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House price growth reaches dizzying heights, while sales start to decline

Dutch Housing Market Quarterly
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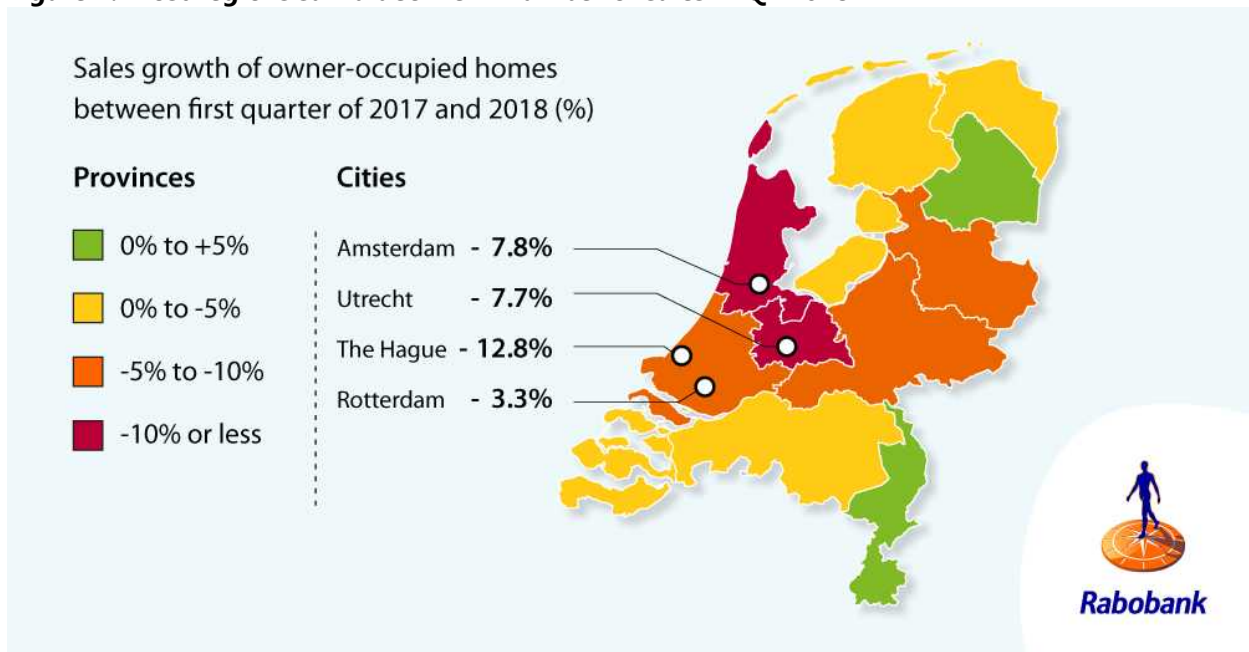
- **In the first three months of 2018, the price of the average existing owner-occupied home increased by 8.9 percent compared to the first quarter of 2017**
- **Rotterdam has taken over from Amsterdam as the major city with the fastest price increases**
- **Regional centres such as Almere and Eindhoven are also seeing rapidly rising prices**
- **We stick to our house price forecast of an eight percent increase in 2018 and seven percent in 2019**
- **Sales of existing owner-occupied homes dropped significantly in the first quarter of 2018 compared to the same quarter a year earlier**
- **In part, this is because the first quarter of 2017 was much stronger than a typical beginning of the year quarter**
- **An increasing scarcity of homes for sale seems to be taking hold in almost all and not only in the economic core regions**
- **We have adjusted our 2018 sales forecast from 250,000 to 235,000 homes, a decline of 3% compared to 2017**

Fewer sales of existing owner-occupied homes

Whereas 2017 did set a record in the sales of existing homes – 242,000 dwellings changed ownership – the first quarter of this year saw a substantial drop off in market activity.

In January, February, and March, there were 52,105 sales according to the Dutch Land Registry, implying a 6.8 percent decline compared to the same period last year. Unsurprisingly, the biggest declines were recorded in and around the four largest cities of Amsterdam, Rotterdam, Utrecht and The Hague, which are all located in the strongly urbanized Randstad region. These declines had already started in early 2017. However, what has changed in the first three months of 2018 is that transaction activities have also cooled off sharply outside of the Randstad (see Figure 1). This is in contrast to our forecasts in the previous [Dutch Housing Market Quarterly](#), in which we wrote that a decline in sales in the Randstad would be compensated for by a further increase in the number of sales in other regions and their larger and mid-sized cities.

