



Dutch Buy-to-Let Market Update Build Finance

SEPTEMBER 2024

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1. Executive summary

In this market update we argue that the Dutch Buy-to-Let market remains stable from a credit perspective and volumes are picking up on the back of clarity on regulation and investor rebalancing.

Indicators show low arrears, increasing rents and house prices. Uncertainty surrounding regulations has subsided as the Affordable Rent Act has been implemented. Stamp duty will be lowered from 10.4% to 8% as per the 1st of January 2026. This will help buy-to-let investors rebalance their portfolios and seek corresponding financing. We are seeing various strategies from investors ranging from outright selling portfolios to other investors, pursuing acquisitions and investing to optimize rental income. As a result Buy-to-Let loan volumes are recovering to €10 billion per annum in 2024 according to our calculations versus €7.5 billion in 2023. Non-bank lenders have a 20% market share of those volumes. For 2025 volumes are expected to recover further towards more normalized levels of €15 billion per annum with potential for non-bank lenders to grow towards a 25% market share.

Housing prices for owner-occupied dwellings in the Netherlands have increased by 10.6% year-on-year as per July 2024. We also look at pricing from CBS for Buy-to-Let properties, where one can see that in the past 4 years the owner-occupied market (in an empty state) has outperformed the Buy-to-Let value (in a rented state) by 22%. Buy-to-Let increased by 16% in the past 4 years and the owner-occupied market by 40%. This is reflected in the typical discount we currently see in an appraisal report between the value in a rented state and in an empty state of 25-30%.

According to S&P data analyses, Dutch 90 days plus delinquencies increased from 0.08% to 0.24% on the back of a relatively small number of specific transactions rather than an across the board deterioration.

In May, both DOMI 2024-1 and DMF 2024-1 priced in the RMBS market with attractive AAA spreads around 70bps.

More detailed information can be found in our report and we are happy to answer any questions.

2. Housing market

2.1 House prices

From price monitoring by Statistics Netherlands (CBS) and the Netherlands' Land Registry, it appeared that in July 2024 prices of owner-occupied dwellings were 10.6% higher than in July 2023 ¹. Compared to June, the price index of existing owner-occupied dwellings increased by 1.4% in July. House prices in the Netherlands have reached a new peak every month from April 2024 until July 2024. The previous peak was reached in July 2022. After that, the trend reversed, and the price index declined for some time. However, since June 2023, house prices have been rising again. This can be observed in Figure 1 below. In July 2024, prices were 4.6% above the peak in July 2022. Moreover, as of July 2024, the average transaction price of existing owner-occupied dwellings was equal to €457.320 ².

