DYNAM/C CREDIT

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Contents



# Dutch Housing Market Update 2022-Q2


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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.

*"Purchasing power of households is still under pressure due to high inflation, for a large part driven by high energy prices. As a result, consumer confidence is at an all-time low. On the plus side from the consumer perspective, the labor market is very tight with unemployment near a 20-years low. The affordability of home purchases is negatively impacted by the further increases of mortgage rates with 1.5 percentage points during the quarter. As a result, house price growth seems to have levelled-off. In the meantime, spreads have increased to levels between 150 and 214bps mid-July, further enhancing the attractive relative value of investing in Dutch mortgages. In this edition we dive into these and other developments that impact the asset class."*

**Jasper Koops,**
Head of Portfolio Management

DYNAM/C

# 1. Executive Summary

**Residential mortgage rates:** The mortgage market has experienced unprecedented interest rate increases as the top six most competitive rates increased by 148 bps QoQ and 242 bps YoY on average as of 2022-Q2.

**Spread developments:** Spreads substantially widened in 2022-Q2, on average spreads increased by 42 bps QoQ and 30 bps YoY.

**Energy label requirements:** In line with the effort to decarbonize the building stock by 2050, the EU has proposed a minimum required energy label of D by 2030.

**Consumer confidence:** Consumer confidence plunged to an all-time low, primarily caused by consumers' sentiment towards inflation and their willingness to buy.

**Domestic consumption:** Whilst consumer confidence is at an all-time low, domestic consumer consumption does not show signs of deterioration as strong consumption numbers are published.

**House prices:** The Dutch House Price Index increased with 2.80% QoQ and 18.40% YoY as of 2022-Q2, market forecasts suggest lower expected housing price increases to come.

**Property sales:** The number of properties sold as of 2022-Q2 was close to 47,000, an increase of 7.90% QoQ but a decrease of 10.20% YoY.

**Mortgage offers:** The number of mortgage offers decreased by 25.70% Q0Q. purchase offers decreased by 8.20%, primarily caused by rising mortgage rates according to HDN.

**Inflation:** The consumer price index grew 8.60% YoY in June, down from peak growth of 9.70% in March.

**Bankruptcies:** Bankruptcies remain at a low level of 156 per month on average in 2022-Q2.

**Bidding log:** Broker industry organizations NVM, VBO and Vastgoedpro agreed to start using a bidding log from 1 July 2022 onwards and to make usage mandatory from 2023.

## 2. Dutch Housing Market Update

### Housing market reform

The housing market faces rough weather and the economic research departments of Rabobank, ING and ABN Amro, together with several academic economists have written a proposal for fundamental reforms[1]. The paper is written very well and accessible and it is highly recommended material. Four topics are addressed:

- **Tax reforms**: The goal is to reduce the fiscal imbalance between renting and buying. That should decrease income tax, bring more stability in house price developments, and reduce inequality between the two groups. A house should then be taxed with asset taxes (box 3) instead of income tax (box 1) after the asset tax reform has taken place in 2025. The proposal is to tax periodic house price increases and not only at sale and they state that it is important to allow to defer taxes and carry forward losses. Rent subsidy should be replaced with a general housing subsidy to lower incomes which then also applies to homeowners.
- **Newly built**: The economists argue that municipalities should be financially incentivized to build new homes. The proposed mechanism is to tax the land value increase caused by changing the land use to residential in the zoning planning. That frees up budget to directly finance social objectives such as building social housing. The project terms then do not need to include these objectives which makes negotiations with developers simpler. Secondly, they propose to include extended periods of house price increases (as a proxy for supply-demand disbalance) in the assessment of accommodation needs, it is currently only based on expected demographic changes. Lastly, construction requirements should be made uniform among municipalities and provinces to encourage factory production.
- **House price and mortgage loan growth**: Under the recommendations the current borrowing capacity methodology would be revised to not increase the borrowing capacity during periods in which house prices increase steeply. The aim is to make house prices more stable. Also in case of energy-saving measures a borrower should be able to reuse some of the regained expendable income towards mortgage payments.
- **Rental sector**: The economists recommend to phasing out the regulation of the rental sector. This forces the market to restore the disbalance between the rental and owner-occupied stock. Especially in prime locations landlords would be incentivized to invest in improving the quality of their properties. Social objectives to avoid segregation such as subsidized housing can be realized by municipalities with the mechanism described in the second bullet. Rent increases should then be capped at the average regional initial rent increase. Demand side measures such as purchase protection (opkoopbescherming) and mandatory owner occupancy (zelfbewoningsplicht) eventually lead to fewer transformations and splits, these are typically actions taken by investors that add net housing.

Finally, they suggest letting buyers use a part of their pension assets to finance a home and to make house sharing more attractive. This should be implemented under the condition that the housing market is reformed, to prevent further upward pressure in house prices. The measures make sense from an economic perspective, but by observing the line of the current coalition and Minister of Housing it seems unlikely that these recommendations will be followed. There seems to be more appetite for shorter term measures than to structurally reform the housing market. Especially changes to the treatment of homeowners and buyers seem very unpopular.

### Bidding log

Broker industry organizations NVM, VBO and Vastgoedpro agreed to start using a bidding log from 1 July 2022 onwards and to make usage mandatory from 2023. The announcement follows the request from the former Minister of Housing Ollongren last year. The current coalition still wishes to make a bidding log required by law. A critical report was published by the Dutch Home Owners Association on current market practices. The log will be introduced to make the purchase process more transparent. It will be available for bidders after conditions precedent have lapsed and the transaction is definitive.

1 ING, ABN, Rabobank - Economisch perspectief voor een grondige renovatie van de woningmarkt

## Consumer confidence

Vereniging Eigen Huis ("VEH") measures consumer confidence in the Dutch housing market every month based on a questionnaire about interest rates, prices, and the general housing market[1]. 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 2 displayed below shows the history of the VEH indicator. The indicator experienced a gradual decline from its peak of 121 in 2016-Q3 to the currently observed value of 87 by 2022-Q2 end. In 2022-Q2 the indicator declined by eight points QoQ, thus continuing the downwards trend. Even though the VEH indicator experienced a decrease during the previous months, it is relatively stable in comparison to the CBS consumer confidence index as seen in figure 3. The VEH indicator takes into account consumers' views on some economic aspects, but is focused on views on the housing market in particular. The CBS consumer confidence index is primarily focused on the economy in general.

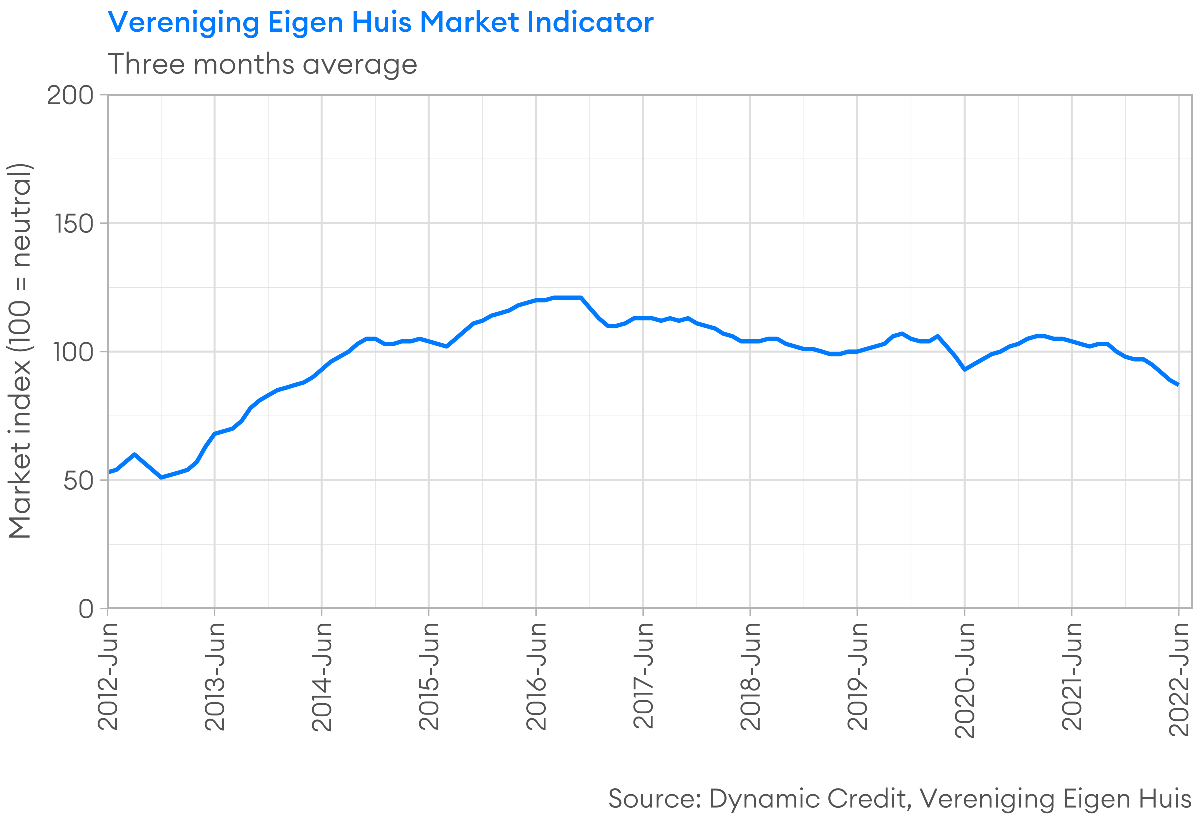



Figure 2: Vereniging Eigen Huis Market Indicator as of June 2022.

1 VEH - Eigen Huis Marktindicator

In like manner, Statistics Netherlands ("CBS") tracks consumer confidence based on the views of consumers on topics such as the general economic environment and willingness to buy. In their latest consumer confidence publication CBS reported a Consumer Confidence Index value of –50, reaching an all-time low since CBS started measuring in 1986. The index dropped eleven points QoQ in 2022-Q2. Inflation shocks, as currently experienced all over the globe, in particular have a negative effect on consumer confidence[1]. The reason for this is thought to be that an increase in unemployment has a negative effect, but only on the portion of the population that becomes unemployed or who fear to become unemployed, whereas inflation affects everyone negatively.. Thus the total balance with regards to consumer confidence decreases more under the second scenario than under the first. CBS reported that Dutch consumers' sentiment about the economy in general remained unchanged. In addition, 77% of consumers consider current price increases to be 'steep', which is an all-time-high[2]. The willingness to buy, a measure that indicates whether consumers believe now to be the right time to make large purchases, further decreased in 2022-Q2.

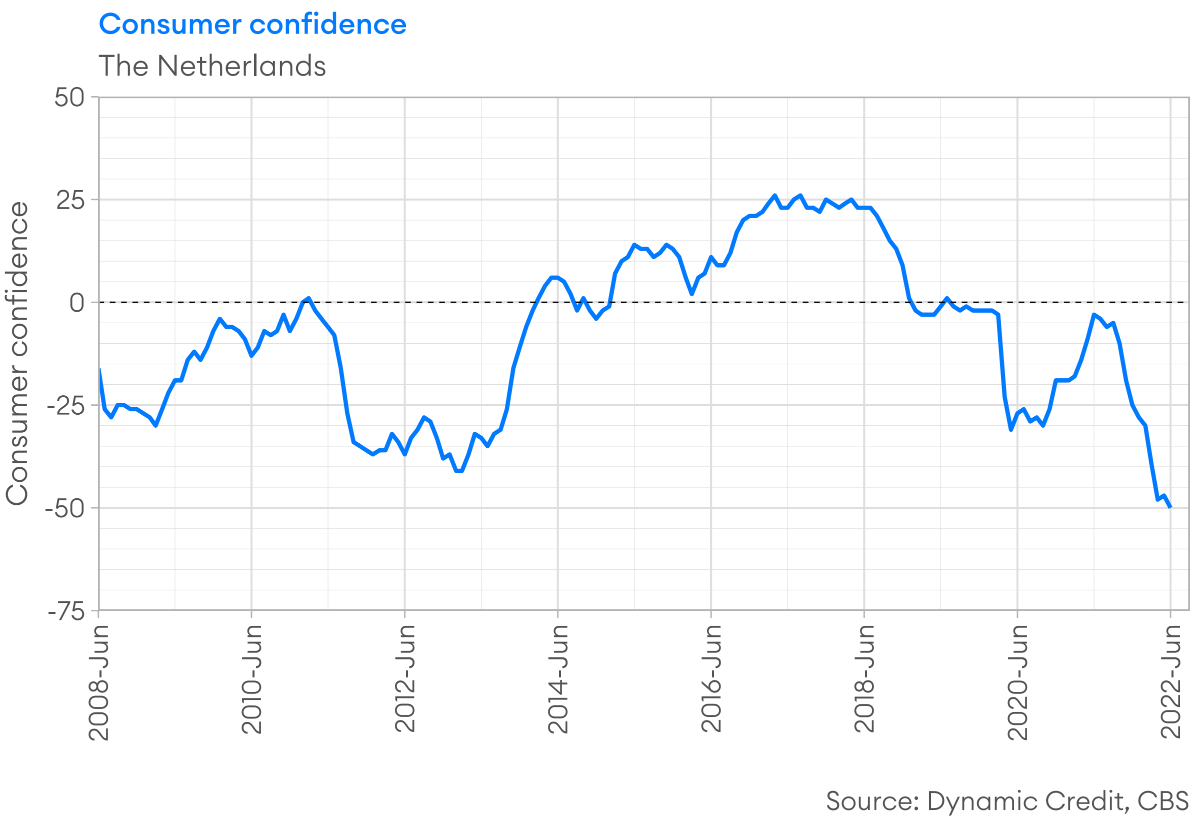



Figure 3: CBS total consumer confidence in the Netherlands as of June 2022.

