Rabobank

Scarcity expected to slow down growth of Dutch housing market

Dutch Housing Market Quarterly
Nic Vrieselaar et al.

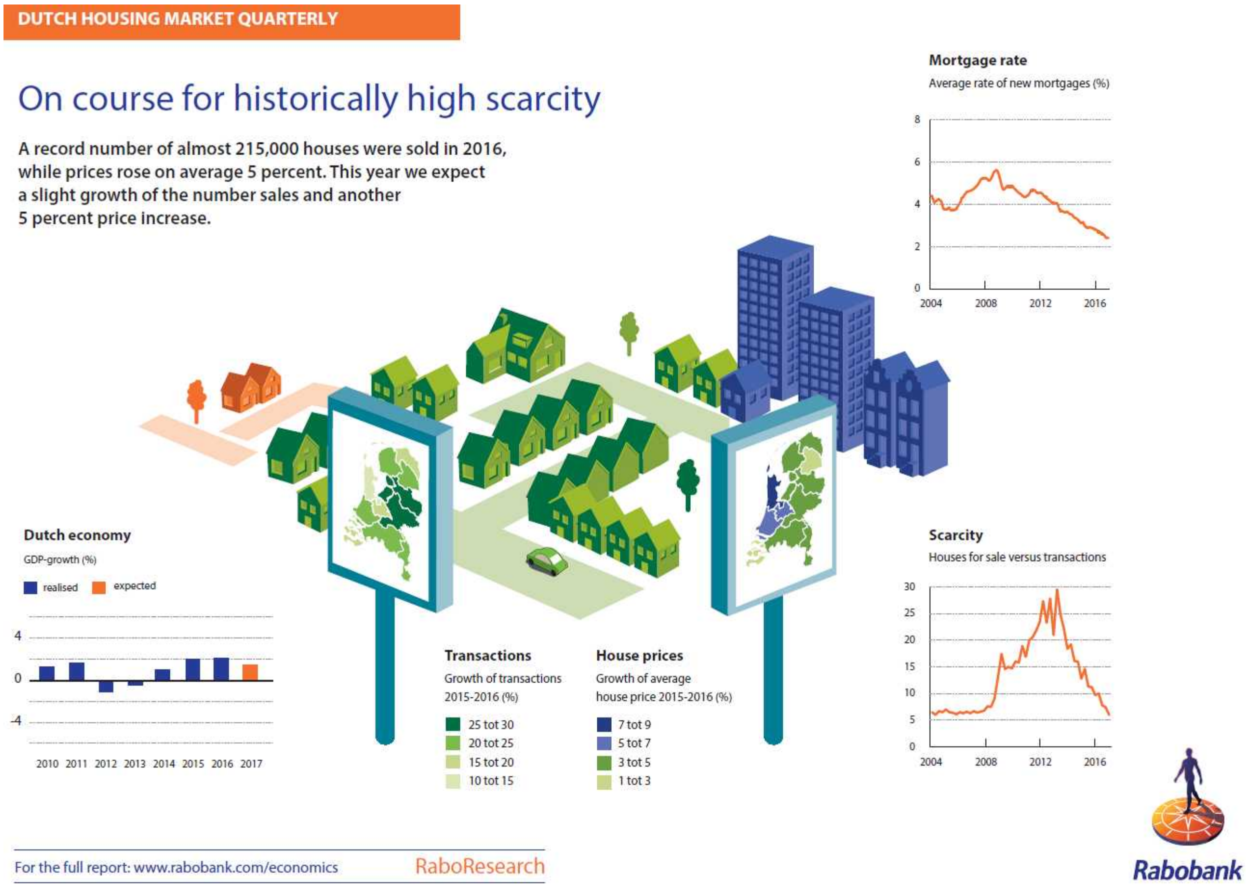
- **The Dutch economy grew in 2016 by 2.1%**
- **A record 214,793 houses sold last year**
- **Shortages will suppress growth: some 220,000-230,000 sales expected in 2017**
- **House prices rose by an average of 5% in 2016, the same expected for 2017**

Summary

The recovery of the Dutch economy continued in 2016: the gross domestic product (GDP) grew by 2.1% compared to 2015, while unemployment fell last year from 6.9 to 6.0%. Investment in homes also rose sharply, by 7.1%. In 2017 the economy is expected to grow by 1.8%.

Driven by this growing economy, low mortgage rates and high levels of consumer confidence, a record 214,793 homes were sold in 2016, well over 20% more than in 2015. The house price index (*Prijsindex Bestaande Koopwoningen* – PBK) rose by an average of 5% last year. For the coming year, we expect the number of sales to rise slightly to 220,000-230,000 transactions, while assuming the average price continutes to go up with roughly 5%. Political and economic developments in the Netherlands and abroad may well interfere with these estimates.

Following the strengthening housing market, the number of mortgage approvals rose too. Since these exceeded the volume of repayments, gross mortgage debt in the Netherlands rose in the third quarter by EUR 4 billion to EUR 665 billion. At the same time, mortgage rates fell further despite the slight interest rate rises following the election of Donald Trump as the new President of the United States. Structural factors in the economy (including an ageing population), the uncertainty surrounding economic growth and the relaxed monetary policy by central banks make it likely that capital market rates will remain low this year.



Chapter 1: Recovery of the economy and housing market go hand in hand

The Dutch economy made strong progress in 2016. Real GDP grew in the fourth quarter of 2016 by 0.5% compared to the previous quarter. Over 2016 as a whole, the economy grew by 2.1%. This growth was widespread too (see Badir, 2017).