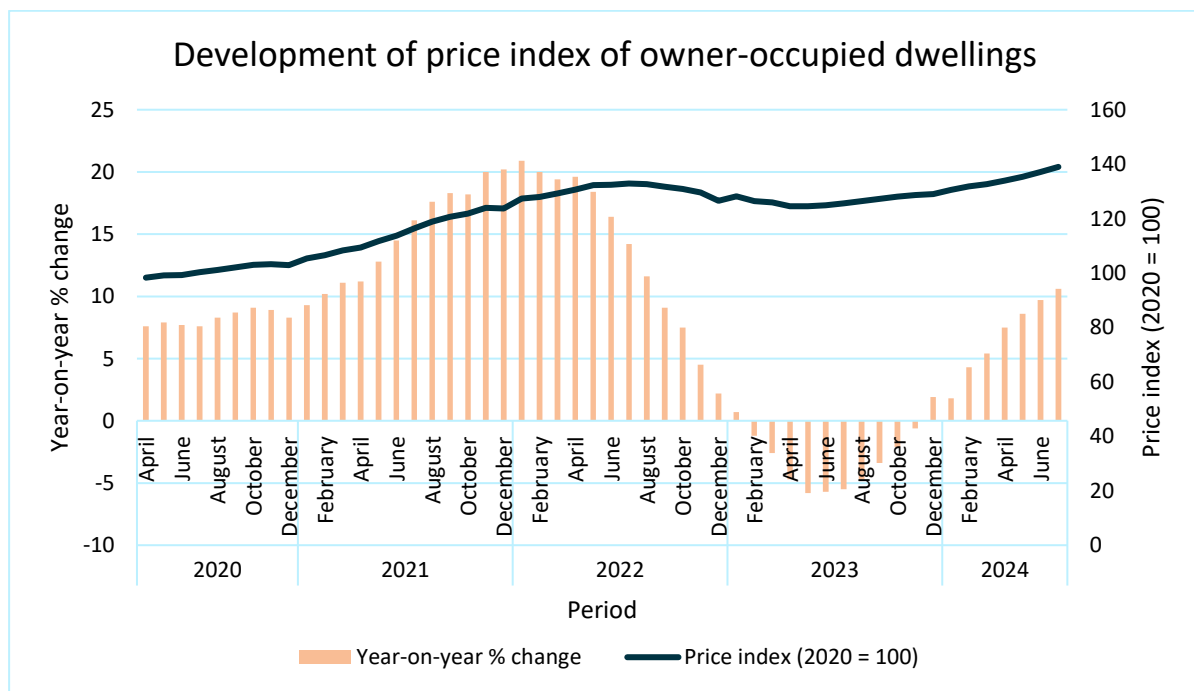


Figure 1: Development of price index of owner-occupied dwellings in the Netherlands (Source: CBS & Kadaster)

Recently CBS started posting data on buy-to-let transaction prices. We compare the prices on the buy-to-let market with the owner-occupied market below.

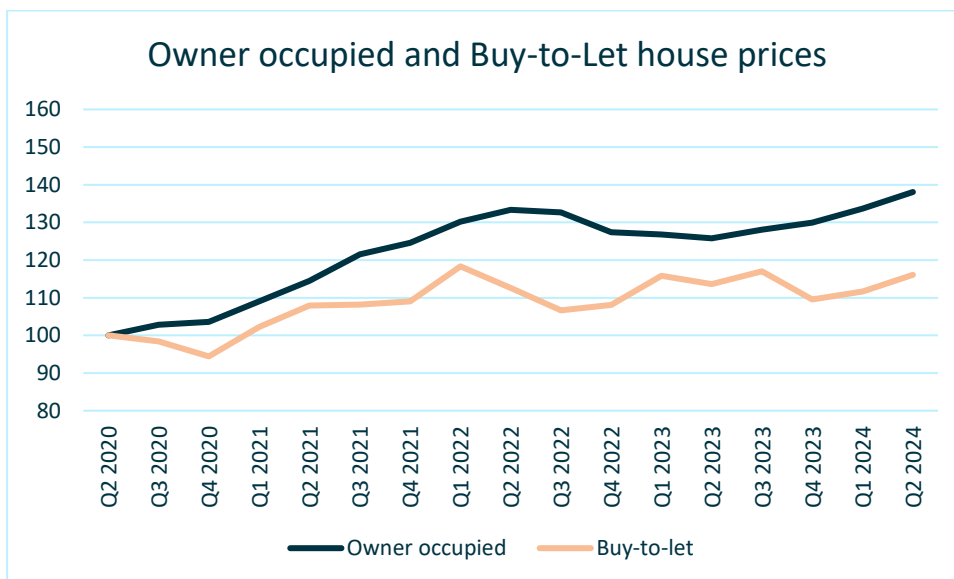


Figure 2: Development of price index of owner-occupied and buy-to-let dwellings in the Netherlands (Source: CBS prijsindex commercieel vastgoed)

One can see that in the past 4 years the owner-occupied market (in an empty state) has outperformed the buy-to-let value (in a rented state) by 22%. In an empty state prices increased 38% and in a rented state prices increased 16%. This is reflected in recent appraisal reports where discounts of properties in a rented state versus empty state increase from 5-10% to 25-30%. The price increases in the owner occupied market have helped increase buy-to-let house prices against a difficult backdrop as the optionality of selling a property when a tenant leaves provides attractive upside optionality. Expected rent and house price increases will further help increase buy-to-let house prices.

2.2 Developments rental market

During Q2 2024, 7.8% of the supply of owner-occupied homes came from former rental homes ³. Shifts from rental homes to owner-occupied homes were measured by analysing the houses that were offered for sale during the period between Q4 2019 and Q2 2024. Such a shift is defined as a home that has previously been registered as a rental home in Pararius' database, but has eventually been offered for sale on the Pararius platform. From Figure 2 on the next page, it turns out that the share of owner-occupied homes that came from the rental market varied between 3 and 4.5% for a long period of time. However, as of Q4 2022, that percentage started to increase rapidly. Research conducted by Pararius also demonstrates this change of pattern: it appears that more and more private real estate investors decide to sell their rental homes instead of renting them out. The supply of rental homes in the private sector experiences a further decline, mainly because renting out homes has become less attractive as a result of stricter governmental measures for landlords. As a result more rental homes are sold to private owner-occupiers which in turn leads to a further decrease of the supply of rental homes in the private sector.