1 FD - Consumentenvertrouwen is extreem laag; behalve in de winkel

2 CBS - Consumer confidence reaches all-time low in June

The decrease in consumer confidence has not materialized into lower actual consumer spending until May 2022[1]. Figure 4 displayed below shows the YoY change in domestic expenditure of households in the Netherlands adjusted for price changes until May 2022. The latest data shows that household consumption is strong and there is no sign of substantial deterioration. Whilst the YoY change in consumption is lower in May than it was in April, the YoY growth in May is still 7.50% which is well above the long term average. According to CBS, consumers primarily increased their spending in services and durable goods while inflation- adjusted spending decreased for 'Food, drinks and tobacco'.

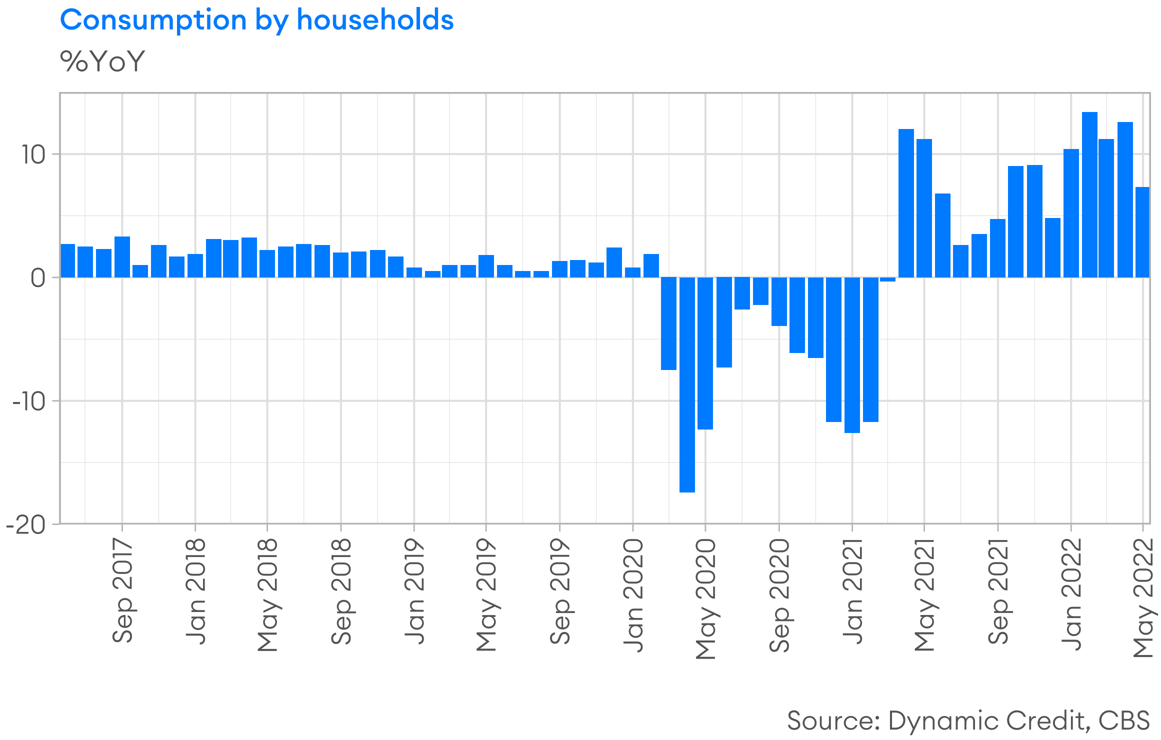



Figure 4: Domestic household consumption in the Netherlands adjusted for price changes up until May 2022.

1 CBS - Household consumption over 7 percent up in May

## 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-Q2, the HPI increased with 2.80% QoQ and 18.40% YoY. As for property sales, the number of properties transferred in 2022-Q2 was roughly 47,000, an increase of 7.90% QoQ and a 10.20% decrease YoY. For the historical HPI and property sales developments see figure 5 below.

With respect to the dispersion of both HPI developments and property sales we observe values that differ based on geographics. Firstly, the largest increase in HPI occurred in Flevoland, where the house prices increased by 21.70% YoY. The smallest increase happened in Zeeland, where the house prices increased by 16.10% YoY. Property sales in Rotterdam rose by 14.70% YoY, which is high compared to developments of other cities as seen in figure 8. Secondly, the largest decrease occurred in Limburg, where the number of dwellings sold dropped by 16.80% YoY. The smallest decrease took place in Utrecht, where the number of properties sold decreased by 3.10% YoY.

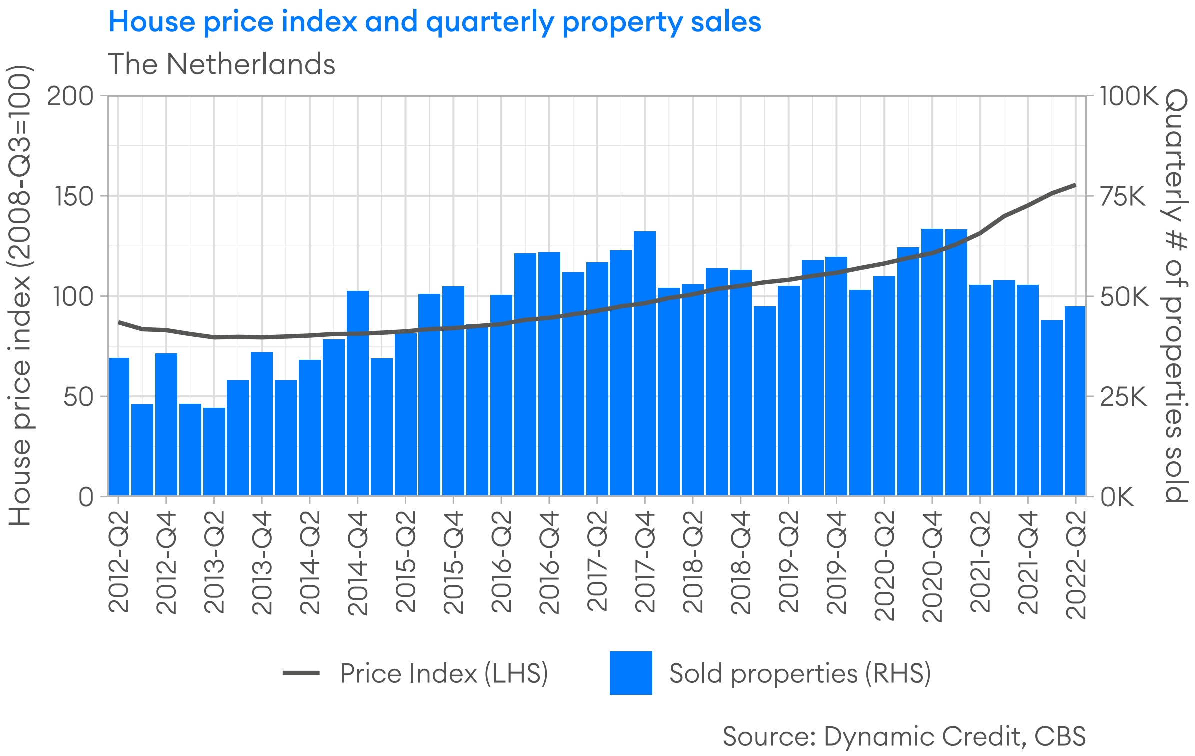



Figure 5: House Price Index of the Netherlands ("HPI") (2008-Q3 = 100) and monthly property sales. HPI until June 2022. Source: CBS, Dynamic Credit.

## Purchase versus refinances

In 2022-Q2 Hypotheken Data Netwerk ("HDN", a provider of infrastructure for mortgage loan requests) reported a total of 142,000 mortgage offers, this translates into a decrease of 3.20% compared to the same quarter a year ago and 25.70% QoQ. The number of offers for purchases totaled 71,000 in 2022-Q2 compared to 72,000 in 2022-Q1. The number of offers for refinances amounted to 71,000 in 2022-Q2, a decrease of 40.49% QoQ compared to 119,000 in 2022-Q1. According to HDN the mortgage rate increases are primarily responsible for the decrease in mortgage offers for purchases.[1]

| Area | Type | HPI (2008-Q3=100) | YoY Price % | QoQ Price % | Properties Sold in Quarter | QoQ Properties Sold % | YoY Properties Sold % |
|---|---|---|---|---|---|---|---|
| Nederland | Country | 155.5 | 18.4 | 2.8 | 47,382 | 7.9 | -10.2 |
| | | | | | | | |
| Amsterdam | Municipality | 194.7 | 17.1 | 2.5 | 2,074 | -10.5 | -6.4 |
| 's-Gravenhage | Municipality | 173.7 | 14.1 | 1.8 | 1,387 | -4.7 | -13.5 |
| Rotterdam | Municipality | 191.8 | 16.4 | 2.7 | 1,638 | 28.5 | 14.7 |
| Utrecht | Municipality | 198.2 | 17.6 | 3.2 | 1033 | 3.7 | 3.1 |
| | | | | | | | |
| Groningen | Province | 157.6 | 20.6 | 2.3 | 1,451 | 10.2 | -14.6 |
| Friesland | Province | 145.8 | 18.6 | 1.5 | 1,800 | 9.5 | -12.9 |
| Drenthe | Province | 150.9 | 21.0 | 3.9 | 1,409 | 7.4 | -16.5 |
| Overijssel | Province | 149.9 | 17.9 | 4.5 | 2,906 | 7.6 | -16.2 |
| Flevoland | Province | 171.4 | 25.0 | 4.7 | 1,370 | -11.7 | -23.9 |
| Gelderland | Province | 146.4 | 23.5 | 4.9 | 4,977 | -13.2 | -35.5 |
| Utrecht | Province | 157.7 | 20.9 | 4.2 | 3,507 | -13.3 | -38.6 |
| Noord-Holland | Province | 171.0 | 18.4 | 2.8 | 7,744 | 3.6 | -5.5 |
| Zuid-Holland | Province | 159.5 | 16.9 | 2.6 | 10,006 | 9.8 | -8.7 |
| Zeeland | Province | 148.7 | 16.1 | 3.3 | 1,216 | 6.9 | -9.6 |
| Noord-Brabant | Province | 142.1 | 17.5 | 2.7 | 7,125 | 7.3 | -12.9 |
| Limburg | Province | 144.1 | 16.2 | 2.3 | 3,043 | 11.5 | -16.8 |

Table 1: House prices and number of property sales changes in Dutch provinces and major municipalities 2022-Q2 Source: CBS

