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Cooler breeze on Dutch housing market, but young adults fall some 100,000 euros short for the average home

Dutch Housing Market Quarterly
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- **House prices were 7.9 percent higher in the first quarter of 2019 than one year earlier. This is a smaller increase than we saw in the last couple of years**
- **We expect that the trend of slowing house price growth will continue. For 2019 we expect an average house price growth of 6 percent**
- **Towards 2020, the growth in Dutch house prices is expected to fall even further**
- **Despite the high house prices, almost half of the young adults who want to move prefer to buy a home**
- **However, the share of young adults in home sales fell yet again in the last quarter, especially in the apartment sector**
- **In most provinces the average selling price is (well) above their average maximum borrowing capacity**
- **The total number of sales has also fallen sharply, to the lowest number in three years**

- For 2019, we expect the number of sales to continue to decline to 205,000 transactions



House prices rising less rapidly than before

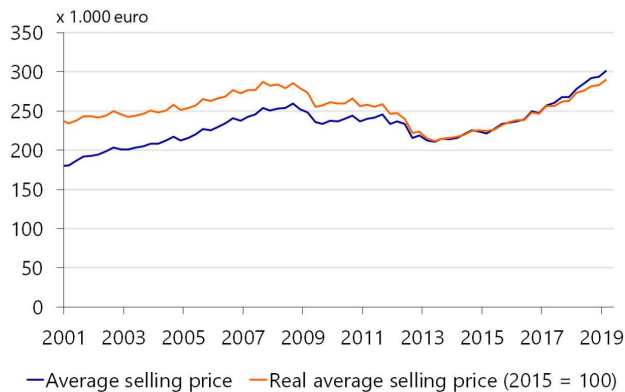
Figure 1: Amsterdam twice as expensive than Drenthe



Source: Statistics Netherlands, Dutch Land Registry

In the first quarter of 2019, home buyers paid on average 301,279 euros for a home. They paid on average 23,000 euros more than those who bought a home one year earlier. There are large differences between provinces. In North-Holland, home buyers paid on average 170,000 euros more than those who bought a house in Groningen (Figure 1). If we adjust for inflation, the average selling price is back at the level of the beginning of 2008 (Figure 2). Compared to the second quarter of 2013, which was the bottom of the housing market during the crisis, the real average selling price is about one third higher (Figure 2).

Figure 2: Real average selling price at the same level as 2008

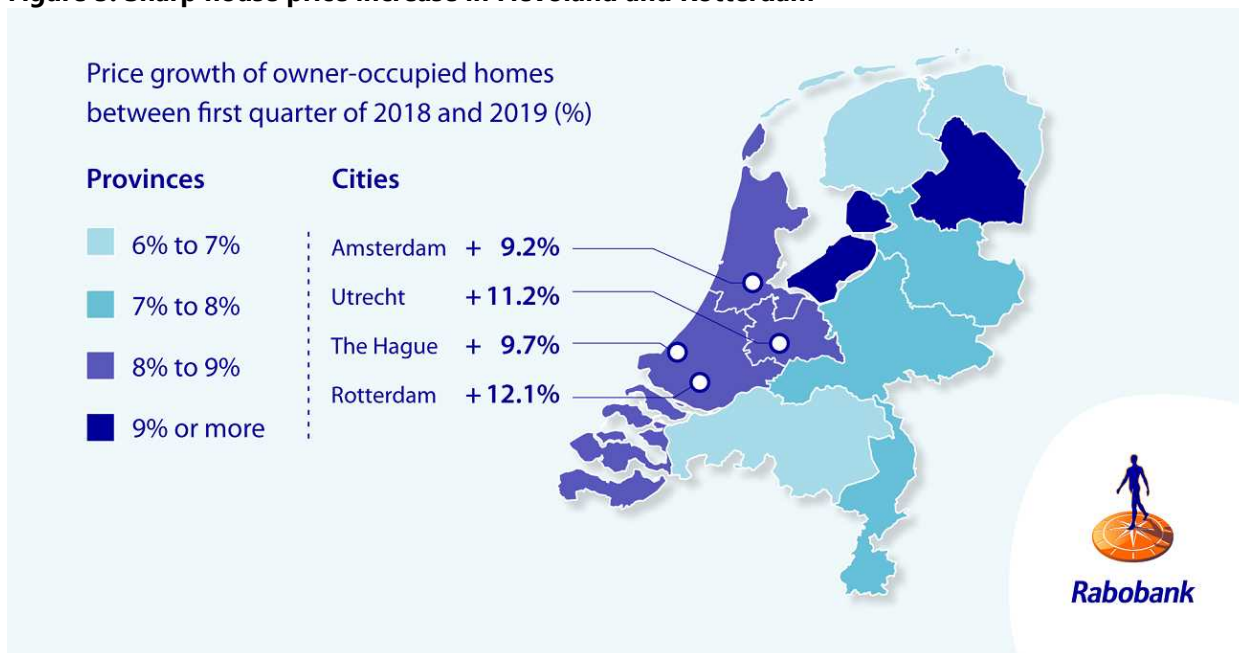


Note: The average selling price is adjusted for inflation with the Harmonised Index of Consumer Prices (HICP)-indicator of Statistics Netherlands (2015 = 100).

