DYNAMIC CREDIT

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Contents

Dutch Housing Market Update 2022-Q3

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Dynamic Credit originates and manages tailored portfolios of Dutch residential and consumer BTL mortgage loans for institutional investors in an easy, cost-efficient and transparent way. As always, we welcome the opportunity to discuss the housing market or investing in Dutch mortgages.

"With interest rates increasing further and consumer confidence at low levels, cracks are appearing in housing markets across the globe. In the Netherlands the first significant house price decrease was printed in September with a -0.7% on average. Compared to several countries where it is common to have variable mortgage rates or short fixed rate periods, borrowers in the Netherlands have fixed rates for a long period (20 years was most popular). As such the transition to a higher rate environment will be more gradual for households than in some other jurisdictions. Furthermore, Dutch homeowners are able to port their mortgage to a new property, giving them more flexibility and thereby reducing the lock-in effect. Spreads have reduced during 2022-Q3 due to high swap rate volatility. However we do see spreads widening quarter to date with 88 bps on average."

Jasper Koops,
Head of Portfolio Management

DYNAMIC

1. Executive Summary

Residential mortgage rates: Mortgage interest rates increased by 33 bps QoQ and 275 bps YoY on average. After quarter end, mortgage rates increased an additional 57 bps on average as monetary conditions tightened.

Residential mortgage spreads: Mortgage spreads remain volatile and tightened as of 2022-Q3 by an average of 66 bps QoQ and 28 bps YoY. However, QtD residential mortgage spreads recovered substantially by an average of 88 bps.

Housing prices: The Dutch House Price Index is up 0.60% QoQ and 11.90% YoY as of 2022-Q3. In September, the index decreased by 0.70% which is the steepest MoM decrease since April 2013.

House price forecasts: In 2022-Q3 several financial institutions made downward changes to their forecasts for Dutch housing prices of the coming years as mortgage interest rates increased more than initially expected.

Property transactions: The number of properties transferred in 2022-Q3 was approximately 50,000. This translates to an increase of 6.50% QoQ and a decrease of 6.40% YoY.

Global housing market: The Dutch housing market is less sensitive to steep interest rate increases in the short term in comparison to regions where the average fixed rate period is substantially shorter such as the UK, Sweden and Canada.

Inflation: Dutch inflation is up 14.50% YoY as of September from 12% YoY in August due to sharp increases in energy. In addition, Dutch core-inflation is up 6.50% in September versus 6% in August.

Bankruptcies: Bankruptcies increased to 172 in September, an increase of 25 cases compared to August. In comparison, the average number of bankruptcies per month in the period 2018 to 2020 was approximately 330.

Unemployment: As of September, the unemployment rate is 3.80% and remains unchanged in comparison to August. In absolute terms this means that approximately 382,000 people were unemployed.

Buy-to-Let: Several measures have been proposed to Parliament to regulate the rental market. Rent increases will be capped at wage growth plus 1% in 2023. Furthermore, rental prices for new contracts will be regulated up to roughly EUR 1,000.

2. Dutch Housing Market Update

Consumer confidence

Each quarter we investigate several consumer confidence indicators. In the next paragraphs we will investigate the Vereniging Eigen Huis indicator, consumer confidence as published by CBS and consumer spending.

Beginning with consumer confidence towards the housing market, Vereniging Eigen Huis ("VEH") measures consumer confidence in the Dutch housing market every month based on a questionnaire about interest rates, prices, and the housing market. The indicator can take values ranging from 0 to 200, with 100 indicating a neutral value. Higher values indicate positive consumer sentiment and lower values indicate the contrary.

Figure 1 below shows the history of the VEH indicator. Since its peak value of 121 in 2016-Q3 the indicator has been gradually declining to the current value of 83. In recent months the indicator has remained relatively stable, dropping from 85 in July to 83 in September, hinting at low but unchanged consumer sentiment. In the latest publication of the VEH quarterly report (Q2 since it is published with a one quarter lag)[1] several factors were identified that primarily caused the decline of consumer confidence in the first half of 2022. The share of consumers that expect housing prices to remain the same or decrease increased from 12% in 2022-Q1 to 22% at the end of 2022-Q2. In addition, the share of consumers that expect prices to increase dropped from 64% in 2022-Q1 to 51% in 2022-Q2.

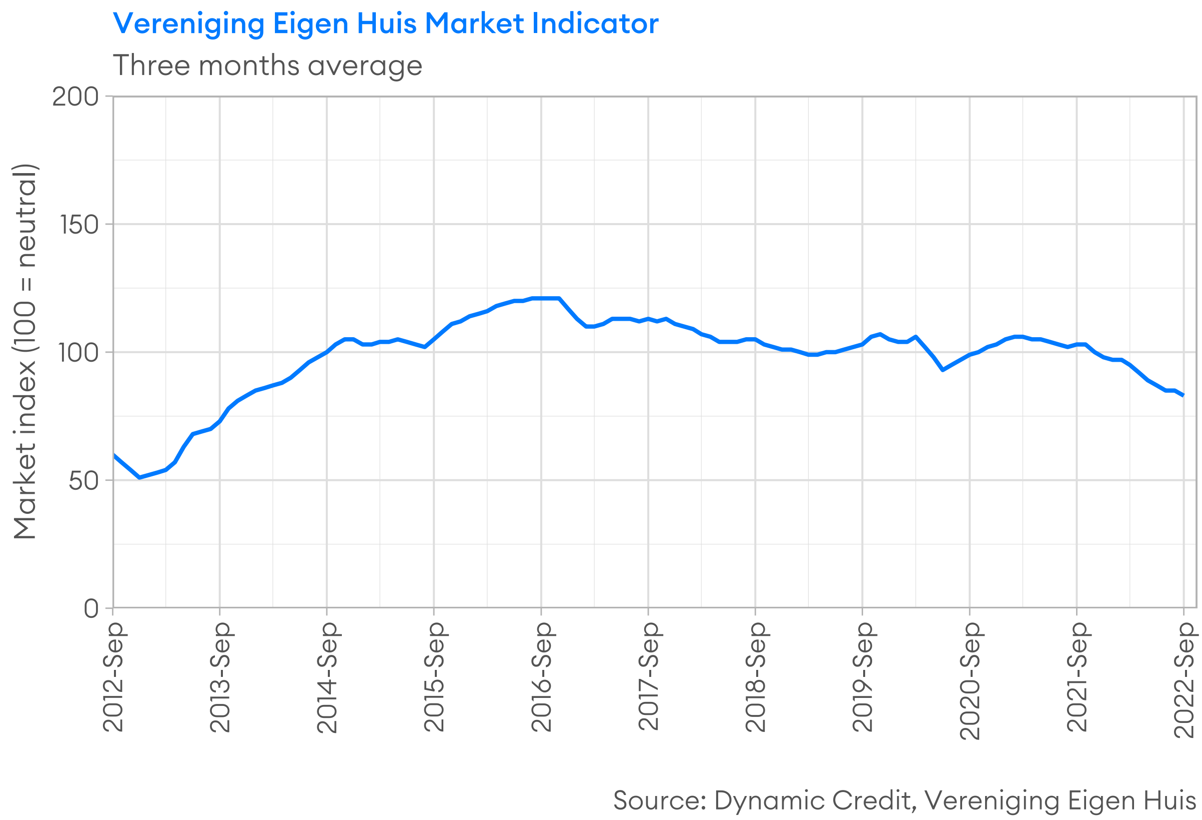


Figure 1: Vereniging Eigen Huis Market Indicator as of September 2022.

1 VEH - Eigen Huis Marktindicator

Statistics Netherlands ("CBS") tracks consumer confidence based on the views and expectations of consumers on topics such as the general economic environment, personal financial situation and willingness to buy in the Netherlands. The indicator is measured as percentage points of negative or positive answering options and can reach values between 100 and –100 where a value of 0 indicates an equal amount of positive and negative responses.

Over the past months, consumer confidence dropped substantially from –50 in June to –59 in October, a new all-time low since the start of the series in 1986. According to CBS, the primary reasons for the overall decline in consumer confidence originate from strong pessimism towards the economic outlook and willingness to buy[1]. In addition, the share of consumers that expect to be unable to put money aside increased from 35% in 2022-Q2 to 46% in 2022-Q3. In their turn, these expectations are linked to 85% of respondents classifying the price increases year to date as 'sharp', the share of which is at a record high as well. That is not surprising due to the current inflationary pressure exerted on global economies, further discussed in section 6. These factors together paint a grim picture for consumer spending, which is discussed in the next paragraph.

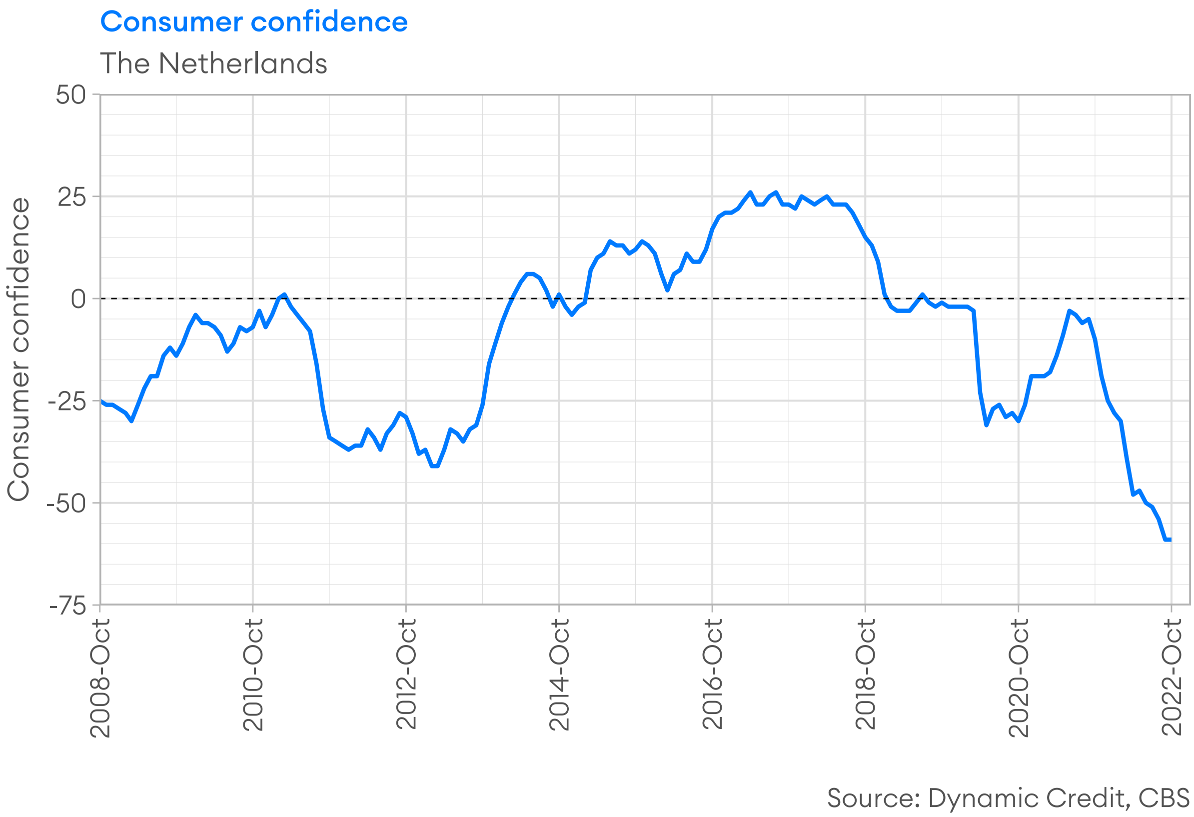
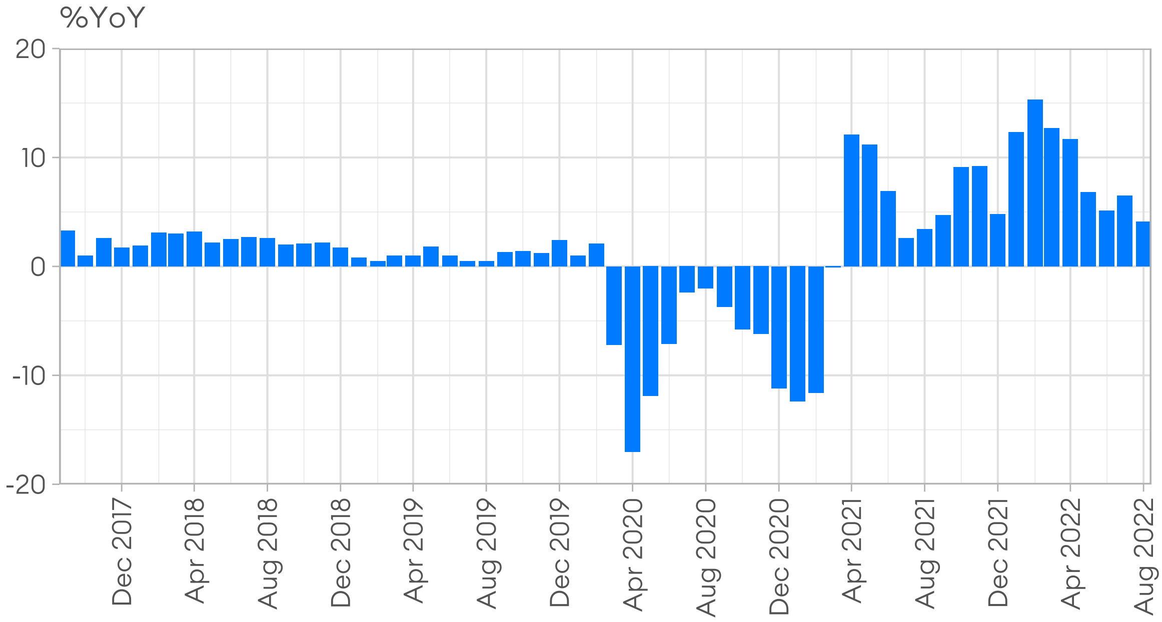