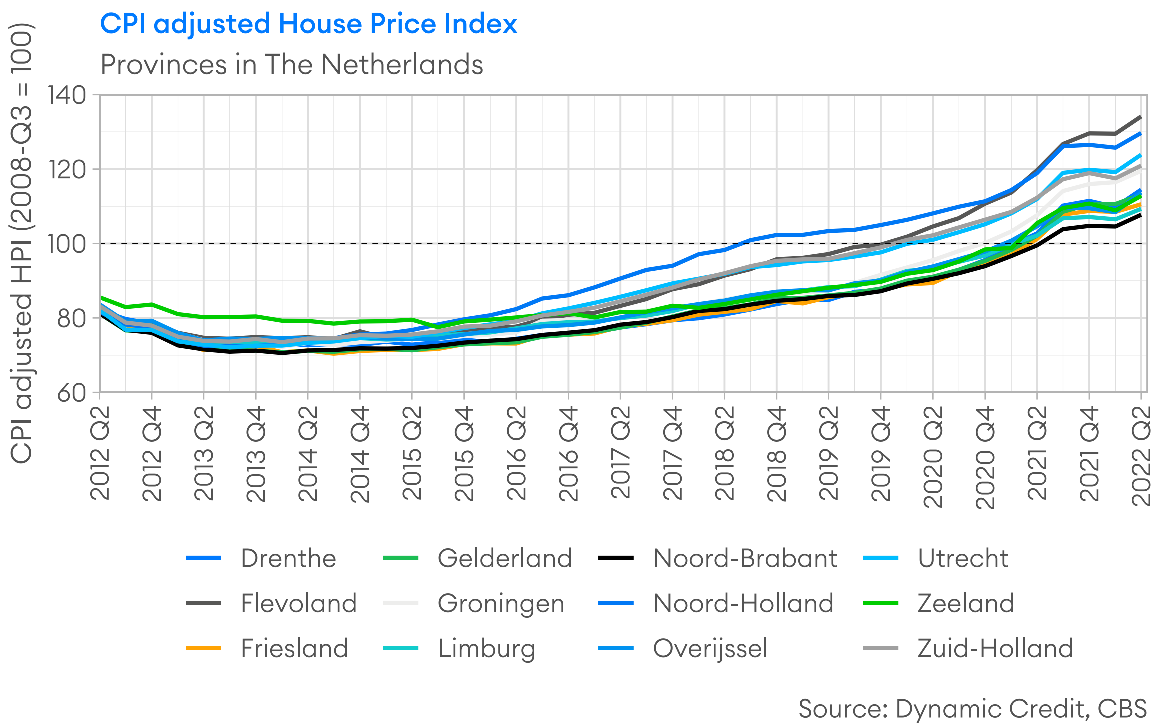
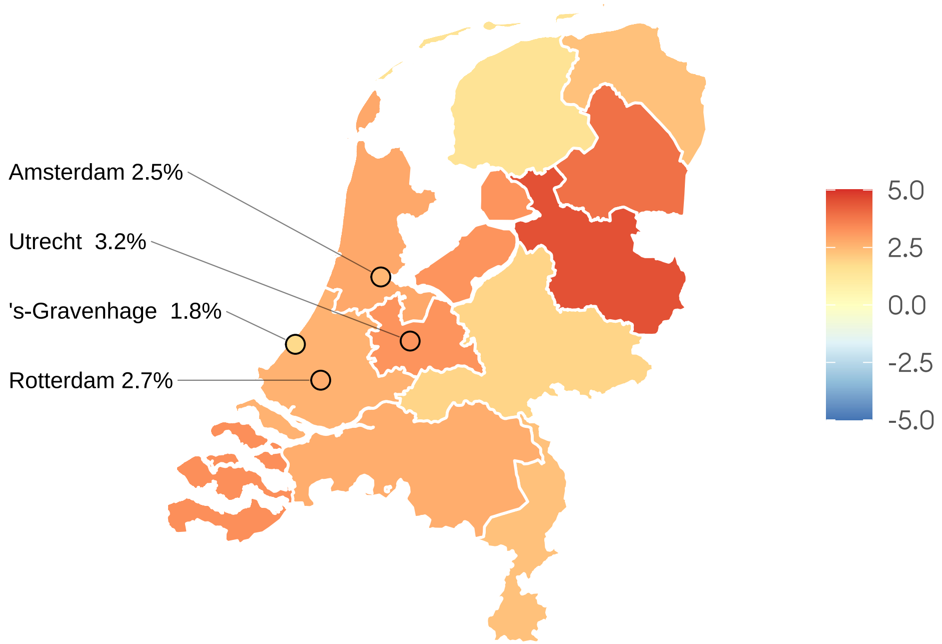



Figure 6: CPI Adjusted House price index per province in the Netherlands (2008-Q3=100). The data is indexed as of 2008-Q3 because this marks the pre-crisis high for the unadjusted House Price Index.

1 HDN - Kwartaaloverzicht 2022-Q2

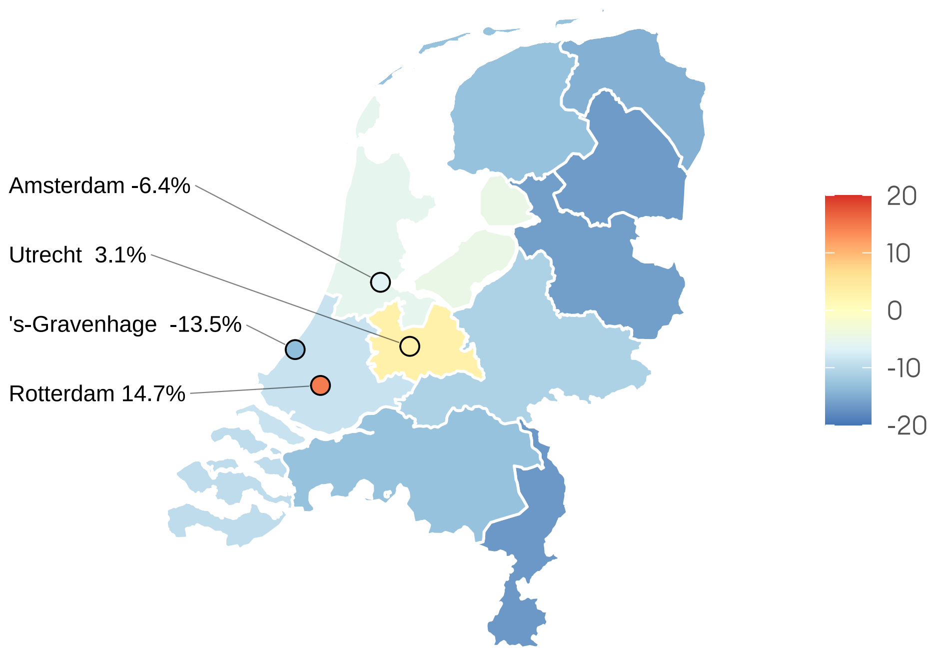
## House Price Index QoQ change




Source: Dynamic Credit, CBS (2022 Q2)

Figure 7: Dutch House Price Index QoQ change in percentages. 2022-Q2.

## Number of sold properties YoY change




Source: Dynamic Credit, CBS (2022 Q2)

Figure 8: Dutch House Price Index YoY change in percentages. 2022-Q2.

## Expected house property sales developments

Market participants are actively updating their outlook on the Dutch housing market as a consequence of economic volatility. Figure 9 shows house price forecasts as made at different points in time published by several financial institutions. The next paragraph consists of the details of said forecasts.

Beginning with the Rabobank[1], which made an adjustment and decreased its forecast this quarter after strongly increasing it the previous quarter. The YoY house price forecasts for 2022 and 2023 were adjusted to 16.10% and 4.50% from 17.30% and 5.50% respectively. The primary reasons for the adjustment are higher interest rates and a weakening economy according to the Rabobank, which both put downwards pressure on house prices. In addition, the bank expects the number of properties transferred to decrease by 16.40% in 2022 and to increase by 4.23% in 2023.

Secondly, ING increased its YoY house price forecast for 2022 by 1.50% point from 13.50% to 15%. The first forecast for 2023 is a YoY growth of 1%, which is the lowest forecast in the sample. Increasing mortgage rates together with lower investor's demand and increasing housing market pessimism are important factors in the growth expectations of the coming years[2]. In addition, ING states that if mortgage rates are to increase further, a scenario in which house prices are decreasing becomes more probable. Currently they expect mortgage rates to stabilize, but developments are highly dependent on uncertainties such as COVID-19 and the war in Ukraine. With regard to the number of housing transactions, ING expects these to decrease by 15.96% in 2022 and increase by 2.63% in 2023.

Lastly, ABN AMRO adjusted its YoY house price forecasts to 15% in 2022 and 2.50% in 2023 from 12.50% and 5% respectively. ABN AMRO mentions that increasing mortgage rates and high inflation will deteriorate affordability and thus put downward pressure on house prices the coming years[3].

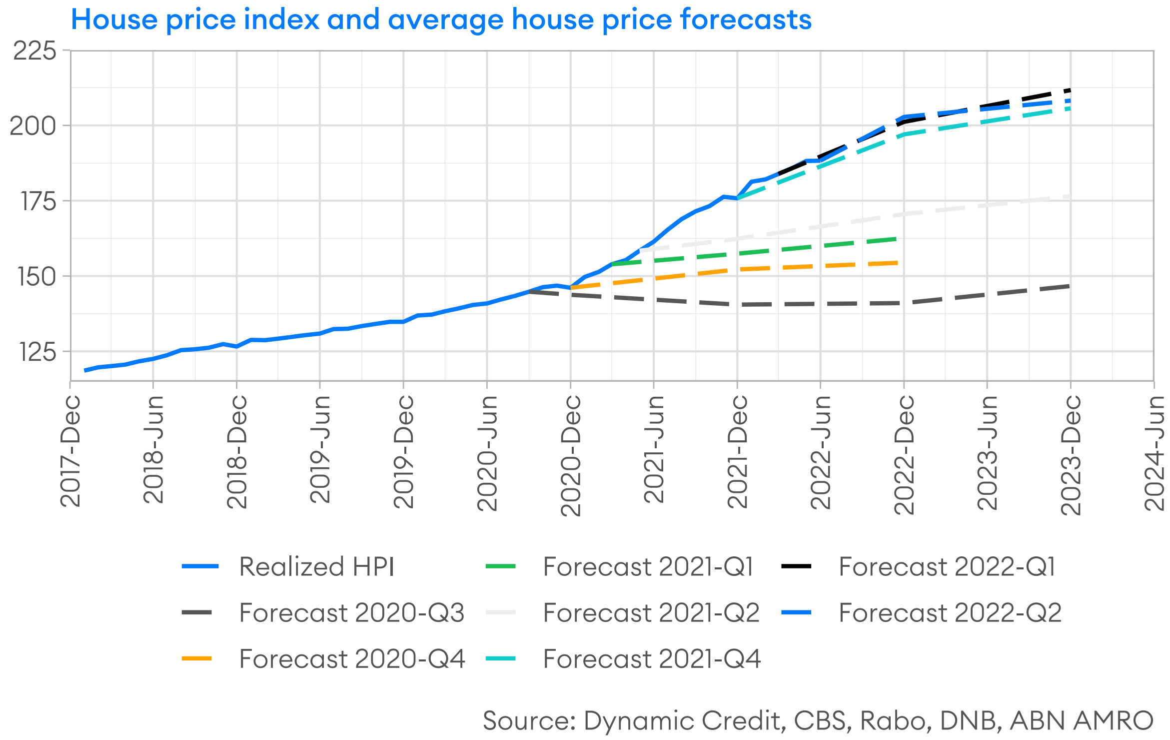



Figure 9: Realized house price index and average house price forecasts made at different points in time. Source: Dynamic Credit, CBS, Rabobank, DNB, ABN AMRO, ING.

1 Rabobank - House prices to rise more slowly due to interest rate hike and uncertainty
2 ING - Stabilisatie woningprijs eind 2022, onzekerheden blijven groot
3 ABN AMRO - Woningmarktmonitor juli 2022


DYNAMIC

## Global Housing Market Development

In the past months, central banks across the world reacted to increasing inflation by tightening monetary policy resulting in higher mortgage rates. Following soaring house prices, this sharp increase in borrowing costs has resulted in many people reaching the limits of what they are able to pay for a new house. Bloomberg[1] reports that this effect can be observed in Canada, the US and New Zealand, where the housing market is showing signs of cooling. Within Europe, Swedish house prices are showing signs of a modest decline[2]. In May, apartment prices in Stockholm, which is often a forerunner in the national trend, fell by 2% and house prices by 1%.

An analysis by Bloomberg Economics shows that for 19 OECD countries the price-to-rent and price-to-income ratios are higher than these ratios were before the global financial crisis, indicating that prices are not in line with the fundamentals. Especially housing markets in New Zealand, Australia and Canada rank among the bubbliest and are most vulnerable to falling prices, while in the euro area Germany, Czech Republic and the Netherlands, among others, look vulnerable according to analysis by Bloomberg Economics. However, a scenario as in 2008 seems more unlikely, because underwriting standards have tightened and household savings have increased since then. In addition, many countries are facing a housing shortage and there are currently no signs of a weakening labor market.

1 Bloomberg - The World's Bubbliest Housing Markets Are Flashing Warning Signs
2 Bloomberg - Sweden's Housing Bubble Deflates as Realtors Sound

## 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

Data from the Mortgage Data Network ("HDN") shows that over 2022-Q2, approximately 33,000 NHG loans with a total balance of EUR 6.4 billion were offered through its network (7 billion in 2021-Q2). This corresponds to an NHG market share of 17.90% in terms of mortgage loans balance (18.22% in 2021-Q2).

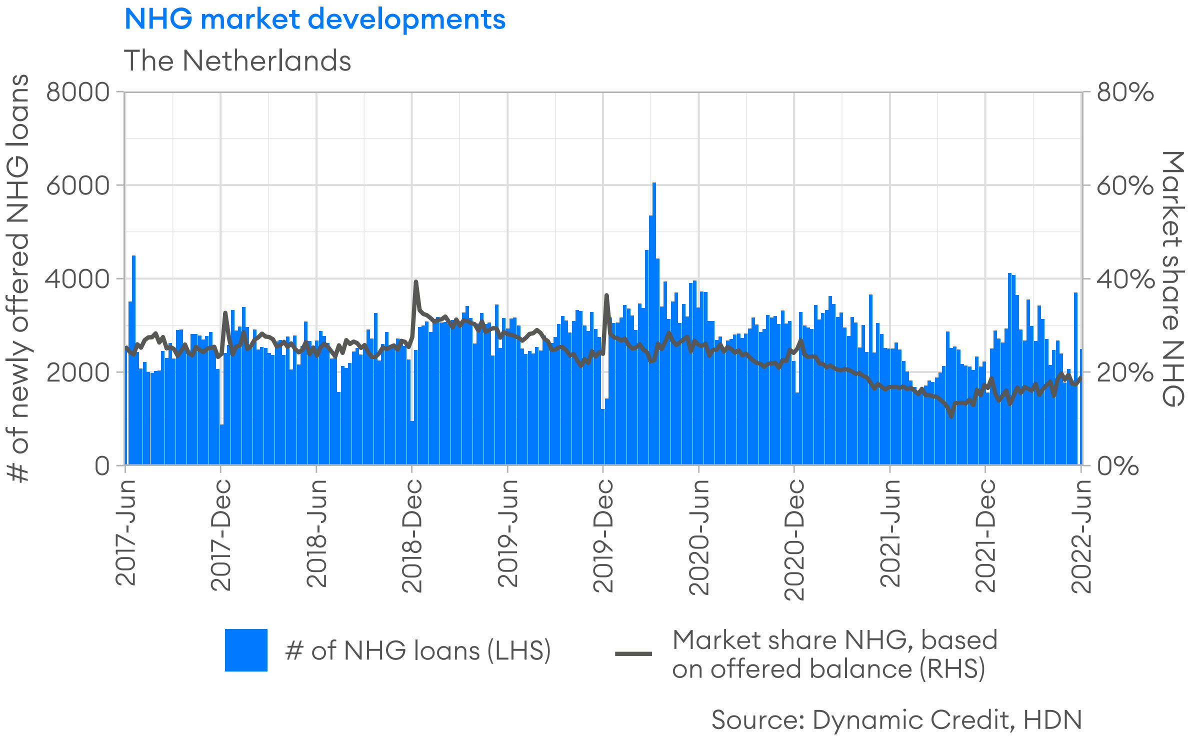



Figure 10 : Number of new NHG guarantees and market share of NHG loans as a percentage of total originated balance through time. The x-axis refers to year and month.

