Dutch Housing Market Quarterly: High price increases on the horizon

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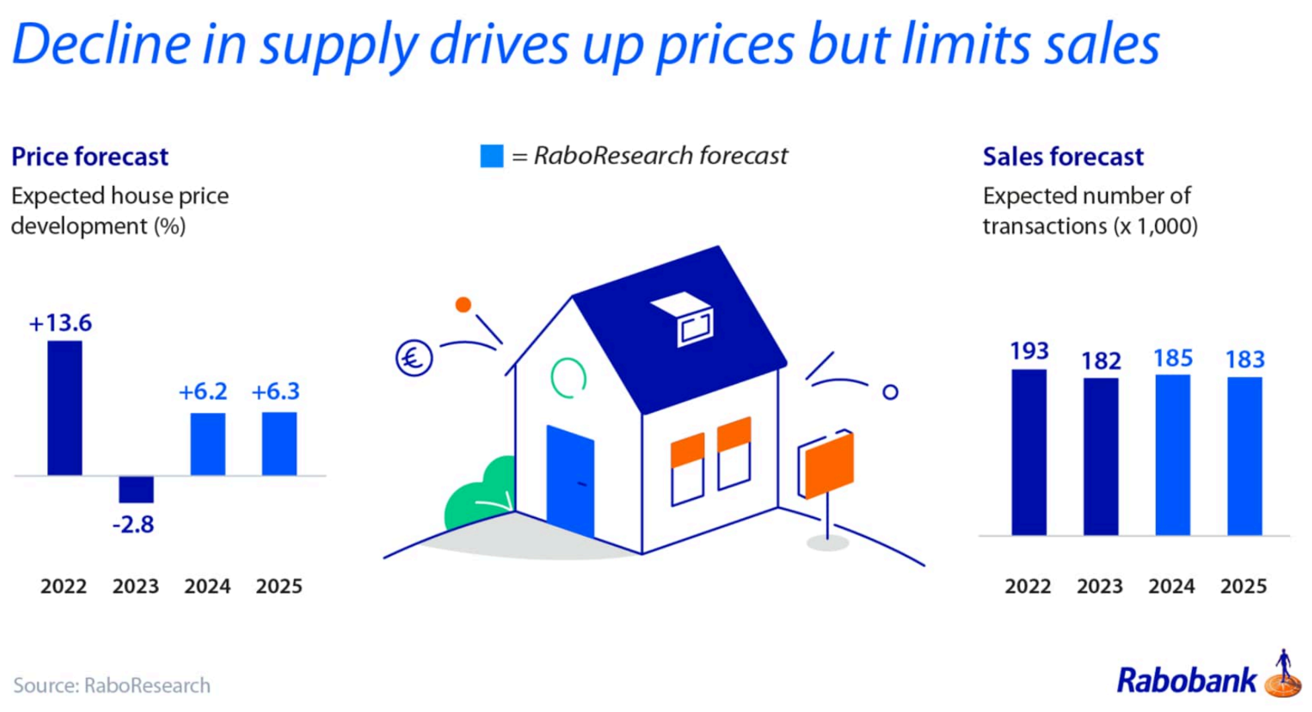
House prices in the Netherlands are rising rapidly again, because the borrowing capacity of potential homebuyers is increasing while the supply of houses is limited and decreasing. For this year, we expect owner-occupied homes to be on average 6.2 percent more expensive than in 2023, followed by a further house price increase of 6.3 percent in 2025. Due to the drying up supply, the number of transactions is expected to remain limited this year and next.

Summary

- House prices are rising rapidly again, as the borrowing capacity of potential home buyers increases and the supply of houses is limited and decreasing.
- For this year, we expect homes for sale to be an average of 6.2% more expensive than in 2023, followed by a further house price increase of 6.3% in 2025.
- At the same time, due to limited supply, we expect relatively few transactions of existing homes for sale: about 185,000 this year and 183,000 next year.
- The drying up of supply is partly due to an anticipated dip in housing construction, following a sharp decline in the number of building permits granted over the past two years.