Figure 2: CBS total consumer confidence in the Netherlands as of September 2022.

1 CBS - Consumer confidence unchanged

With the poor consumer sentiment in mind discussed in the previous paragraph one would expect to see this reflected in consumer spending. As of august 2022, consumer spending adjusted for inflation is up 4.80% YoY, slightly higher than the same period previous year which saw a YoY increase of 3.40%. Figure 3 displayed below shows the YoY change in domestic household consumption adjusted for inflation on monthly frequency. The past several months show flattening of YoY growth of consumer spending after record growths seen during the beginning of 2022. In addition, consumers spent 10% more on services like restaurants and subscriptions whilst spending 7% less on durable goods adjusted for inflation[1]. Lastly, according to CBS the circumstances that influence consumer spending have worsened over August. Consumer pessimism towards their personal financial situation in the future and developments regarding unemployment might cause depressed consumer spending.

Consumption by households



Source: Dynamic Credit, CBS

Figure 3: Domestic household consumption in the Netherlands adjusted for price changes up until August 2022.

1 CBS - Household consumption over 4 percent up in August.

Offer volumes

In 2022-Q3 Hypotheken Data Netwerk ("HDN", a provider of infrastructure for mortgage loan requests) reported a total of about 103,000 mortgage offers, this translates into a decrease of 13.80% compared to the same quarter a year ago and 27.46% QoQ. The number of offers for purchases totaled 61,000 in 2022-Q3 compared to 71,000 in 2022-Q2, a decrease of 14.08% QoQ. The number of offers for refinances amounted to 42,000 in 2022-Q3, a decrease of 40.85% QoQ compared to 71,000 in 2022-Q2.

The sharp decrease in refinancing applications is caused by the steeply increasing interest rates, which have eliminated the financial incentive to refinance for most borrowers.

As a consequence of increasing rates, borrowers opted for shorter fixed rate periods. With a share of 57% of offer volume, according to HDN, the 10 year fixed was the most popular fixed rate period in 2022-Q3. This is a steep increase versus 2021, when the share of 10 year fixed was around 27%. The increase in market share of the 10 year fixed was at the expense of the longer fixed rate periods. Fixed rate periods shorter than 10 years are also gaining popularity, although to a limited extent, as the affordability test is more stringent for such shorter fixed rate periods.

House prices and property sales

CBS reports on house price developments in the Netherlands through the Dutch House Price Index ("HPI"). This proxy for house prices of existing domestic dwellings is reported on a monthly basis. In 2022-Q3, the HPI increased with 0.60% QoQ and 11.90% YoY. In September the HPI for the Netherlands decreased with 0.70% MoM, which is the steepest MoM decrease since April 2013. Real house prices have decreased more steeply due to high inflation, as shown in Figure 4.

As for property sales, the number of properties transferred in 2022-Q3 was roughly 50,000, an increase of 6.50% QoQ and a 10.20% decrease YoY. For the historical HPI and property sales developments see Figure 4 below.

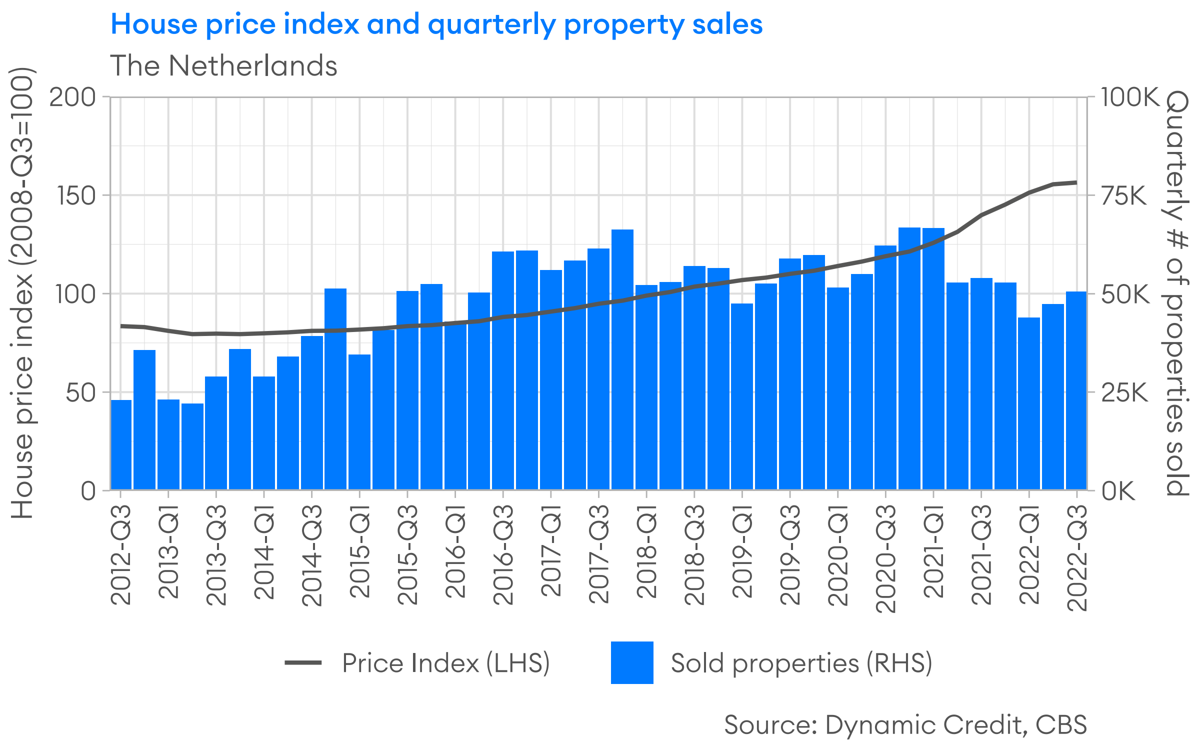
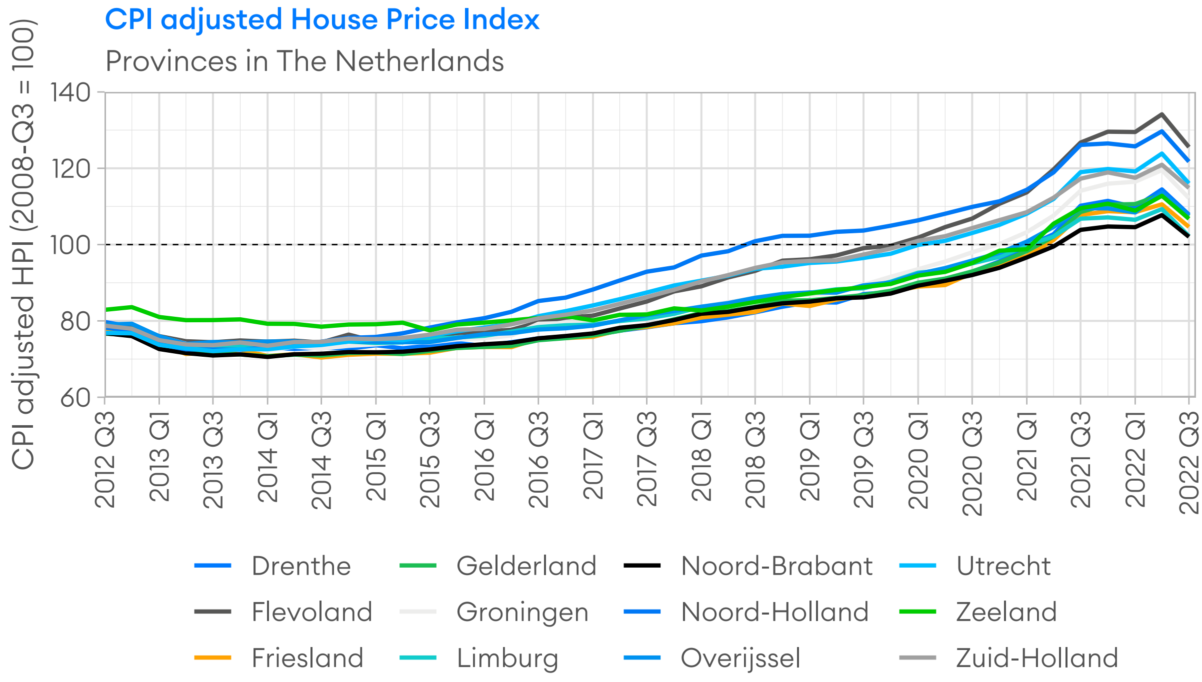


Figure 4: House Price Index of the Netherlands ("HPI") (2008-Q3 = 100) and monthly property sales. HPI until September 2022. Source: CBS, Dynamic Credit.



