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House prices expected to keep rising this year, homeownership unattainable for more and more people

Dutch Housing Market Quarterly
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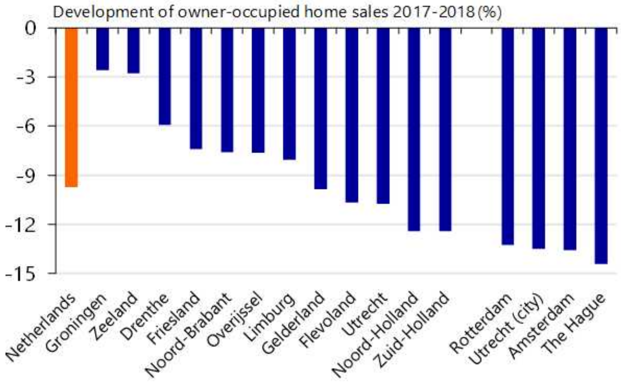
- **Dutch house prices increased by an average of 9.0 percent in 2018**
- **Especially in Flevoland prices rose quickly: there, a house became 11.3 percent more expensive**
- **Owning a home becomes unattainable for more and more people because of these price increases**
- **Consequently, the group of people believing it to be a bad time to buy a house has become bigger than the group of people believing it to be a good time**
- **That is why we expect prices to rise less exuberantly the next two years**
- **We expect growth around 6.0 percent in 2019, and a further levelling off to around 4.0 percent in 2020**
- **Because supply of houses for sale remains low, we expect the number of sales to decrease further in 2019. For this year, we expect around 205,000 sales, whereas for 2020 we expect around 195,000 sales**

Sales falling sharply

With construction of newly-built houses lagging behind, almost a third fewer homes for sale than a year earlier and prices pushing up towards 300,000 euros; it is not surprising that the number of transactions in the last months of 2018 continued to fall. Normally the fourth quarter of the year is the busiest, but October, November and December showed hardly any increase on the first three quarters. With 56,410 sales, no less than 14.8 percent fewer homes were sold than in the same period of 2017. The west of the country in particular ground to a standstill: in Zuid-Holland sales fell by 17.9 percent, and in Rotterdam by almost 15 percent.

In 2018 as a whole, the number of sales reached slightly more than 218,000 homes, 9.7 percent less than in 2017 when 242,000 owner-occupied homes changed hands. This is lower than we had anticipated in our previous [Dutch Housing Market Quarterly](). The fall is again being felt most keenly in the Randstad: in Flevoland and Utrecht the number of transactions tumbled by almost 11 percent, while in Zuid-Holland and Noord-Holland the market contracted by more than 12 percent. Even Amsterdam was not immune, experiencing the worst year for sales since 2013. Elsewhere in the country it would appear that things are mostly returning to normal following the record year of 2017. Transaction numbers in Groningen and Zeeland, for example, fell by only 2.6 and 2.8 percent respectively (see Figure 1). Although fewer homes were sold in 2018 in most of the other provinces, numbers were still high compared to the years such as those before the crisis.

Figure 1: No province escapes decline



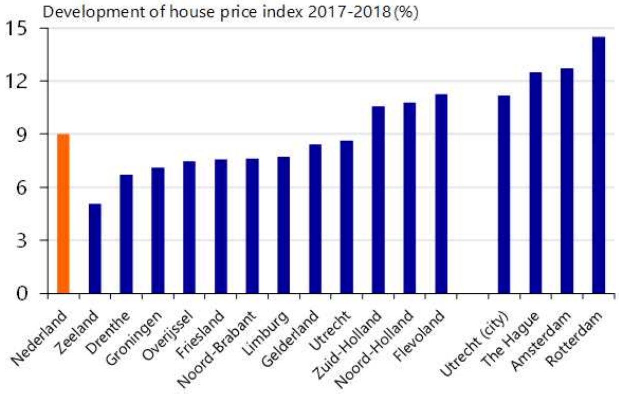
Source: Dutch Land Registry, Statistics Netherlands (CBS), RaboResearch