### Loss declarations[1]

The number of loss declarations submitted to WEW decreased by approximately 88% from seventeen in 2021-Q1 to only two in 2022-Q1. The low amount of loss declarations submitted is attributed by WEW to the increasing house prices and the low unemployment rate. The NHG pay-out ratio of processed declarations increased to 100% in 2022-Q1. In comparison, the NHG pay-out ratio was 73.40% in 2021-Q1. The average paid out loss declaration amounted to EUR 11,000 in 2022-Q1, opposed to EUR 7,000 in 2021-Q1.

1 NHG - Meerderheid kiest bij aankoop van woning voor NHG-garantie met verduurzaming

# 3. Owner-Occupied Mortgages

## Mortgage rate developments

In 2022-Q2 mortgage rates continued to rise even faster than in the volatile first quarter of 2022. Across all risk classes and fixed rate periods, the top six most competitive rates increased on average by 148 bps QoQ and 242 bps YoY in 2022-Q2. After quarter-end, mortgage rates increased by an additional 5 bps on average. Recently, the market is starting to see some mortgage providers slightly lowering their rates in higher fixed rate period buckets after a total absence of mortgage rate decreases in the past months. Mortgage rates increases were relatively similar across different risk classes. We observe the largest QoQ and YoY changes in the 20-year 60% LTV segment, where the average of the top six mortgage rates increased by 157 bps and 257 bps respectively. The smallest increases were 16 bps and 27 bps. To put the aforementioned changes into perspective, in 2021-Q4 the QoQ and YoY changes in the average of the top six most competitive mortgage rates were 6 bps and – 14 bps respectively.

**Unprecedented mortage rate increases throughout 2022-Q2**

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 | 2021-06-30 | 2022-03-31 | 2022-06-30 | 2022-07-22 | QoQ | YoY | QtD |
| 10-year | NHG | 0.89% | 1.89% | 3.30% | 3.43% | 1.41% | 2.41% | 0.13% |
| | 60% LTV (non-NHG) | 0.99% | 1.92% | 3.40% | 3.50% | 1.48% | 2.40% | 0.11% |
| | 80% LTV (non-NHG) | 1.14% | 2.01% | 3.50% | 3.64% | 1.49% | 2.36% | 0.14% |
| | 100% LTV (non-NHG) | 1.41% | 2.29% | 3.82% | 3.83% | 1.53% | 2.41% | 0.02% |
| 20-year | NHG | 1.22% | 2.26% | 3.67% | 3.68% | 1.41% | 2.45% | 0.01% |
| | 60% LTV (non-NHG) | 1.41% | 2.41% | 3.98% | 3.99% | 1.57% | 2.57% | 0.01% |
| | 80% LTV (non-NHG) | 1.51% | 2.52% | 4.04% | 4.07% | 1.52% | 2.53% | 0.03% |
| | 100% LTV (non-NHG) | 1.75% | 2.72% | 4.22% | 4.20% | 1.50% | 2.47% | -0.02% |
| 30-year | NHG | 1.43% | 2.33% | 3.78% | 3.83% | 1.46% | 2.35% | 0.04% |
| | 60% LTV (non-NHG) | 1.63% | 2.55% | 4.06% | 4.12% | 1.52% | 2.43% | 0.06% |
| | 80% LTV (non-NHG) | 1.72% | 2.65% | 4.13% | 4.17% | 1.48% | 2.41% | 0.04% |
| | 100% LTV (non-NHG) | 2.00% | 2.83% | 4.29% | 4.30% | 1.47% | 2.30% | 0.01% |

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]

In 2022-Q2 mortgage rates caught up with swaps, translating into substantial spread widening across all risk classes and fixed rate periods. This breaks the trend of swaps putting spreads under pressure as in the previous two quarters. When looking at the QoQ changes of 2022-Q2, the spreads increased by 42 bps on average. In addition, looking at the YoY developments in 2022-Q2 an average spread increase of 30 bps is observed. Lastly, QtD spreads increased by an additional 25 bps on average. The average spread increase was most notable in the 10-year non-NHG segments where an average QoQ increase of 51 bps is observed.

**Spreads widened in 2022-Q2 as mortgage rates caught up with swaps.**

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 | 2021-06-30 | 2022-03-31 | 2022-06-30 | 2022-07-22 | QoQ | YoY | Qtd |
| 10-year | NHG | 0.96% | 0.82% | 1.23% | 1.53% | 0.42% | 0.27% | 0.30% |
| | 60% LTV (non-NHG) | 1.07% | 0.84% | 1.33% | 1.61% | 0.49% | 0.26% | 0.28% |
| | 80% LTV (non-NHG) | 1.22% | 0.93% | 1.44% | 1.75% | 0.51% | 0.22% | 0.31% |
| | 100% LTV (non-NHG) | 1.49% | 1.22% | 1.76% | 1.95% | 0.54% | 0.27% | 0.18% |
| 20-year | NHG | 1.00% | 1.00% | 1.32% | 1.54% | 0.31% | 0.31% | 0.23% |
| | 60% LTV (non-NHG) | 1.19% | 1.15% | 1.64% | 1.87% | 0.48% | 0.44% | 0.23% |
| | 80% LTV (non-NHG) | 1.30% | 1.27% | 1.70% | 1.94% | 0.43% | 0.40% | 0.25% |
| | 100% LTV (non-NHG) | 1.55% | 1.47% | 1.88% | 2.08% | 0.41% | 0.33% | 0.20% |
| 30-year | NHG | 1.14% | 1.05% | 1.39% | 1.66% | 0.33% | 0.24% | 0.27% |
| | 60% LTV (non-NHG) | 1.35% | 1.28% | 1.67% | 1.96% | 0.40% | 0.32% | 0.29% |
| | 80% LTV (non-NHG) | 1.44% | 1.38% | 1.74% | 2.00% | 0.36% | 0.30% | 0.27% |
| | 100% LTV (non-NHG) | 1.73% | 1.56% | 1.91% | 2.14% | 0.35% | 0.18% | 0.23% |

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.

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

## Affordability negatively impacted

Mortgage rates have increased at an unprecedented pace during the first half of 2022. For example, the average 10 (20) year mortgage rate, 100% LTV non-NHG was equal to 1.39% (1.78%) on the first of January and more than doubled to 3.86% (4.24%) per mid-July. These levels were last seen in 2014.

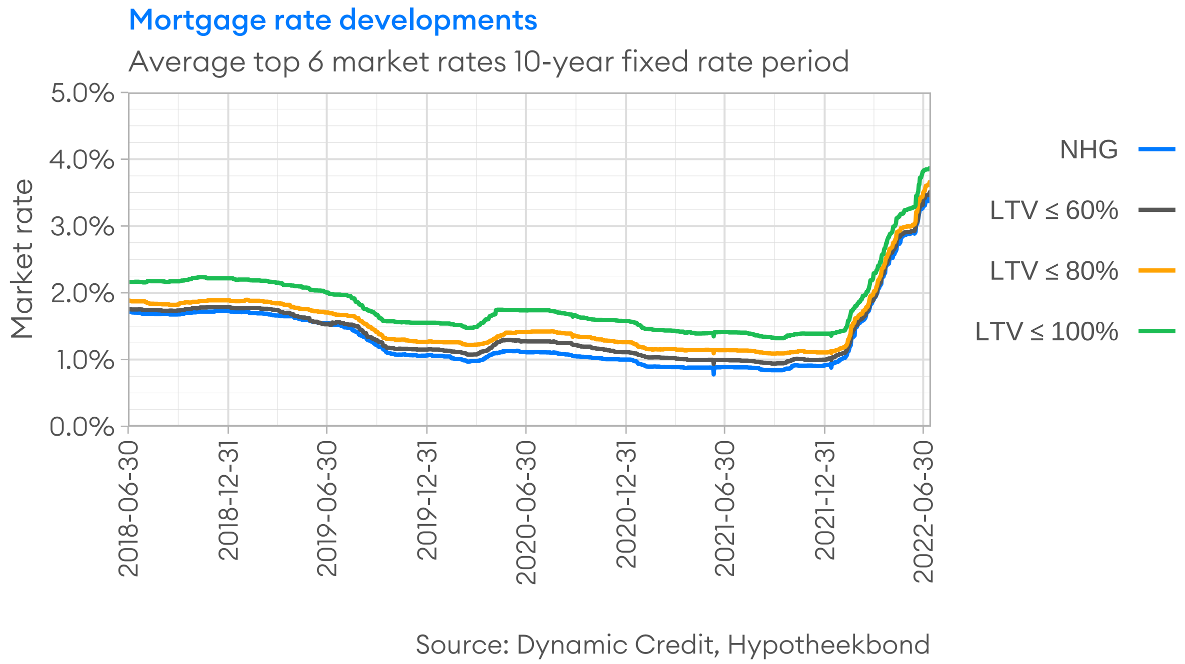



Figure 14: interest rate developments for mortgages with a 10-year fixed rate period.

For annuity mortgage loans, the impact of these rate increases on the monthly instalments is dampened by the nature of the repayment type: as interest rates increase, principal repayments become more back-loaded. Another mitigant is the increased impact of interest rate deductibility, for which annuity mortgage loans are eligible under certain conditions.

For a borrower with an income of EUR 80,000 opting for 20 years fixed and 100% LTV, purchasing a EUR 400,000 property, the impact of the rate increases and house price increases during 2022 on the initial monthly payment[1] is as follows:

| | January 2022 | July 2022 - after rate increase | July 2022 - after rate and house price increase |
|---|---|---|---|
| Monthly payment - before tax | EUR 1,435 | EUR 1,965 | EUR 2,104 |
| Monthly payment - after tax | EUR 1,275 | EUR 1,467 | EUR 1,563 |
| Before (after) tax impact versus January 2022 | | 37% (15%) | 47% (23%) |

Table 5: Impact of interest rate and house prices increases on monthly payments of an annuity mortgage loan. Source: Dynamic Credit

1 The after tax monthly payment increases trough time as the impact of interest rate deductibility trough time decreases.

To reduce the impact of interest rates, we observe the 10-year fixed rate period segment gaining in popularity versus the longer fixed rate periods. The impact is however marginal: in the above example the borrower would save EUR 35 per month after tax.

The increased interest rates also have an impact on the maximum amount that can be borrowed. For the above example, the maximum loan decreases from EUR 436,000 to 393,000 due to the increase of interest rates.

### Impact existing borrowers

The impact of increasing mortgage rates on existing borrowers is limited as long fixed rate periods have been popular for a long time. According to research by LoanClear[1], based on a pool of close to EUR 85 billion of Dutch mortgages in the European Datawarehouse, around 8.40% of the outstanding balance reaches an interest rate rest in the twelve month period after March 2022. Around 1.70% of this total pool resets to a higher rate and only 0.80% of the borrowers would face an increase of more than EUR 50 per month (before tax). Loan parts resetting to a higher rate had a previous fixed rate period of 3.6 years on average and are generally combined with loan parts with longer fixed rate periods, further mitigating impact of resetting to higher rates.

1 LoanClear – Dutch mortgage rates - market developments

# 4. Funding Update

In the second quarter five transactions were distributed, two RMBS and three BTL deals. The Dutch Property Finance 2022-1, Green Storm 2022-1 and Domi 2022-1 deals have already been covered in our first quarterly report. By the end of June the AAA RMBS spread has increased to 50 bps (from 23 bps in April), the covered bond spread has been more or less stable, so the spread between both instruments has been widening substantially over the quarter.

### RMBS

In April the Prinsen Mortgage Finance 1 transaction closed. The class A to C notes amount to a total of EUR 350 million, with EUR 339 million for the class A. The class A notes offer a margin of 65 bps over Euribor and EUR 225 million was distributed. The class A notes were priced at 55 bps or 100.37. The notes are secured by Dutch owner-occupied loans originated trough the Merius label and the size was decreased after announcement (from EUR 662 million) to EUR 350 million. The pool has current indexed LTV of 58%, seasoning of 1.8 years, 68% interest only and 5% self employed.

