a result of inhabitants leaving and dying, but the significance of these two factors is subject to change.

The mortality surplus has risen sharply in recent years due to demographic ageing, while the number of people migrating to and from Parkstad increased as well. The increase in the number of people moving to the area was somewhat greater than the increase in the number of people leaving, causing negative net migration to decline (see Figure 27). Particularly families and older people settled in Parkstad in fairly larger numbers. However, negative net migration among young adults remains substantial, although this negative net migration in Parkstad is expected to change to a migration surplus, thereby curbing the contraction.

Considerable variety in Parkstad

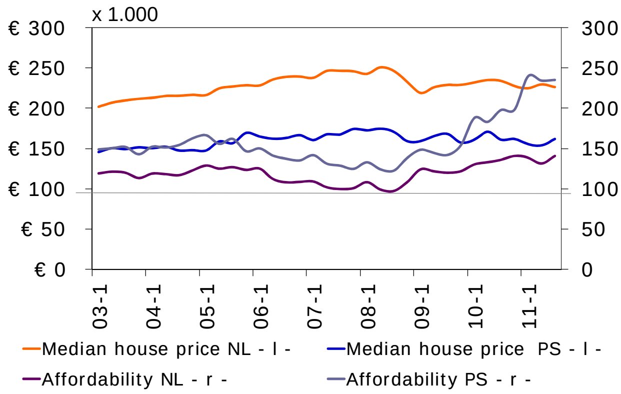
For the time being, however, demographic contraction dominates in Parkstad, with only 10% of neighbourhoods having witnessed an increase in population since 1998. One quarter of the neighbourhoods saw their populations decline by 10% or more. The level of urbanisation in these neighbourhoods and the composition of the housing stock do not play a role in the variety of demographic contraction in this area, but the scope of new developments planned and – to a lesser extent – the size of the ageing population are decisive factors. The only neighbourhoods whose populations have increased since 1998 are those where many new homes have been built, namely the city centres of Heerlen and Kerkrade, Heerlen-Noord, and the urban development district Treebeek in Brunssum.

Figure 28: Position of Parkstad neighbourhoods in the housing market (2009)



Source: ABF-Research, edited by Rabobank

Figure 29: House price trends and affordability, 2003-2011

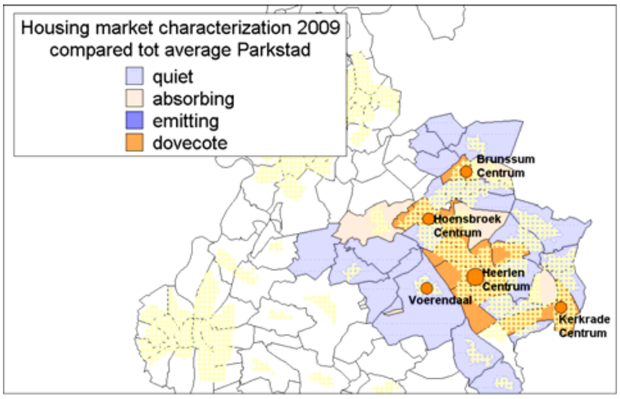


Source: ABF-Research, edited by Rabobank

Since recently, the districts with the largest numbers of older people have seen the sharpest decline in population in the Parkstad area. These districts show the largest mortality surplus. Up to several years ago, it was the 'young' neighbourhoods that saw the steepest decline in their populations in virtually all age categories, due to the negative net migration. Neighbourhoods with mainly younger populations and neighbourhoods with large numbers of elderly inhabitants differed significantly in terms of propensity to move: in neighbourhoods in Heerlen, Kerkrade and Brunssum, which are less prosperous and whose populations tend to be younger, propensity to move is considerably larger than in the slightly 'older', wealthier rural neighbourhoods in Onderbanken, Landgraaf, Simpelveld and Voerendaal (see Figure 28).