Figure 1: Most regions saw a decline in number of sales in Q1 2018



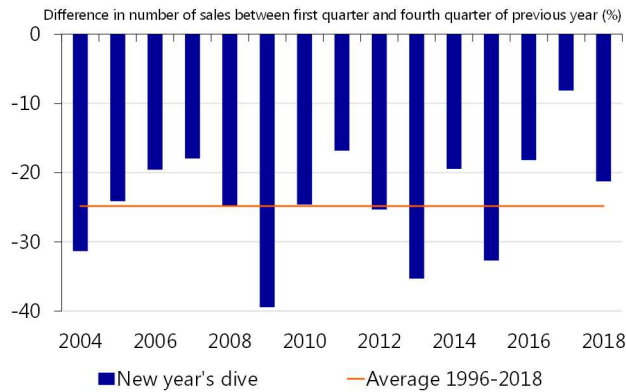
Source: Kadaster

It appears that after a four-year long upswing of the owner-occupied housing market a new phase has been reached where the increasing imbalance between supply and demand keeps on driving up house prices (and rents) but the sharp decrease in the number of homes for sale manifests itself in lower sales.

However, this new reality is only part of the story. Partially, the year-on-year drop off in sales can be explained by the very strong first quarter of 2017. Figure 2 shows that, usually, the first quarter sees a strong decline of recorded sales compared to the last quarter of the previous year – on average this is about 25 percent fewer sales. Yet, 2017 was exceptional in this regard, meaning that there was barely any seasonal effect. Early 2018, on the other hand, again followed the common pattern. This implies that the drop off shown above could also be just a seasonal effect, where we should ask why the first quarter of 2017 was so strong, rather than why the first quarter of this year was relatively weak. After all, in a long run perspective we are still dealing with a very buoyant market, where more than 50,000 homes sold in between January and March is exceptionally high.

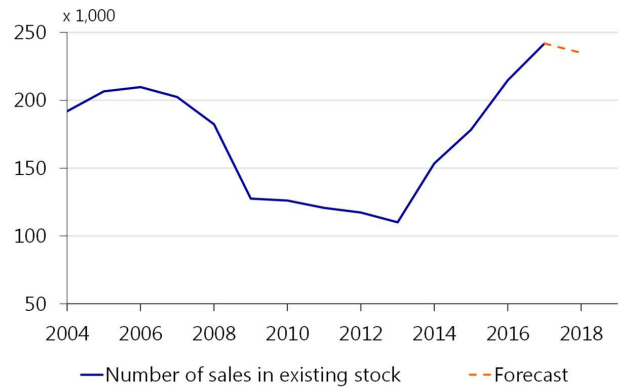
Bringing these two views together, we decided to downgrade our forecast of the number of sales from a slight increase to 250,000 homes sold to a small decrease to a total of **235,000 transactions** for the whole of 2018 (see Figure 3).