Record prices almost everywhere

Not only the sales decline was relatively smaller outside the Randstad, but price rises were too: owner-occupied homes in the north of the country were on average 7.2 percent more expensive in 2018, compared to an average of 9.0 percent for the Netherlands as a whole. In Zeeland, buyers had to pay just 5.1 percent more than in 2017. On the other hand, prices in Flevoland shot up by as much as 11.3 percent (see Figure 2), giving this province the dubious honor of topping the list of the strongest price rises in 2018. This is all relative, of course, because in absolute terms a house in the Netherlands' youngest province was around 25,000 euros more expensive. Second to Flevoland in terms of absolute strong price rises was Noord-Holland, where some 35,000 euros more had to be paid for an owner-occupied house than in 2017.

Another striking development is that the house price index in the province of Utrecht rose last year by 8.6 percent, slightly below the Dutch average. In the last quarter of 2018 prices rose by only 0.6 percent q-o-q, while the average in the Netherlands was 1.5 percent. In the municipality of Utrecht, however, prices did continue to rise fast (1.9 percent q-o-q), which would imply that prices in the rest of the province were rising much more slowly. It remains to be seen in the coming quarters whether this was a blip, or the start of a period of slower price rises on the Utrecht housing market.

Figure 2: The West even more expensive



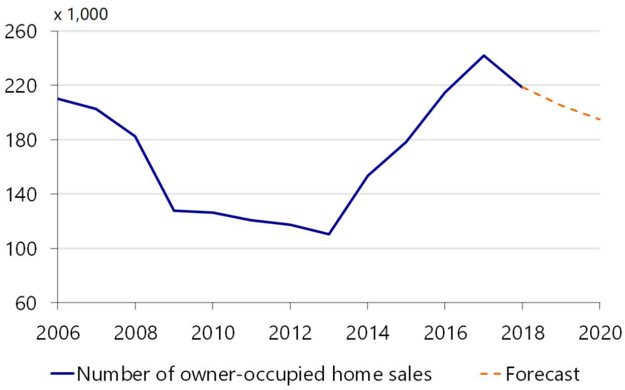
Source: Dutch Land Registry, Statistics Netherlands (CBS), RaboResearch

Price rises expected to slow; sales falling further

'Rising prices, falling sales'. This was the housing market in a nutshell in 2018, and we expect the same for 2019: we are assuming that the number of sales this year will fall further to around 205,000, and in 2020 to around 195,000 homes. We also stand by our earlier prediction that the price index for existing owner-occupied homes will rise this year by 6.0 percent. This is not such a hefty rise as in the previous two years, but it does mean that buyers will still have to pay roughly 17,000 euros more for an average house in the Netherlands at the end of this year. Looking ahead to 2020, we anticipate that price rises will continue to level off, to around 4.0 percent (see Figure 4).

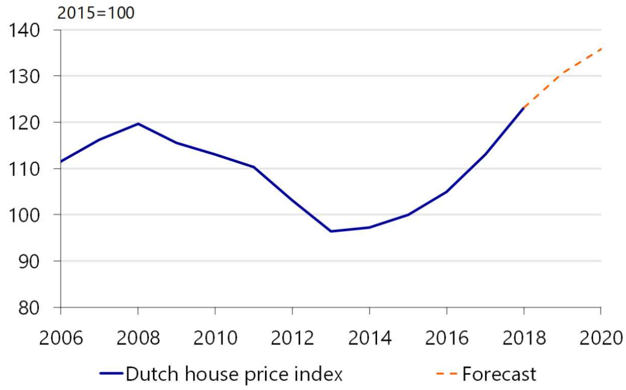
The speed at which prices rise is due to the persistently low mortgage rates, rising incomes and the momentum in the housing market itself (for a technical explanation of the price model we use for our estimates, see [Van Dalen en De Vries, 2015]). Based on the most recent figures from the Dutch Land Registry and Statistics Netherlands (CBS), we have revised this price model and the price predictions using this model are higher than those mentioned above. However, since our model does not take account of the stricter lending criteria, our expectations are more modest. Prices cannot rise indefinitely, mainly because of the loan-to-income standard. As prices have risen so fast in the past year, a growing number of potential buyers will come up against financing problems. We will explain below a number of factors that we believe will be crucial for house prices in 2019.