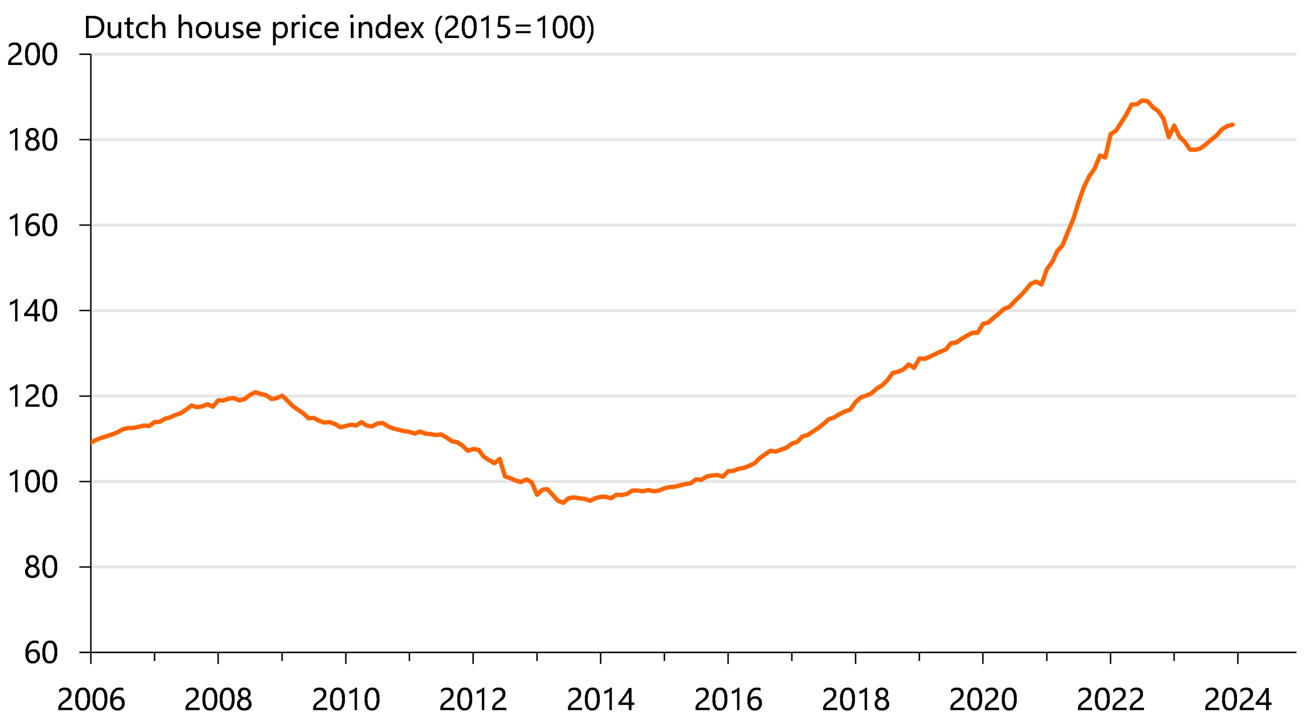


Housing market in higher gear

Prices of homes for sale continued to rise in recent months, and were only 1.85% away from a new price record in January (see Figure 1). This has already made up the lion's share of the 6.2% Fprice decline between the summer of 2022 and the spring of 2023.

Against the backdrop of drying up supply, we see rising wages and slightly lower mortgage rates - allowing homebuyers to borrow more - leading to rising home prices. Because homebuyers' borrowing capacity is expected to rise further this year and next, we anticipate that home prices will average 6.2% higher this year than last, followed by a further 6.3% price increase in 2025. Due to limited supply, the number of sales is expected to remain relatively limited: we assume 185,000 sales this year and 183,000 next year.