Source: Statistics Netherlands, Dutch Land Registry

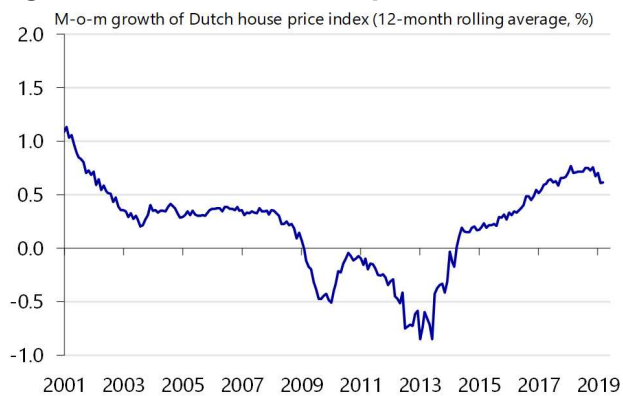
The Dutch house price index of Statistics Netherlands (in Dutch: CBS) and the Dutch Land Registry (in Dutch: Kadaster), which corrects for the changing composition of homes that are being sold (such as the type of house), was 7.9 percent higher in the first quarter than in the same period in 2018 (see Figure 3). Especially in the province of Flevoland, the house prices rose sharply with a price increase of 11 percent. The increase was the lowest in the provinces of Groningen and Friesland.

Figure 3: Sharp house price increase in Flevoland and Rotterdam



Source: Statistics Netherland, Dutch Land Registry

Figure 4: Slowdown in house price increase



Source: Statistics Netherlands, Dutch Land Registry

It is particularly striking that house prices have risen less in the first quarter than in the previous quarters. The 12-month rolling average of the month-on-month growth is also showing a slowdown in the increase of house prices (see Figure 4).

Construction of new homes still lagging behind, despite shortage

Last year the Dutch government estimated in their [National Housing Agenda](#) that the housing stock should grow by 75,000 homes each year until 2025 to make up for the current housing shortage. But according to [ABF Research and Capital Value](#) this is not enough because the shortages keep on increasing. They calculated a housing shortage of 263,000 dwellings at the beginning of this year and that 95,000 to 115,000 dwellings are needed annually to make up for the high housing shortage. However, in reality, the housing stock is growing less rapidly than needed. In 2018 the housing stock grew by just 73,516 homes (Figure 5). On the bright side: this is still much more than the amount of homes being added to the housing stock in previous years. For instance, in 2017 only 54,807 houses were added to the housing stock. The increase in the amount of homes added to the housing stock is merely due to the relatively low number of homes being withdrawn from the housing stock (for instance due to demolition) than an increase in the number of newly build homes.

Figure 5: Housing stock rose partly because less homes were demolished in 2018

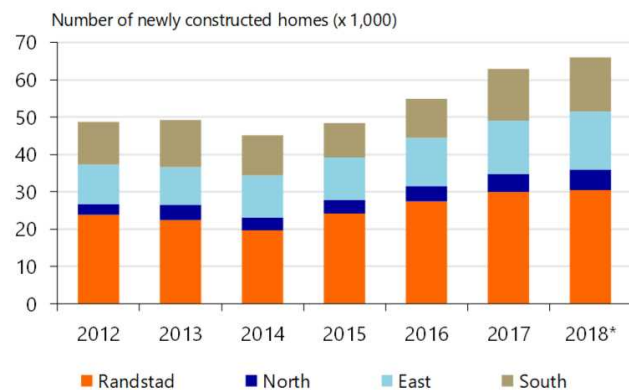


Note: The balance presented above contains administrative corrections, which arise among other things from double counting.

Source: Statistics Netherlands

Last year, just under 66,000 new houses were built, half of which in the highly urbanized Randstad region (see Figure 6). This means that construction of new homes is still not back at the pre-crisis level: between 2004 and 2008 an average of 77,000 homes were built each year. The construction sector says its being plagued by a shortage of workers and constrained building capacity (EIB, 2018), while land speculation may make it harder to develop certain places (FD, 2019). Additionally, there are few locations where construction is allowed, according to research by the CPB (Netherlands Bureau for Economic Policy Analysis). They also find that the construction is hindered by high requirements municipalities impose on the quality of homes and the location of new construction projects. The growth in new construction is therefore levelling off, as is the number of building permits issued. Especially in regions where the tension of the housing market is highest.

Figure 6: Construction of homes in Randstad slows down



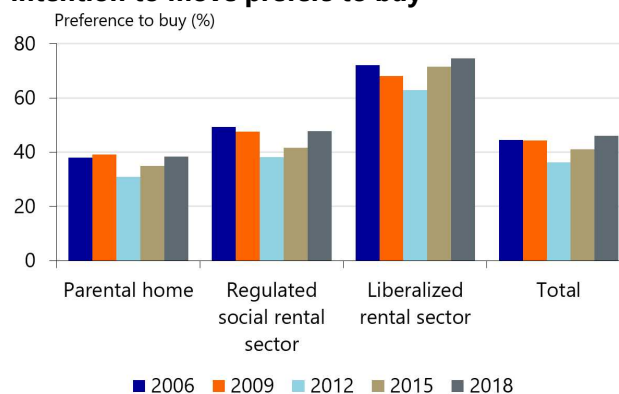
Note: * Preliminary data. The North consists of the provinces of Drenthe, Friesland and Groningen. The East consists of the provinces of Flevoland, Gelderland and Overijssel. The South covers the provinces of Limburg, Noord-Brabant and Zeeland, while the Randstad covers the densely populated provinces of Noord-Holland, Utrecht and Zuid-Holland.