Figure 3: Sales are expected to decline to below 200,000



Source: Kadaster, RaboResearch

Figure 4: Price rises are expected to continue



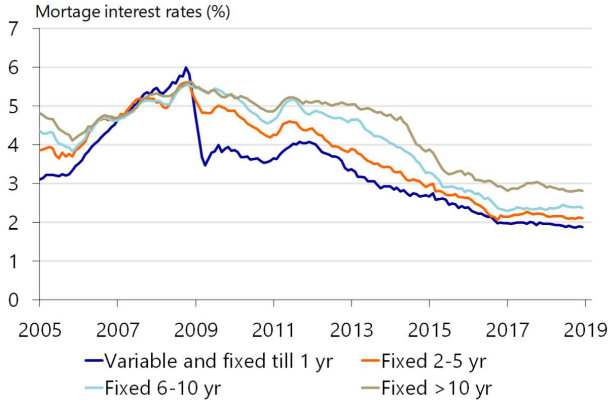
Source: Kadaster, Statistics Netherlands (CBS), RaboResearch

Mortgage interest rates

One of the most important factors, which together with the house prices ultimately determines what owners spend on their house is the mortgage interest rate. Despite greater turbulence on the financial markets, mortgage rates show few signs of movement. According to the latest statistics from the Dutch Central Bank (DNB), the average mortgage rate for new mortgages taken out with the banks was 2.4 percent in November 2018, a percentage that has remained virtually unchanged for some time (see Figure 5). The fall in average mortgage rates actually came to a standstill at the end of 2016, and since then rates have remained steady. However, average mortgage rates disguise the fact that a growing number of homeowners have taken out fixed rate mortgages for a longer period. Although the mortgage rates for such longer periods are higher than for shorter fixed rate periods, with the low rates at present it is very tempting for many people to take advantage of this and lock into a low mortgage rate for longer.

Statistics from the Dutch Central Bank therefore indicate that the group choosing a fixed rate period longer than 10 years has now grown to around 30 percent of all mortgages. These figures are only for the banks, though. Other lenders such as insurers and non-bank lending platforms (such as those investing for pension funds) are relatively more active in granting mortgages with very long fixed rate periods. Fixed rate mortgages for twenty or even thirty years are no longer an exception. According to HDN, a company that deals with virtually all mortgage applications for brokers in the mortgage market, almost 60 percent of the mortgage applications are for a fixed rate period longer than 10 years.