Source: Dynamic Credit, CBS

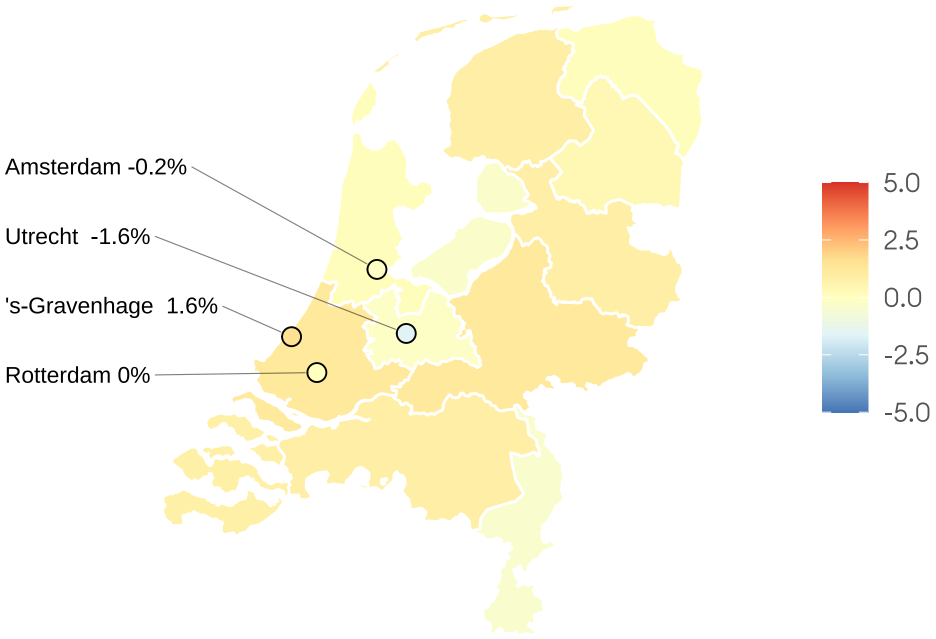
Figure 5: CPI Adjusted House price index per province in the Netherlands (2008-Q3=100). The data is indexed as of 2008-Q3 because this marks the pre-crisis high for the unadjusted House Price Index.

With regards to the dispersion of house price developments across Dutch provinces, this quarter we observe values that are relatively close, as shown in Table 1. The highest YoY increase occurred in Flevoland and Gelderland, where HPI increased by 13.40% YoY. The smallest increase occurred in Limburg, where HPI increased by 9.60%. However, compared to HPI, property sales differed more based on geographics. Groningen saw the largest increase in the number of property sales, with a YoY increase of 13.30%. The smallest increase occurred in Friesland, which saw property sales increase by a modest 1.10%. Table 1 displayed below contains developments of housing prices and property sales for other Dutch provinces and municipalities during 2022-Q3.

Area	Type	HPI (2008-Q3=100)	YoY Price %	QoQ Price %	Properties Sold in Quarter	QoQ Properties Sold %	YoY Properties Sold %
Nederland	Country	156.4	11.9	0.6	50453	6.5	-6.4
Amsterdam	Municipality	194.4	8.5	-0.2	2646	27.6	6.5
's-Gravenhage	Municipality	176.5	10.1	1.6	1500	8.1	-7.7
Rotterdam	Municipality	191.8	10.9	0.0	1580	-3.5	-0.2
Utrecht	Municipality	195.1	8.3	-1.6	1200	16.2	6.7
Groningen	Province	157.7	12.6	0.1	1644	13.3	-6.2
Friesland	Province	147.1	11.2	0.9	1820	1.1	-5.6
Drenthe	Province	151.6	12.1	0.4	1489	5.7	-11.7
Overijssel	Province	151.2	12.5	0.9	3177	9.3	-3.2
Flevoland	Province	176.5	13.4	-0.3	1519	7.3	-5.5
Gelderland	Province	151.0	13.4	1.2	5727	5.8	-2.2
Utrecht	Province	163.1	11.7	-0.2	4113	6.7	-4.4
Noord-Holland	Province	171.1	10.6	0.1	8560	10.5	-2.7
Zuid-Holland	Province	161.4	12.2	1.2	10458	4.5	-9.1
Zeeland	Province	150.0	11.6	0.8	1321	8.6	-7.5
Noord-Brabant	Province	143.4	12.5	0.9	7403	3.9	-11.2
Limburg	Province	143.7	9.6	-0.4	3222	5.9	-5.2

Table 1: House prices and number of property sales changes in Dutch provinces and major municipalities 2022-Q3 Source: CBS, Dynamic Credit.

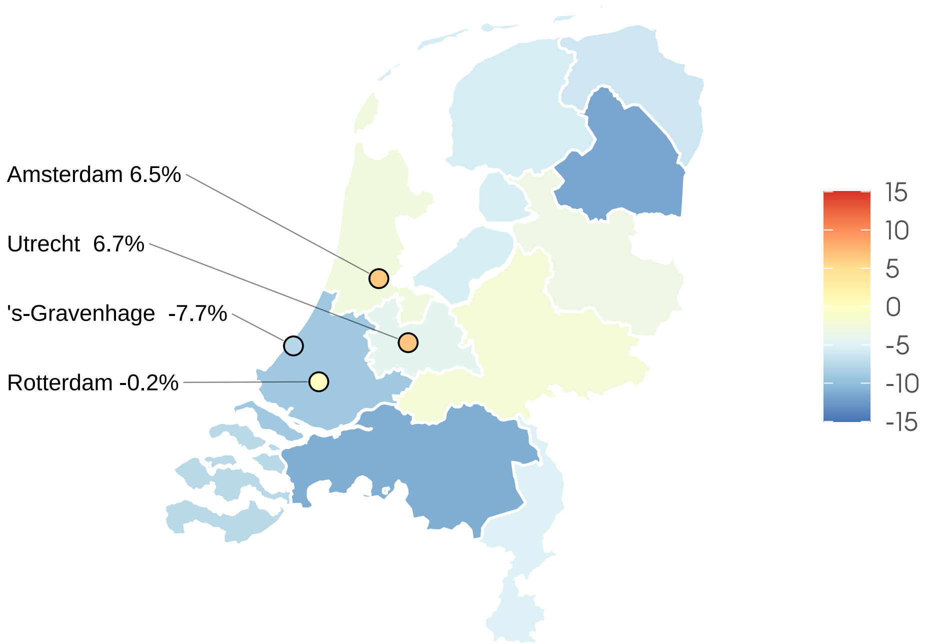
House Price Index QoQ change



Source: Dynamic Credit, CBS (2022 Q3)

Figure 6: Dutch House Price Index QoQ change in percentages. 2022-Q3.

Number of sold properties YoY change



Source: Dynamic Credit, CBS (2022 Q3)

Figure 7: Sold properties YoY change in percentages. 2022-Q3.

Expected house property sales developments

As 2022 is coming to an end market participants are reviewing and updating their forecasts as made during a year that was characterized by economic turmoil and volatility. Figure 8 displayed below is a visual representation of forecasts for 2022 and 2023 as made by several financial institutions.

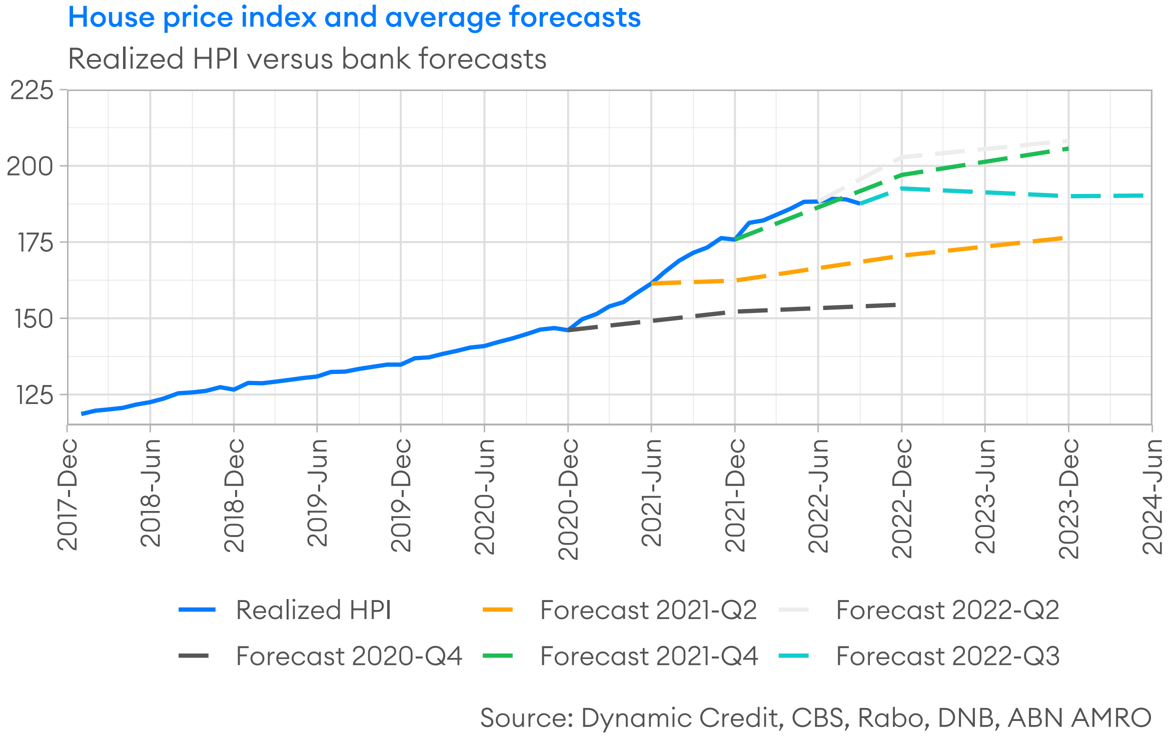


Figure 8: Realized house price index and average house price forecasts made at different points in time. Source: Dynamic Credit, CBS, Rabobank, DNB, ABN AMRO, ING.

Starting with Rabobank, which published their updated forecasts in October of 2022[1]. With regards to the Dutch housing prices, they forecast total annual growth of 13.70% for 2022. For 2023 and 2024 Rabobank expects the housing prices to decrease with 3.10% and 2% respectively. According to Rabobank, high interest rates and macroeconomic uncertainty are the main causes for depressed demand. In addition, the total amount of property sales in 2022 is expected to decrease by roughly 17% and an additional decrease of 5% in 2022. The argument is made that it could take some time for housing prices to sufficiently adjust to the recent steep mortgage rate increases resulting in a slowdown in property sales over the next year. According to Rabobank, consumer sentiment of potential buyers together with developments around unemployment might prove to play important roles. In addition, Rabobank states that the aforementioned expected decreases in housing prices could result in further weakening demand and decreases in housing prices as consumers temporarily delay their purchases due to their expectations for the housing market.

Moreover, ABN AMRO adjusted their forecasts for housing prices downwards in their latest publication of the Woningmarktmonitor[2]. For 2022 and 2023, ABN AMRO expects housing prices to increase by 14% and decrease by 2.50% respectively caused by increasing interest rates and economic uncertainty. However, ABN AMRO also states that they do not expect housing prices to decline further due to their expectations of central policy rates stabilizing and the persisting housing shortage. Property sales are expected to decrease by 15% over 2022 and decrease by 1% over 2023 due to poor outlook on solving the housing shortage based on published governmental proposals.

1 [Rabobank - Daling huizenprijzen zet naar verwachting door]
2 [ABN AMRO - Woningmarktmonitor oktober 2022]

Global Housing Market Development

The global housing market has been booming over the last years and faced a price increase of 10% from mid-2021 to mid-2022 breaking the record set in 2007. That has been reason for some to assume a bubble was starting to form, yet the UBS Global Real Estate Bubble Index does not give an indication to support this premise. So far it indicates signs of imbalance for a relatively small number of cities, including several Canadian cities as well as European cities such as Frankfurt, Zurich and Munich[1].

Mortgage rates have been steeply rising following market rate increases, which has put affordability under severe pressure. An important factor has been the FED, which raised the base rate from a low of 0.25% at the beginning of the year to 3.25% in September. That has forced many other central banks to respond with corresponding measures to ease domestic inflation and to prevent further inflation following from more expensive imports due to a strong dollar. Deterioration of affordability has led to lower demand and fewer bids in most markets.

In several countries and especially in those that are affected most by the effect described in the previous paragraph, house prices decreased. For example, in Sweden prices of apartments dropped by approximately 6% and housing prices by 3% YoY as a result of high energy costs and increased interest rates[2]. Similarly, in the largest Australian cities housing prices have been decreasing for several consecutive months[3]. Overall, high inflation and the resulting high interest rates have been putting the housing market under pressure. Price corrections are dependent on country-specific characteristics, but the extent may largely depend on the portion of forced sellers. These characteristics include the exposure to market rates, fixed-rate periods, household indebtedness, and loan to values.