Source: Statistics Netherlands.

In the spotlight: in which province do starters still have a chance?

Due to the lack of housing supply and the rise in housing rents and housing prices, there are serious concerns about the chances of young adults to find an affordable home on the Dutch housing market. And especially about those who earn too much for a social rental home, but too little for a rental home in liberalized part of the rental sector, with its [high and increasing rental prices](#). To what extent is buying an alternative? According to the Netherlands' Housing Survey (see box "Estimating the chances of potential first-time buyers"), the owner occupied housing sector lost popularity during the housing market crisis of 2008-2013 among young adults with an intention to move (Figure 7). But after the crisis, the owner occupied sector became attractive again. By now, a higher share of young adults would like to move into homeownership compared to 2006 and 2009. Despite the high housing prices, almost half of the young adults with an intention to move, preferred moving into homeownership in 2018. Especially young adults in the liberalized rental sector prefer to buy a house. In 2018, this applied to three-quarters of them. This is possible due to the high and still rising rents, because of the young adults intending to move out of their parental home, only 38 percent had a preference for buying.

Figure 7: Almost half of the young adults with an intention to move prefers to buy



Note: The analysis is based on young adults till 35 years with an intention to move within two years. The regulated social rental sector comprises of rental homes with a rental price below the liberalization threshold (in 2018: 719 euros).

Source: Netherlands' Housing Survey 2018

Box: Estimating the chances of potential first-time buyers

The Netherlands' Housing Survey (in Dutch: WoonOnderzoek Nederland, abbreviated WoON) is a large scale housing survey that is being held every three years and is conducted by Statistics Netherlands on behalf of the Ministry of the Interior and Kingdom Relations (in Dutch: BZK). The survey provides representative information about the housing situation of the Dutch population, their intention to move in two years and recent relocations. The survey also contains information on the household composition and household income.

Using the Netherlands' Housing Survey 2018, we estimated the maximum mortgage for young adults under 35 year with an intention to move into homeownership. It is possible that some of these young adults owned a home before but that they moved (back) to the rental housing sector or their parental home due to unemployment or a break up. Technically, these adults won't be first-time buyers if they succeed in buying a house.

It should be stressed that the estimation of the chances of potential first-time buyers in the owner occupied sector comes with three limitations. First, it is unknown which part of the household income is being earned by the main breadwinner. This information is important because for dual income families, only the highest income counts fully in the calculation of the maximum mortgage. Of the second income, only 70 percent is taken into account in the calculation. It is a well-known fact that men earn more than women. Recent research shows that two years before a child is born, women contribute [on average 44 percent to the total household income](#). Two years after giving birth, their contribution has fallen to 38 percent. For our analyses, we made the assumption that 61 percent of the total household income is being earned by the main breadwinner. A second limitation is that the housing survey does not provide information about the income of the partners

of respondents who are still living alone but who would like to buy a home with their partner. For the analyses, the selection of respondents is therefore restricted to those respondents who do not foresee a change in the household composition after the move. Third, the survey contains administrative income data from 2017. Therefore, we adjusted the average gross household income for the development in Collective Labour Agreement (CAO) wages between 2017 and 2019.