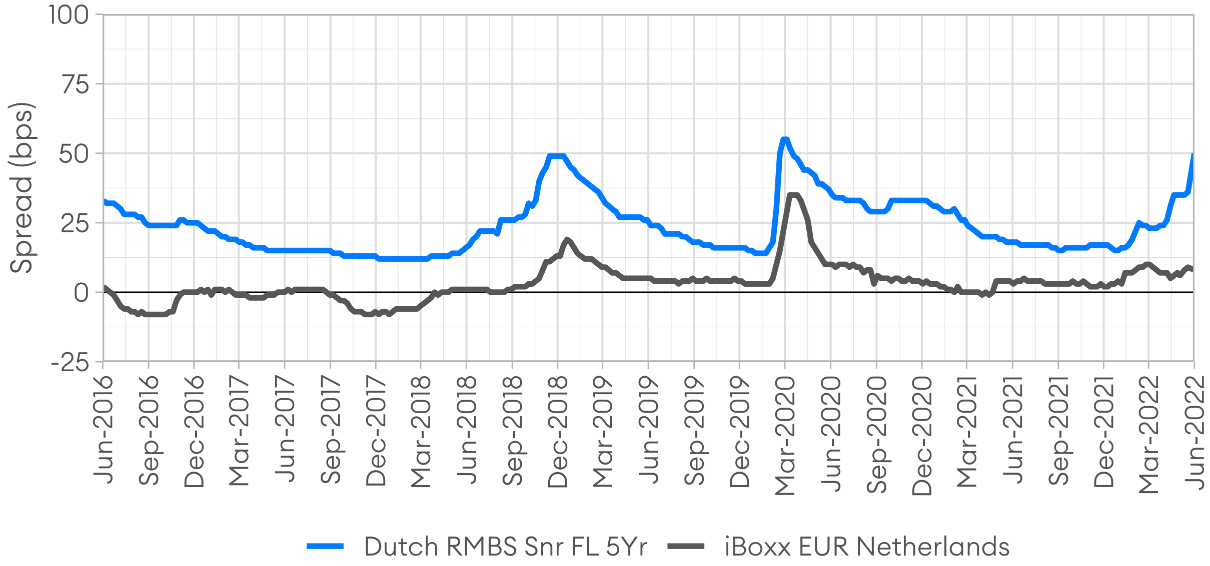
### BTL

In June the fourth transaction in the Jubilee Place program was distributed. The collateral is Dutch residential buy-to-let loans to professional landlords. A total of EUR 302 million class A notes were issued and retained. The spreads on these notes were 120 bps, which is a striking step up compared to the previous deal which was priced at 85 bps. The lower-class notes range from B to R and were pre-placed, these notes were sold below par. The notes are secured by a pool of EUR 372 million, CLTV of 72%, seasoning of 4 months and 53% interest only loans.

### Covered Bonds

In the first months of 2022, over EUR 5.2 billion was issued. In comparison, this is approximately EUR 4 billion more than was issued in the first months of the previous year. The spread (iBoxx EUR Netherlands) increased during the quarter towards 8 bps on the 11th of April.

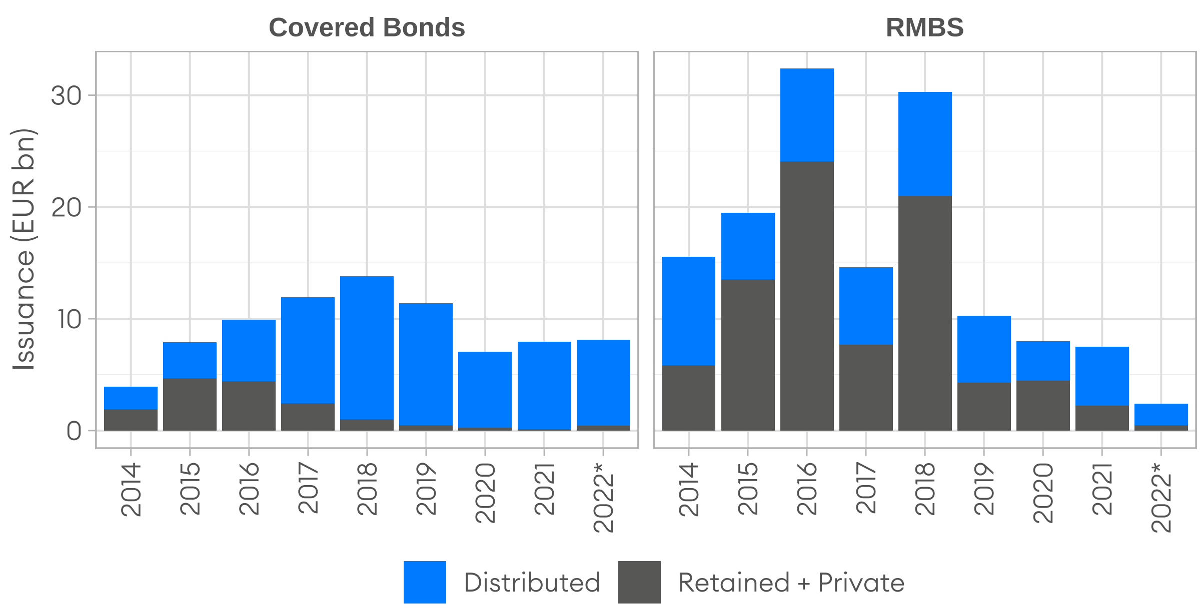
### Mortgage funding spreads




Source: Dynamic Credit, JP Morgan

Figure 20: 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-Q2.

### Mortgage funding issuance




* Data up to Q2
Source: Dynamic Credit, JP Morgan

Figure 21: Issuance of Dutch RMBS and covered bonds. The data is as of 2022-Q2.



DYNAMIC

## 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2022-04-06 | Dutch Property Finance BV | 2022-1 | RNHB BV | A | 366 | 3.0 | FL | 75 | 3 Mo. Euribor | | AAA | | AAA | N | |
| | | | | B | 32 | 4.8 | FL | 135 | | | AA | | AA | N | |
| | | | | C | 18 | 4.8 | FL | 185 | | | A+ | | A | N | |
| | | | | D | 21 | 4.8 | FL | 240 | | | BBB- | | BBBL | N | |
| | | | | E | 14 | 4.8 | FL | 350 | | | | | | Y | |
| | | | | F | 9 | 4.8 | FL | 450 | | | | | | Y | |
| | | | | X | 16 | 4.8 | FL | 450 | | | | | | Y | |
| | | | | R | 0 | 4.8 | FX | | | | | | | Y | |
| 2022-04-08 | Green Storm BV | 2022-1 | Obvion | A | 500 | 4.8 | FL | 75 | 3 Mo. Euribor | | AAA | AAA | | N | |
| | | | | B | 26 | 4.8 | FX | | | | | | | Y | |
| | | | | C | 5 | 4.8 | FX | | | | | | | Y | |
| 2022-04-14 | Domi BV | 2022-1 | Domivest BV | A | 299 | 3.2 | FL | 85 | 3 Mo. Euribor | Aaa | AAA | | | N | |
| | | | | B | 13 | 5.0 | FL | 140 | | Aa2 | AA | | | N | |
| | | | | C | 8 | 5.0 | FL | 180 | | A1 | AA- | | | N | |
| | | | | D | 8 | 5.0 | FL | 240 | | Baa2 | BBB- | | | N | |
| | | | | E | 5 | 5.0 | FL | | | Caa3 | B- | | | N | |
| | | | | X | 10 | | FL | 660 | | Caa2 | B- | | | N | |
| | | | | Z | 0 | | FX | | | | | | | N | |
| 2022-04-14 | Prinsen Mortgage Finance B.V. | No.1 | Athora Group / Fenerantis | A (Placed) | 225 | 3.9 | FL | 65 | 3 Mo. Euribor | | | AAA | AAA | N | |
| | | | | A (Retained) | 114 | 3.9 | FL | 65 | | | | AAA | AAA | Y | |
| | | | | B | 6 | 4.7 | FL | 150 | | | | AA+ | AA | N | |
| | | | | C | 5 | 4.7 | FL | 185 | | | | A+ | A | N | |
| | | | | XS | 5 | 2.0 | FL | 400 | | | | | | Y | |
| | | | | R | 10 | | FX | | | | | | | Y | |
| 2022-06-10 | Jubilee Place BV | 4 | Multiple Dutch Lenders (Tulp Group, DMS and Casarion) | A | 302 | 3.6 | FL | 120 | 3 Mo. Euribor | | AAA | | AAA | Y | EUR 314mm; 814 Obligors; WA CLTV 72.46%; WA Seasoning 3.99m; IO Loans 53.09%; |
| | | | | B | 21 | 4.6 | FL | 160 | | | AA- | | AAL | N | |
| | | | | C | 10 | 4.6 | FL | 200 | | | A | | AL | N | |
| | | | | D | 7 | 4.6 | FL | 250 | | | BBB- | | BBB | N | |
| | | | | E | 9 | 4.6 | FL | 275 | | | B- | | B | N | |
| | | | | F | 4 | 4.6 | FL | 300 | | | CCC | | | N | |
| | | | | X | 4 | | FL | 650 | | | | | | N | |
| | | | | R | 1 | | FX | | | | | | | Y | |
| | | | | S1 | 0 | | FX | | | | | | | Y | |
| | | | | S2 | 0 | | FX | | | | | | | Y | |

Table 9: Priced Dutch RMBS and BTL Deals in 2022-Q2. Source: Dynamic Credit, JP Morgan.



DYNAMIC

# 5. Buy-to-let Mortgages

## Rental prices

The online rental broker Pararius reports that in the second quarter the average square meter price increased by a moderate 1.30% YoY to EUR 17.04 for residential properties. Upholstered properties became less expensive QoQ (-3.40%) and somewhat more expensive YoY (+2.30%) and now cost EUR 16.11 per square meter, this type of properties reflects roughly half of the supply[1].

Amsterdam saw an increase in rental price of 10.50% and remains the most expensive city with EUR 24.67 per square meter. Utrecht is the second most expensive city and tenants now pay EUR 20.06 (+3.40%) per square meter per month. The Hague and Rotterdam now have square meter prices of EUR 17.30 (+3.40% YoY) and EUR 17.37 (+7.40% YoY) respectively, prices are close to the national average. In Eindhoven tenants now pay EUR 17.25 per square meter (+11.10%).

## Plans for affordable housing (Programma Betaalbaar Wonen)[2]

In May 2022, the Minister of Housing and Spatial Planning, Hugo de Jonge, announced his plans with the intention to make Dutch housing more affordable. The below summarizes the key action points:

- **Regulate middle market rent**: The Minister intends to increase the threshold for regulated rent to EUR 1,000-1,250 (currently EUR 763).
- **Newly built**: In the coming ten years, 900,000 new homes need to be added to the housing stock. Of that amount, 40% of newly built homes need to be affordable owner-occupied and middle market rent properties.
- **Rent price increases**: The maximum yearly rent price adjustment might become subject to a periodically reassessed regulatory cap (it is now capped at inflation +2%).
- **Rent subsidies**: The current system which is based on the actual cost of renting would be superseded by a system that takes into account a standardized rental price and tenant income. Also, the minimum age could be lowered to 21 years from 23 years. By also making tenants in the non-regulated sector eligible, an additional number of 136,000 tenants are expected to benefit from rental subsidies.

Market participants have expressed concerns about the viability of newly built rental properties given the new proposed regulation. For example, the Association of Dutch Project Development Companies (NEPROM), indicates that they expect the number of newly built homes to decrease to 50,000 per year (from the expected 100,000)[3]. Project development business cases will be reassessed based on the newly proposed regulated rents. Also, after adding to the equation that construction costs have risen steeply over the past period the likelihood of a loss-making business case increases further. In most cases, regulated rental houses are part of larger development plans and unregulated rent compensates for the construction of regulated housing. Increasing the regulated rental sector could therefore lead to fewer new projects because business cases will come under pressure. The number of permits is reported with a 3-month lag, so it is still unclear what the data will show. To get an idea of where the market was going, in May granted residential permits were down by 11%YoY. February, March and April show decreases of 27%, 5% and 35% respectively.

1 Pararius - Rents in the Netherlands have risen further
2 Ministerie van Binnenlandse Zaken - Nationaal Woon- en Bouwagenda
3 NEPROM - Nieuwbouw valt stil door huurregulering

### Vacant value ratio

A proposal has been submitted to the Dutch Parliament to update the vacant value ratios that apply to buy-to-let properties.[1] These ratios reduce the value of the property for wealth tax (box 3) and inheritance tax purposes. The rationale is that a property is less valuable if let and when the tenant has tenant protection. The current vacant value ratios range from 45% to 85% with an average of 72% and are a function of the ratio of rental price and WOZ value (the value for property taxes). The proposal is to update the range of vacant value ratios to 73%-100% which would lead to an average of 96%. The value will not be adjusted for properties with temporary rental contracts and rental contracts to related parties. The changes are expected to lead to an increase of tax income of EUR 80 million.

