Q&A on the corona crisis and the Dutch housing market

Housing Market Bulletin

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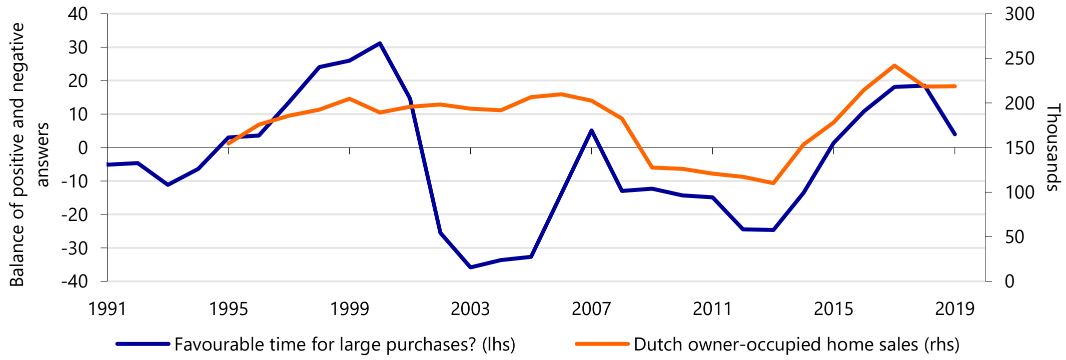
What factors influence sales and prices?

The supply on the owner-occupied housing market largely depends on new construction, but in the Netherlands that is a relatively slow process. Demand on the housing market is more fluid, and its pace is largely determined by the number of households and the level of their income, mortgage interest and confidence. The first three dictate how many potential buyers there are, how much they can borrow and how high their monthly costs are. The confidence that they have in the future determines the question whether they indeed want (or dare) to buy. An economic downturn (or upturn) can therefore quickly change the demand for owner-occupied homes through income, interest and confidence.

Figure 1: Consumer confidence and home sales



Source: Statistics Netherlands, Dutch Land Registry

What was your expectation for house prices and sales before this crisis?

Earlier this year, we wrote that - due to the large housing shortage - we expected that the number of sales would fall this year, while prices would rise relatively quickly at about 5.5 percent. Those forecasts were based on our macroeconomic estimates at the end of 2019, in which we assumed, among other things, economic growth and rising household incomes in 2020. Of course it is now clear that the corona crisis completely traverses earlier predictions for the Dutch economy and housing market.

How will the corona crisis affect the housing market?

There is currently not a full lock down in the Netherlands like in some other countries. Viewing homes, for example, is still permitted. But the measures taken to control the spread of the new virus do make it more difficult. Closed schools, for example, will mean it is troublesome for potential buyers to go out. Similarly, the call to work from home as much as possible could force sellers to stop accepting viewings. In addition, the crisis creates uncertainty about jobs and income, which could make potential buyers more reserved about taking a step on the housing market. In our opinion, these effects could at least temporarily lead to fewer sales and, due to a smaller number of offers, also lead to less upward price pressure.

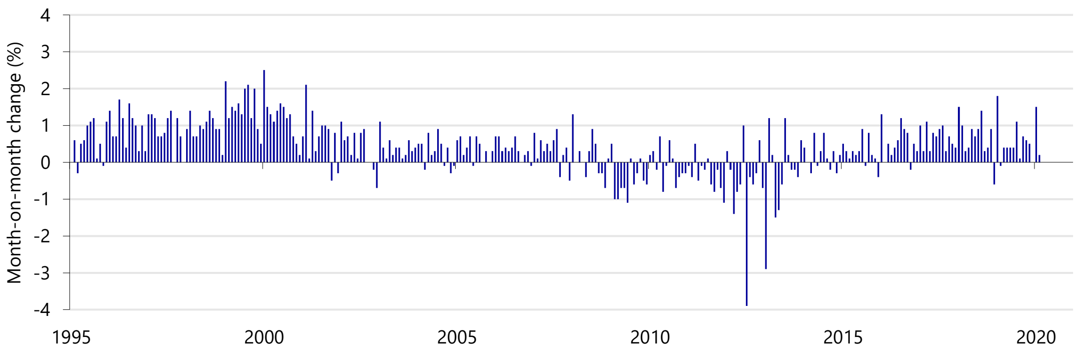
Official Land Registry figures do not show any effects yet, why?

There are usually a few months between the moment buyers sign the provisional sales contract with the broker and the moment that they receive the keys and are registered by the notary at the Land Registry. Should the corona crisis affect the number of sales or house prices in, for example, March and April, then this will only become visible in the official Land Registry figures of June or July at the earliest. Unofficial figures will come out sooner though, most notably data from Dutch real estate brokers association NVM. Their Q1 update is expected around mid-April, and should give a first idea of the direction the Dutch housing market is headed in.