The UK has been experiencing their own turmoil recently after the announcement of the mini-budget by the short-lived Truss government. Knight Frank, a real estate research firm, forecasts a near 10% decline in UK housing prices as a result of higher borrowing costs and inflation[4]. Local mortgage market mechanics concentrated the market in the 5 year or shorter fixed rate period segment, with resets to a floating rate. That has made the UK households exposed to fluctuating mortgage rates. Currently, around one third of UK homeowners are due to interest rate resets within 24 months according to the Financial Times[5]. Homeowners in financial distress could be forced to sell, which in turn could drive down housing prices. The overall loan-to-value ratio has decreased after the 2008 financial crisis in most countries including the UK, so the risk of negative equity is relatively lower, especially for existing homeowners.

The Dutch housing market in comparison is less sensitive to steep interest rate increases as borrowers have fixed their interest rates for long periods: during the past years, around 98% of borrowers fixed their rate for at least 10 years, with 20 years fixed being the most popular. Only recently, 10 year fixed has become dominant again. Borrowers reaching their reset now generally took out their mortgage 10 years ago, when rates were at similar levels as today. As such, the number of forced sellers due to increasing reset rates is expected to be marginal in the upcoming years. Furthermore, Dutch homeowners are generally able to port their existing loan to a new property thereby reducing the lock-in effect.

1 UBS - Global Real Estate Bubble Index 2022
2 Bloomberg - Swedish Housing Market Slump Deepens on Rate, Energy Worries
3 The Guardian - House prices fall as Sydney owners make loss on resales to escape high interest rates
4 Knight Frank - UK House Price Forecast 2022: prices to fall as mortgage costs rise
5 Financial Times - UK mortgage holders face higher bills as their fixed-rate contracts expire

NHG

Stichting Waarborgfonds Eigen Woningen ("WEW"), a central, privatized entity, is responsible for the administration and granting of the Nationale Hypotheek Garantie ("NHG Guarantee"). The NHG Guarantee covers the outstanding principal, accrued unpaid interest and disposal costs of mortgage loans. Irrespective of scheduled repayments and prepayments made on a mortgage loan, the NHG Guarantee is reduced on a monthly basis by an amount which is equal to the principal repayment part of the monthly instalment as if the mortgage loan were to be repaid on a thirty-year annuity basis. Financial support from the Dutch government is formalized in a backstop agreement, under which the State is responsible for providing interest-free loans in case of need.

New NHG guarantees

According to HDN, approximately 28,000 loans with an NHG guarantee were offered for a total of EUR 5.3 billion in 2022-Q3 (In 2021-Q3 this was roughly EUR 5 billion). This corresponds to an NHG market share of 22.30% in terms of mortgage loan balance (in 2021-Q3 this was approximately 16.30%).

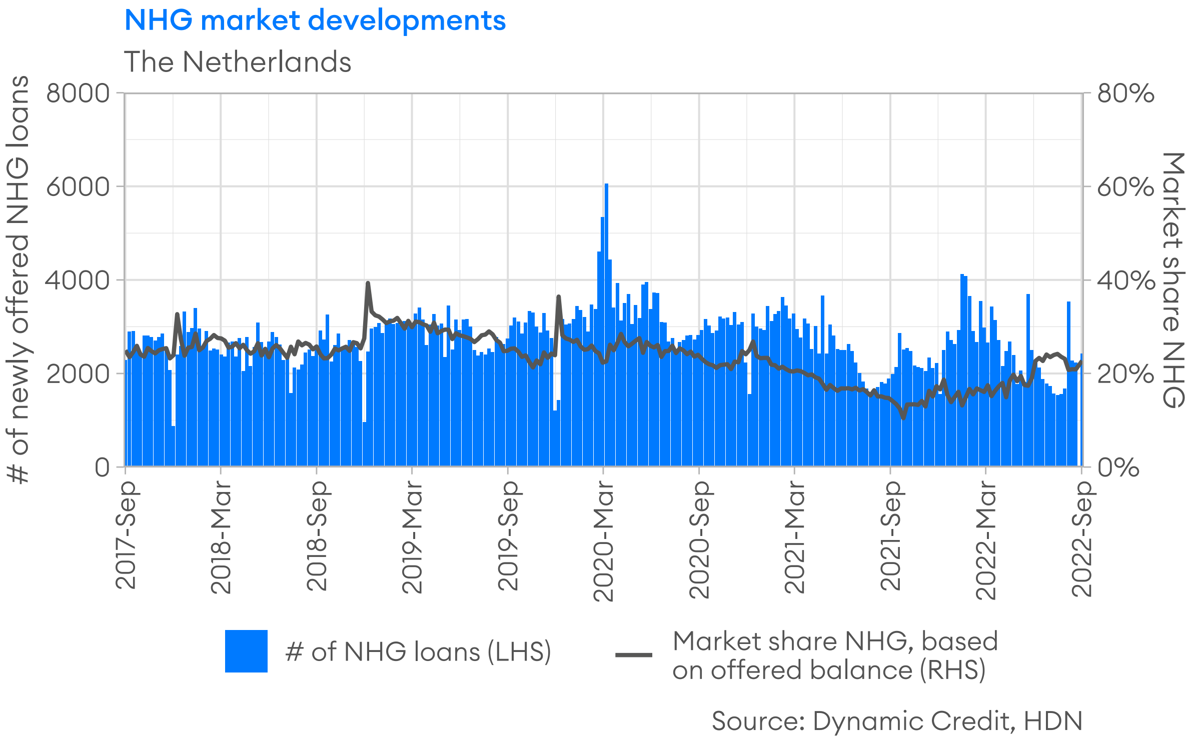


Figure 9 :Number of new NHG guarantees and market share of NHG loans as a percentage of total originated balance through time. The x-axis refers to year and month.

Loss declarations[1]

The number of loss declarations decreased by approximately 78% from 9 submissions in 2021-Q2 to 2 in 2022-Q2. According to WEW the low number of declarations and losses are due to high housing prices and low unemployment rate. The payout ratio increased to 100% (was 72.60% in 2021-Q2). On average, the paid-out amount was EUR 1,000 in 2022-Q3 whereas the average payout of 2021-Q2 was EUR 11,000.

Costs limit and premium 2023

The NHG costs limit will increase to EUR 405,000 and incl energy savings measures to EUR 429,300 (from EUR 355,000 and EUR 376,300 respectively). The premium remains unchanged at 0.60%[2].

1 NHG - Kwartaalcijfers 2e kwartaal 2022
2 NHG - Wat wordt de kostengrens voor 2023

3. Owner-Occupied Mortgages

Mortgage rate developments

The first half of 2022 was characterized by further steep mortgage rate increases. Across all risk classes and fixed rate periods, the top six most competitive rates increased by 94 bps and 149 bps on average in 2022-Q1 and 2022-Q2 consecutively. During 2022-Q3, mortgage rates increased by 33 bps on average, the average YoY increase was 2.75%. Increases in mortgage rates were similar across different risk classes, but were more pronounced in the shorter fixed rate periods. Rate increases have accelerated again during 2022-Q4 as mortgage rates increased by another 57 bps on average QtD as monetary conditions tightened further, which is further discussed in section 6.

The table below contains an overview of the interest rate developments.

Mortgage rate development for average of top 6 mortgage rates								
Fixed rate period	Risk class	2021-09-30	2022-06-30	2022-09-30	2022-10-28	QoQ	YoY	QtD
5-year	NHG	0.75%	2.91%	3.57%	4.19%	0.66%	2.82%	0.62%
	60% LTMV (non-NHG)	0.87%	3.08%	3.62%	4.31%	0.54%	2.76%	0.68%
	80% LTMV (non-NHG)	0.97%	3.15%	3.78%	4.40%	0.63%	2.81%	0.62%
	100% LTMV (non-NHG)	1.23%	3.48%	4.00%	4.66%	0.52%	2.77%	0.66%
10-year	NHG	0.84%	3.30%	3.74%	4.39%	0.44%	2.90%	0.65%
	60% LTMV (non-NHG)	0.94%	3.40%	3.83%	4.42%	0.43%	2.89%	0.59%
	80% LTMV (non-NHG)	1.09%	3.50%	3.98%	4.55%	0.48%	2.89%	0.57%
	100% LTMV (non-NHG)	1.32%	3.82%	4.17%	4.79%	0.36%	2.85%	0.62%
20-year	NHG	1.18%	3.67%	3.92%	4.49%	0.25%	2.74%	0.57%
	60% LTMV (non-NHG)	1.33%	3.98%	4.06%	4.61%	0.08%	2.72%	0.55%
	80% LTMV (non-NHG)	1.45%	4.04%	4.20%	4.73%	0.17%	2.76%	0.52%
	100% LTMV (non-NHG)	1.69%	4.22%	4.39%	4.91%	0.17%	2.70%	0.52%
30-year	NHG	1.40%	3.78%	3.98%	4.51%	0.19%	2.57%	0.54%
	60% LTMV (non-NHG)	1.56%	4.06%	4.13%	4.60%	0.07%	2.57%	0.47%
	80% LTMV (non-NHG)	1.65%	4.13%	4.26%	4.70%	0.13%	2.61%	0.45%
	100% LTMV (non-NHG)	1.90%	4.29%	4.48%	4.99%	0.19%	2.58%	0.51%

Table 3: Average top-6 mortgage rates (excluding action rates) for mortgage loans with different fixed rate periods for four risk classes. Source: Dynamic Credit, Hypotheekbond.

Spread developments[1]

The volatility of spreads has increased steeply as a consequence of high swap rate volatility. Figure 10 on the next page shows that mortgage spread volatility has increased steeply since the beginning of 2022 and has reached record-high levels in July and September of 2022, significantly higher than observed since start of measurement in 2014.

1 The EUSWxV3 swap is used, which uses quarterly resets and the floating leg is 3-month EURIBOR.

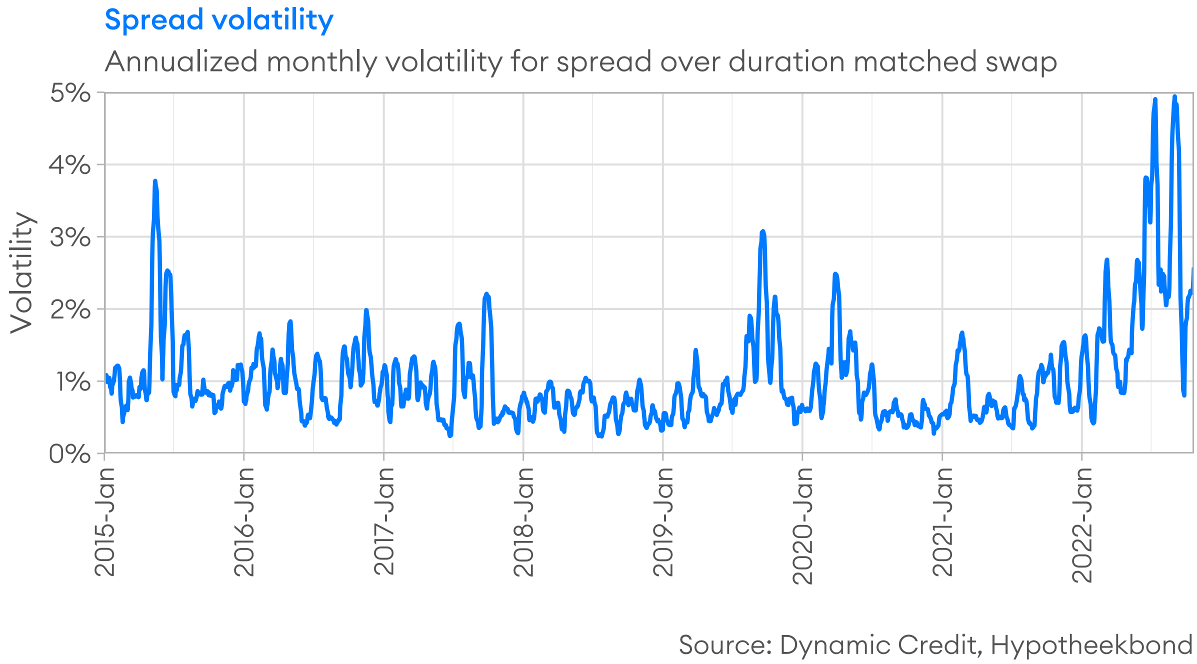


Figure 10: annualized monthly spread volatility of 20 year 100% LTV mortgages (non-NHG). Source: Dynamic Credit, Nationale Hypotheekbond.