Figure 5: Mortgage interest rates have been stable for a while now



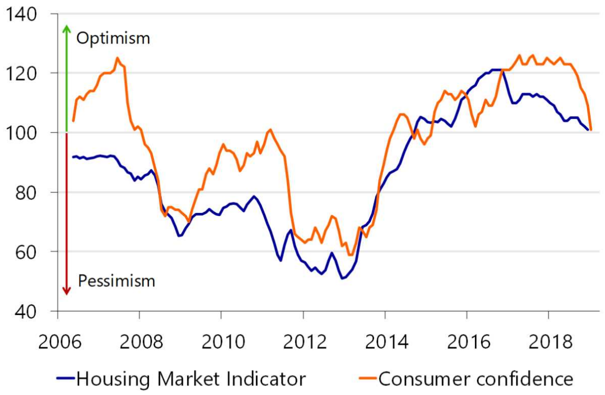
Source: DNB

With a gradually cooling economy, inflation not yet rising significantly and ongoing uncertainty surrounding developments such as Brexit and trade wars, we expect interest rates to remain low for a while. Capital market interest rates have started to decline, recently. However, funding costs for mortgages have risen in recent months: credit mark-ups demanded by institutional investors for residential mortgage-backed securities (RMBS) are visibly higher than a year ago. For the time being this rise in the risk premium is being compensated by a fall in the capital market interest rates, but we are allowing for the fact that mortgage rates may rise slightly during the year. The speed of such rises will depend partly on competition in the mortgage market, which is fairly intense at the moment. We therefore do not expect any sharp rise in mortgage rates, but it is much more likely that they have now really reached their lowest point. If interest rates do actually rise, this may have a dampening effect on further price rises.

Confidence

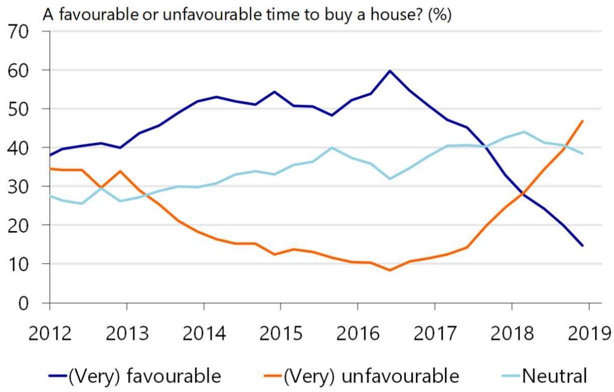
Apart from the question whether potential home buyers can actually cope financially, their willingness to buy also plays a role. The start of 2019 has been very different to 2018 in that respect: a year ago it seemed that nothing could dent the confidence of the Dutch in the economy and their own finances. Over recent quarters, that optimism has taken a considerable hit. In January, confidence had fallen to a level just about positive (see Figure 6). The *Eigen Huis* Market Indicator published by the (Prospective) Homeowners' Association (*Vereniging Eigen Huis* - VEH) has also slumped in the past year: the group of Dutch people who feel it is an unfavorable time to buy a house grew from slightly more than 28 percent at the start of 2018 to almost 47 percent at the end of the year (see Figure 7). The group who feel it is actually a good time to buy is now less than 15 percent of the respondents in the VEH's Market Indicator. This may have an impact not only on the number of sales, but also on the prices that the Dutch are willing to pay for their home.

Figure 6: Doubts taking hold



Source: TU Delft/OTB, Vereniging Eigen Huis, Statistics Netherlands (CBS)