Figure 1: House prices back near 2022 peak



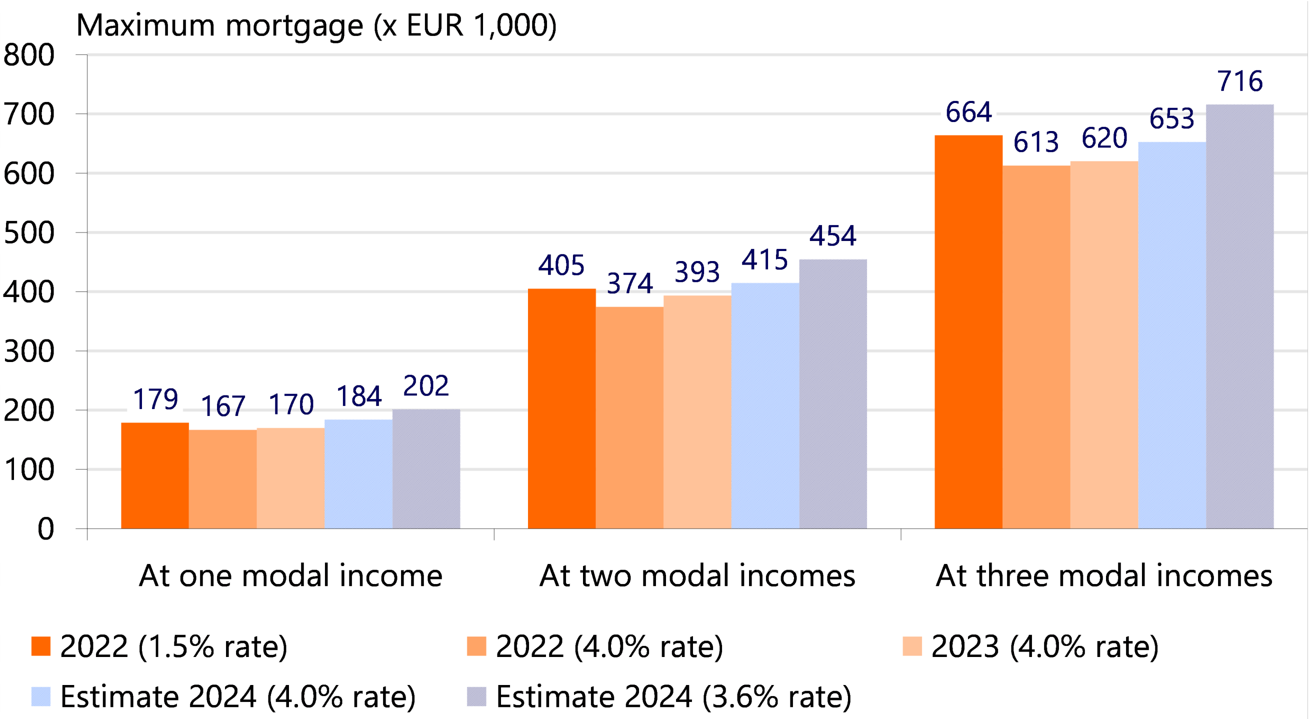
Source: Land Registry/Statistics Netherlands 2024

Higher borrowing possible for homebuyers

In 2022, mortgage rates rose rapidly, allowing households to borrow less (see Figure 2). But with wages now rising strongly, borrowing capacity is recovering rapidly. According to our latest estimates, collective wages are rising 6.0% this year and another 4.4% in 2025. Wages also rose 6.1% last year. The modal income, the most earned employee income, rises from EUR 41,500 in 2023 to EUR 44,000 this year and EUR 46,000 next year, according to forecasts from the Netherlands Bureau for Economic Policy Research (CPB). The effect of this on the borrowing space of homebuyers is large enough to offset the effect of higher interest rates: households with an income of three times modal can still borrow slightly less than in 2022, but it is estimated that homebuyers with an income of one or two times modal can borrow more than before the interest rate increase in 2022.