As there is a lag between increases in swap rates and subsequent increases in mortgage rates, spreads tightened across all risk classes and fixed rate periods. In 2022-Q3, the spread of the average top-6 mortgage rates decreased by 66 bps QoQ on average. When looking at the YoY changes, spreads decreased by 28 bps on average. As discussed in the previous paragraph, QtD mortgage rates increased substantially resulting in widening of mortgage spreads by 88 bps on average as seen in Table 4 below.

For a full overview of the spread developments, see Table 4 as displayed below. In addition, the information in Table 4 may be interpreted as representative gross spread for newly originated Dutch residential mortgage loans over time.

		Spread development for average of top 6 mortgage rates						
Fixed rate period	**Risk class**	**2021-09-30**	**2022-06-30**	**2022-09-30**	**2022-10-28**	**QoQ**	**YoY**	**Qtd**
5-year	NHG	1.01%	1.17%	0.59%	1.55%	-0.58%	-0.42%	0.96%
	60% LTV (non-NHG)	1.13%	1.35%	0.65%	1.66%	-0.71%	-0.49%	1.02%
	80% LTV (non-NHG)	1.24%	1.42%	0.81%	1.76%	-0.61%	-0.43%	0.96%
	100% LTV (non-NHG)	1.50%	1.76%	1.03%	2.02%	-0.73%	-0.47%	1.00%
10-year	NHG	0.83%	1.23%	0.63%	1.63%	-0.61%	-0.21%	1.00%
	60% LTV (non-NHG)	0.94%	1.33%	0.71%	1.66%	-0.62%	-0.22%	0.95%
	80% LTV (non-NHG)	1.09%	1.44%	0.87%	1.79%	-0.57%	-0.22%	0.92%
	100% LTV (non-NHG)	1.32%	1.76%	1.06%	2.03%	-0.70%	-0.26%	0.97%
20-year	NHG	0.89%	1.32%	0.72%	1.57%	-0.59%	-0.17%	0.85%
	60% LTV (non-NHG)	1.05%	1.64%	0.86%	1.69%	-0.78%	-0.19%	0.84%
	80% LTV (non-NHG)	1.17%	1.70%	1.00%	1.81%	-0.70%	-0.17%	0.81%
	100% LTV (non-NHG)	1.41%	1.88%	1.19%	2.00%	-0.70%	-0.23%	0.81%
30-year	NHG	1.05%	1.39%	0.80%	1.58%	-0.58%	-0.25%	0.78%
	60% LTV (non-NHG)	1.21%	1.67%	0.95%	1.67%	-0.72%	-0.26%	0.72%
	80% LTV (non-NHG)	1.31%	1.74%	1.07%	1.77%	-0.66%	-0.24%	0.70%
	100% LTV (non-NHG)	1.57%	1.91%	1.29%	2.05%	-0.62%	-0.28%	0.76%

Table 4: Spread of the average top-6 mortgage rates (excluding action rates) over duration matched swap rates for four risk classes. Source: Dynamic Credit, Hypotheekbond.

Affordability negatively impacted

During the governmental budget announcement for 2023, the major theme was the steeply increasing costs of living. Headline inflation amonng of the highest in the Eurozone (although for a significant part driven by the strange method to calculate energy inflation). Measures were announced to contain pressure on the household budget caused by energy prices. The measures are now threefold:

- For the last two months of 2022 households will receive monthly refunds of EUR 190.
- Beginning in 2023 energy prices will be capped at EUR 0.40 per kilowatt hour of electricity and EUR 1.45 per cubic meter of gas for at most 2,900 kilowatt hours and 1,200 cubic meters respectively. At the time of writing (2022-10-18) the average electricity price is EUR 0.81 per kilowatt hours[1] and EUR 3.77 per cubic meter of gas. Both prices are quoted including the temporary VAT rate of 9% which will go back to 21% from 2023 onwards. The plan is expected to cost about EUR 23.5 billion. It is notable that the scheme will apply to all households irrespective of the income.
- In 2022 and again in 2023, the most vulnerable households (up to 120% of the social minimum income) will be subsidized with a handout of EUR 1,300.

On a European Union level, discussions on how to approach surging energy prices are still going on.

1 overstappen.nl - Energieprijzen

4. Funding Update

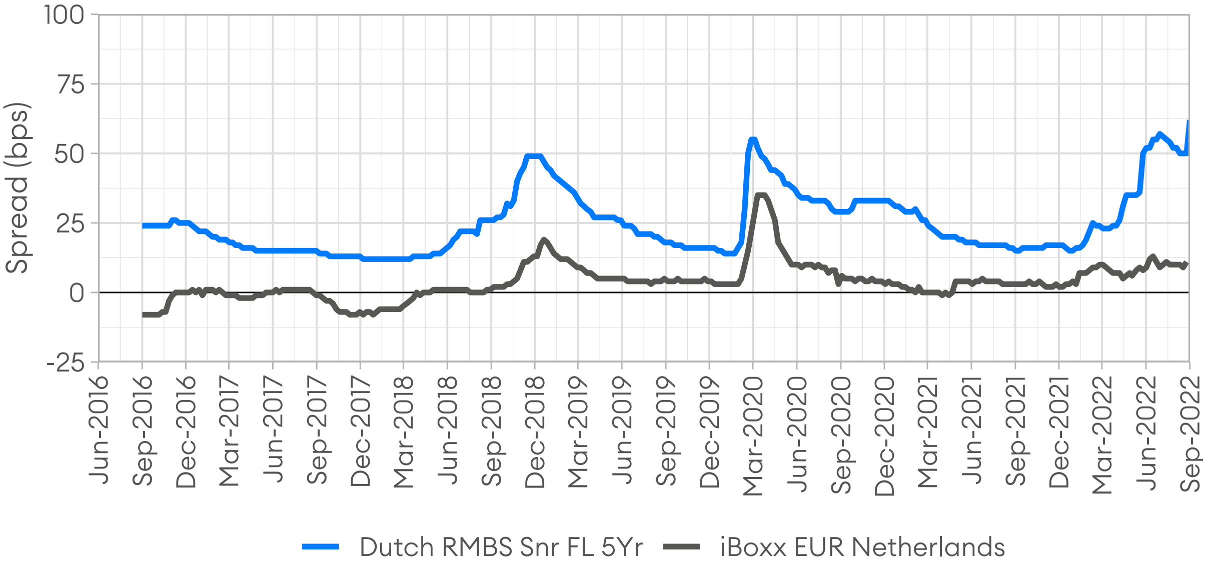
The securitization market has been under pressure in 2022. Dutch senior RMBS spreads have increased to the low 60s from 15 bps at the beginning of the year. That widening has made this funding method less attractive and the total issuance this year has been roughly EUR 2.5 billion (it totaled at EUR 7.5 billion in 2021). In comparison, covered bond spreads have also increased from 2 bps at the beginning of the year to low 10s by the end of the third quarter yet this increase is much smaller in absolute terms. With total covered bond issuance of EUR 9.1 billion in 2022, the 2021 total of EUR 8.0 has now been exceeded.

No owner-occupied RMBS have been issued during the third quarter.

BTL

In the third quarter, one BTL RMBS has been issued, the newest transaction from RNHB BV the Dutch Property Finance BV 2022-2. It is the ninth issuance from their securitization program. The size of the deal was EUR 498 million consisting of granular Dutch mortgage loans secured on residential, mixed-use and commercial properties. The Classes range from A to F, with classes A to D being distributed. Issue spreads ranged from 90 bps for the AAA rated class to 450 bps for the unrated rated F class. Just EUR 212 million of the class A notes have been sold, for a price of 98.47 which translates into a 145 bps spread and 60 bps wider than the previous deal issued in April of this year. The seasoning of the pool is 3.7 years, the loan-to-value ratio is 60.80% and the percentage of interest-only loans is 38%.

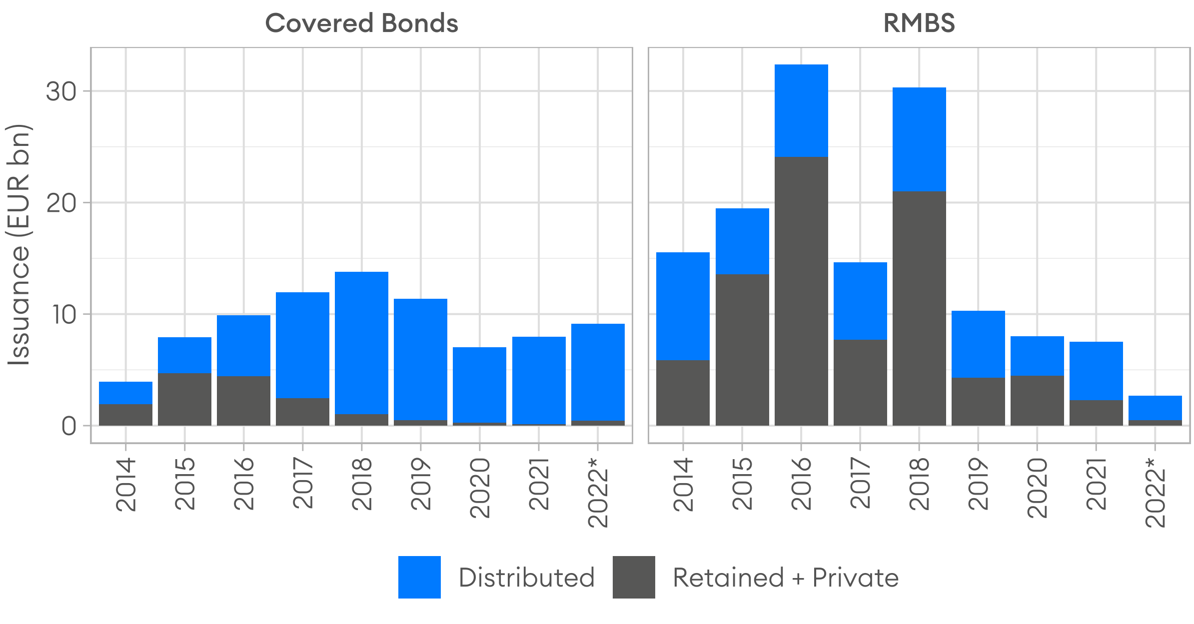
Mortgage funding spreads



Source: Dynamic Credit, JP Morgan

Figure 16: RMBS spread refers to indicative mid spread (DM) for representative generic RMBS bonds. iBoxx EUR Netherlands spread refers to spread versus mid swap rates. The data is as of 2022-Q3.

Mortgage funding issuance



* Data up to Q3
Source: Dynamic Credit, JP Morgan

Figure 17: Issuance of Dutch RMBS and covered bonds. The data is as of 2022-Q3.

Dutch RMBS market: Priced Dutch prime RMBS and BTL deals

Date	Issuer	Series	Seller	Class	Euro Amount	Life	FXFL	Spread	Benchmark	M	SP	F	DBR	Retained	Comments
2022-09-22	Dutch Property Finance BV	2022-2	RNHB BV	A	212	3.0	FL		90	3 Mo.		AAA		AAA	N
				B	15	4.8	FL		140	3 Mo.		AA		AA	N
				C	8	4.8	FL		190	3 Mo.		A+		A	N
				D	8	4.8	FL		250	3 Mo.		BBB		BBBH	N
				E	8	4.8	FL		350	3 Mo.					Y
				F	5	4.8	FL		450	3 Mo.					Y
				X	6	4.8	FL		450	3 Mo.					Y
				R	0	4.8	FX								Y

Table 5: Priced Dutch RMBS and BTL Deals in 2022-Q3. Source: Dynamic Credit, JP Morgan.