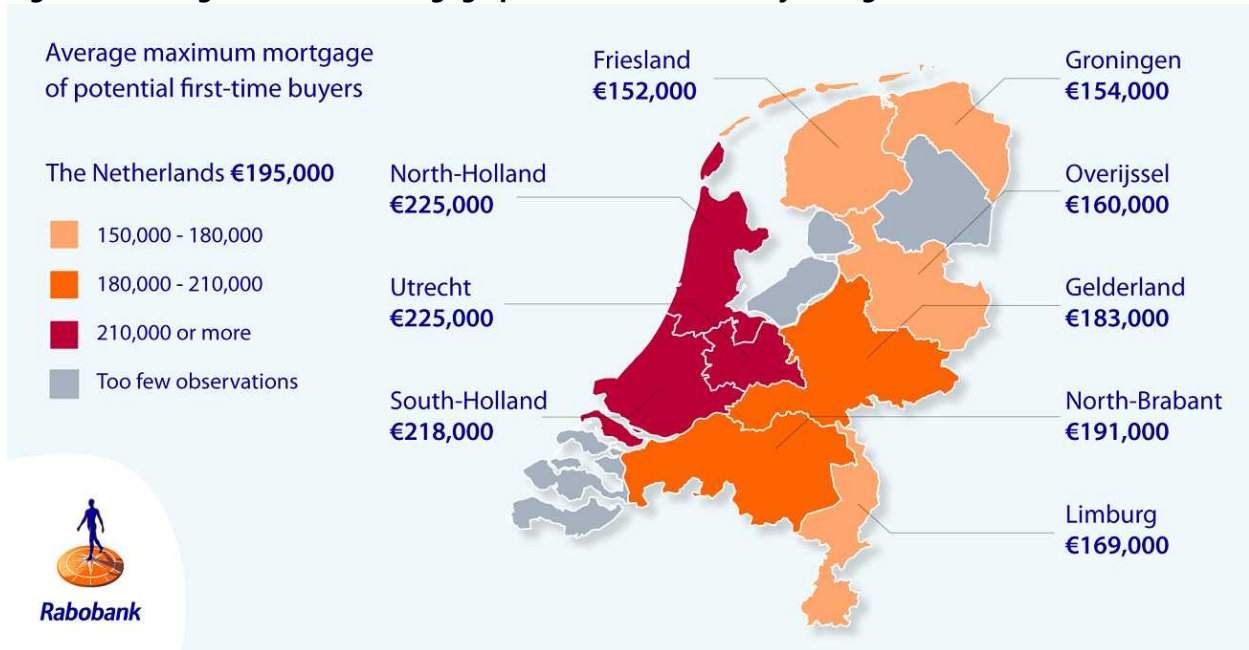
After adjusting the gross household income for the bread winner issue and the CAO index, we estimated the maximum mortgage for potential first-time buyers. Thereafter, the average maximum mortgage is confronted by the average selling price in the provinces where young adults preferred to buy a home. About 25 percent of the young adults did not provide information on the desired province. An additional analysis showed however that about 82 percent of the first time buyers in the period 2016-2018 bought their house in the region where they already lived. For those respondents with missing information on the preferred province, we therefore made the assumption that they will probably start searching for a home within the province in which they are already living.

But of course, *wanting* to buy does not necessarily mean *being able* to buy. Whether young adults are actually able to become homeowners doesn't just depend on the amount of houses on the market, but also by their financial situation -specifically their gross household income. The National Institute for Family Finance Information (Nibud) calculates norms indicating the maximum amount a household can spend on housing given other necessary costs of daily living, and subsequently the maximum mortgage loan a household can get based on the gross household income.

On average, young households preferring to move into their own owner-occupied home have a gross income of 43,000 euros per year. Based on a 10-year fixed mortgage interest rate of 1.75 percent, this means a maximum mortgage of around 195,000 euros. Young dual-income households who want to buy their first home can borrow on average 257,000 euros. This is logically much more than those who want to make the step to homeownership on one income: their average maximum mortgage is only 135,000 euros.

There is a big gap between the average maximum mortgage of young adults preferring to move into homeownership and the average selling price. On average, young adults are short about 100,000 euros for the mean selling price. Of course, one can argue that potential first-time buyers are still at the beginning of their residential careers, and might therefore prefer to move into a smaller house in a cheaper segment of the housing market. But even apartments were sold for 264,000 euros on average in the first three months of this year. And buyers shelled out on average almost 278,000 euros for a terraced home.

Figure 8: Average maximum mortgage potential first-time buyers highest in the Randstad

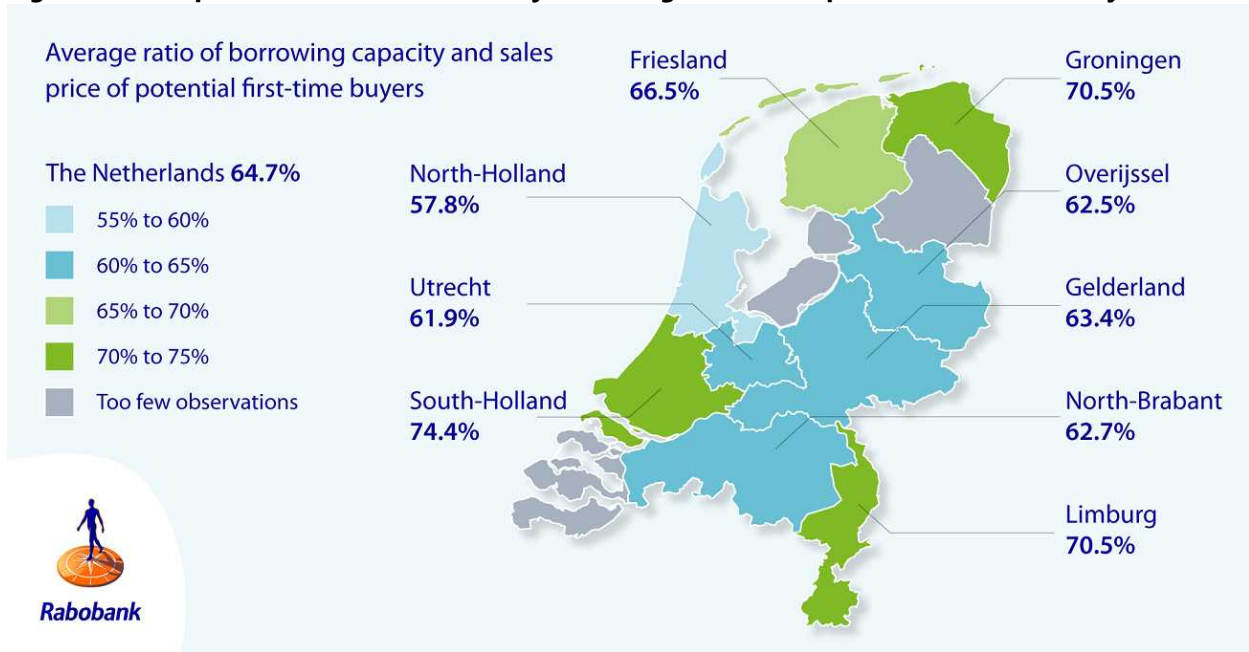


Note: In the provinces of Drenthe, Flevoland and Zeeland there were insufficient observations to provide a reasonably reliable indication of the average maximum mortgage of potential first-time buyers.