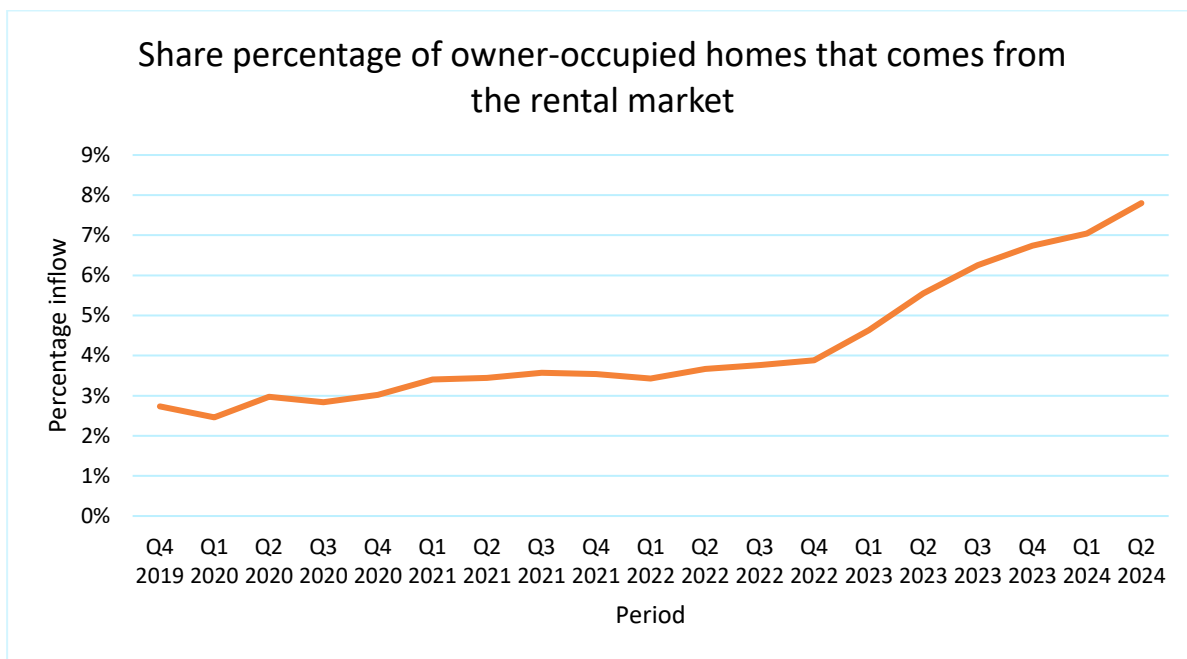


Figure 3: Share of owner-occupied homes from the rental market (Source: Pararius).

Regarding rental prices in The Netherlands, it has turned out from Pararius research that the average rental price per square meter in the private sector increased to €18.79 in Q2 2024 (see Figure 3 below). This represents an 9.9% increase compared to Q2 2023, when the average rental price per square meter was €17.10. This highlights the ongoing pressure on the Dutch rental market, where limited supply combined with strong demand leads to rising rental prices. It remains to be seen what the impact on rental prices will be now that the Affordable Rent Act has come into effect.

