House price correction is underway in the Netherlands

Author: Petra Ott-Laubach, phone +49 (0) 69 7431-3453, research@KfW.de

Limited correction in Dutch house prices thus far

Regarding the development of house prices, the Netherlands was one of the international top spots in recent years. Home prices nearly tripled between 1995 and summer 2008. In the meantime, a correction has set in. Compared to other countries however, the house price adjustment has been limited so far. Dutch home prices are currently 17% below their peak in summer 2008. The decline in building permits was much more pronounced, amounting to 30% compared to the previous year and nearly 60% compared to the 1995 level (Chart 1).

Residential mortgage debt at high level

The real estate boom was accompanied by a sharp increase in mortgage lending which was additionally boosted by generous tax subsidies for borrowing. Though the build-up of indebtedness has slowed recently, the Dutch ratio of residential mortgage debt outstanding to GDP is still one of the highest in the world. It has trended sideways recently. In contrast to that, the mortgage debt to GDP ratio in the US has markedly declined since 2009. Starting from an already low level, a downturn was also observed in Germany from 2008 to 2011 (Chart 2).

Increasing loan defaults put a strain on the banking sector

For about one fifth of Dutch homeowners the mortgage debt level currently exceeds the market value of the respective property. In reaction to real estate market risks Dutch banks have significantly increased their write-downs and risk provisions. If the market correction gets more severe, the Dutch public sector will also be affected, as a large share of residential mortgage loans is insured by the "National Hypotheek Garantie".

Risk premiums very low

Financial markets seem not to pay heed to these risks. Like German interest benchmark rates, Dutch government bond yields are moving at very low levels at present (Chart 3).