Source: Netherlands' Housing Survey 2018

In all of the twelve Dutch provinces potential first-time buyers appear to come short (Figure 8 and Figure 9). For example, young adults wanting to buy in the province of Utrecht can borrow just under 225,000 euros on average. But the average selling price in that popular region is around 260,000 euros. The ratio is even more skewed in Noord-Holland: potential first-time buyers can borrow just under 58 percent of the average selling price, despite the relatively high income in the region (Figure 9). The ratio is less skewed in Groningen and in Limburg. Young adults who want to buy their first house in the province of Limburg, can borrow on average about 70 percent of the average selling price. Best of are those who prefer to buy in Zuid-Holland: on average, they can borrow approximately 74 percent of the average selling price. This is due to the relatively high incomes but - compared to the rest of the Randstad - modest average selling price.

Figure 9: In all provinces difficulties to buy an average house for potential first-time buyers

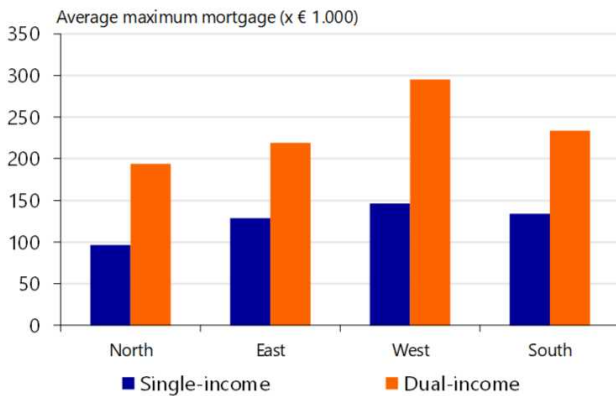


Note: see also the note of Figure 8.

Source: Netherlands' Housing Survey 2018, Statistics Netherlands/Dutch Land Registry

The same conclusions can be drawn if we look at the four parts of the country and make a distinction between single income households and dual income households. Irrespective of the location, dual-income households are better off than single-income households. But despite their higher maximum mortgage, their average maximum borrowing capacity is still not sufficient to pay the average selling price (see Figures 10 and 11).

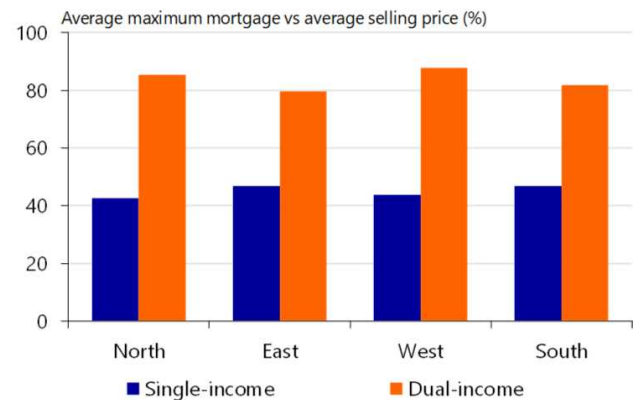
Figure 10: Especially in the west a high maximum mortgage for dual income potential first-time buyers



Note: In contrast to Figure 6, the South now only consist of the provinces of Limburg and Noord-Brabant. The West consists of four provinces: Noord-Holland, Utrecht, Zuid-Holland and Zeeland. This is in accordance with the official division of Statics Netherlands.

Source: Netherlands' Housing Survey 2018

Figure 11: Potential first-time buyers with a dual income better off

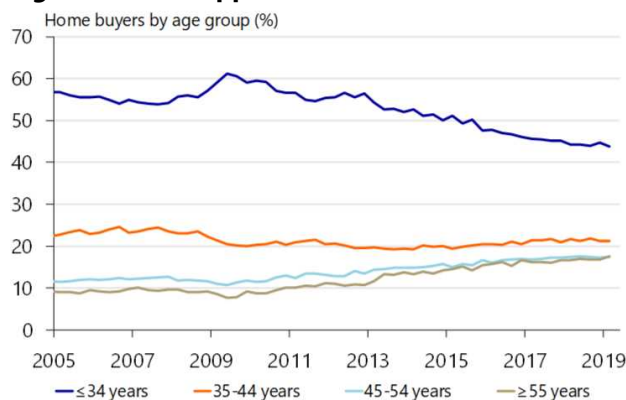


Note: see also the note of Figure 10.