The coalition agreement stated that the vacant value ratio would be scrapped but legal analysis has raised significant risks to that simplification. There was discussion whether the economic value of a property would or would not vary if it is rented out or not. The proposed alternative respects the short-term historical developments between sale price and WOZ value and can be updated periodically.

1 Rijksoverheid - De waarde van woningen in verhuurde staat actualisatie en evaluatie van de leegwaarderatio

## Rate and spread development

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

Where the BTL mortgage rates lagged the rapidly increasing owner-occupied mortgage rates in the first quarter, rates rose sharply in the second quarter. On average, BTL mortgage rates were 112 bps higher at the end of the second quarter with the LTV classes up to 80% in particular increasing the most. This resulted in increasing spreads for most fixed rate period LTV combinations. On average, spreads increased by 17 bps. The lower average rates in some 90% LTV segments compared to the 80% LTV segments arise because Dynamic Credit is the only provider of 90% LTV loans in these segments. The average is calculated over fewer providers and therefore may be lower than the 90% LTV class. This also affects the average spreads in these segments. Rate increases in quarter to date have party mitigated this.

In the first weeks of July, the trend of increasing mortgage rates and spreads continued. On average mortgage rates increased by an additional 21 bps and spreads increased by 27 bps. The high absolute level of mortgage rates for the longer fixed rate periods ensured that consumer interest in these segments has largely disappeared.

**BTL spreads became more attractive in recent months with an average increase of 44 bps.**

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 | 2022-03-31 | 2022-06-30 | 2022-07-22 | QoQ | 2022-03-31 | 2022-06-30 | 2022-07-22 | QoQ |
| 1-year | 50% | 2.51% | 3.43% | 3.61% | 0.92% | 2.43% | 2.45% | 2.39% | 0.02% |
| | 60% | 2.65% | 3.53% | 3.67% | 0.88% | 2.57% | 2.55% | 2.45% | -0.02% |
| | 70% | 2.66% | 3.57% | 3.70% | 0.91% | 2.58% | 2.59% | 2.48% | 0.01% |
| | 80% | 2.90% | 3.67% | 3.82% | 0.77% | 2.82% | 2.69% | 2.60% | -0.13% |
| | 90% | 3.90% | 4.15% | 4.40% | 0.25% | 3.82% | 3.17% | 3.18% | -0.65% |
| 5-year | 50% | 2.67% | 3.99% | 4.21% | 1.32% | 1.77% | 2.27% | 2.57% | 0.50% |
| | 60% | 2.77% | 4.12% | 4.33% | 1.35% | 1.88% | 2.40% | 2.69% | 0.52% |
| | 70% | 2.80% | 4.14% | 4.35% | 1.34% | 1.90% | 2.42% | 2.71% | 0.52% |
| | 80% | 3.16% | 4.52% | 4.67% | 1.36% | 2.26% | 2.81% | 3.03% | 0.55% |
| | 90% | 3.90% | 4.40% | 4.65% | 0.50% | 3.01% | 2.68% | 3.01% | -0.33% |
| 10-year | 50% | 2.90% | 4.39% | 4.64% | 1.49% | 1.83% | 2.34% | 2.76% | 0.51% |
| | 60% | 2.98% | 4.53% | 4.73% | 1.55% | 1.92% | 2.50% | 2.85% | 0.58% |
| | 70% | 3.02% | 4.55% | 4.77% | 1.53% | 1.95% | 2.52% | 2.90% | 0.57% |
| | 80% | 3.38% | 4.84% | 4.97% | 1.46% | 2.32% | 2.80% | 3.10% | 0.48% |
| | 90% | 4.05% | 4.70% | 4.95% | 0.65% | 3.00% | 2.67% | 3.08% | -0.33% |
| 20-year | 50% | 3.35% | 4.68% | 4.93% | 1.33% | 2.11% | 2.36% | 2.84% | 0.25% |
| | 60% | 3.45% | 4.81% | 5.01% | 1.36% | 2.22% | 2.49% | 2.92% | 0.27% |
| | 70% | 3.50% | 4.87% | 5.07% | 1.37% | 2.27% | 2.55% | 2.98% | 0.28% |
| | 80% | 3.75% | 5.10% | 5.48% | 1.35% | 2.52% | 2.79% | 3.41% | 0.27% |
| | 90% | 4.25% | 4.95% | 5.20% | 0.70% | 3.03% | 2.63% | 3.11% | -0.40% |

Table 10: 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

On 21 July the Governing Council announced that the ECB will increase its three key interest rates by 50bps. The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 0.50%, 0.75% and 0.00% respectively. The increase follows an ongoing inflationary pressure in the Eurozone and fiscal challenges in member states such as Italy. The increase was only announced due to the introduction of the Transition Protection Instrument, a new tool in the Eurosystem toolkit, which is meant to purchase government debt to avoid disbalances following from key rate increases. TPI can only be used for jurisdictions that have i) compliance with the EU fiscal framework, ii) absence of severe macroeconomic imbalances, iii) fiscal sustainability, and iv) sound and sustainable macroeconomic policies.

### Real GDP

In the first quarter of 2022, the economy grew by 6.70% YoY but in 2021-Q1 the economy was struggling with lockdowns to hinder the spread of the Corona virus. Compared to the last quarter of 2021 the economy remained more or less equal with 0.40% real growth QoQ.

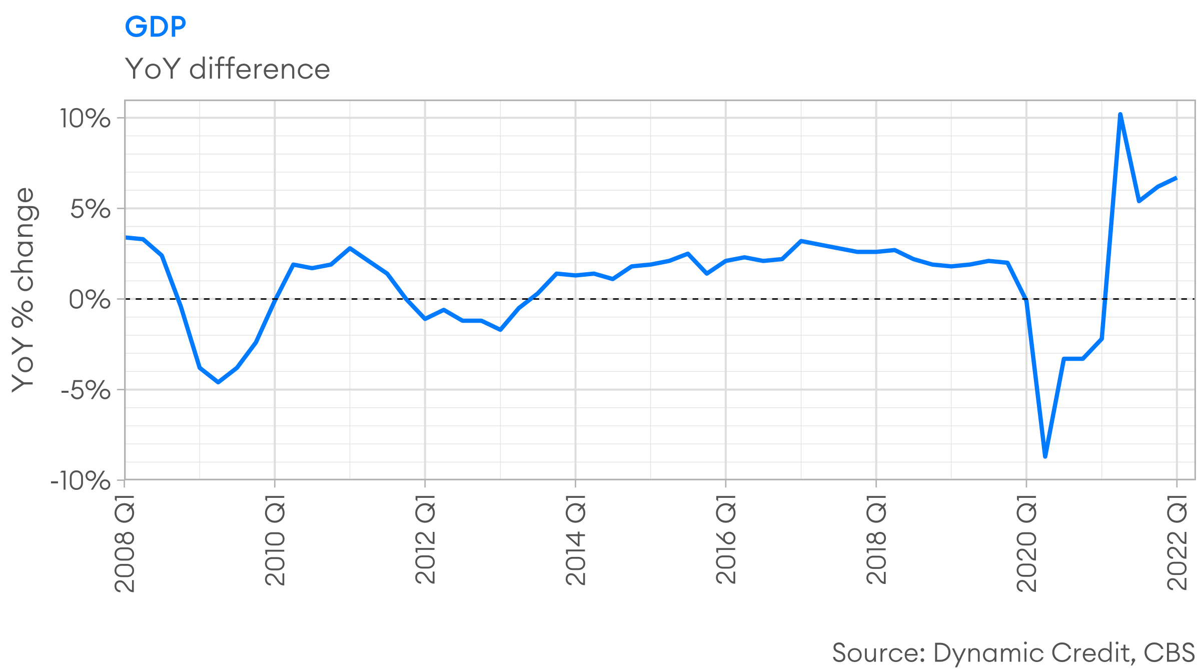



Figure 22: YoY GDP growth in The Netherlands as of 2022-Q1.

### Bankruptcies

Bankruptcies remain at a very low level with 118, 187 and 163 for April, May and June respectively which makes the quarter total 468 as seen in figure 23 on the next page. These numbers differ only slightly to the (post-)pandemic quarters. When the first pandemic support package was announced in April 2020, the number of bankruptcies decreased significantly and has not picked up since. The government support needs to be repaid in the coming period which could result in an increase in bankruptcies.

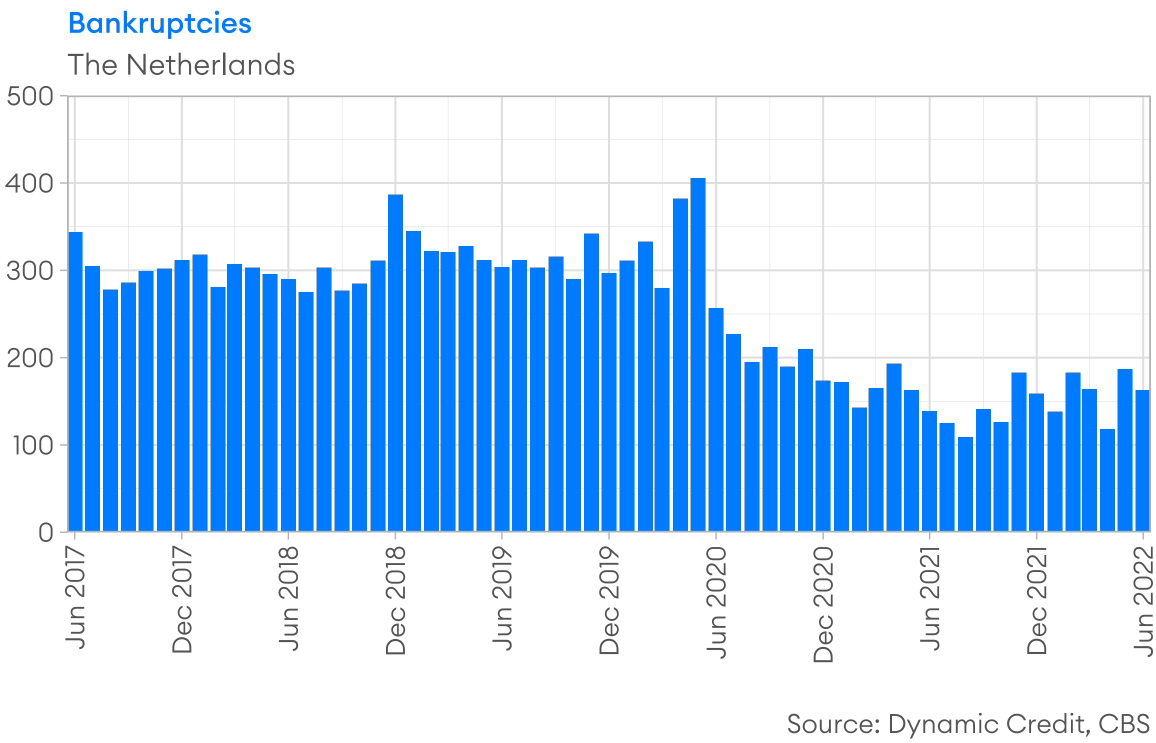



Figure 23: Monthly bankruptcies in The Netherlands as of June 2022.

## Unemployment

By June the number of unemployed people has increased to 339,000 from 327,000 in March. A 20 year record-low unemployment rate of 3.20% was realized in April before increasing slightly to 3.40% in June.