Private consumption is providing a major boost to economic growth, helped by rising disposable household incomes and high consumer confidence (see Figure 2.4). Private investments also grew relatively strongly, largely due to considerable investment in housing, whereas growth in exports is holding up reasonably well despite international uncertainties. In addition, a clear recovery can be seen in the labour market: the fall in unemployment in 2016 was the sharpest in ten years.

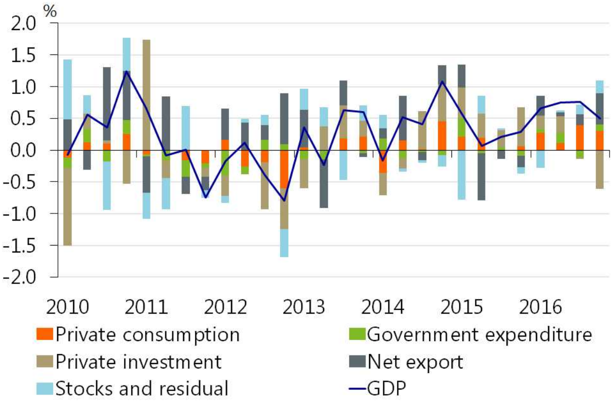
For 2017 we expect economic growth of 1.8% (see Table 1.1). Growing international uncertainties, causing a slight weakening in growth of exports, are to blame for this slightly lower growth. We also anticipate less vigorous growth in investments.

Table 1.1: Key figures for the Netherlands

Year-on-year volume change (%)	15	16	17
Gross Domestic Product	2.0	2.1	1.8
Private consumption	1.8	1.7	1.8
Government spending	0.5	0.5	0.9
Private investment	11.6	6.3	2.6
Exports	5.0	3.5	3.2
Imports	5.8	3.7	3.5
Inflation (%)	0.2	0.1	1.0
Unemployment (% labour force)	6.9	6.0	5.4
Government budget (% GDP)	-1.9	-0.5	0.0
Government debt (% GDP)	65.1	62.7	59.7
Current account balance (% GDP)	9.1	9.0	9.0

Source: Statistics Netherlands, Rabobank

Figure 1.1: Economic growth across all sectors



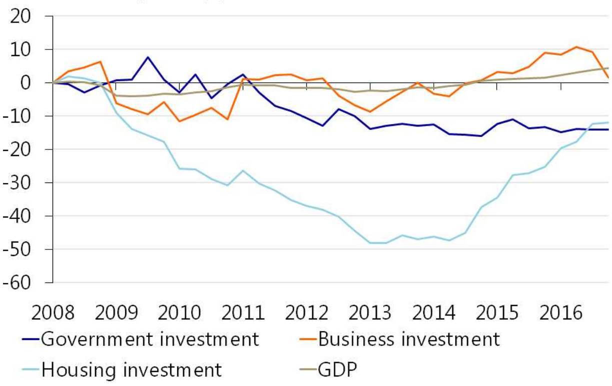
Explanation: Dutch GDP volume (seasonally adjusted), quarter-on-quarter changes and contribution of expenditure components.

Source: Statistics Netherlands, Rabobank

1.1 Housing market continues to contribute to economic growth

The Dutch housing market is sensitive to cyclical fluctuations. The present economic recovery is therefore a major boost for the housing market, not only for the number of sales, but also for investments. In 2016 the total investment volume in tangible fixed assets was 4.8% greater than in 2015. This increase is largely thanks to a higher level of investment in new houses and renovations. Investment in housing has in fact been rising since the first quarter of 2014. However, pre-crisis levels have still not been reached (see Figure 1.2), whereas total expenditure (GDP) has been above pre-crisis levels since early 2015.

Figure 1.2: Investment in housing gaining momentum



Explanation: gross investment in fixed assets.

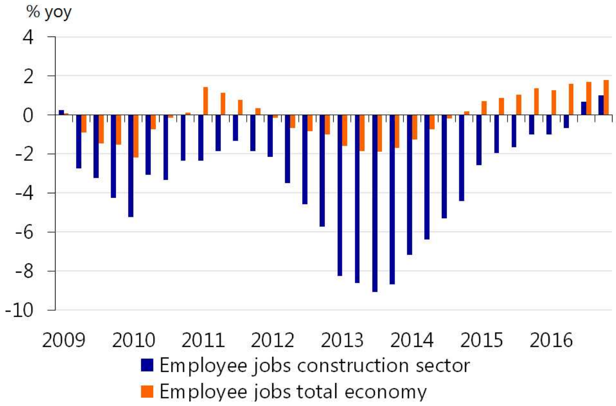
Source: Statistics Netherlands, Rabobank

1.2 Slight rise in employment in the building sector

The recovery on the housing market is also making itself felt in the building sector. The added value of this sector was 7.1% higher in 2016 than in 2015. Since its lowest point in the first quarter of 2013, the added value of the building sector has risen by about 30%, making it the fastest growing sector in the Dutch economy. We expect the added value of the building sector to show strong growth in 2017 too.

The positive trend on the housing market can also be seen in employment in the building sector. The number of jobs has at last begun to rise, following falling numbers seven years in a row. Compared with 2009 some 100,000 jobs have been lost in the sector, but in the fourth quarter of 2016 there were 3,000 jobs more compared to the previous year (see Figure 1.3). In the light of this rise in production, the stagnation in the number of jobs during recent years is particularly remarkable. This is mainly because the building sector makes much use of a temporary workforce, where the self-employed and workers hired through employment agencies often make up the labour shortages. In particular, the number of self-employed workers without employees has risen in recent years. In 2008, 21% of the workforce in the building sector were sole traders, while seven years later this has risen to 28%.