Source: Netherlands' Housing Survey 2018

Given the above, it's no surprise that the share of young adults is declining in total sales. In the first quarter of 2019, 43.8 percent of all transactions went to the 35 and under age bracket, compared to 44.3 percent one year earlier. In 2009 about 59.0 percent of all sales involved young adult households (see Figure 12). Especially in the apartment segment, the share of young adults in total sales is declining: before the crisis, around 60 percent of all sold apartments were bought by young adults, compared to 40 percent at the beginning of this year (see Figure 12). Possibly, this development is related to the ageing of the population. If elderly want to move, they prefer to move to an apartment. In 2018, this applied to approximately 71 percent of households aged 65 years and over who want to move and prefer to buy a home. As older households generally have more financial means than young adult households, it is quite possible that young people cannot compete with elderly households in the 'battle' among apartments.

Figure 12: Unstoppable seniors

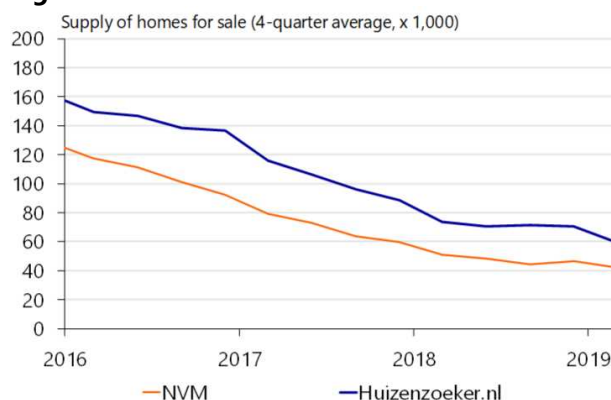


Source: Dutch Land Registry

Fewer homes for sale, fewer homes sold

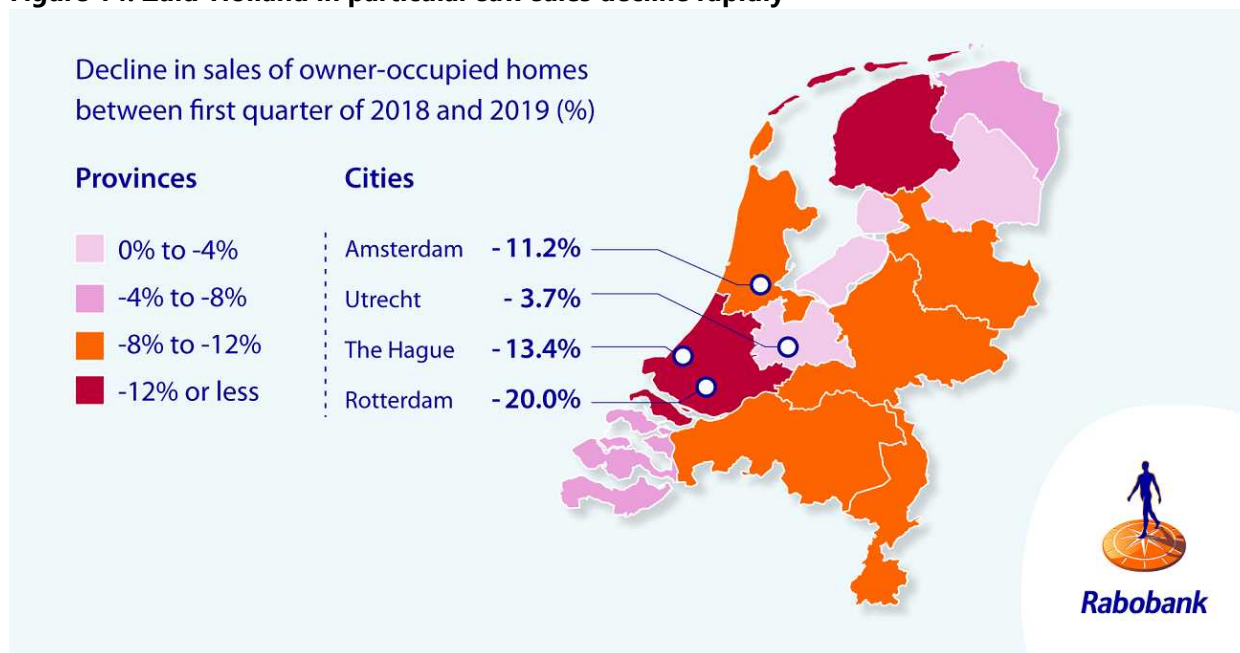
The possible struggle between young people and elderly households is primarily a supply problem. According to the NVM, the branch organization of real estate agents and appraisers, only 42,000 homes were for sale in the first quarter of 2019 (Figure 13). This is 17 percent less than one year earlier. Not surprisingly, fewer and fewer houses are being sold. In the first quarter of 2019, 47,431 homes changed hands, which is 9.0 percent less than a year earlier. In Rotterdam, where housing prices rose fastest, the number of sales fell by 20 percent (Figure 14).