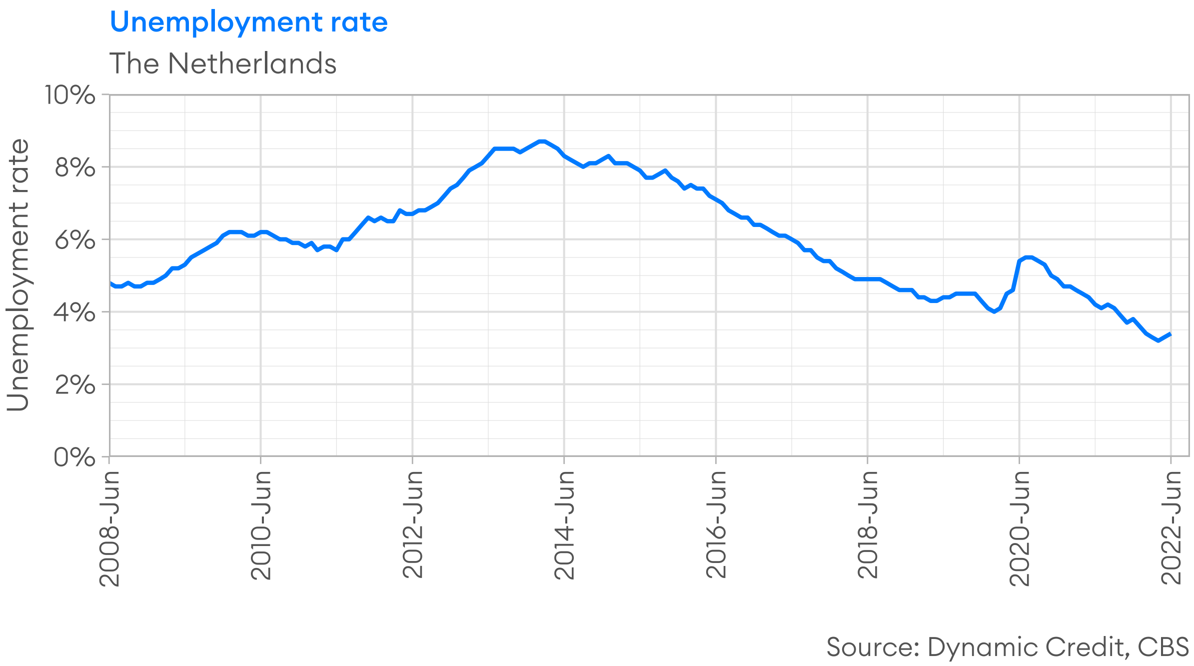
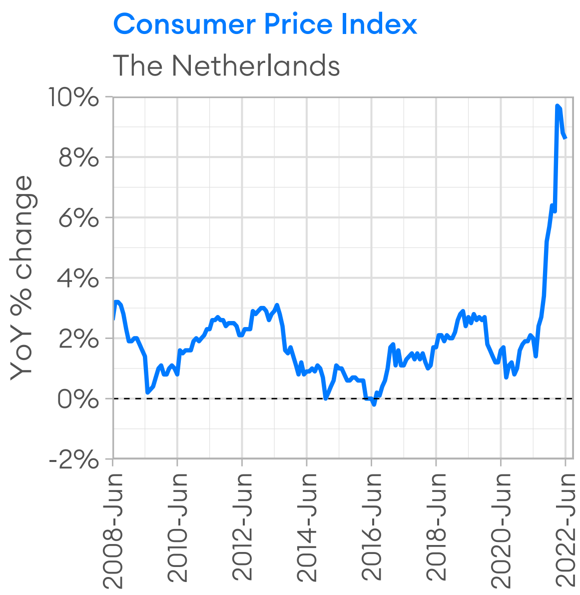



Figure 24: Unemployment rate in The Netherlands as of June 2022.

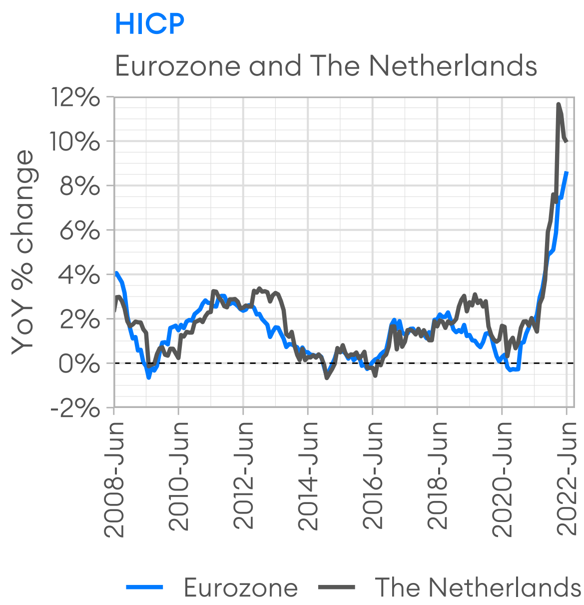
## Inflation and Harmonized Index of Consumer Prices

The consumer price index grew 8.60% YoY in June, down from peak growth of 9.70% in March. The contribution of prices for energy, food and personal transport account for roughly two thirds of the YoY growth. Throughout the quarter, CPI growth has been at similar levels with 9.60% in April and 8.80% in May.

Food and energy prices remain under pressure by the Russia-Ukraine war. Russia keeps European gas supply at low levels resulting in higher prices. Furthermore, the uncertainty about development of food prices remains, driven by higher energy prices, the Russian blockage of Ukrainian exports and farmers missing the sowing period, in addition to sanctions applying to Russian exports. These two factors lead to further uncertainty about inflation and the general economy. Especially to countries that are very dependent on the Russian energy sector and food imports.




Source: Dynamic Credit, CBS




Source: Dynamic Credit, CBS

Figure 25: The consumer price Index in the Netherlands (left) and the Harmonized Index of Consumer Prices ("HICP") (right) both as of June-2022.

To mitigate the impact of increasing energy costs, the government has reduced energy taxes and lowered the applicable VAT percentage. As a consequence, a household with an average energy consumption can expect a reduction in taxes of EUR 565[1]. For lower income households, an additional one-off compensation of EUR 1,300 will be granted. Despite the tax reduction, many households are facing or will face a steep increase in energy prices when their contract renews. A household with an average consumption of 2,384 kWh of electricity and 1,170 m3 of gas would face an increase of energy costs to roughly EUR 368[2] per month at the moment of writing versus EUR 130 per month in 2021, after taking the tax benefits into account. Lower income households with poorly insulated homes are at highest risk of energy poverty as a consequence.

1 Rijksoverheid - Stijgende energierekening deels gecompenseerd
2 Independer - Cheapest provider according to independer.nl as of 12 July 2022

# 7. Sustainability

## Green consumer loans can accelerate the energy transition of Dutch homes

The European Climate Law sets as target net zero greenhouse gas emissions by 2050 and an intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels. Around 19%[1] of the carbon footprint of a household consists of energy usage in the house, such as heating, warm water and electric appliances. Therefore, the energy-efficiency of homes will need to improve for these targets to be met.

Furthermore, focusing on the build-up environment, the European Commission proposes minimum energy performance standards to trigger transformation of the build-up environment. In a recent proposal the minimum energy label is set at D from 2030 onwards for all residential buildings[2].

To improve the energy efficiency of their homes, a household needs on average EUR 24,000, according to research by DNB[3]:

- 50% of the households has sufficient savings;
- 20% would be able to sufficiently increase their mortgage loan based on the LTI criteria;
- The remaining 30% would not be able to borrow sufficiently to improve the energy efficiency of their home.

The households that do have sufficient savings available, may not be willing to (fully) allocate the required amount to renovating their property as they have other purposes in mind or want to maintain a savings balance as a general buffer. The group that would be able to increase their mortgage loan faces relatively high costs, such as financial advice, appraisal agent and notary costs, making this option less attractive.

An attractive solution for many households could be a “green” consumer loan. This loan can be used for measures such as solar panels, a heat pump or insulation.

### Lending standards

To allow a larger share of homeowners to be eligible for such loans, lending standards will need to be adjusted: consumer lending is highly regulated in the Netherlands and the lending standards are laid out in a code of conduct[4]. The affordability test in this code of conduct assesses the affordability of the loan purely by assessing the loan versus the income of the borrower and other existing obligations. This strict affordability test therefore does not give any benefit to (a part of) the reduction of the energy bill the consumer will have as a consequence of the renovated property. We believe it would be fair to take (a part of) the expected energy savings into account, which will make the loan accessible to consumers who would not be able to afford the loan otherwise.

### Backstop guarantee

To further increase the appeal of these type of consumer loans, the government should consider to expand the scope of the NHG guarantee to also include consumer loans used for sustainability improvements to properties. This would reduce the risk of residual debt in certain scenarios for borrowers and lenders and improves the affordability of these loans due to lower interest rates. The Dutch state would then act as a backstop provider which would only result in out-of-pocket costs in a tail case scenario, opposed to the subsidies which result in direct spending.

As a result of adjusting the affordability criteria and acting as a backstop provider the government will create a playing field in which private initiatives can develop to accelerate the energy transition of Dutch homes.

1 Milieucentraal - Klimaatklappers
2 EPB Center - The Energy Performance of Buildings Directive (EPBD)
3 DNB - Financiering voor de verduurzaming van de woningvoorraad
4 VFN – Leennormen CK

### European pressure to boost renovation

To achieve a highly energy efficient and decarbonized building stock by 2050, the EU has established a legislative framework in 2010 that consists of the Energy Performance of Building Directive ("EPBD"). After some changes during the years, a proposal was made in December 2021 to amend the EPBD to reflect the higher ambitions and urgency of combating climate change, while also providing flexibility to the EU countries to take into account differences in the building stock[1]. Among the proposed measures are the gradual introduction of minimum energy performance standards to speed up renovation of the worst performing houses. The proposal requires residential buildings to be renovated from energy label G to at least F in 2030, and to at least E by 2033. As an indication, only the renovation from G to F already concerns 30 million homes in Europe.

**Ambitous proposal to require a minimum required energy label D by 2030.**

However, the proposal was not ambitious enough for Ciarián Cuffe, member of the European Parliament. The ambitions have been further raised through a large number of amendments[2]. This also includes increasing the minimum required energy label to no less than energy label D in 2030, instead of the aforementioned energy label E in 2033. It is still unclear whether these tightened plans will be translated into regulation, but it seems clear that the requirements set by the EU will be ambitious and will lead to major renovation requirements for the European housing stock.

### New national measures announced

In June, the Minister for Housing and Spatial Planning De Jonge presented plans for making the Dutch housing stock more sustainable[3]. This includes making poorly insulated homes and buildings more sustainable before 2030. The newly established nation-wide insulation program should ensure this, with the aim of insulating 2.5 million homes. In addition, the goal is to install one million hybrid heat pumps in existing homes before 2030 in order to significantly reduce gas consumption. A blending obligation of green gas will be introduced for the remaining gas requirement.

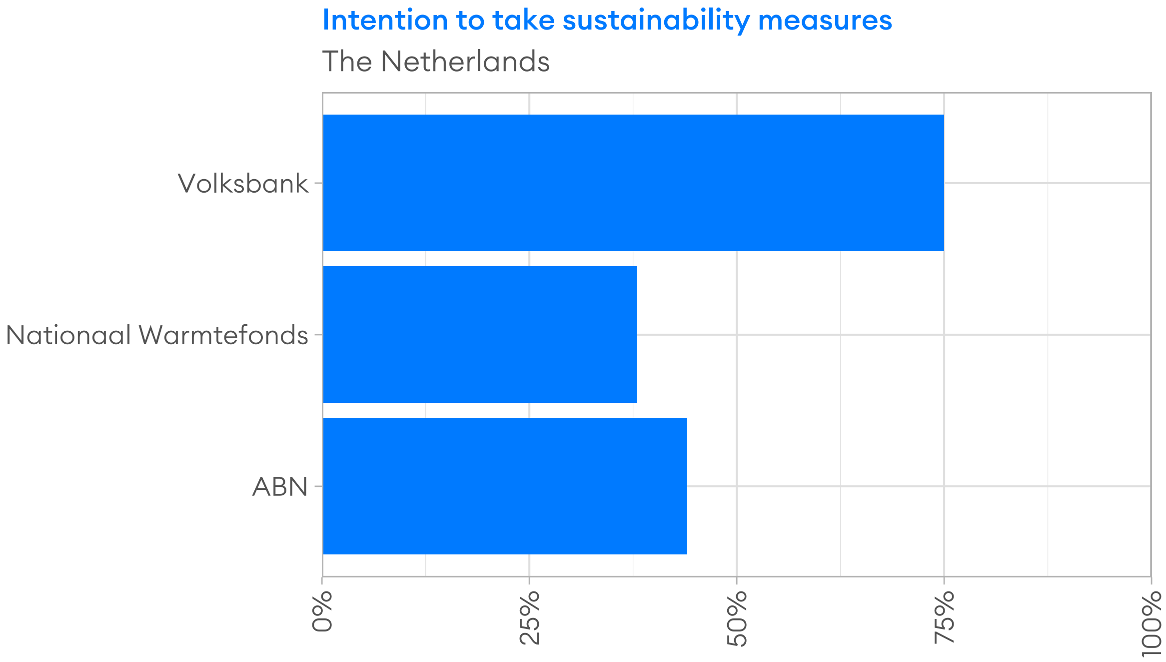
To make rental homes and heating installations more sustainable it is announced that minimum standards will be introduced. This gives building owners more clarity about which steps to take at what time. Energy labels E, F and G will no longer be allowed in 2030 for rental homes, by corporations or private landlords. With regard to heating installations, the hybrid heat pump will become the standard from 2026[4]. This obliges homeowners to switch from a central heating system to a more sustainable alternative. This replacement is expected to lead to an average gas saving of 60% per case. However, an exception will apply for homes for which this is not suitable.

To make sustainability measures also possible for low-income homeowners, the government is improving the conditions for participating in attractive energy-saving loans and mortgages through the Nationaal Warmtefonds, a foundation that provides access to financing of sustainable home improvements. This should make it possible for people with low incomes to borrow at a 0% interest rate. In addition, subsidies have been increased and it is also possible to receive a subsidy for only one inflation measure, instead of at least two.

1 European Commision – Proposal revision of the EPBD
2 European Parliament – Draft report with amendments on the proposal
3 Rijksoverheid – Duurzaam wonen voor iedereen
4 Rijksoverheid - Hybride warmtepomp de nieuwe standaard vanaf 2026

### Sustainability willingness of Dutch homeowners

Now that the urgency for taking energy-saving measures is increasing and there are many regulatory developments, the willingness among consumers also appears to be increasing. To map this out, PanelWizard conducted research on behalf of parties including ABN AMRO[1], Volksbank[2] and the Nationaal Warmtefonds. The question regarding the willingness of consumers to take sustainability measures was a recurring theme in every survey. In the surveys of ABN AMRO and the Nationaal Warmtefonds, this willingness came out at 44% and 38%. It is striking that the percentage is considerably higher, at about 75%, in the study for de Volksbank. A possible reason for the big difference between these figures may be the greatly increased energy costs, since the publication for the Nationaal Warmtefonds came out more than four months earlier. At that time energy costs were not as high as later in 2022.