Figure 1.3: More jobs at last in the building sector



Source: Statistics Netherlands

Chapter 2: Transactions and prices are up

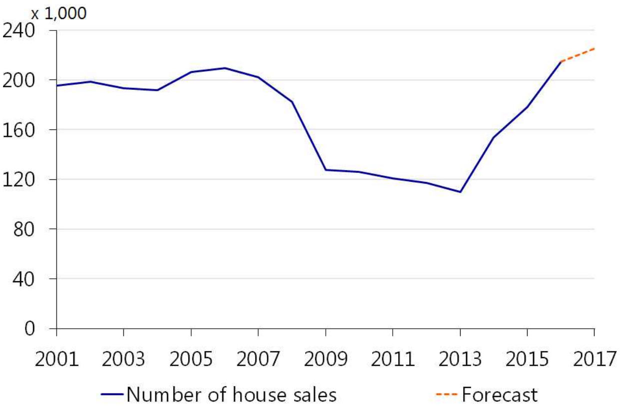
Last year saw a record 214,793 owner-occupied homes sold, over 20% more than in 2015. Prices shot up too: the PBK in 2016 was on average 5% higher in 2016 than in 2015. Because of shortages in the market, we expect average prices to rise again this year, but at the same time the number of transactions will no longer grow so spectacularly. We anticipate between 220,000 and 230,000 sales and price rises of around 5%.

2.1 Record number of transactions

Boosted by low mortgage rates, a recovering economy and high levels of consumer confidence, the number of transactions during the last quarter of 2016 rose strongly again: 60,874 homes changed hands in those three months, over 16% more than in the last quarter of 2015. This brought the total number of sales for 2016 to a record 214,793 homes, a good 5,000 more than in the previous record year of 2006.

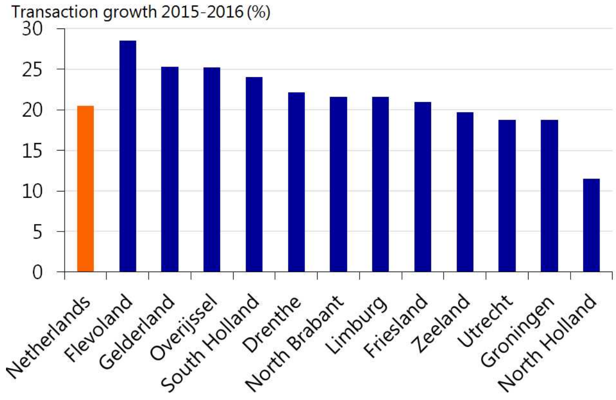
The number of sales picked up above all in Flevoland, while Noord-Holland lagged behind (see Figure 2.2). The growth in the latter province appears to be somewhat constrained by the housing market in Amsterdam, where the number of transactions in 2016 in fact fell slightly. That is not surprising: supply in the capital is drying up: more homes are sold than the number of new homes coming on the market. According to figures by Huizenzoeker.nl, there were over 28% fewer homes for sale in Amsterdam in 2016 than in 2015[1].

Figure 2.1: Record number of sales



Source: Land Registry, computation Rabobank

Figure 2.2: Biggest rise in sales in Flevoland

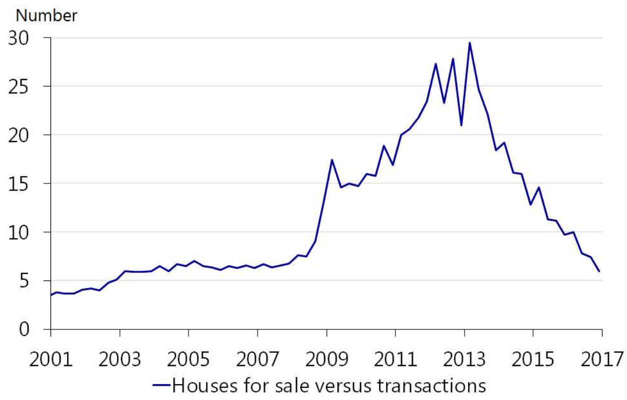


Source: Land Registry, computation Rabobank

Although not as acute as in Amsterdam, the rest of the Netherlands is also seeing fewer homes coming on the market than are being sold: in the Netherlands as a whole the number of homes with a 'for-sale' sign fell by 15% between the fourth quarter of 2015 and the fourth quarter of 2016. This in turn has produced severe scarcity of homes on the market and is intensifying competition between buyers (see Figure 2.3).

In the years since 2006, the previous record year as regards sales, the number of transactions stagnated. High demand in combination with a long-term scarcity of housing had produced severe shortages on the market for many years, making it increasingly difficult for first-time buyers and those wanting to move up the housing ladder to find a suitable, affordable home. At present the housing market is not yet experiencing such long-term pressure, but the shortages are as great as ten years ago. According to the Dutch Association of Real Estate Brokers NVM, for every home sold there are now six homes for sale, compared to 6.3 in 2006. This is expected to suppress growth in the number of sales this year.

Figure 2.3: Scarcity rising fast

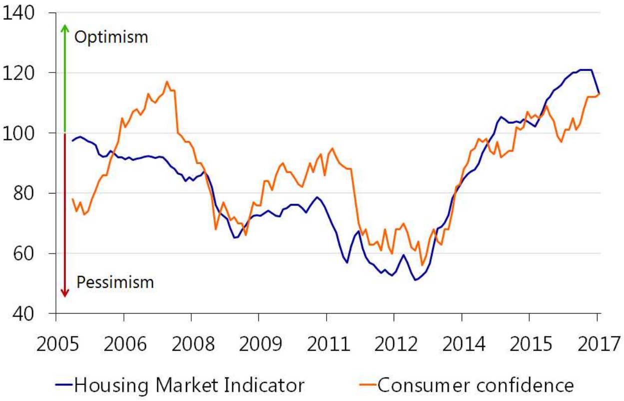


Source: NVM

Furthermore, consumer confidence in the market for owner-occupied housing has received a setback in recent months, as the *Eigen Huis* Market Indicator published by the (Prospective) Homeowners' Association (*Vereniging Eigen Huis* – VEH) shows (see Figure 2.4). VEH observes that a growing proportion of the population are concerned about the affordability of homes. This would appear to be caused above all by the rising prices (see paragraph 2.2) and the temporary hike in mortgage rates since the election of Donald Trump in the United States (see Chapter 3). However, in a historical perspective confidence in the owner-occupied housing market is still very high, as is general consumer confidence.