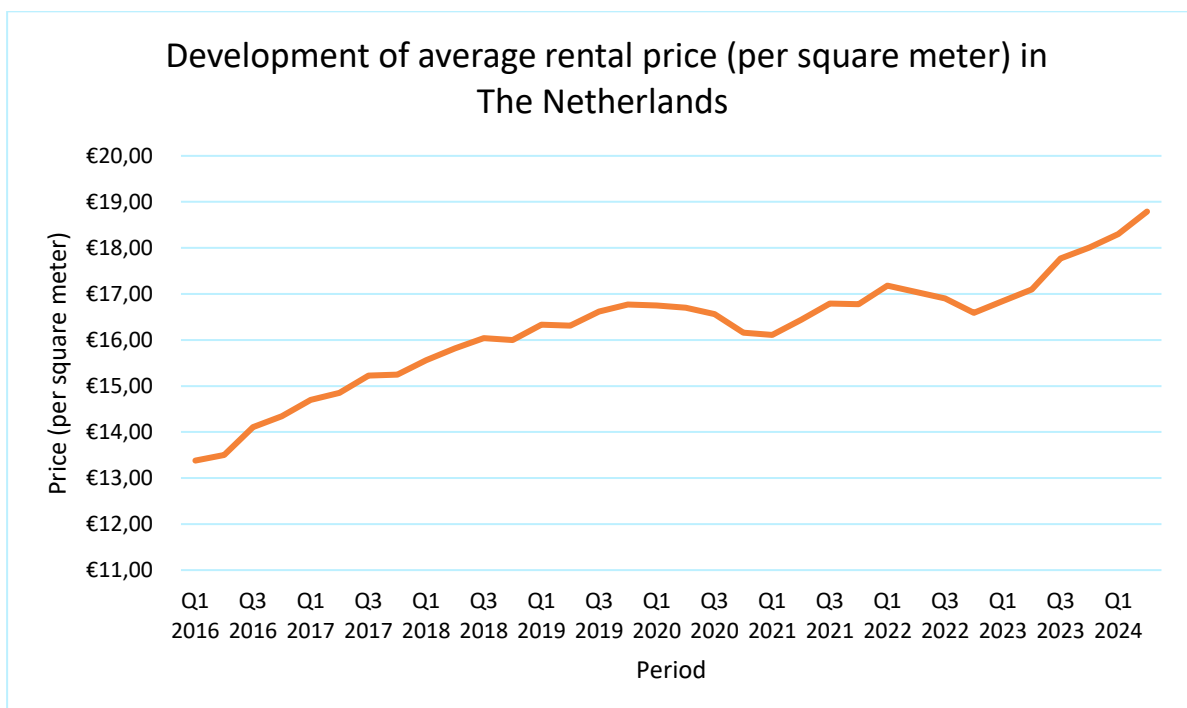


Figure 4: Development of average rental price (per square meter) in The Netherlands (Source: Pararius).

2.3 Expectations house prices

Potential home-buyers can obtain a higher mortgage due to rising wages and a slight decrease in mortgage interest rates. At the same time, there are few houses available for sale, partly due to a dip in new construction. This means that house prices will rise. The economists from RaboResearch have increased their expectation for house prices to rise by 9.1% this year and even 10.7% next year ⁴. Main reasons are a bigger effect of the ongoing shortage of houses than expected earlier and the increase in wages in the Netherlands (6.1% this year and 5% next year).

At the moment, more people are buying newly constructed homes again. However, over the past two years, the number of granted building permits has significantly decreased. As a result, economists predict a dip in the number of completed new construction homes. This also implies fewer relocations and a gradually drying up market for existing homes. The number of homes changing ownership is expected to remain relatively low in 2024 and 2025.