5. Buy-to-let Mortgages

Maximum rent increase[1]

Over 2022 unregulated rents were allowed to be increased with 3.30% (2.30% inflation + 1%). For regulated rent, the price freeze has been prolonged up to 2024 following the pandemic.

Until now, rental increases in the non-regulated rental sector were capped at inflation +1%. Given inflation has increased steeply, that means a maximum rent increase in 2023 in the range of 9.50%-11% would have been expected. The Minister of Housing has submitted a proposal to Parliament to impose an additional maximum to the rent increase until 1 May 2024 (extension is possible with a separate legislative proposal). Under this proposal the maximum rent increase would also be capped by yearly wage growth (as published by Statistics Netherlands (CBS) in December of each year) + 1%. The proposal is yet to be approved by Parliament. As of September 2022, YoY wage growth was 3.60%. The goal is to limit the rent increase per 2023.

Regulated rent

The Minister of Housing has announced plans to regulate the rental sector by increasing the maximum points for regulated rent[2]. The number of points for regulated rent is currently 141 and would be 187 if the plans are adopted into law. If so, most new rental contracts would be capped at EUR 1,000 from 2024 onwards. The intention is to regulate 90% of new rental contracts.

In the large municipalities it has been increasingly difficult to maintain a rent that reflects the costs/value of a property, it is expected that this measure will further decrease the supply of rental properties in these areas. In the long run that decreases the flexibility of the housing market by having a rental market that doesn't offer well.

Temporary rental contracts

One of the coalition parties ChristenUnie, together with the opposition party PvdA is looking for support on a proposal to restrict fixed term rental contracts[3]. They wish to reverse the more lenient current legislation as implemented in 2015 that favors landlords. The issue at hand is that landlords now cancel the rent after the fixed term in order to realize a rent reassessment in line with the market instead of only applying the maximum yearly increase on existing contracts. The proposal has been welcomed by the left-wing opposition parties and the coalition party D66.

Subsidy

In the budget announcement for 2023 measures to subsidize low income households in social housing were set out[4]. These include a rent decrease of EUR 57 per month and an increase of EUR 17 in rent subsidy.

Current inhabitants municipality

A proposal has been made to give municipalities the authority to restrict the sale of up to 50% of homes priced up to the NHG costs limit to current residents or otherwise preferred buyers such as police officers and nurses. This measure is implemented in addition to the existing authority to make such distribution for rental housing. The legislative proposal has been submitted and if it passes both Chambers it could come into effect 1 January or 1 July 2023. The impact remains unclear.

1 Overheid.nl - Wijziging van de Uitvoeringswet huurprijzen woonruimte
2 Rijksoverheid - Vanaf 2024 meeste huurwoningen onder de €1000
3 FD - ChristenUnie en Pvda willen eind maken aan tijdelijke huurcontracten
4 Rijksoverheid - Huurverlaging voor lage inkomens en extra middelen voor isolatie woningen

Rate and spread development

Dynamic Credit launched its consumer buy-to-let platform in the Netherlands in 2019. In addition to the unique product feature of offering borrowers a maximum LTV of 90%, the product also sets itself apart by offering a 30-year fixed rate period.

In comparison to residential mortgage rates, BTL mortgage rates have generally adjusted to swaps at a slower pace. In the previous quarter, BTL mortgage rates saw a sharp increase which resulted in widening spreads across most segments. In 2022-Q3, BTL mortgage rates rallied and steeply increased by 61 bps QoQ and an additional 39 bps QtD on average across all fixed rate periods and risk classes. When examining the distribution of mortgage rate increases, we observed more pronounced increases in the shorter fixed rate periods 1-5Y with an average increase of 70 bps QoQ. Whereas the fixed rate periods 10-20Y whilst still notable, saw increases of 53 bps QoQ on average.

Nevertheless, these sharp rate increases were insufficiently high compared to the increases in swap rates, which resulted in tightening of BTL spreads of 59 bps QoQ across all fixed rate periods and risk classes. The shorter fixed rate periods 1-5Y saw an average decrease of 73 bps QoQ whereas the longer fixed rate periods 10-20Y saw an average decrease of 45 bps QoQ. QtD, BTL mortgage rates rallied which resulted in an average spread recovery of 67 bps across all segments.

BTL mortgage rates increased substantially, spreads remain volatile.

It should be noted that Dynamic Credit is the only active lender in the high LTV (>85%) segment.

Market rate and spread development for consumer buy-to-let rates											
		BTL rates					Spreads				
Fixed rate period	LTV	2022-06-30	2022-09-30	2022-10-28	QoQ	QtD	2022-06-30	2022-09-30	2022-10-28	QoQ	QtD
1-year	50%	3.43%	4.21%	4.72%	0.78%	0.51%	2.45%	1.64%	2.27%	-0.81%	0.63%
	60%	3.53%	4.32%	4.80%	0.79%	0.48%	2.55%	1.75%	2.35%	-0.80%	0.60%
	70%	3.57%	4.36%	4.84%	0.79%	0.48%	2.59%	1.79%	2.39%	-0.80%	0.60%
	80%	3.67%	4.62%	5.08%	0.95%	0.46%	2.69%	2.05%	2.63%	-0.64%	0.58%
	90%	4.15%	4.80%	5.10%	0.65%	0.30%	3.17%	2.23%	2.65%	-0.94%	0.42%
5-year	50%	3.99%	4.57%	5.05%	0.58%	0.48%	2.27%	1.59%	2.41%	-0.68%	0.82%
	60%	4.12%	4.71%	5.17%	0.59%	0.46%	2.40%	1.73%	2.53%	-0.67%	0.80%
	70%	4.14%	4.76%	5.20%	0.62%	0.44%	2.42%	1.78%	2.56%	-0.64%	0.78%
	80%	4.52%	5.07%	5.54%	0.55%	0.47%	2.81%	2.10%	2.90%	-0.71%	0.80%
	90%	4.40%	5.05%	5.30%	0.65%	0.25%	2.68%	2.08%	2.66%	-0.60%	0.58%
10-year	50%	4.39%	4.92%	5.36%	0.53%	0.44%	2.34%	1.82%	2.62%	-0.52%	0.80%
	60%	4.53%	5.04%	5.46%	0.51%	0.42%	2.50%	1.94%	2.72%	-0.56%	0.78%
	70%	4.55%	5.09%	5.49%	0.54%	0.40%	2.52%	1.98%	2.74%	-0.54%	0.76%
	80%	4.84%	5.32%	5.76%	0.48%	0.44%	2.80%	2.22%	3.01%	-0.58%	0.79%
	90%	4.70%	5.35%	5.50%	0.65%	0.15%	2.67%	2.25%	2.76%	-0.42%	0.51%
20-year	50%	4.68%	5.20%	5.55%	0.52%	0.35%	2.36%	2.00%	2.65%	-0.36%	0.65%
	60%	4.81%	5.28%	5.65%	0.47%	0.37%	2.49%	2.08%	2.75%	-0.41%	0.67%
	70%	4.87%	5.34%	5.71%	0.47%	0.37%	2.55%	2.14%	2.81%	-0.41%	0.67%
	80%	5.10%	5.65%	6.00%	0.55%	0.35%	2.79%	2.45%	3.11%	-0.34%	0.66%
	90%	4.95%	5.50%	5.60%	0.55%	0.10%	2.63%	2.30%	2.70%	-0.33%	0.40%

Table 6: Interest rate and spread development for consumer buy-to-let rates in the Netherlands. Source: Dynamic Credit, Hypotheekbond.

6. News

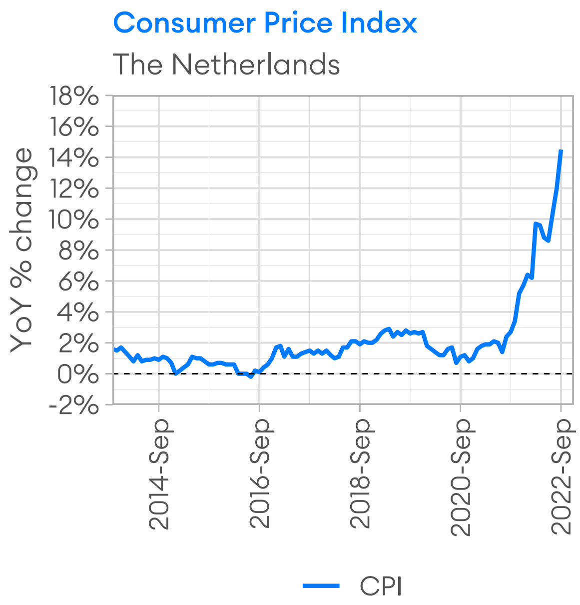
The following sections provide an update on the (macro)economic environment.

Monetary policy

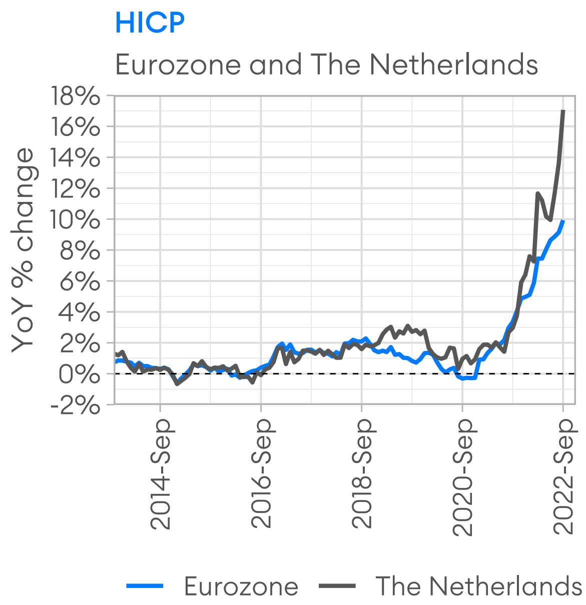
In its last meeting the European Central Bank ("ECB") raised all three of its key interest rates with 75 bps, putting the deposit rate at 1.50%. The repo and the marginal lending facility rates are set at 2% and 2.25% respectively. The ECB is expected to keep hiking interest rates in the months to come, at least until a 'neutral rate' is reached. ECB officials have estimated this neutral rate, in which the economy is neither stimulated nor slowed down, at 1-2%[1]. The ECB aims to bring inflation back down to 2% in the long run.

Inflation and Harmonized Index of Consumer Prices

The Consumer Price Index in September is up 14.50% YoY, from 12% in August. The increase is primarily caused by a rise in energy prices. Energy is 200% more expensive than it was in September 2021. The YoY increase in September was 151%. When examining core-inflation i.e., excluding energy, inflation increased to 6.50% in September versus 6% in August. According to CBS other material contributions to higher inflation were price increases for clothing and education. For the academic year 2021-2022 students that started secondary education (MBO, HBO and WO) received a 50% discount on tuition fees. The expiration of that measure resulted in education becoming more expensive. Lastly, the price of clothing was up 8.0% YoY compared to 3.30% YoY increase in August. The Harmonized Index of Consumer Prices (HICP) was 17.10% in September for the Netherlands. Substantially higher than the average HICP in the Eurozone of 10%[2].



Source: Dynamic Credit, CBS



Source: Dynamic Credit, CBS

Figure 18: The consumer price Index in the Netherlands (left) and the Harmonized Index of Consumer Prices ("HICP") (right) both as of September-2022.