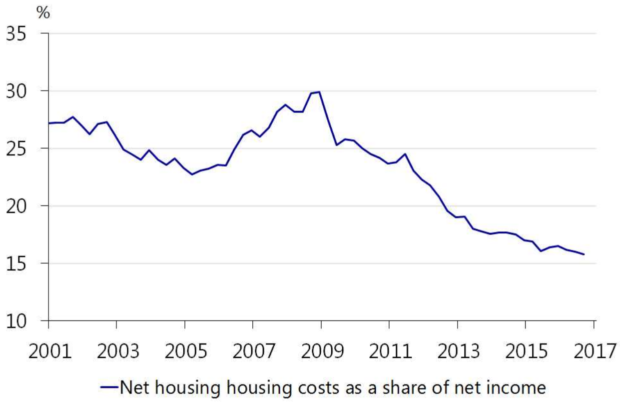
Other factors too may stimulate further growth in the number of sales. For example, demand is expected to intensify as employment rises (see Chapter 1). Mortgage rates are also still low and the threshold at which buyers can take out a mortgage with a National Mortgage Guarantee (*Nationale Hypotheek Garantie* - NHG) – and in exchange pay a lower mortgage rate – has risen from EUR 231,132 to EUR 245,000. And despite the recent price rises, owner-occupied homes still have historically low housing costs, partly due to the low mortgage rates and stricter standards that limit the size of mortgages.

Figure 2.4: Declining confidence in the housing market



Source: VEH, Statistics Netherlands, computation Rabobank

Figure 2.5: Still affordable



Source: Calcasa

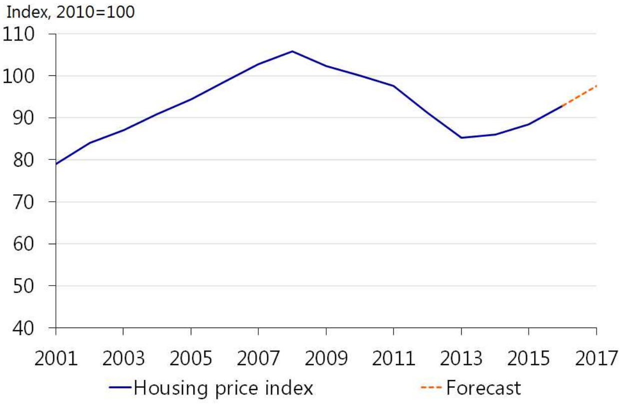
Taking everything together, we expect the number of transactions to rise this year, but not with the same momentum as in the past three years. We are anticipating between 220,000 and 230,000 transactions.

2.2 Shortages clearly reflected in the price

The record number of sales, combined with an increasingly scarce supply, is pushing up the price paid for homes. The PBK rose in the fourth quarter of 2016 by 6.1% compared to the fourth quarter of 2015, with the result that house prices were on average 5% higher than in 2015.

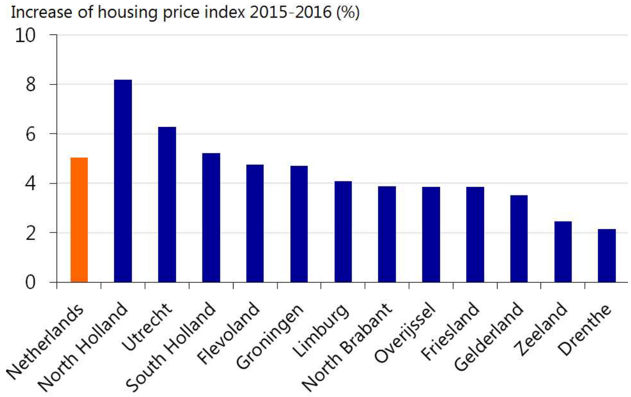
The three provinces of the Randstad experienced the highest price rises, while the rise in the house price index in Zeeland and Drenthe was only half the national average.

Figure 2.6: Prices continue to rise



Source: Statistics Netherlands, computation Rabobank

Figure 2.7: Drenthe lagging behind



Source: Statistics Netherlands

We expect the house price index to continue to rise in the coming quarters, owing to to a combination of growing shortages in the market and ongoing high demand. For 2017 we therefore anticipate an average price rise of around 5% compared to 2016.

It is important to note, however that housing market trends are closely linked to those of the Dutch economy as a whole, which is expected to continue to grow this year but is entering more troubled waters, as mentioned in the first chapter. Consider the protectionist sentiment in the United States and the decision by the United Kingdom to leave the European Union. What's more, there is a general parliamentary election in the Netherlands on 15 March. The housing market has benefited the last three years from clear and consistent rules and it is unclear what position a next government will take as regards the housing market.