Political developments

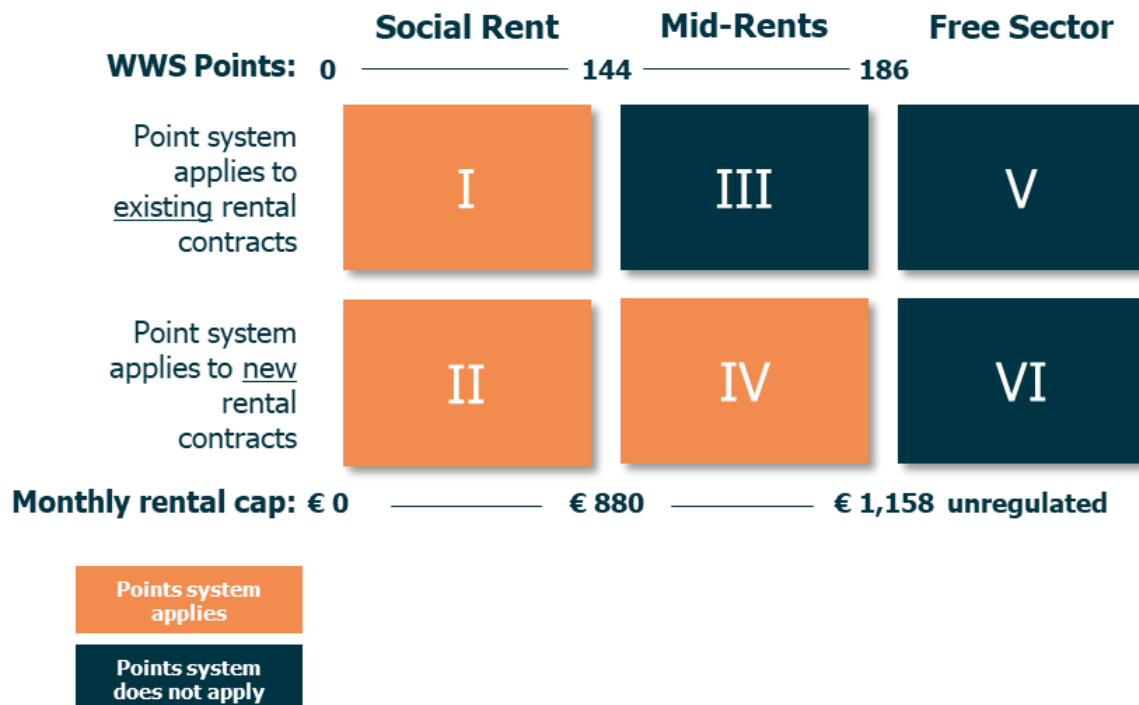
2.4 Affordable Rent Act into effect

The "Affordable Rent Act" ("Wet Betaalbare Huur" in Dutch) has come into effect as per July 1st, 2024. The law aims to make more affordable rental homes available to tenants to stimulate sustainability and stimulate investments in building new rental homes. The government expectation is that over time, the rent for more than 300,000 properties will decrease by an average of €190 per month. This will make more rental properties affordable for middle-income individuals.

We highlight the high-level impact of the law on buy-to-let investors below.

WWS points:

Below we show a WWS points scale overview and the impact on existing rental contracts and on new rental contracts (signed after July 1st 2024). The WWS point scale is for self-contained housing, a WWSO point scale has similar principles for Housing for Multiple Occupants. We will highlight the impact on the combinations of rental type and existing or new contracts below between I and VI.



I

- It will be forbidden to charge a rent higher than the corresponding WWS or WWSO points on existing rental contracts (note that previously a tenant could go to the Rental Commission when they could show that their rent was too high based on rental points only within 6 months after their rental contract started).
- Existing rent contracts cannot be increased by more than the legal maximum for the social sector (5.8% in 2024)

II:

- It will be forbidden to charge a rent higher than the corresponding WWS or WWSO points, for new rental contracts
- Existing rent contracts cannot be increased by more than the legal maximum for the social sector (5.8% in 2024)

III:

- On existing rental contracts the WWS and WWSO points system does not apply (although certain exemptions apply for rental contracts from the past few months)
- Existing rent contracts cannot be increased by more than the legal maximum for the social sector from 2025 onward (5.8% in 2024)

IV:

- It will be forbidden to charge a rent higher than the corresponding WWS or WWSO points, for new rental contracts
- Existing rent contracts cannot be increased by more than the legal maximum for the social sector from 2025 onward (5.8% in 2024)

V:

- On existing rental contracts the WWS and WWSO points system does not apply
- Existing rent contracts cannot be increased by more than the legal maximum for the free sector (5.5% in 2024)

VI:

- On existing rental contracts the WWS and WWSO points system does not apply
- Existing rent contracts cannot be increased by more than the legal maximum for the free sector (5.5% in 2024)

Enforcement of the Affordable Rent Act:

Municipalities are charged with enforcing the Affordable Rent Act and can determine the following sanctions.

1. Restorative sanctions:
 - a. penalty payment:
 - i. order to remedy violations includes obligation to pay sum of money if order is not timely executed
 - b. administrative enforcement
 - i. municipality determines the correct rent amount
2. Punitive sanctions:

- a. administrative fine for directors; municipalities determine the penalty with the following caps:
 - i. maximum fine 1st time: € 25,750
 - ii. maximum fine multiple sanctions: € 103,000

Enforcement measures are set-up to be quite strict, however it remains to be seen how quickly municipalities will be able to enforce the new law.