Figure 2: A familiar picture in 2018 – the new year's dive in sales



Source: Land Registry, computations by Rabobank

Figure 3: A small decline in the number of homes sold expected



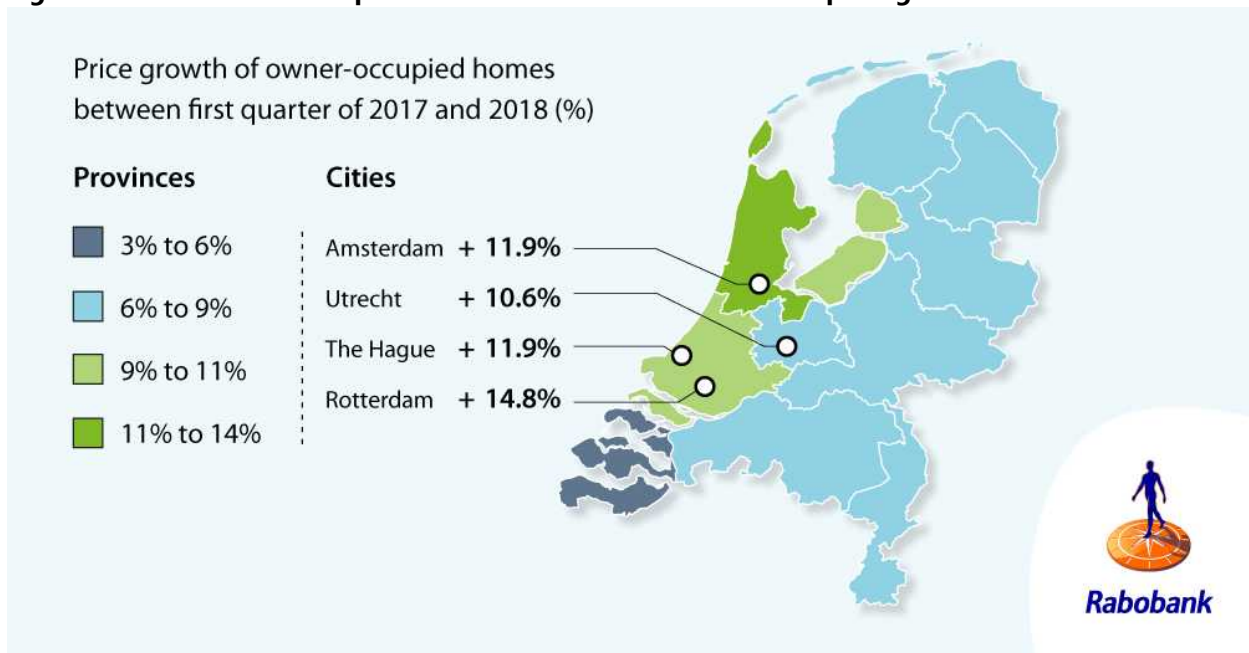
Source: Land Registry, forecast Rabobank

House prices are reaching dizzying heights

Since early 2014, when the recovery of the Dutch housing market started, house prices rose in almost every quarter. The first quarter of 2018 was no exception from this. The average owner-occupied house in the country was 8.9 percent more expensive than a year earlier, while this number was 'only' 8.2 percent in the fourth quarter of 2017.

From a regional perspective, rapid house price inflation has become more widespread. Flevoland has moved to second place in the provincial ranking of price growth. Most likely, this is due to house buyers from the nearby city regions of Amsterdam and Utrecht willing and able to pay significantly higher prices than local buyers. Furthermore, we can see that Rotterdam has passed Amsterdam as the city with the strongest price increases, while The Hague, previously a laggard in price inflation, has closed the gap with the other three major urban housing markets. In Rotterdam houses were, controlled for the composition of the stock sold, on average 15% more expensive than in early 2017; in The Hague, indexed house prices rose by almost 12% (see Figure 4).

Figure 4: Rotterdam has surpassed Amsterdam in terms of house price growth

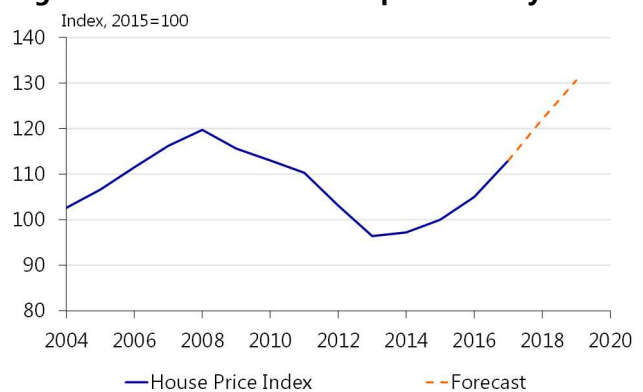


Bron: National Statistical Office & Land Registry

Admittedly, both cities are coming from a much lower absolute price level. Where the average house in Amsterdam costs €445,000, The Hague is very close to the national average at €280,000 and Rotterdam is significantly cheaper at €239,000. Accordingly, if house prices continue to rise in the upcoming years, we expect that exactly these cities will have the strongest upwards potential. They are much more affordable than Amsterdam, Utrecht and many mid-sized cities like Haarlem and Leiden, while they are home to or are close to the leading economic areas of the country.

Just like three month ago we expect house prices to increase by **8 percent in 2018** and another **7 percent in 2019**. This means that by the end of 2019 the average house in the Netherlands will cost about €300,000.