Figure 7: The shine is off

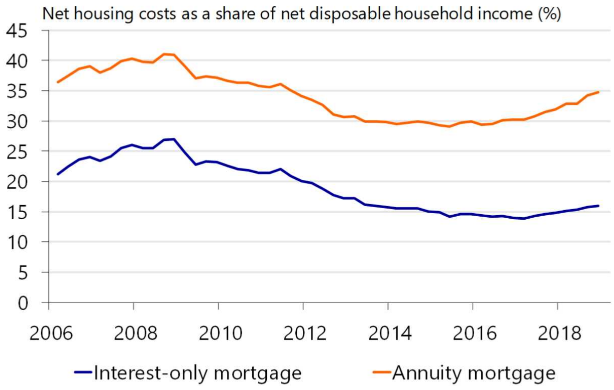


Source: TU Delft/OTB, Vereniging Eigen Huis

Affordability

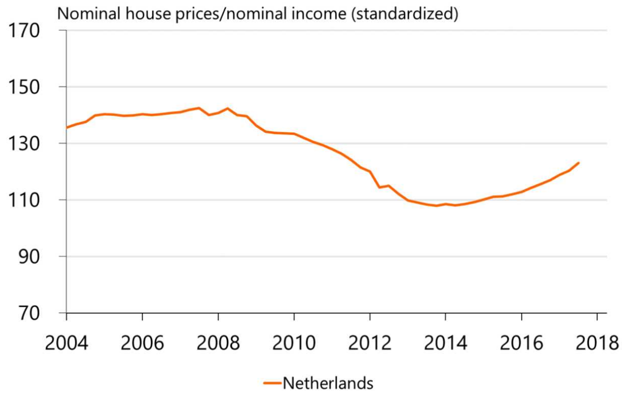
The fact that confidence in the housing market among the Dutch is under pressure is not surprising: the robust price rises of recent years have made Dutch homes much less affordable. The affordability index by research consultancy Calcasa shows that average housing costs on the basis of an annuity mortgage have risen further: an average of 34.7 percent of net income now goes on housing costs (see Figure 8). The gap between Dutch incomes and the price that has to be paid for an owner-occupied house is also widening fast. Perhaps the unattainability of owning a house is one of the reasons that young people continue living at home longer, as found by Statistics Netherlands (CBS). Figure 9 would seem to indicate that this gap is not so bad after all: before the crisis houses were relatively more expensive. But it is worth remembering that it was not unusual at that time to borrow five, or sometimes even six times one's income. The loan-to-income standards are now stricter, making it more difficult for individuals to finance a house. We expect that a decline in attainability may first and foremost have an impact on the number of bids above the asking price, but probably not so much on the number of sales. This is because the cost of the alternative, renting, has also risen fast.

Figure 8: Despite low interest rates costs are mounting



Source: Calcasa

Figure 9: Growing gap between prices and income

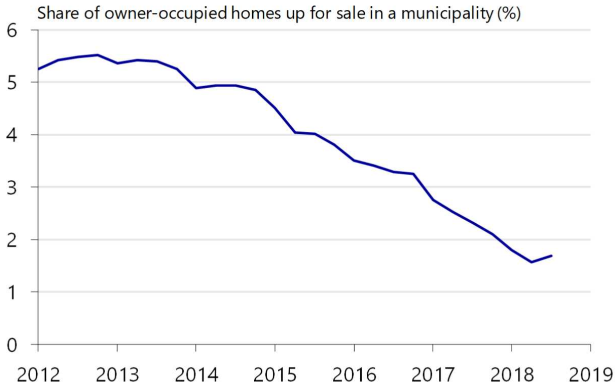


Source: OECD

Shortage

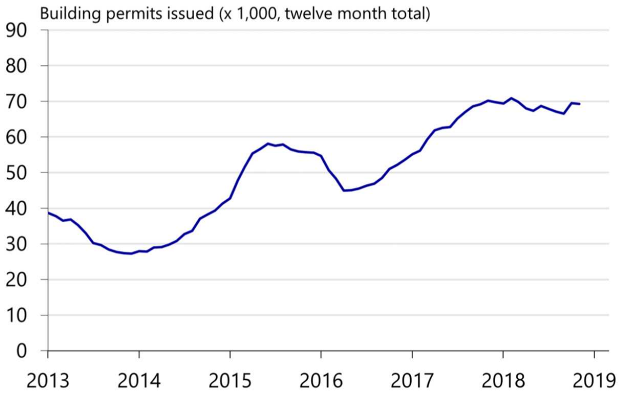
What is expected to have a significant effect, however, on the number of sales is the sharp fall in the number of houses for sale. At the end of 2018, less than 1 in 60 owner-occupied homes were up for sale in the Netherlands, while one year earlier this was still 1 per 45 homes (see Figure 10). What's more, new house-building appears not to have a mitigating effect just yet: the rise in the number of building permits for new homes and the number of new homes sold which began in 2016 would appear already to be at an end (see Figure 11). Last year around 66,000 new homes came on to the market, while the number of building permits issued seems unable to break the 70,000 barrier (on a rolling twelve-month total). This is still far removed from the Dutch Housing Agenda (*Nationale Woonagenda*) to build more than 87,000 homes a year until 2025, so that – taking demolition into account – the housing stock will grow by around 75,000 homes each year. The ongoing housing shortage is therefore forcing us to adjust our sales forecast further downwards, to around 205,000 homes in 2019. The shortage is expected, however, to provide an extra stimulus for continuing price rises in 2019.