Source: Dynamic Credit, Panelwizard, Nationaal Warmtefonds, Volksbank, ABN Amro

Figure 26: Survey outcomes performed for Nationaal Warmtefonds, Volksbank and ABN AMRO

The results for ABN AMRO and Volksbank show that the high investment costs in particular are still an obstacle for consumers. No less than 47% of the respondents in the ABN AMRO survey and 40% at de Volksbank state this as a reason for not taking measures. Many people also lack insight into what the actual costs will be, according to the study by the Volksbank. For example, the estimates done by consumers for taking sustainability measures varied widely. In anticipation of subsidies, it appears that three in ten respondents from ABN AMRO are still waiting to take measures. It is possible that the newly launched insulation program will help to change this. In summary, it appears that there is a willingness among consumers, but that many uncertainties still have to be overcome first.

1 [ABN Amro - Nearly half of all Dutch homeowners want to green their homes, but don't see how]
2 [Volksbank - Bijna driekwart woningbezitters wil verduurzamen]

## Degree of sustainability of flexible housing

In order to combat the housing shortage, the plan of the government is to realize a large number of temporary homes every year. These temporary homes should serve as a flexible shell around the permanent housing stock. Because these temporary homes can be realized a lot faster than permanent homes, this is seen as a solution to reduce the housing shortage more quickly. However, more flexible construction- and sustainability rules apply to these temporary homes, making it questionable whether these homes can be considered sustainable.

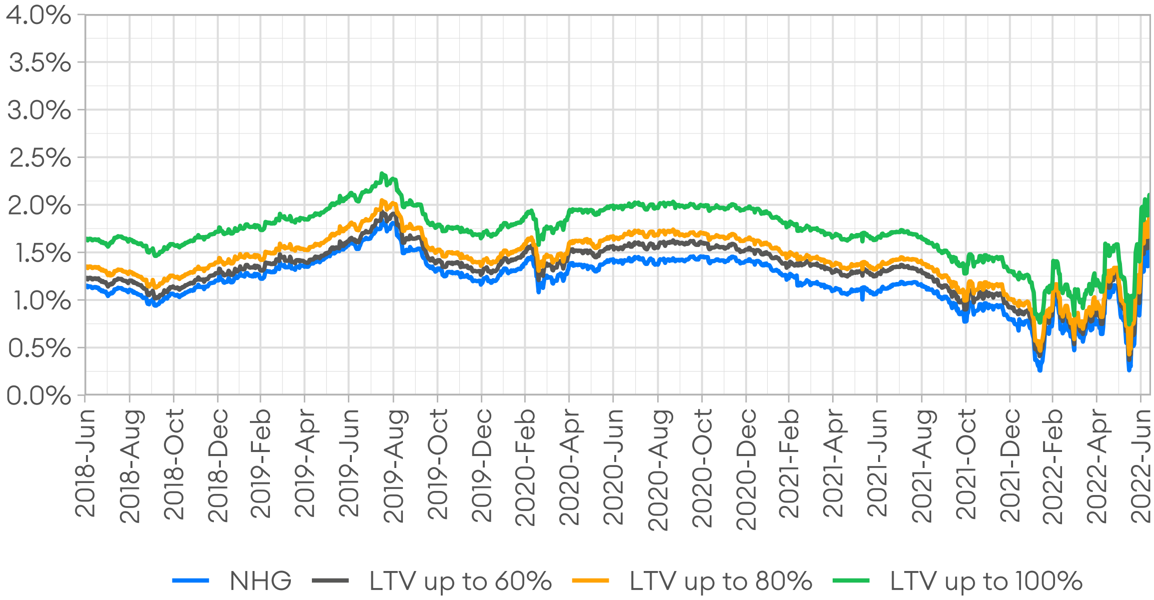
For example, flexible homes do not have to meet the BENG (almost energy neutral buildings) standards, which are required for regular new construction. This could cause temporary homes to be less energy-efficient, as a result of which they may make a negative contribution to the sustainability objectives of the government. In addition, the article by the FD[1] showed that temporary homes cannot escape the large CO2 emissions associated with the use of concrete and steel as materials. The CO2 emissions for temporary housing may be a third lower than for permanent housing, but on the other hand, the lifespan for temporary housing is merely for a maximum of 15 years. Only when a lot can be recycled, temporary homes might be a sustainable alternative to permanent housing.

1 Financieel Dagblad - Ook bouwer van flexwoningen zit nog vast aan $CO_2$-slurpers

# Appendix

### Spread average top 6 per risk class

5-year fixed rate period

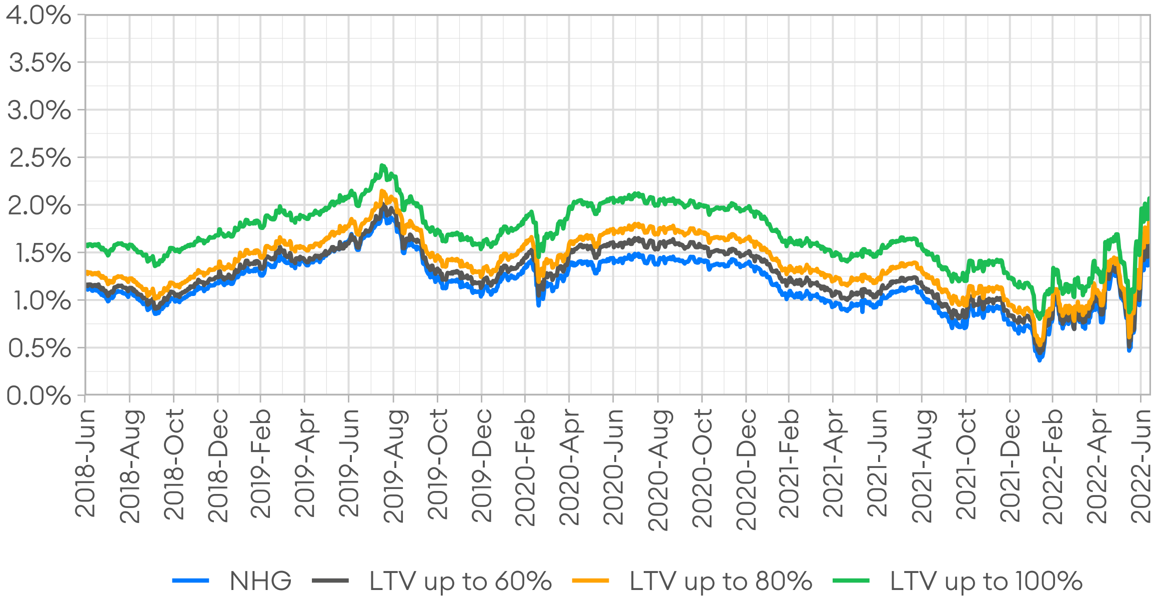



Source: Dynamic Credit, Hypotheekbond (2022-07-14)

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 14/07/2022.

### Spread average top 6 per risk class

10-year fixed rate period




Source: Dynamic Credit, Hypotheekbond (2022-07-14)

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 14/07/2022.

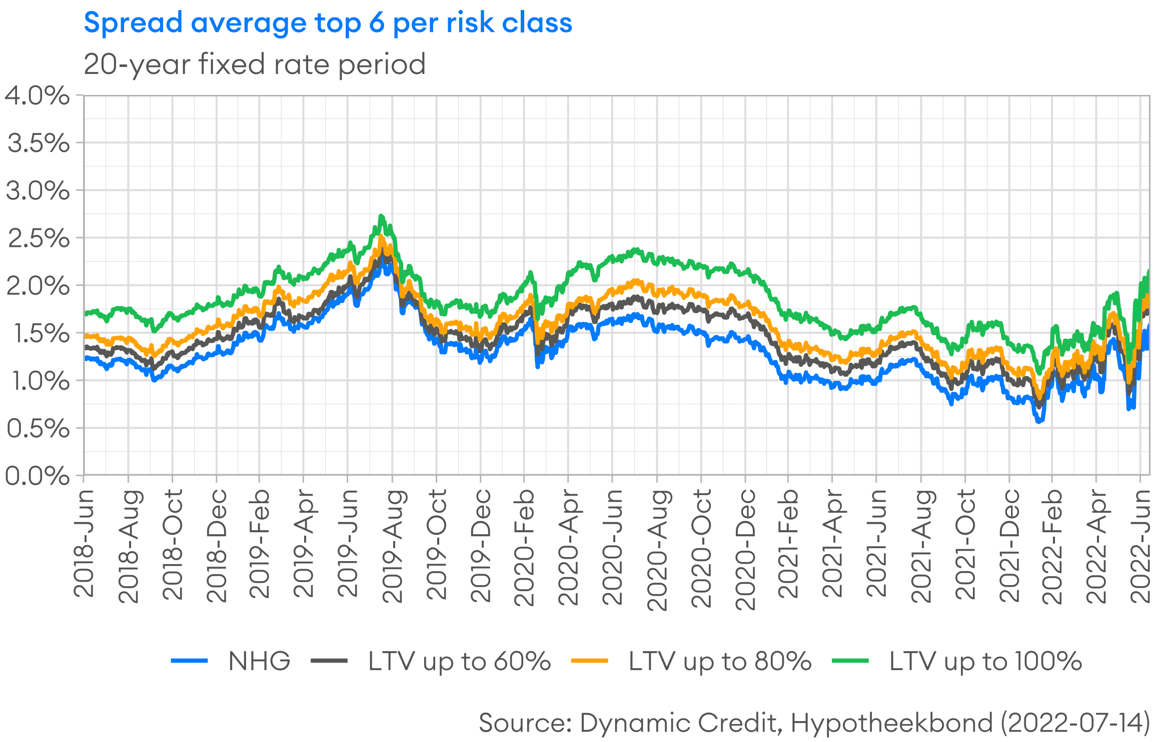



Figure A3: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 20-year fixed rate period for four risk classes. Up to and including 14/07/2022.

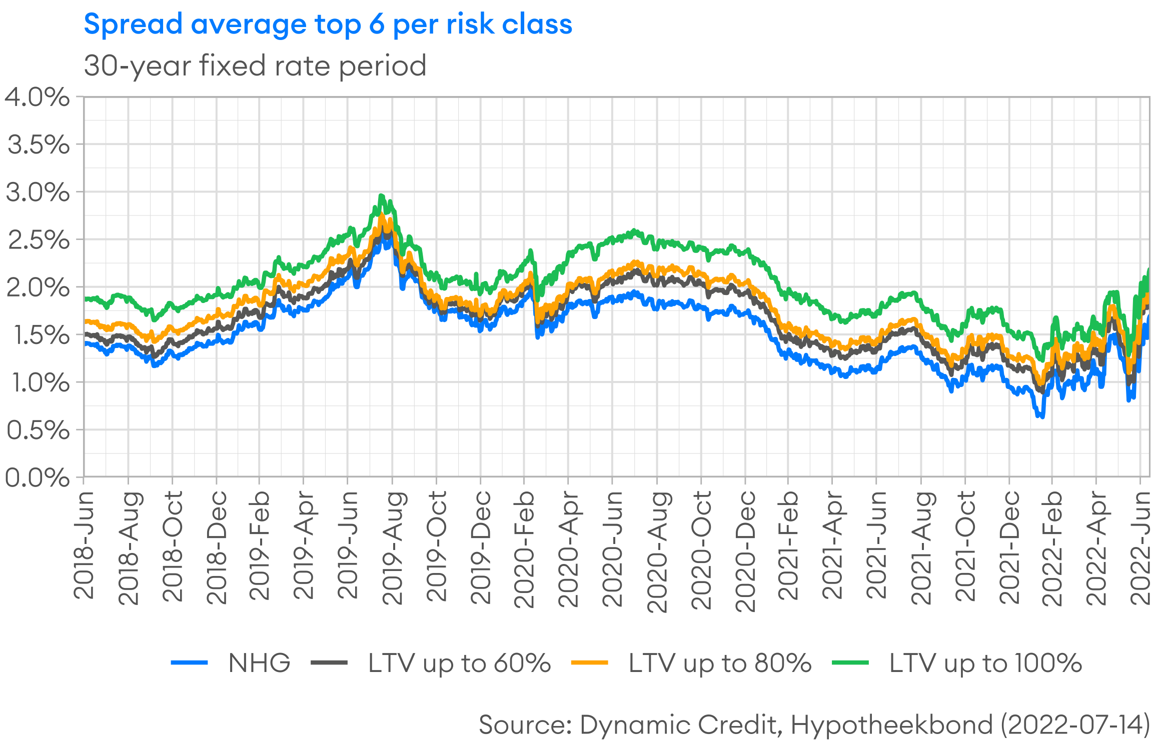



Figure A4: Spread of the average top-6 price leader mortgage rates (excluding action rates) for mortgage loans with a 30-year fixed rate period for four risk classes. Up to and including 14/07/2022.



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