Figure 13: Decline in homes for sale



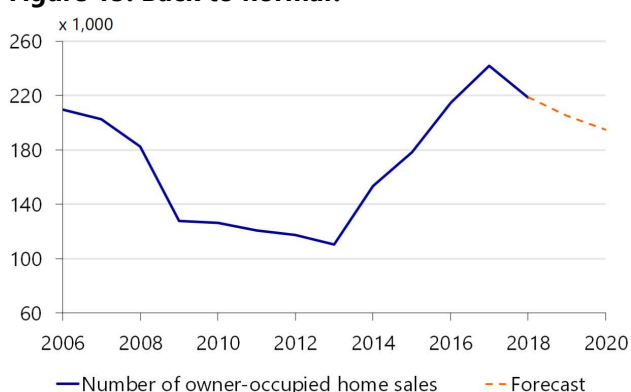
Source: NVM, Huizenzoeker

Figure 14: Zuid-Holland in particular saw sales decline rapidly



Source: Statistics Netherlands, Dutch Land Registry

Figure 15: Back to normal?

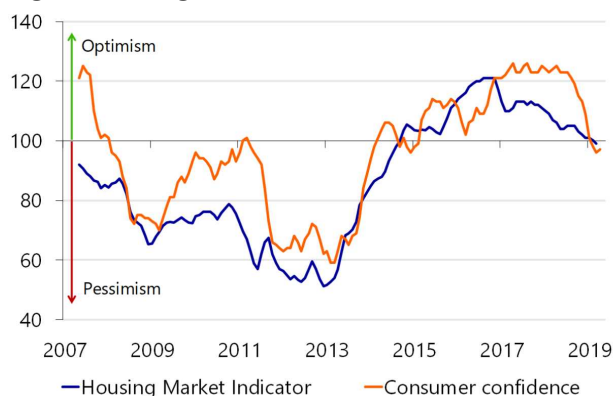


Source: Statistics Netherlands, forecast by RaboResearch

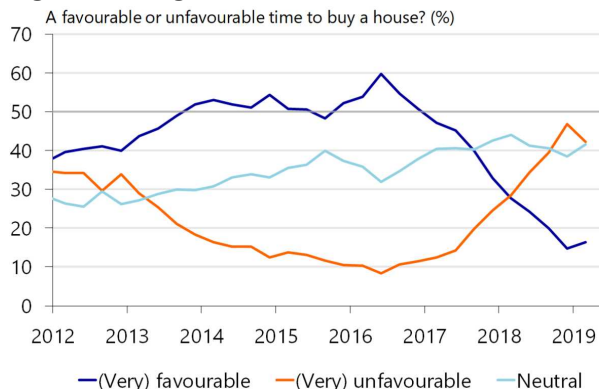
In contrast, the number of sales barely changed compared to one year ago (-0.6 percent). Although the number of sales has fallen sharply recently, the number of homes being sold is still higher than in the years before the crisis (Figure 15). It could be that the number of sales in the last couple of years was relatively – and temporarily – high because of a catching-up effect after the crisis. Possibly, the amount of sales is now slowly going back to its new, natural level.

Further flattening of price growth is expected

Headlines in recent months varied from "[Madness on the housing market is somewhat declining](#)" to "[Housing prices have fallen for the first time in three years](#)". For the first time in four years, the confidence in the housing market is negative again (Figure 16). And despite a slight recovery in the last quarter, only 2 out of 10 people find it currently a (very) favourable time to buy a house (Figure 17). In the second quarter of 2016, this applied to 6 out of 10 people. According to the NVM the amount of homes for sale is slightly increasing in some regions - including Amsterdam – while the extent to which houses are [being sold above the asking price](#) is somewhat declining. And as mentioned earlier, housing prices are increasing less rapidly compared to previous quarters.

Figure 16: Negative vibe

Source: Statistics Netherlands, Dutch Home Owners Association (VEH)

Figure 17: Slight increase

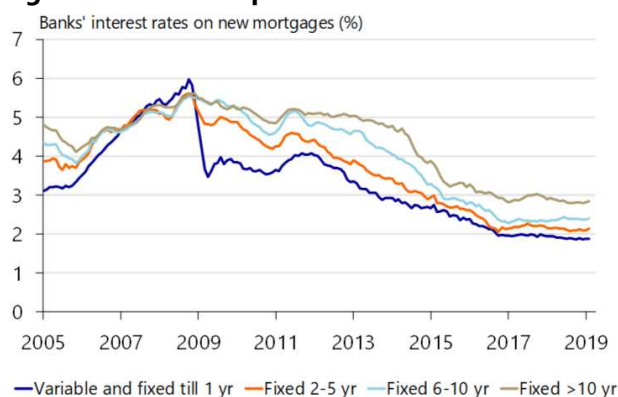
Source: Statistics Netherlands, Dutch Home Owners Association (VEH)

With the recent housing market crisis in mind, these signals raise the question: are we heading into the direction of a new housing market crisis? According to some experts, this is not the case because of the housing shortage. And following the economic principles of supply and demand, this should cause an upward pressure on housing prices. However, economic laws don't always apply to the housing market. From an economic point of view, the housing market is not a "perfect market". The period 2008 to 2014 teaches us that house prices can fall even in times of a shortage of homes. In 2012, there was a [shortage of 162,000 homes](#) according to ABF Research. Nevertheless, housing prices fell, the number of sales dropped and the construction of new homes collapsed. During those years, the [housing stock functioned as a 'sponge'](#), at least in the cities, according to a study by the PBL Netherlands Environmental Assessment Agency: the number of households grew faster than the number of homes, causing the average occupancy rate to increase. So a housing shortage might not be the most important indicator to look at when gauging the likelihood that the market will weaken.