Chapter 3: Mortgage debt rising despite extra repayments

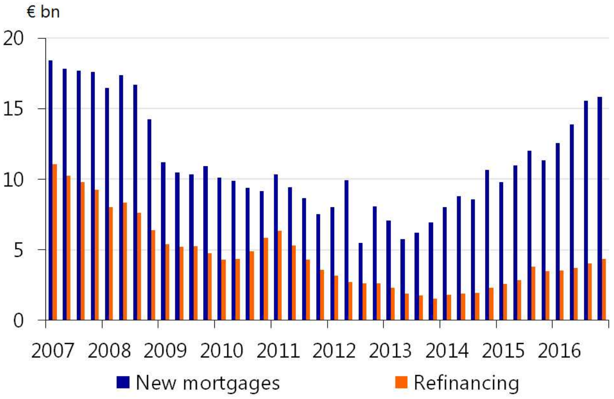
Mortgage approvals continued to rise during the fourth quarter of 2016. As the value of new mortgage approvals is greater than the amounts being repaid on mortgages, gross mortgage debt is rising again. Mortgage rates are expected to remain low in 2017, while a number of credit standards will be changing during the year as well.

3.1 Mortgage approvals and level of mortgage debt continue to rise

During the fourth quarter of 2016 some EUR 15.8 billion (seasonally adjusted) was lent in new home mortgages (see Figure 3.1). This was a rise of 35% compared to the fourth quarter of 2015. Approvals for refinancing or extra borrowing amounted to EUR 4.3 billion (seasonally adjusted) in the fourth quarter of 2016 (Figure 3.1), which is 21% higher than in the fourth quarter of 2015. For 2017 we expect the level of new approvals to rise further, in line with the rise in the number of house sales and prices (see Chapter 2). This means that growth in percentage terms is slightly lower than before, but the number of approvals in absolute terms will still rise strongly.

The total gross mortgage debt rose in the third quarter by EUR 3.5 billion to EUR 665 billion (Figure 3.2)[2]. Since mid-2015 the volume of approvals has again been greater than the repayments and gross mortgage debt is rising. Figures for the total mortgage debt in the fourth quarter of 2016 are not available at the time of writing.

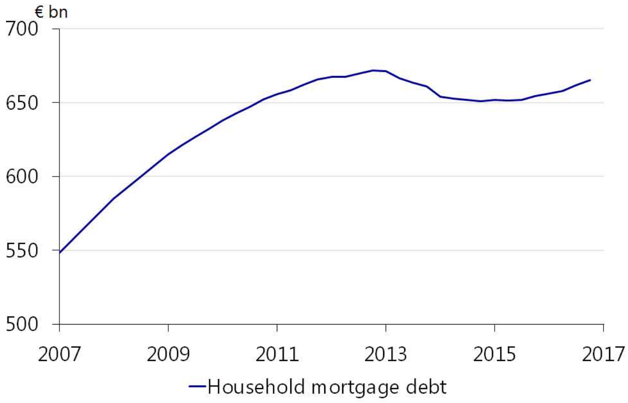
Figure 3.1: Volume of new approvals continues to rise



Source: Land Registry, computation Rabobank

Note: Rabobank's own seasonal adjustment of the quarterly data from the Land Registry

Figure 3.2: Existing mortgage debt is rising



Source: Statistics Netherlands, computation Rabobank

Note: Quarterly data for 2010 interpolated

Set against the expected rise in the number of new mortgage approvals are the extra repayments on mortgages. As long as interest rates on savings remain low, many households will choose to repay their mortgages or build up their capital in a bank savings mortgage rather than putting their savings into a regular savings account. We expect these extra repayments to continue for the time being. The reintroduction of the increased gift tax exemption of EUR 100,000 may also lead to extra repayments.

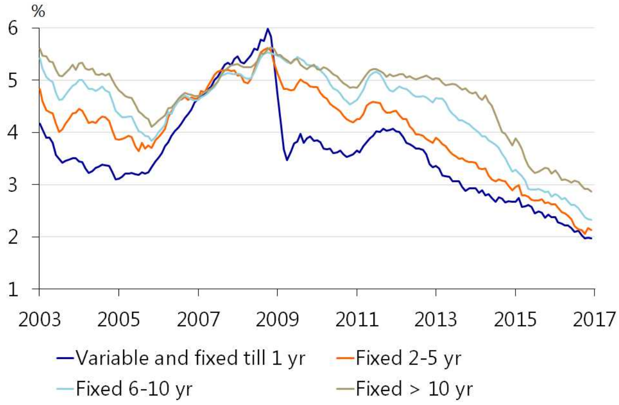
The rising number of sales is having an upward effect on the total mortgage debt. We expect this effect to be only slightly greater than the expected extra repayments, and so the level of mortgage debt in 2017 will rise slowly, at the same rate as in 2016.

3.2 Mortgage rates show further falls

Mortgage rates fell further during the fourth quarter of 2016 (Figure 3.3). The average rate for fixed-rate periods of longer than ten years fell to 2.87%, while the variable rates have now slipped below 2%, to 1.97%. A year ago in December 2015 these rates were still within a bandwidth of 2.4-3.2%.

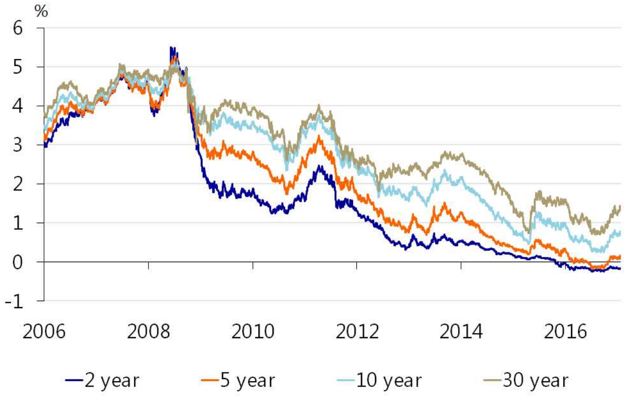
In the short term we expect mortgage rates to remain low. In the run-up to the American presidential election, capital market rates rose slightly but now appear to have stabilised again (Figure 3.4). In view of the uncertainty surrounding the economic growth and the relaxed monetary policy being pursued by the central banks, it is likely that capital market rates will remain low in 2017. As described in our Outlook 2017, President Trump's tax plans are likely to benefit the highest income categories the most, which will deter expenditure among the middle classes, growth in consumption and rises in capital market rates.