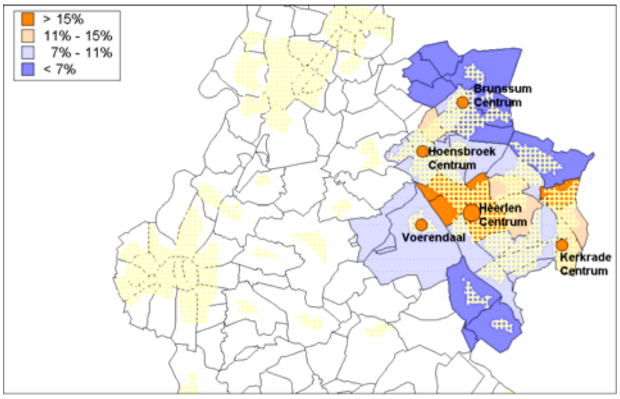
These differences between the various neighbourhoods reveal differences in mobility based on age group and income group. Young adults not only move house more often than families and older people; they also tend to move within the Parkstad region relatively often. Alternatively, they settle in student towns located elsewhere in the country. Older people and people with low incomes tend to move primarily within the Parkstad area. Affluent people and young and middle-aged couples without children relatively often move to or from other areas in South Limburg (i.e. outside Parkstad). This has made the urban districts into areas where people tend to settle temporarily. While these neighbourhoods, too, tend to be characterised by a migration surplus, the relatively young population ensures that the decline in population is smaller than in more settled areas. The population in the region has therefore clustered in Parkstad's urban districts.

Figure 30: Supply of basic amenities and facilities per inhabitant, 2009



Source: ABF-Research, edited by Rabobank

Figure 31: Number of homes to be demolished in 2010-2020 in relation to 2008 housing stock



Source: Contraction in Parkstad Limburg

Housing market and quality of life

The declining population has reduced the demand for housing, and for the past decade Parkstad has had a surplus of homes. However, due to the lower national migration rates, the number of owner-occupied homes for sale in Parkstad (4.7%) is slightly smaller than the national level (5.2%). The more dynamic neighbourhoods have a much larger number of homes for sale than average, while this number is smaller in the 'quiet neighbourhoods'. Disparity in propensity to move within Parkstad is therefore reflected in the variety in the size of the housing stock.

Since 1997, when the area's population first began to decline, the average house price in Parkstad has lagged behind the national average house price (see Figure 29), which is favourable for house hunters. Despite the low average income, homes in Parkstad are significantly more affordable than homes in the rest of the Netherlands. In Parkstad, a median-income household – based on the current average house price – has sufficient purchasing power to buy 2.5 homes. The national average income and the national average house price allow for the purchase of only 1.5 homes. For homeowners, the slowdown in house prices is obviously a disadvantage: since 1997, the value of their homes has not increased as fast as the national average, and consequently they are 'stuck' with their home, which is often unsellable. Vacant homes also lead to dilapidation of streets and neighbourhoods, as well as causing facilities to disappear from these areas and reducing the quality of life. Everyday amenities and facilities, such as supermarkets, GPs, playgroups and primary schools are all vital to residential neighbourhoods. Urban centres in Parkstad offer the most amenities, both in an absolute and a relative sense. In the suburbs of Heerlen and Kerkrade, in particular, the average number of inhabitants per amenity or facility is higher. This indicates that there are sufficient people to use the amenities, but for residents it also means they have (very) limited options available, and that it is likely that the amenities available will be insufficient if one or more disappear. Both the rural neighbourhoods in Nuth and Voerendaal and parts of urban Kerkrade are lacking in one or several basic amenities, which has already affected the quality of life in the area (see Figure 30).