1 ING - Neutral interest rates: phantoms worth chasing?
2 CBS - Inflatie stijgt naar 14.5 procent in september

Real GDP

In 2022-Q2 real GDP corrected for inflation increased by 5.10% YoY as displayed in Figure 19 below. In addition, the QoQ GDP growth of 2022-Q2 was 2.60%. According to CBS the Dutch GDP primarily surged due to an increase in investments, governmental spending and a trade surplus. In addition, consumption from households also contributed positively to the growth in GDP[1].

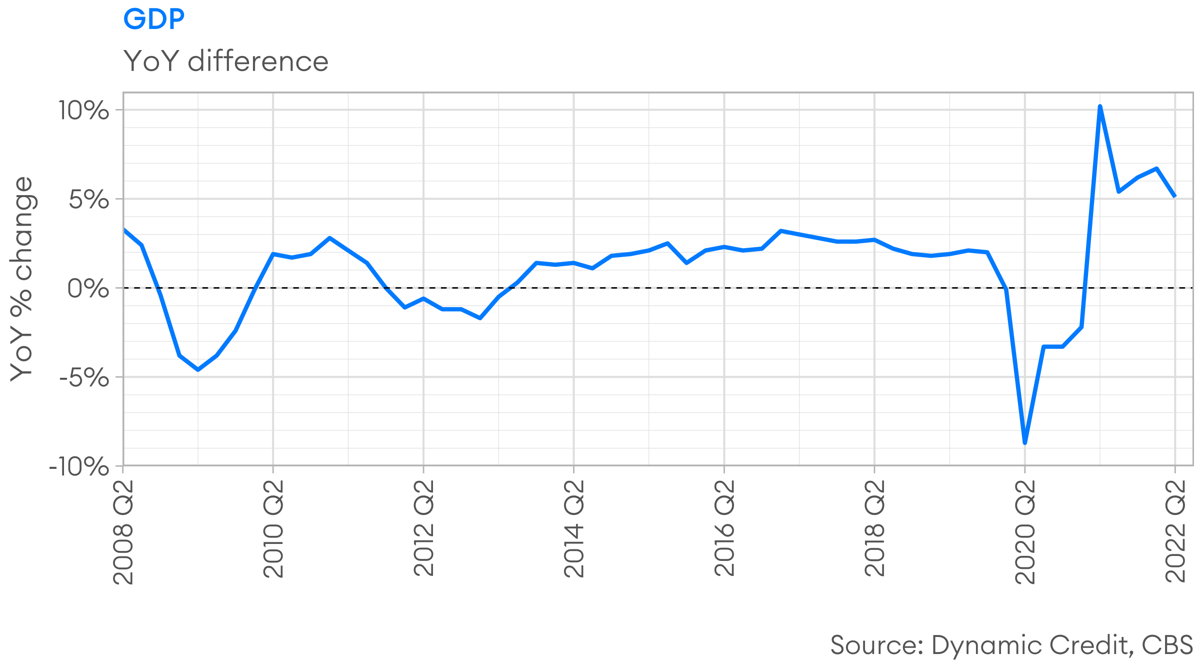
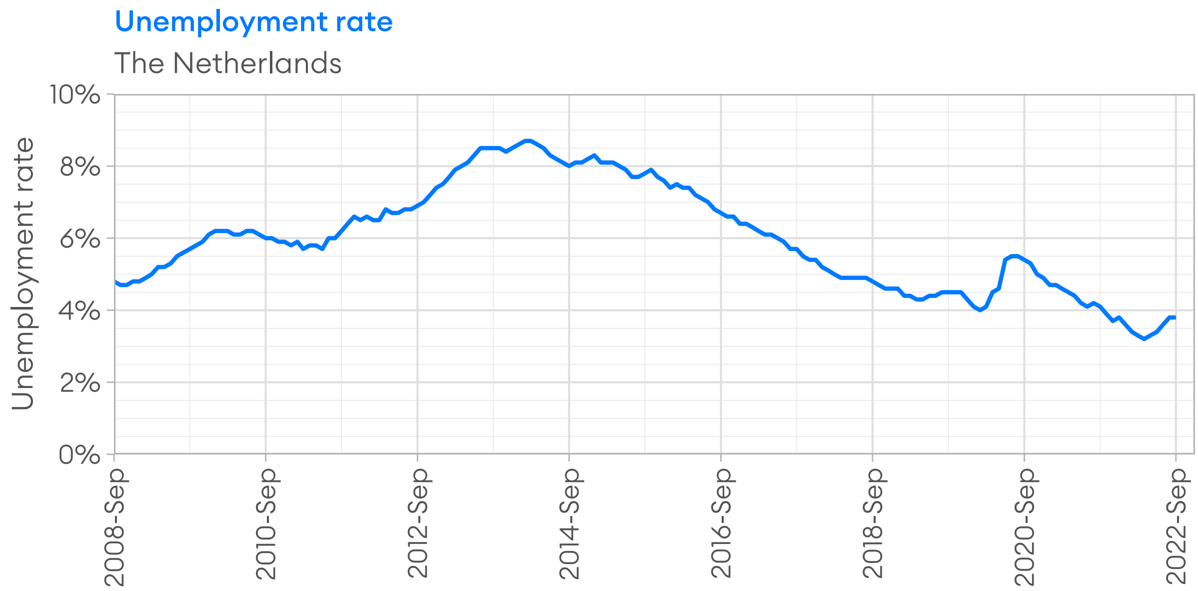


Figure 19: YoY GDP growth in The Netherlands as of 2022-Q2.

Unemployment

As of September the unemployment rate was 3.80%, remaining unchanged compared to the unemployment rate as measured in the previous month. This translates into 382,000 people that were unemployed. Overall, the employed labor force increased by 6,000 per month on average. According to CBS the net inflow into the labor force is usually the primary driver for an increase in unemployed, but over the past months the share of employed people becoming unemployed has gradually increased. For a historic course of unemployment please see Figure 20 on the next page.

1 CBS - Economie groeit met 2.6 procent in tweede kwartaal 2022

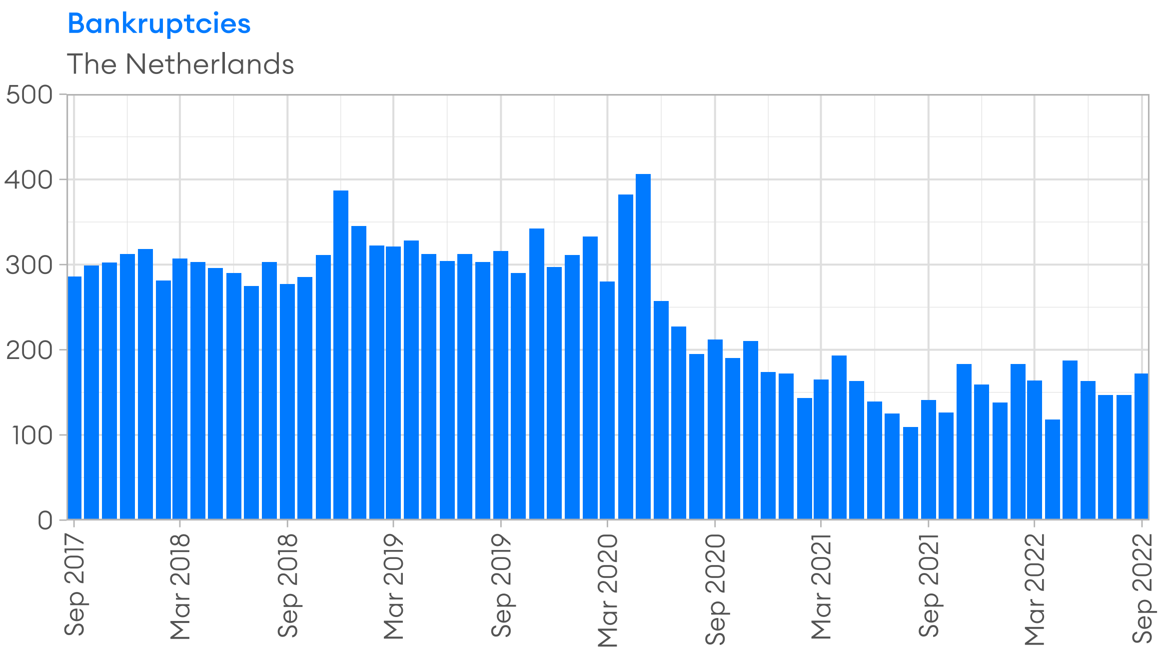


Source: Dynamic Credit, CBS

Figure 20: Unemployment rate in The Netherlands as of September 2022.

Bankruptcies

The number of bankruptcies has increased to 172 in September, which is 25 cases higher than in August. Nevertheless, this number is still below levels seen in the periods before the COVID-19 pandemic as seen in Figure 21 displayed below. The number of bankruptcies in the first nine months of 2022 is approximately 5% higher compared to the same period in 2021[1]. During the COVID-19 pandemic businesses were allowed to defer their taxes until the end of March this year, as of October 2022 the repayment of the deferred tax liabilities has started[2]. Combined with persistently high levels of inflation, partial compensation for increased energy costs and increased borrowing costs the number of bankruptcies might see an increase in months to come.



Source: Dynamic Credit, CBS

Figure 21: Monthly bankruptcies in The Netherlands as of September 2022.

1 [CBS - Meer faillissementen in september]
2 [Rijksoverheid - Belastingmaatregelen voor ondernemers, werkgevers en consumenten]

7. Sustainability Update

Nitrogen emissions

In 2019 the Council of State ruled that the legal framework used to grant permits to activities that result in nitrogen emissions did not meet the European environmental regulations. As a consequence many construction projects were put to a halt. In the recently announced budget for 2023, the Cabinet has announced a EUR 4.3 billion fund for nature recovery in rural areas, targeting the reduction of inorganic nitrogen, increased water quality and biodiversity, and climate resistance[1].

In the past months, there have been fierce protests from farmers fearing forced buyouts. Moreover, the Council of State will rule on a construction exemption (Dutch: 'Bouwvrijstelling') late October or early November. Specifically, they will rule on the construction of the Porthos project in the port of Rotterdam, however this ruling may be relevant for all permits granted under the construction exemption. The exemption was enacted in July of 2021 and essentially entails that, for the granting of permits, only the nitrogen deposition in the usage phase of the project is included but not the deposition during the construction phase. The purpose of the exemption was to allow much-needed construction, such as housing projects, to continue. Now they are facing the risk of being shut down again[2].

A recent report by former minister Johan Remkes has outlined several measures the government is expected to take in the coming years. Most notably, buying out 500 to 600 companies with a high nitrogen deposition and rezoning the country into four zones with varying degrees of very extensive to very intensive agriculture. It is still unclear what the exact measures will be, for example if the forced buy out will be limited to agricultural companies or will also include industry[3].

Social housing

Friday October 7th, Hugo de Jonge, the minister of Housing, Spatial Planning and Environment sent a bill to the House of Representatives which would abolish the public housing tax (Verhuurdersheffing) per January 1st of 2023. It would free up an additional EUR 1.7 billion per year for social housing corporations, giving them extra room to invest. Minister de Jonge is hopeful that this will contribute to finance his goals for 2030. These goals include a doubling of the construction of social housing from 15,000 to 30,000 per year, costing EUR 62 billion. The ministry aims to have constructed 250,000 new social housing units by 2030. Additionally, it plans to reduce the energy consumption of 675,000 existing homes, costing EUR 46 billion. By 2028, all social housing should have at least an energy label D and 450,000 homes should no longer be connected to natural gas for heating. An additional EUR 300 million is made available to insulate the current housing stock.

Finally, several billions are needed to moderate or lower the rent expenses for the lowest-income households. In the next 3 years, the rents for households with an income of up to 120% of the social minimum will see their rents linked to average wages rather than inflation, including a one-time rent decrease of up to EUR 550. About half a million households are expected to be eligible for this measure.