Could Dutch house prices fall due to this corona crisis?

The threshold to view homes and the uncertainty about jobs and income might not only cause house prices to rise less rapidly, they could also stagnate or even fall. Especially if the crisis will indeed lead to a loss of employment and income. Price declines in the housing market during economic downturns are certainly not uncommon (see Figure 2), although they were often short-lived, except for the crisis in the early 1980s and the financial crisis.

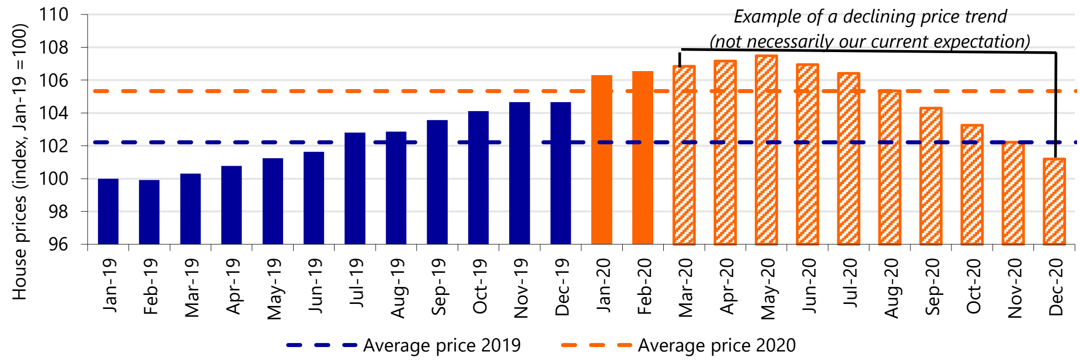
Figure 2: Month-on-month change Dutch house prices



Source: Dutch Land Registry

Since we expect to see the impact of corona in the official housing market figures of the Land Registry no earlier than the summer (see previous question), the average house price in 2020 is likely to be higher than 2019's average. Even if prices would fall month-on-month starting this summer. This is illustrated in Figure 3 on the next page. It is difficult to say at this time whether house prices will indeed start dropping. The economic damage caused by the coronavirus, and thus the potential impact on the housing market, depends very much on the duration of the restrictions and the effectiveness of the support measures taken by governments and (central) banks.

Figure 3: Example of higher yoy prices despite declining mom prices



Note: Realisations until February 2020 followed by an example trend. This trend does not necessarily represent our current view on the Dutch housing market
Source: Dutch Land Registry, RaboResearch

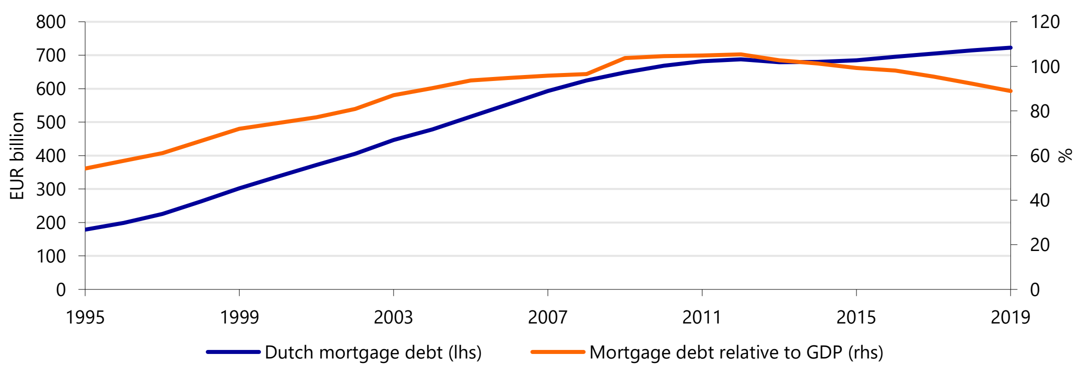
Would falling house prices be good news for potential first-time buyers?

Younger generations have seen their chances on the housing market shrink for years, partly because of the sharp price increases. So if the corona crisis would indeed cause prices to drop, that might appear to be good news for future first-time buyers. But that is too short-sighted: the corona crisis is expected to lead to a loss of jobs and incomes first, especially in the flexible/fixed-term labour pool that employs a lot of young people. That could make it even more difficult for them to buy a house. Moreover, falling prices as a result of a fall in demand due to an economic crisis are not a structural solution to the enormous shortage of housing in the Netherlands. In the long term, first-time buyers will therefore benefit more from an increase in the housing supply. That would relieve the pressure on purchase and rental prices in a more healthy way.

How high is the total Dutch mortgage debt?