Modernisation of WWS point system:

The WWS point system has been updated. One of the changes that has the most impact is the energy label impact. Labels D and better receive a positive impact (40 points and upward from A energy label) while labels E and lower receive negative points. This creates a stimulus for landlords to invest in sustainability measures as higher points in WWS can lead to a higher rent (especially if this results in >186 points – which can only happen for a new tenant). New construction is also stimulated with a temporary mark-up of 10% to the rental price.

Impact versus previous situation:

Many market participants have focused on the impact on the mid-rents. Especially in and around popular cities in The Netherlands the regulated rent on a new mid rental contract can be substantially lower than the rent charged to the previous tenant. Many investors have announced they would rather sell these properties on the booming owner occupied market versus renting these out at much lower rents. For many long-term investors however, the new rules also provide opportunities to rebalance and grow their portfolio.

2.5 Abolishment of temporary rental contracts

Starting from July 1st, 2024, temporary rental contracts for residential properties are no longer allowed. All new rental agreements must be for an indefinite period except for the following exemptions:

- Student Housing: Temporary contracts can still be used for student accommodations, recognizing the transient nature of student housing needs.
- Renovations: If tenants need to vacate their homes temporarily due to extensive renovations or construction work, temporary contracts can be applied.
- Homeowners Abroad: Landlords who are temporarily working abroad or need to move back into their home can still use temporary contracts.
- Urgent Housing Needs: In cases where individuals urgently need housing, temporary contracts can be issued.
- Second-Chance Contracts: Tenants eligible for a second-chance contract, such as those who have previously faced eviction, can also be given temporary contracts.
- Transitional Housing: Orphans and bereaved families in transitional housing situations are also exempt.
- These exemptions ensure that while the general trend is towards more stable, permanent housing, there is still flexibility to address specific, temporary housing needs.

2.6 Fiscal measures

Stamp duty

The stamp duty for buying Buy-to-Let properties is currently elevated at 10.4%. The new budget of the government includes a reduction of the stamp duty to 8% which will be implemented per the 1st of January 2026.

Wealth tax on natural persons

We refer to our previous market update which shows calculations of the increased tax drag to around 1,1% per annum for natural persons investing in buy-to-let.

3. Interest rates

3.1 Historical development: 5 year Dutch government bond yield

The 5 year Dutch government bond yield is an important indicator in financial markets, as it helps to determine how actual and expected changes in the policy interest rate feed through to a broad range of interest rates in the economy ⁵. The 5 years Dutch government bond yield is therefore an important measure for, amongst others, Buy-to-Let mortgage interest rates. At Figure 4 below, one can observe the historical development of this bond yield during the period 2010-2024 ⁶.