Figure 10: Little choice



Source: Statistics Netherlands (CBS), Huizenzoeker.nl, ABF Research, computation by RaboResearch

Figure 11: New house-building sluggish



Source: Statistics Netherlands (CBS)

In the spotlight: Towards energy label A, from how far do we need to come?

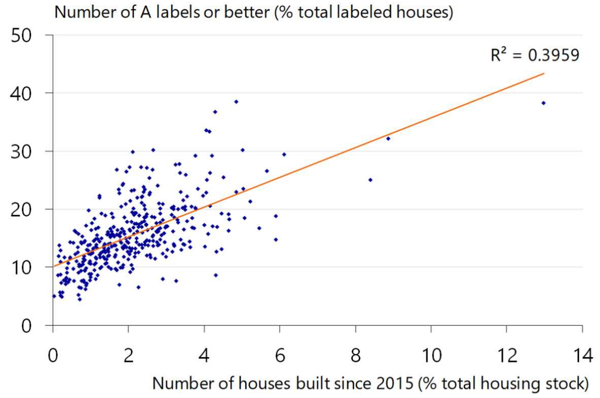
We expect 2019 to be not only be the year when price rises in the housing market will gradually level off, but also the year in which the sustainability challenge facing the Netherlands will hopefully become clearer. The aim is to have an energy-neutral built-up environment by 2050. This implies that each year around 200,000 homes and buildings need to be renovated, as calculated by the PBL Netherlands Environmental Assessment Agency. The parties who had already signed the Energy Accord in 2013, including the Dutch government, aim to achieve energy label A for all owner-occupied homes by 2030. As an intermediate step for the sustainability challenge, all rented homes owned by housing associations must have an average of label B by 2020, while most of the remaining rented homes must have label C or higher by then. This is expected to require tens of billions in investment by landlords and homeowners. We will discuss below in which municipalities this challenge is expected to be the greatest.

The challenge begins in having any definitive label at all. In 2018, only 46.8 percent of all homes and buildings in the Netherlands had any kind of energy label. According to figures from the Netherlands Enterprise Agency (RVO) and the Addresses and Buildings Databases (BAG), Rotterdam, Amsterdam and Eindhoven had the highest proportion of homes and buildings with a definitive energy label in 2018, with 63.9, 63.1 and 60.9 percent respectively. In Staphorst and the Limburg municipalities of Mook en Middelaar and Bergen, last year only 21.7, 18.8 and 15.7 percent respectively of the houses and buildings had an energy label.

As far as the labels are concerned, Pijnacker-Nootdorp in Zuid-Holland is halfway between these extremes, but the municipality is closest to the objective of the Energy Accord: no less than 38.5 percent of all labeled homes already had label A in 2018. In the Netherlands as a whole, the average is 13.4 percent, and in Zwijndrecht only 4.5 percent of homes and buildings have label A or higher. It is a rough estimate of the sustainability task that awaits these municipalities, because there may of course also be energy-efficient houses that do not (yet) have a label. For example, because they have been renovated before the compulsory labeling that applies since 2015.