Figure 5: On course to a new peak in early 2018

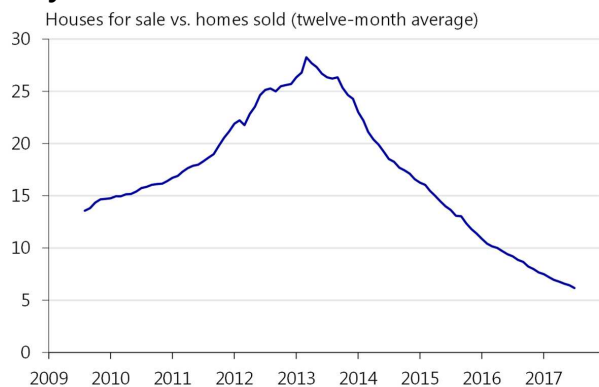


Source: National Statistical Bureau & Land Registry, forecast Rabobank

With the exception of a decline in the number of sales – again, the level of sales is still very high – the driving forces of house prices in the country principally remain unchanged (see [Dutch Housing Market Quarterly 3 2017](#)). Fewer homes are being offered for sale (see Figure 6), resulting in an increased willingness to pay above the asking price. As a result, houses are on the market for fewer days (56 compared to the long term average of 80). Moreover, mortgage interest rates remain historically low (see Key data), and our interest rates strategists do not expect them to rise significantly in the months to come. The construction of new homes has picked up slightly, but remains far behind the need for new homes based on household growth. And finally, while current owners and prospective home buyers are becoming more negative about the availability and

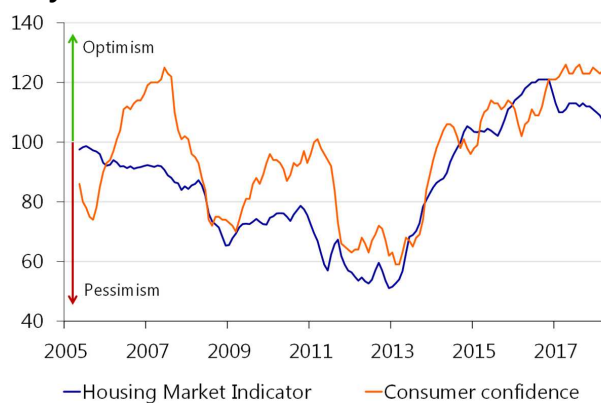
affordability housing market (see Figure 7), the desire and willingness to buy remains unbroken. In part, this is due to the fact that the alternative, namely renting in the private sector, is also becoming increasingly expensive.

Figure 6: Availability of houses to buy remains very low



Source: Huizenzoeker.nl & Land Registry, computations Rabobank

Figure 7: Availability of houses to buy remains very low



Source: Vereniging Eigen Huis & National Statistical Office

Key data

Economic indicators for the Netherlands

	2016	2017a	2018a	2019a
GDP (growth, %)	2.2	3.2	3.1	2.5
Inflation (%)	0.1	1.3	1.6	2.4
Unemployment (% of labour force)	6.0	4.9	4.0	3.7

^aRabobank forecasts

House prices

<i>Quarter-on-quarter (%)</i>	2017Q2	2017Q3	2017Q3	2018Q1
Mean sales price (Land Registry)	1.5	2.6	-0.1	4.1
Housing Price Index (Statistics Netherlands/Land Registry)	1.9	2.4	1.7	2.7
WOX (Calcasa)	2.2	2.4	1.6	-

Sales of existing owner-occupied houses

	2017Q2	2017Q3	2017Q4	2018Q1
Houses sold (Land Registry)	58,370	61,319	66,188	52,105
Forced auctions (Land Registry)	0.6%	0.4%	0.6%	0.5%

Building permits issued

	2017Q2	2017Q3	2017Q4	2018Q1
Houses (Statistics Netherlands)	15,699	19,439	17,200	-

Mortgage interest rates on new loans (Dutch Central Bank)

<i>Quarter averages (%)</i>	2017Q2	2017Q3	2017Q4	2018Q1
Maturity <= 1 year	1.98	1.98	1.96	1.95
2-5 year	2.20	2.23	2.21	2.15
6-10 year	2.36	2.34	2.34	2.34
> 10 year	2.89	3.00	3.00	2.90

Colophon

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