Figure 3.3: Variable rate for new mortgages slips below 2%



Source: DNB

Figure 3.4: Swap rates remaining low for the time being



Source: Macrobond

In Europe, there is still huge political uncertainty and economic growth in the Eurozone is likely to remain weak. Moreover, the European Central Bank (ECB) will continue its extensive bond-buying programme until at least the end of 2017 in order to lower long-term interest rates[3]. All these factors point to capital market rates remaining low for a prolonged period.

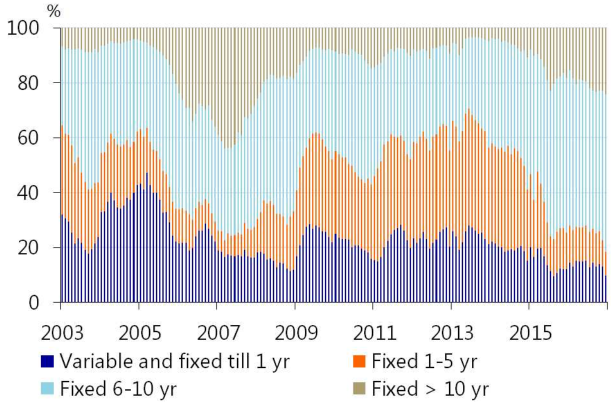
Compared to banks, insurers and pension funds are less dependent on external finance because they issue mortgages as an investment of the pension or insurance premiums paid by their members. These parties are playing an ever greater role in the mortgage market and through increased competition are exercising downward pressure on mortgage rates. These factors indicate that mortgage rates will remain low in 2017.

We expect a ten-year swap rate[4] of around 0.85% over a period of three months and 0.75% over a period of six months. Our 12-month forecast is 0.6%.

Since mid-2015, most homeowners have been choosing a long fixed-rate period. More than 50% of the total value of new or renewed mortgages is tied up in a fixed-rate period of six to ten years (Figure 3.5), with a ten-year period being the most popular. Around 25% of the total value of new and renewed mortgages are fixed for longer than ten years. Within this category, most choose a fixed-rate period of twenty years. As soon as interest rates start to rise again, this share may well increase further, as was the case in 2006 and 2007.

When deciding on a long fixed-rate period, it is not only the historically low interest rate itself, but also what is known as the notional interest rate that plays an important role. The maximum mortgage sum will depend on income, the value of the house and interest rates. If borrowers choose a fixed-rate period shorter than ten years, it is not the actual interest rate but a notional interest rate of 5% that is used in the calculations. As mortgage rates fall, the amount that house buyers can borrow on the basis of the notional interest rate becomes relatively smaller. Those who want to borrow as high an amount as possible are therefore increasingly choosing a fixed-rate period of at least ten years. In fact, among house buyers younger than 35 years, more than 80% choose a fixed-rate mortgage of at least ten years.

Figure 3.5: Long fixed-rate period remains popular



Source: DNB

3.3 Tax rules relaxed for repayment of savings mortgages

Various credit standards have been changed again with effect from 1 January. See Chapter 3 of the previous Dutch Housing Market Quarterly for an overview. What is new, however, is a relaxation of the tax rules on repaying savings or investment mortgages. In the past, holders of these types of mortgages had to deposit premiums for fifteen to twenty years before the capital accrued could be used tax-free to repay the mortgage. This requirement is now being abolished. Changes to the rules give those refinancing their homes and moving up the housing ladder greater tax freedom to choose a different type of mortgage. Those moving into a new house may choose, for example, to repay their savings mortgage and take out an annuity mortgage for the remaining mortgage debt. The effect of these regulatory changes is probably only limited and the mortgage holder will have to make a new repayment arrangement with the bank, which will not necessarily be cheaper in all cases than the existing arrangements. The tax authorities had also already abolished the penalty for early repayments in circumstances such as a residual debt or divorce. And finally, the costs of a savings mortgage are concentrated towards the start of the term, which makes early repayment uneconomical.

All in all, the mortgage market is moving in the same direction as the housing market. As the number of sales rises and we expect the value of new mortgage approvals to exceed the extra repayments, total mortgage debt is expected to rise.

Footnotes

[1] In some regions houses might be selling so fast, that they're not counting towards supply as measured by Huizenzoeker.nl. This can happen when a home is both put on the market and sold within one calendar month.

[2] This EUR 665 billion concerns the gross mortgage debt. This has not been adjusted for capital accrued in savings mortgages (*Spaarrekening Eigen Woning* - SEW) and capital insurance policies (*Kapitaalverzekering Eigen Woning* - KEW). Researchers at DNB estimate this accrued capital to be worth EUR 31-37 billion (DNB, 2015). Since the accrued capital in savings mortgages will increase faster for a relatively large group of households in the coming years due to the cumulative return on capital, the net mortgage debt will rise more slowly than the gross mortgage debt and this net debt may even fall while the gross debt rises.

[3] The amount bought up as of April 2017 will be reduced from EUR 80 billion to EUR 60 billion.

[4] The is risk-free interest rate.

Literature

DNB (2016), *Overzicht Financiële Stabiliteit* (in Dutch), Spring 2016, De Nederlandsche Bank, Amsterdam.