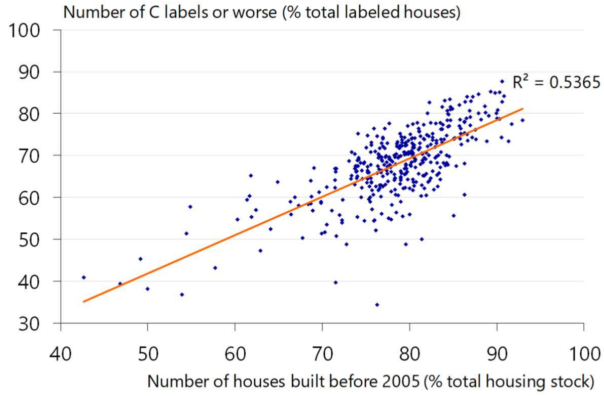
While the proportion of homes with or without an energy label may be related to the number of homes sold since 2015, it is precisely the new homes that will bear an A label. Due to new legislation, subsidies and techniques, new-build homes are becoming ever more energy-efficient. Figure 12 shows that there is a correlation between the number of homes within a municipality that have been built since 2015 and the proportion of energy labels with an A label in a municipality. The reverse also applies: in municipalities with older housing stock, generally the homes do no better than label C (see Figure 13).

Figure 12: More homes built after 2015 mean more A labels



Source: RVO, Statistics Netherlands (CBS), computation by Rabobank

Figure 13: More older homes mean more poor labels



Source: RVO, Statistics Netherlands (CBS), computation by Rabobank

The crux of the matter is therefore not in building more energy-efficient homes – there are already rules for this – but above all in improving the energy efficiency of existing homes. This is not only very demanding for the construction sector, which is already complaining loudly that they cannot find workers, it also requires a huge investment by homeowners. For example, research consultancy Ecorys calculated on behalf of the Milieudefensie lobby group that insulating a standard terraced home and replacing the central heating boiler with a heat pump would cost around 18,000 euros. Homeowners in particular living outside the densely populated towns and cities will be faced with hefty sums, because a collective heat network will not usually be profitable there. Outside the towns and cities the houses are also larger on average and more likely to be detached, so that insulation and sustainability improvements demand greater investment. A lot stands or falls with home owners' willingness to invest. Concrete plans by the cabinet can help with this. For instance, the PBL has calculated that the average recoup time of an energy-efficient renovation will be between 10 and 30 years, depending not just on technological innovation and gas prices, but also on policy.

Key data

Economic indicators for the Netherlands				
	2017	*2018*	*2019f*	*2020f*
GDP (growth, %)	2.9	2.5	1.8	1.7
Inflation (%)	1.3	1.6	2,5	1.9
Unemployment (% of labour force)	4.8	3.8	3.6	3.7

[a]Rabobank forecasts

House prices				
Quarter-on-quarter (%)	*2018Q1*	*2018Q2*	*2018Q3*	*2018Q4*
Mean sales price (Land Registry)	4.1	2.3	2.6	2.6
Housing Price Index (Statistics Netherlands/Land Registry)	2.7	1.8	2.7	1.5
WOX (Calcasa)	2.5	2.5	2.9	-

Sales of existing owner-occupied houses				
	2018Q1	*2018Q2*	*2018Q3*	*2018Q4*
Houses sold (Land Registry)	52,105	52,930	56,921	56,410
Forced auctions (Land Registry)	0.5%	0.4%	0.2%	-

Building permits issued (twelve-month rolling total)				
	2018Q1	*2018Q2*	*2018Q3*	*2018Q4*
Houses (Statistics Netherlands)	70,112	68,027	67,212	-

Mortgage interest rates on new loans (Dutch Central Bank)				
Quarter averages (%)	*2018Q1*	*2018Q2*	*2018Q3*	*2018Q4*
Maturity <= 1 year	1.95	1.91	1.89	1.87
2-5 year	2.15	2.15	2.10	2.10
6-10 year	2.34	2.39	2.39	2.38
> 10 year	2.90	2.86	2.80	2.81

Colophon

The Dutch Housing Market Quarterly is a publication of RaboResearch Rabobank. The view presented in this publication has been based on data from sources we consider to be reliable. Among others. these include Macrobond, Land Registry, NVM, DNB, CPB and Statistics Netherlands.
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