In our view a souring economy could prove much more relevant to the housing market than a lack of homes. GDP is still expanding though, and Dutch unemployment has dropped to a 15+ year low of 3.3 percent. Meanwhile mortgage interest rates appear stuck at historical lows (see Figure 18). Three months ago we wrote that we expect house prices growth to taper off from 9 percent in 2018 to 6 percent in 2019, mostly due to spill-over^[1] (see Figure 19). Given recent developments, we stick to these expectations. For 2020, we forecast price growth to level off even further. We also keep our sales prognosis steady: in 2019 some 205,000 homes are expected to change hands, about 6 percent less than in 2018 (see Figure 15).

It should be noted that these forecasts have become more uncertain since our last Quarterly update. There are some signs that price growth is tapering off quicker than we have currently pencilled in. An example is the latest update from the Dutch Association of Real Estate Brokers (NVM), which reports that transaction prices have stabilized. NVM claims their figures precede official sales figures by about two to three months, meaning they serve as a rough leading indicator.^[2] This implies stagnating or even slightly declining prices in the Dutch Land Registry's official second quarter figures. We will keep a close eye on these developments in the coming months and will adjust our forecasts accordingly.

Figure 18: Still cheap to finance



Source: DNB

Figure 19: Tapering off a tad



Source: Statistics Netherland (CBS), forecast by RaboResearch

Table 1: Q-o-q house price development (%)

Quarter	NVM	Statistics Netherlands/Dutch Land Registry (advanced by one quarter)
First quarter of 2016	1.3	1.1
Second quarter of 2016	3.1	2.5
Third quarter of 2016	1.7	1.1
Fourth quarter of 2016	3.3	2.0
First quarter of 2017	1.6	1.9
Second quarter of 2017	3.1	2.4
Third quarter of 2017	2.1	1.7
Fourth quarter of 2017	2.6	2.7
First quarter of 2018	2.4	1.8
Second quarter of 2018	3.9	2.7
Third quarter of 2018	1.9	1.4
Fourth quarter of 2018	2.8	1.7
First quarter of 2019	-0.1	

Note: NVM figures refer to transaction prices registered by their member offices, taking into account compositional within the group of homes sold. Statistics Netherlands and the Dutch Land Registry take into account all homes sold. They also correct for compositional effects, by relating sales prices to all homes in the Netherlands. Figures from Statistics Netherlands and the Land Registry presented above are advanced by a quarter to make them comparable to NVM figures (also see footnote 2).

Source: NVM, Statistics Netherlands, Dutch Land Registry

Footnotes

[1] House prices rose very rapidly in 2018, meaning that home buyers paid considerably more in December 2018 than those who bought in January of 2018. Even when homes in January of 2019 are sold for the same price as a month earlier (i.e. no m-o-m change), the y-o-y growth is still considerable.

[2] NVM reports a sale the moment a buyer and seller both sign the purchase agreement, the Dutch Land Registry doesn't register the sale until the house-key changes hands at the notary's office.

Key data

Economic indicators for the Netherlands

	<i>2017</i>	<i>2018</i>	<i>2019f</i>	<i>2020f</i>
GDP (growth, %)	2.9	2.7	1.7	1.6
Inflation (%)	1.3	1.6	2.5	1.7
Unemployment (% of labour force)	4.8	3.8	3.6	3.7

^aRabobank forecasts

House prices

<i>Quarter-on-quarter (%)</i>	<i>2018Q2</i>	<i>2018Q3</i>	<i>2018Q4</i>	<i>2019Q1</i>
Mean sales price (Land Registry)	2.3	2.6	0.4	2.8
Housing Price Index (Statistics Netherlands/Land Registry)	1.8	2.7	1.5	1.7
WOX (Calcasa)	2.5	2.9	1.0	-

Sales of existing owner-occupied houses

	<i>2018Q2</i>	<i>2018Q3</i>	<i>2018Q4</i>	<i>2019Q1</i>
Houses sold (Land Registry)	52,930	56,921	56,410	47,431
Forced auctions (Land Registry)	0,4%	0,2%	-	-

Building permits issued (twelve-month rolling total)

	<i>2018Q2</i>	<i>2018Q3</i>	<i>2018Q4</i>	<i>2019Q1</i>
Houses (Statistics Netherlands)	68,813	66,513	69,737	-

Mortgage interest rates on new loans (Dutch Central Bank)

<i>Quarter averages (%)</i>	<i>2018Q2</i>	<i>2018Q3</i>	<i>2018Q4</i>	<i>2019Q1</i>
Maturity <= 1 year	1.91	1.89	1.87	
2-5 year	2.15	2.10	2.10	
6-10 year	2.39	2.39	2.38	
> 10 year	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.

The date of completion is May 13th, 2019.

This data has been carefully incorporated into our analyses. Rabobank accepts, however, no liability whatsoever should the data or prognoses presented in this publication contain any errors. The information concerned is of a general nature and is subject to change.

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