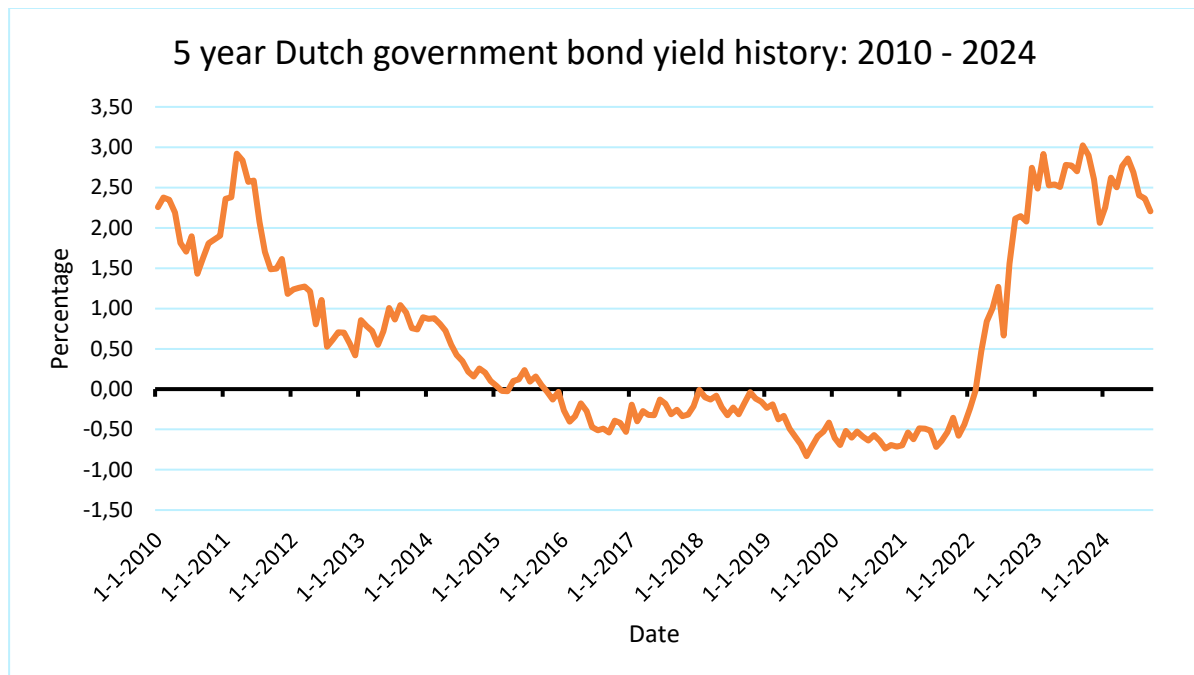


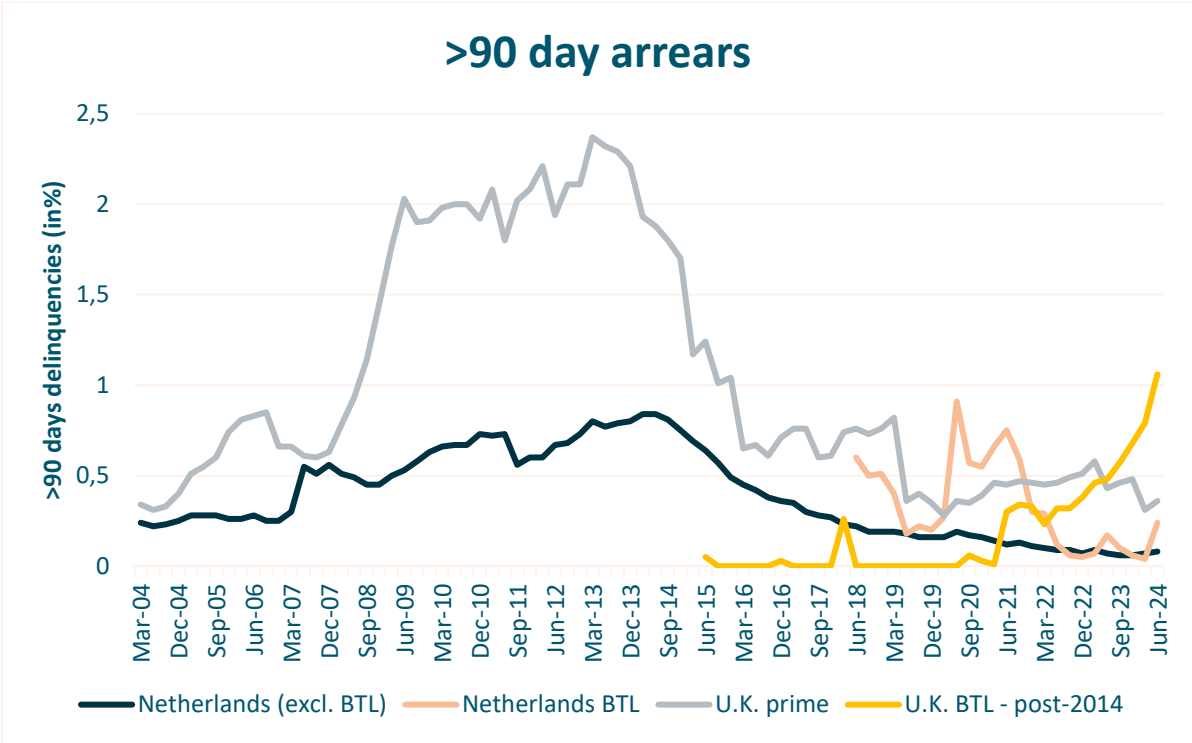
Figure 6: Historical development of 5 year Dutch government bond yield: 2010 – 2024 (Source: Investing.com)

From the figure above, it can be seen that the 5 year Dutch government bond yield has risen sharply in 2022 following the unique negative interest rates experienced in the previous 8 years. Currently we are at the lower end of the recent range at 2.2% as short term interest are decreasing. Buy-to-Let mortgage interest rates have dropped as a result.