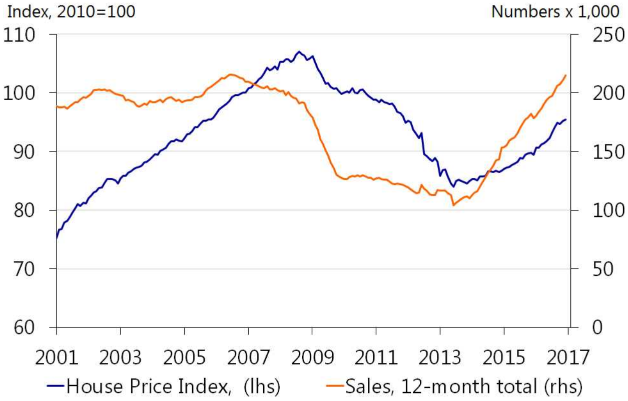
DNB (2016), *Covered bonds nu omvangrijker dan securitisaties* (in Dutch), Statistisch Nieuwsbericht 22 March, De Nederlandsche Bank, Amsterdam.

Rabobank Financial Markets Research (2016), *Focus on ABS: Dutch RMBS and prepayments*, Utrecht

Rabobank (2016), *Rente en valuta: stilte voor de storm?* (in Dutch), Chapter 2 in Economic Quarterly, June, Utrecht.

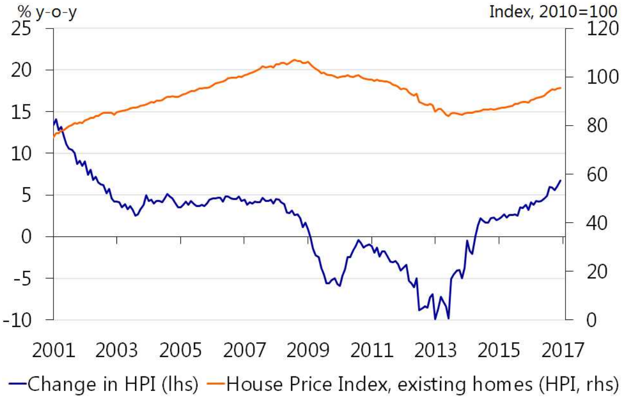
Charts

House price index and sales existing homes



Source: Statistics Netherlands (CBS) and Dutch Land Registry, computation Rabobank

Price index and year-on-year movements

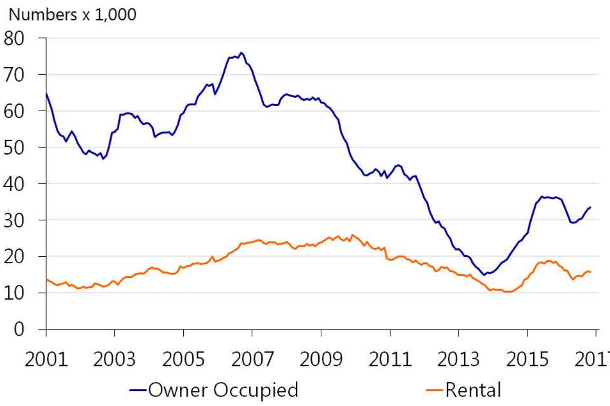


Source: Statistics Netherlands (CBS) and Dutch Land Registry, computation Rabobank

Confidence in the owner-occupied housing market

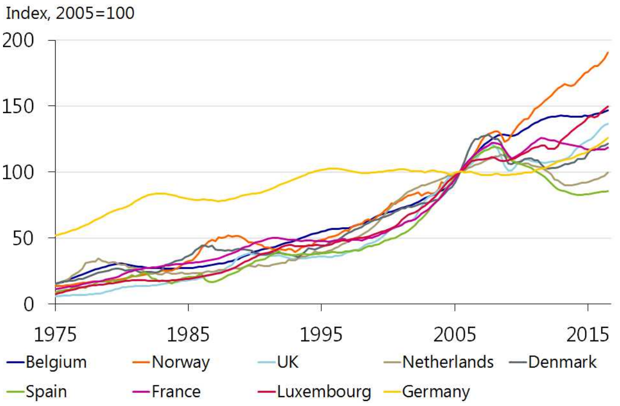
Source: VEH

Building permits issued, 12 month total



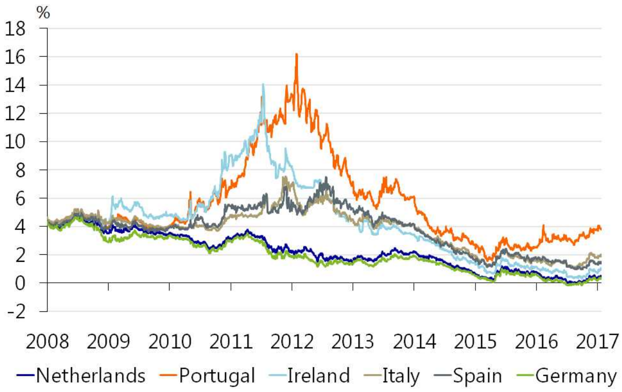
Source: Statistics Netherlands, computation Rabobank

International house price trends



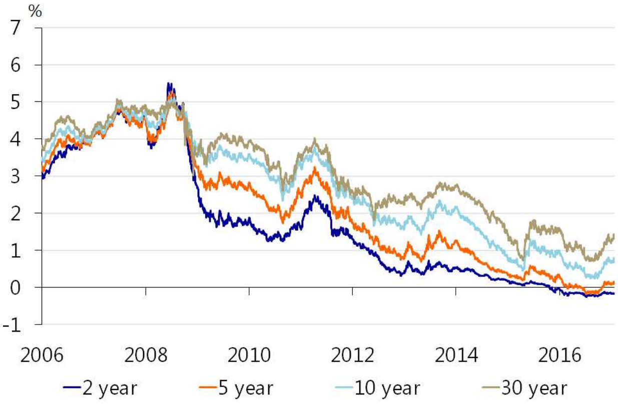
Source: Dallas Fed, as described in Mack and Martínez-García (2011)