At the end of 2019, the mortgage debts of all Dutch people amounted to more than 722 billion euros. That is about 74 billion more than ten years ago. In relative terms though, debt actually decreased: ten years ago, the national mortgage debt was greater than the Dutch economy; at the end of 2019, this was the other way around due to economic growth and stricter mortgage underwriting standards (see Figure 4). These stricter standards, including the requirement of full amortization to be eligible for tax deductibility of interest payments, have also contributed to total mortgage debt rising less quickly than house prices over the past five years.

Figure 4: Dutch mortgage debt



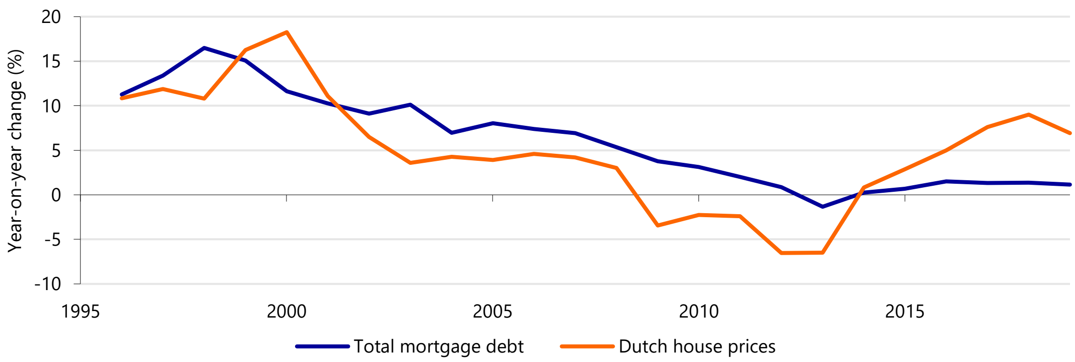
Source: Statistics Netherlands

How does the corona crisis differ from the 2008 crisis?

The 2008 crisis started in the financial sector and led to a credit crunch: financial institutions were hesitant to (or could not) issue loans anymore. That fed into the entire economy. As (mortgage) funding became more difficult, that also meant potential home buyers had more trouble getting a loan. Combined with rising unemployment, the number of sales plummeted and house prices fell. The corona crisis started in the real economy, with numerous companies worldwide shutting down to contain the virus. Currently, there is not a credit crunch.

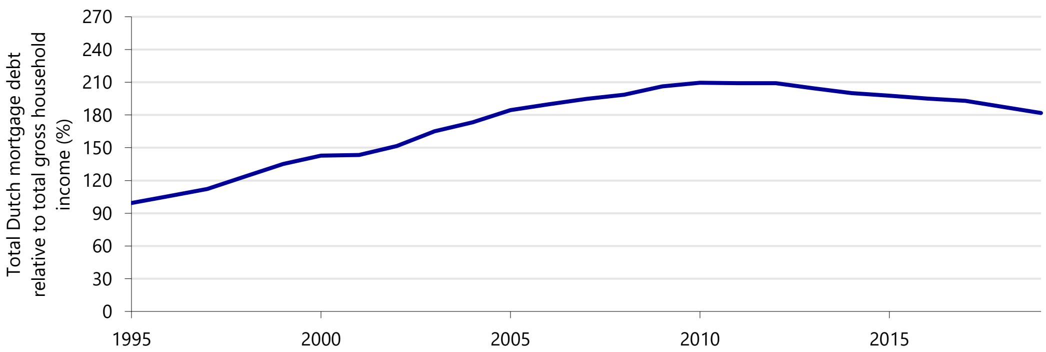
Another important difference is that mortgage standards are already a lot more prudent as a result of several reforms in the past ten years. Before the financial crisis it was commonplace to co-finance the stamp duty and brokerage fees with the mortgage so that new homeowners almost immediately started with negative equity. Additionally, many of those loans were interest-only, meaning debt levels were not reduced. Currently, buyers are not allowed to borrow more than 100 percent of the value of the house, the budget institute Nibud determines how high the loan is allowed to be relative to income and for new homeowners full amortization is mandatory to be eligible for the tax deductibility of interest payments. As a result, homeowners are more shock resistant: their homes are less likely to be 'under water', with an average LTV of 75,4% in 2019 for new mortgage applications. Similarly, total Dutch mortgage debt does not rise as quickly anymore as house prices (see Figure 5). Meanwhile, debt is also no longer as high as in 2008 compared to the total gross available household income (see Figure 6).

Figure 5: Dutch mortgage debt and house prices



Source: Statistics Netherlands, Dutch Land Registry

Figure 6: Total Dutch mortgage debt relative to total gross household income



Source: Statistics Netherlands

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