Outlook of spatial structure and the housing stock

In order to protect the quality of life in the area, local governments and housing associations in Parkstad have jointly drafted a 'Restructuring Plan for the housing stock' for the period from 2010 to 2020. This plan details how – in view of the expected population decline – the quality of life in Parkstad should be improved over the next several years. The plan focuses on the required spatial structure and indicates the properties to be demolished or built. In order to eliminate the surplus of homes and improve the quality of life, demolition will outstrip construction. Properties will also be demolished to clear the way for new housing, in order to improve the quality of the housing stock.

The majority of properties to be demolished are located in Parkstad's urban centres, where the propensity to move and the number of amenities and facilities per inhabitant are largest. The number of properties to be demolished in suburbs and rural centres is smaller (see Figure 31).In the spatial structure, urban facilities centres – notably in Heerlen's city centre – will be improved. High-density structures will be added near these facilities, with low-density structures to be constructed farther away. The former stream valleys and green spaces will be restored to their original state, while old mining colonies will be reinstated as well. A dual ring road should shield the residential neighbourhoods from through traffic. Amenities will be added to the smaller centres in order to maintain liva-bility[6].

Conclusion: Lessons for other regions

A decline in population and in the number of households inevitably results in home vacancies. However, demographic contraction does not mean that a housing market loses its dynamic: Parkstad Limburg, for example, shows that exit migration is coming to a halt and that young urban neighbourhoods show great mobility. By not waiting for vacancies to occur but rather adjusting the housing stock in time and as part of a plan for future spatial structure, it is possible to prevent a decline in the quality of life. This restructuring process is complex and comprehensive, and will therefore take many years to pay off. It will involve a great deal of hard work before people will be able to benefit. Stakeholders will need to accept that it is necessary to invest – and, in some cases, depreciate – before long-term value growth can be achieved.

[6] Parkstad Limburg – Restructuring plan for the housing stock, 2009.

Key data

House prices

Year-on-year change (%)	2009	2010	2011 [a]	2012 [a]
NVM (median house price)	-7.1	3.4	0	2½
Land Registry (purchase prices)	-6.4	0.3	1½	-1½
Statistics Netherlands/Land Registry	-3.3	-2.0	-2	-3
CALCASA WOX	-3.3	-0.3	0	-2½

Numbers

X 1,000	2009	2010	2011 [a]	2012 [a]
Sales transactions	128	126	124	130
New housing completions (rental and sale)	83	56	55	52

Numbers

	2009	2010	2011	2012
Involuntary sales	2,256	2,086		

Key economic data (September 2011)

	2009	2010	2011 [a]	2012 [a]
GDP (volume growth in %)	-3.5	1.7	1¾	1
Inflation (%)	1.2	1.3	2¼	2
Unemployment (%)	4.8	5.4	5	5¼

Rabobank Affordability index

	2009	2010	2011 [a]	2012 [a]
Affordability index [b]	98	103	103	108

Interest rate [c]

Level (%)	11 November 2011	+3m [d]	+12m [d]
3-month eurozone	1.46	1.06	1.07
10-year euro swap	2.46	2.40	3.10
Mortgage interest rate. 5-10 years fixed[e]	5.01[e]		

[a] Rabobank forecasts

[b] The Rabobank Affordability index is calculated based on average house prices (data provided by the Land Registry) and average household income (data provided by Statistics Netherlands). This is based on an annuity mortgage with a term of 30 years for a foreclosure value of 80% of the market value and a monthly expense quote of 30%. If the value exceeds 100, an average home is easily affordable. If the value is lower than 100, the price of such a home is less accessible for buyers not using their own assets.

[c] Forecast by Financial Markets Research, Rabobank International

[d] 3-month outlook and 12-month outlook, respectively

[e] Monthly average for September 2011 – Dutch Central Bank

Colofon

The Dutch Housing Market Quarterly is a publication of the Economic Research Department (ERD) of Rabobank Nederland. The view presented in this publication has been based on data from sources we consider to be reliable. Among others, these include Reuters EcoWin, Land Registry, NVM, DNB, CPB, Statistics Netherlands and huizenzoeker.nl.

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