3.2 Buy-to-Let lending

Standard and Poor’s monitors the Dutch Buy-to-Let segment, comprised of 19 BTL RMBS transactions from the following originators: Domivest, RNHB, NESTR, De Nederlandse and Casarion ⁷. It compares the performance to owner occupied RMBS transactions (Netherlands excl. BTL in the graphs). We highlighted two relevant graphs. The graph below shows the 90 days plus delinquencies for Dutch BTL increasing to 0,24% in Q2 2024 versus 0.08% for Dutch RMBS. S&P notes the following: “The increase in UK BTL post 2014 and Dutch BTL relates to a relatively small number of specific transactions rather than an across the board deterioration..”

Prepayment rates for Dutch BTL have increased from 9,6% per Q4 2023 to 10,1% in Q2 2024.



3.3 Securitization market for Dutch Buy-to-Let mortgages has reopened

In May Domivest priced its latest DOMI 2024-1 Dutch Buy-to-Let securitization deal. Spreads on the transaction have improved notably from previous transactions with the AAA notes prices at +68bps. In addition RNHB priced its DMF 2024-1 transaction at approximately 10 bps higher, where previous transactions were issued under the DPF label. Below, we show an overview of recent transactions rated by S&P. The size of the DMF transaction (€1.45bn), large presence of commercial real estate loans (only 51% pure residential buy-to-let) help explain the difference in pricing and credit enhancement.

RECENT TRANSACTIONS (DMS)	DOMI 2022-1	JUBILEE PLACE 4	DPF 2022-1	JUBILEE PLACE 5	DPF 2023-1	DOMI 2023-1	JUBILEE PLACE 6	DOMI 2024-1	DMF 2024-1
AAA	0.85%	1.2%*	1.45%	Not offered*	1.35%	1.12%	0.80%	0.68%	0.75%
AA	1.40%	2.60%	1.85%	3.25%	2.35%	1.85%	1.15%	0.95%	1.05%
A	1.80%	3.15%	2.65%	4.25%	3.00%	2.50%	1.60%	1.35%	1.45%
BBB	2.40%	4.40%	4.00%	6.03%	4.30%	4.05%	2.60%	2.00%	2.10%
BB				8.80%			Not offered*		3.5%
B		6.60%		15.18%				5.65%	
Closing date	apr-22	jun-22	sep-22	okt-22	feb-23	feb-23	apr-24	may-24	may-24
Comments		* = retained							

Appendix: Glossary

TERM	DEFINITION
Pararius	The largest independent website for rental properties in the Netherlands.
RaboResearch	The research division of the Dutch bank Rabobank, providing economic, financial and sustainability analysis.
Standard & Poor's (S&P)	A financial services company known for its stock market indices such as the S&P 500 and for providing credit ratings for borrowers.
Statistics Netherlands (CBS)	Dutch Central Bureau of Statistics.
The Netherlands' Cadastre (Kadaster)	Land Registry and Mapping Agency: collects and registers administrative and spatial data on property and the rights involved.
WOZ Value	The market value of a property which is used, among other things, to levy various taxes, including property tax and income tax.
WWS	The Rent Commission's point system, also known as the housing valuation system (WWS), determines the maximum rent for a <u>Self-Contained property</u> in the Netherlands. This system is a calculation method that calculates the point number of a housing unit based on various properties.
WWSO	The Rent Commission's point system, also known as the housing valuation system (WWSO), determines the maximum rent for a <u>House with Multiple Occupants</u> in the Netherlands. This system is a calculation method that calculates the point number of a housing unit based on various properties.

Sources

- ¹ [House prices up by nearly 11 percent in July | CBS](#)
- ² [Bestaande koopwoningen; verkoopprijzen prijsindex 2020=100 | CBS](#)
- ³ [Schaarste op vrije sector huurmarkt neemt toe \(pararius.nl\)](#)
- ⁴ [Prijstijging koopwoningen zwelt aan - Rabobank](#)
- ⁵ [Policy Interest Rates | Data & Forecasts | FocusEconomics \(focus-economics.com\)](#)
- ⁶ [Nederland 5 jaar Obligatie Historische Gegevens - Investing.com](#)
- ⁷ [European RMBS Index Report Q2 2024 | S&P Global Ratings \(spglobal.com\)](#)

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