Capital markets in various countries



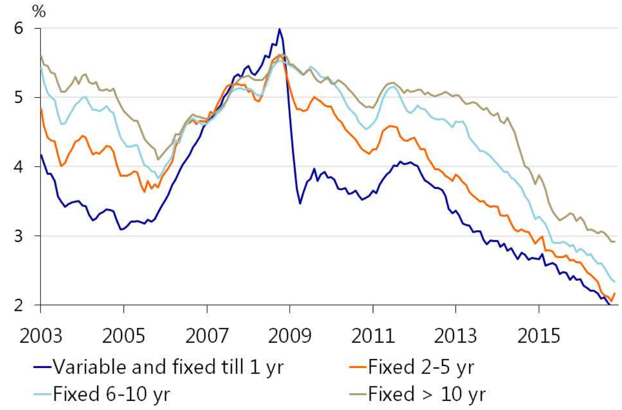
Source: Macrobond

Swap rates



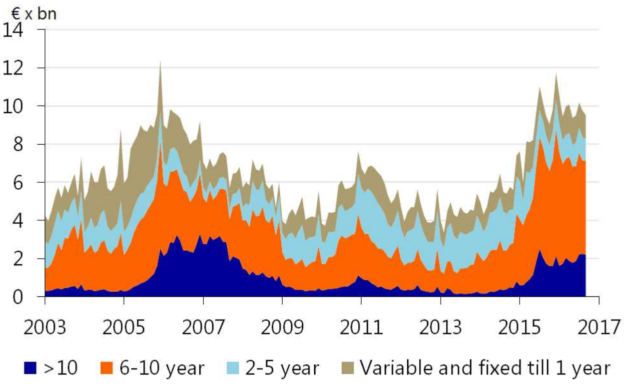
Source: Macrobond

Mortgage interest rate on new mortgages by term



Source: DNB

Volume of new mortgages by fixed-rate period



Source: DNB

Table 1.1: Key figures for the Netherlands

Year-on-year volume change (%)	15	16	17
Gross Domestic Product	2.0	2.1	1.8
Private consumption	1.8	1.7	1.8
Government spending	0.5	0.5	0.9
Private investment	11.6	6.3	2.6
Exports	5.0	3.5	3.2
Imports	5.8	3.7	3.5
Inflation (%)	0.2	0.1	1.0
Unemployment (% labour force)	6.9	6.0	5.4
Government budget (% GDP)	-1.9	-0.5	0.0
Government debt (% GDP)	65.1	62.7	59.7
Current account balance (% GDP)	9.1	9.0	9.0

Source: Statistics Netherlands, Rabobank

Key data

House prices

Quarter on quarter (%)	2016Q1	2016Q2	2016Q3	2016Q4
NVM (median house price)	1.0	2.7	1.3	3.0
Kadaster (mean price)	0.6	1.4	4.2	-1.1
CBS/Land registry (House Price Index)	1.3	1.0	2.5	1.1
Calcasa Wox	0.8	1.0	3.1	-

Existing owner-occupied market (Statistics Netherlands/Land Registry)

	2014	2015	2015Q4	2016Q4
Sold houses	153,511	178,293	52,435	60,874
Auctions	2,178 (1.4%)	2,309 (1.3%)	876 (1.7%)	581 (1.0%)

Issued building permits (Statistics Netherlands)

	2014	2015	2015Q4	2016Q4
Total	39,365	53,533	12,302	-
Owner-occupied market	25,661	35,942	8,144	-
Rental market	13,704	17,591	4,158	-

Interest rates (DNB), quarter average

	2016Q1	2016Q2	2016Q3	2016Q4
Outstanding mortgages	*3.89*	*3.81*	*3.70*	*3.62*
Maturity <=1 year	2.69	2.61	2.44	2.29
2-5 year	2.73	2.67	2.61	2.60
> 5 year	3.89	3.81	3.71	3.62
New mortgages	*2.69*	*2.59*	*2.48*	*2.40*
Maturity <=1 year	2.25	2.17	2.03	1.97
2-5 year	2.47	2.34	2.13	2.13
6-10 year	2.72	2.60	2.45	2.32
> 10 year	3.08	3.04	2.98	2.87

Economic key data

	2015	2016	2017[a]	2018
GDP (growth, %)	2.0	2.1	1.8	-
Inflation (%)	0.2	0.1	1.0	-
Unemployment (% labour force)	6.9	6.0	5.4	-

[a] Rabobank forecasts.

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. The date of completion is 14th February 2017.

For more information. please call the RaboResearch secretariat on tel. +31 (0)30 – 216 6666 or send an email to 'raboresearch@rabobank.nl'.

Text contributors:
Nic Vrieselaar, Rita Bhageloe, Jesse Groenewegen, Lisa Hoving and Frits Oevering.

Editor-in-chief:
Barbara Baarsma, Director Knowledge Development Rabobank

Production coordinator:
Christel Frentz

Author(s)

Nic Vrieselaar
RaboResearch Netherlands
+31 6 1302 1156
Nic.Vrieselaar@rabobank.nl

Rita Bhageloe-Datadin
RaboResearch Netherlands
+31 30 21 30151
Rita.Bhageloe@rabobank.nl

Jesse Groenewegen
RaboResearch Netherlands
+31 30 21 30264
Jesse.Groenewegen@rabobank.nl

Lisa Hoving
RaboResearch Netherlands
+31 6 2375 7518
Lisa.Hoving@rabobank.nl

Frits Oevering
RaboResearch Netherlands
+31 30 21 64439
Frits.Oevering@rabobank.nl