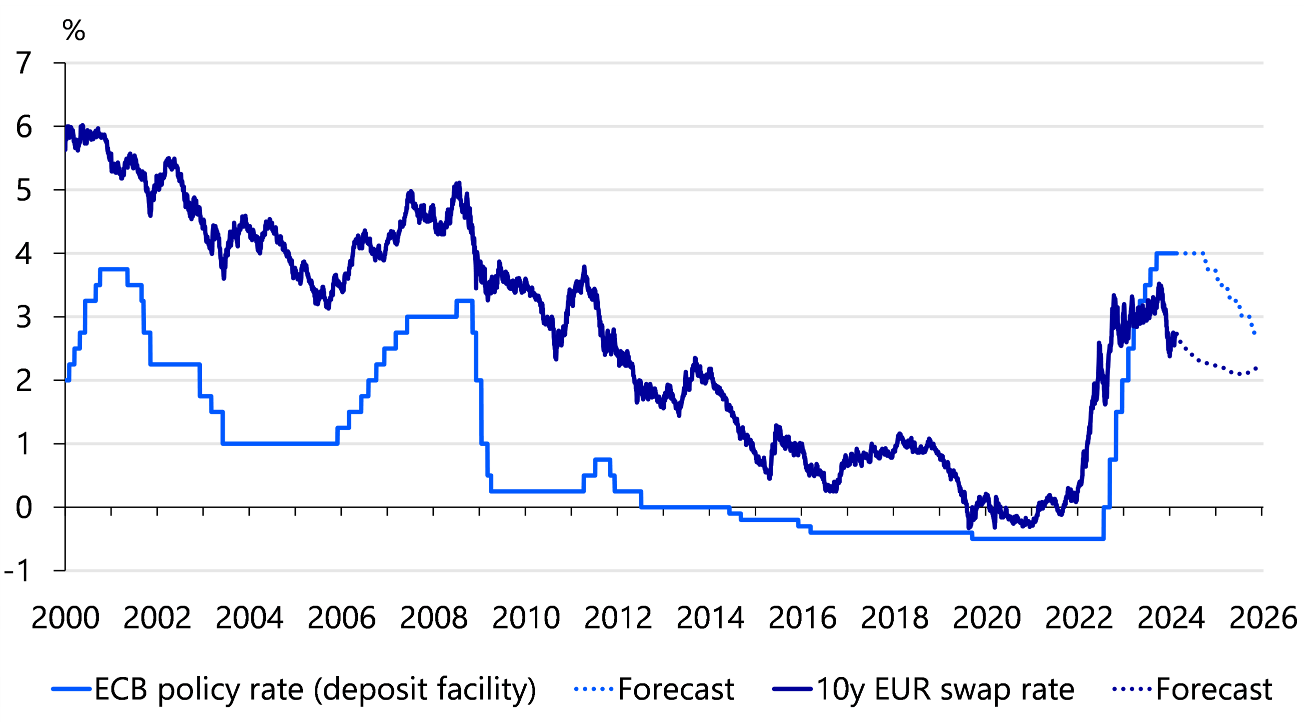
Moreover, we expect the lending space to receive an additional boost in 2025 from a slight decline in capital market interest rates. These capital market rates determine the funding costs of mortgage lenders, and are therefore a major determinant of mortgage rates. In October 2023, 10-year swap rates peaked at 3.5%, but in recent weeks have hovered around 2.7% (see Figure 3). While 10-year swap rates averaged 3.0% last year, we assume 2.4% for this year and 2.2% for next year. But uncertainty about this remains high. If interest rates fall faster or further than we assume, the housing market is likely to pick up faster. If the decline in capital market interest rates does not continue, the rise in house prices may actually be somewhat lower.

Figure 2: Strong increase in lending capacity expected, especially in 2025



Note: One time modal assumes a single-earner. Twice modal assumes two earners with two equal incomes. At three times modal, two-earner households are assumed, the least earning of whom has an income of once modal. From 2024, the maximum mortgage depends on the energy label. In 2024, the average of the maximum mortgage for homes with energy labels A/B and C/D was used. Source: Nibud, Netherlands Bureau for Economic Policy Analysis (CPB), RaboResearch 2024

Figure 3: Peak in capital market interest rates reached for now



Source: Macrobond, RaboResearch 2024

Rising wages and falling capital market interest rates cause maximum mortgages to rise especially sharply in 2025 in our estimate. A couple with a twice-modal income (this is roughly the income needed to buy the average starter home) can borrow as much as EUR 50,000 more in 2025 than in early 2022 – when interest rates were much lower. Single people (accounting for about 20% of home sales) may add another EUR 16,000 to the maximum amount they can borrow based on their income in both 2024 and 2025. Indeed, starting this year, lending standards for singles have been widened to take into account their lower cost of living.