1 Omgevingsweb - Donkere (stikstof)wolken in aantocht; dreigt de bouw weer tot stilstand te komen?
2 BouwendNederland - Uitspraak RvS bouwvrijstelling
3 NOS - Kabinet neemt advies Remkes grotendeels over, noemt voorstel piekbelasters ambitieus

Appendix

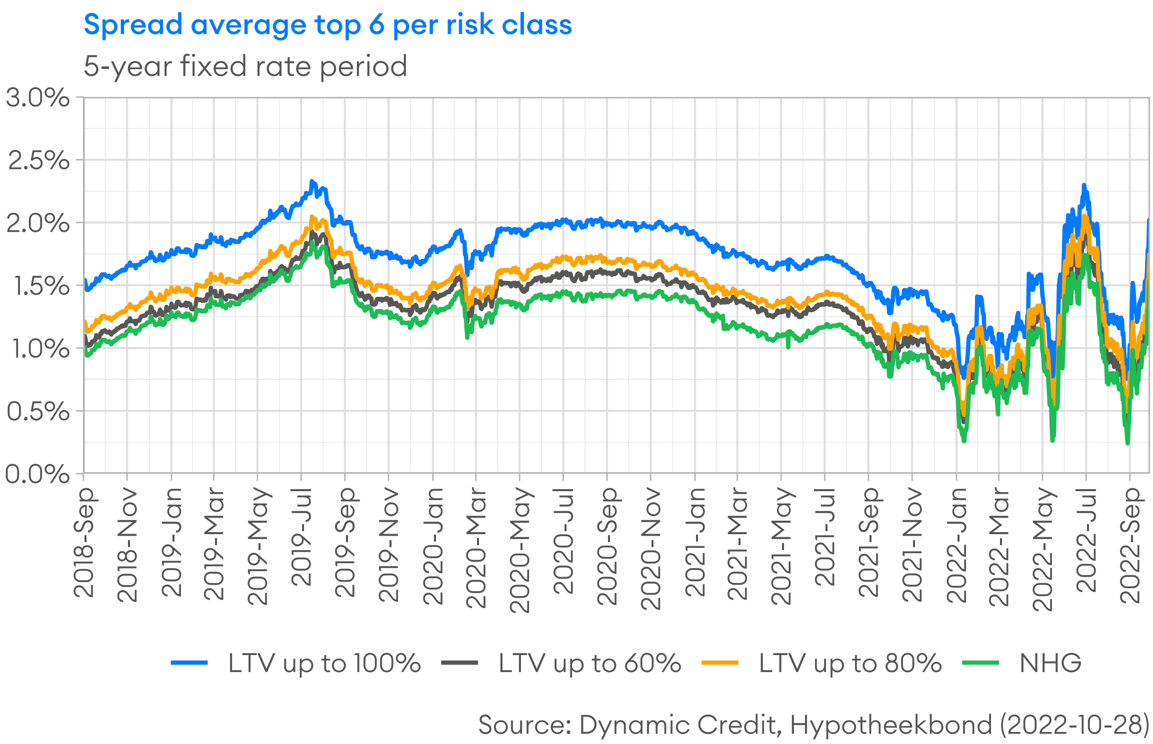


Figure A1: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 5-year fixed rate period for four risk classes. Up to and including October 2022.

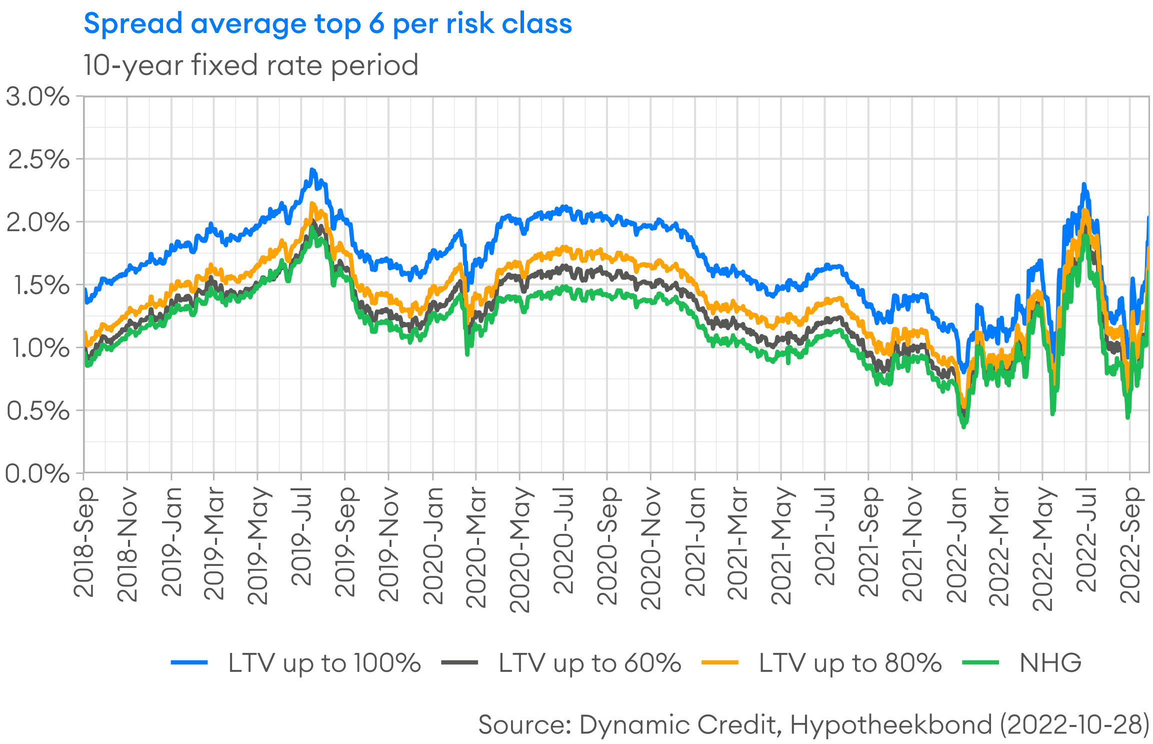


Figure A2: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 10-year fixed rate period for four risk classes. Up to and including October 2022.

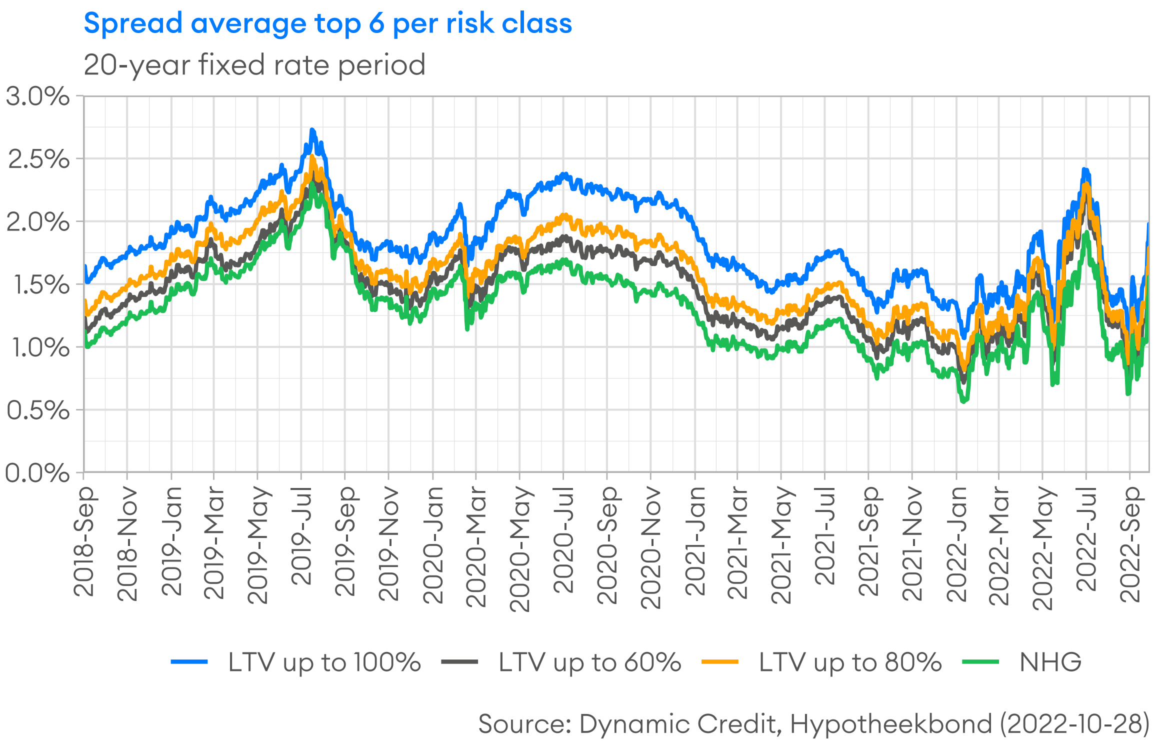


Figure A3: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 20-year fixed rate period for four risk classes. Up to and including October 2022.

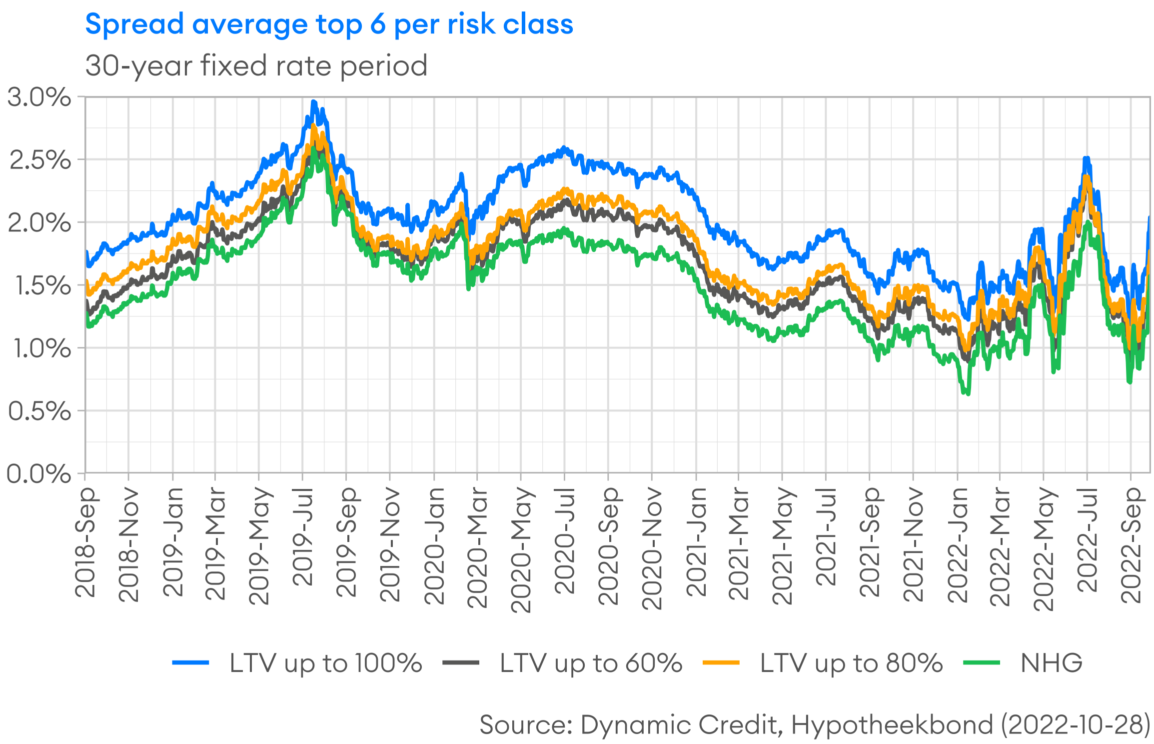


Figure A4: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 30-year fixed rate period for four risk classes. Up to and including October 2022.

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