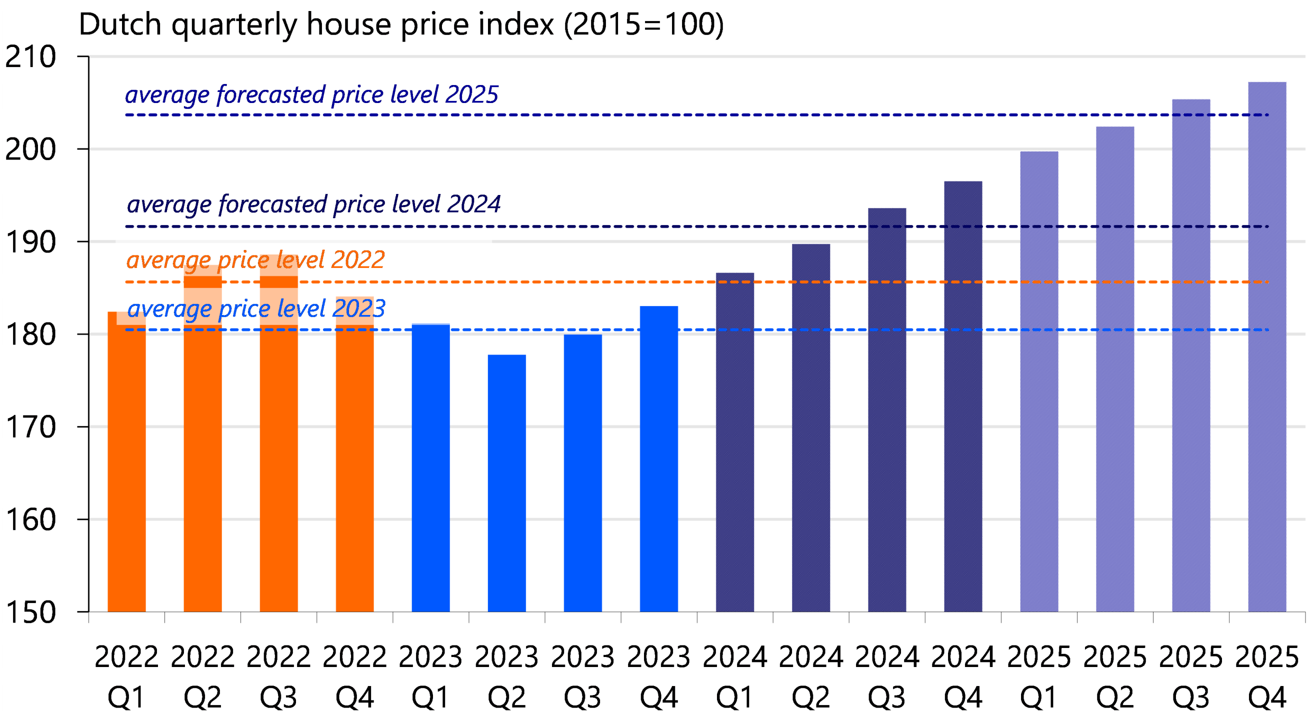
Solid increase in home prices expected in 2024 and 2025

We expect demand for existing owner-occupied homes to continue to pick up substantially in the coming years. This year, we estimate a house price increase of 6.2% and next year a price increase of 6.3% (see Figure 4). It means that the peak in home prices from 2022 may be matched before the summer. This is mainly due to the increasing borrowing capacity combined with the drying up of the supply of existing homes for sale (see also section "Relatively few sales expected this year and next year").

We do not expect major fluctuations in the economy affecting house prices in the next two years: after a mild recession in the first three quarters of 2023, the Netherlands closed the year with economic growth in the last quarter. And the economy is expected to continue to grow steadily this year and next. Unemployment is expected to rise slightly, from 3.6% last year to an average of 4.1% in 2025 – but thus remains low in historical perspective. That continues to support demand for (owner-occupied) housing.

We have again raised our expectations for house price growth from our previous Housing Market Quarterly Report. Back then, we assumed a 4.5% price increase in both 2024 and 2025. Also three months ago, we concluded that the housing market is recovering faster than after previous periods with a cooling housing market. In the past, sales often rebounded first and prices only followed quite some time later. The housing shortage and strong wage increases possibly play a role in this.

Figure 4: House prices to rise rapidly again

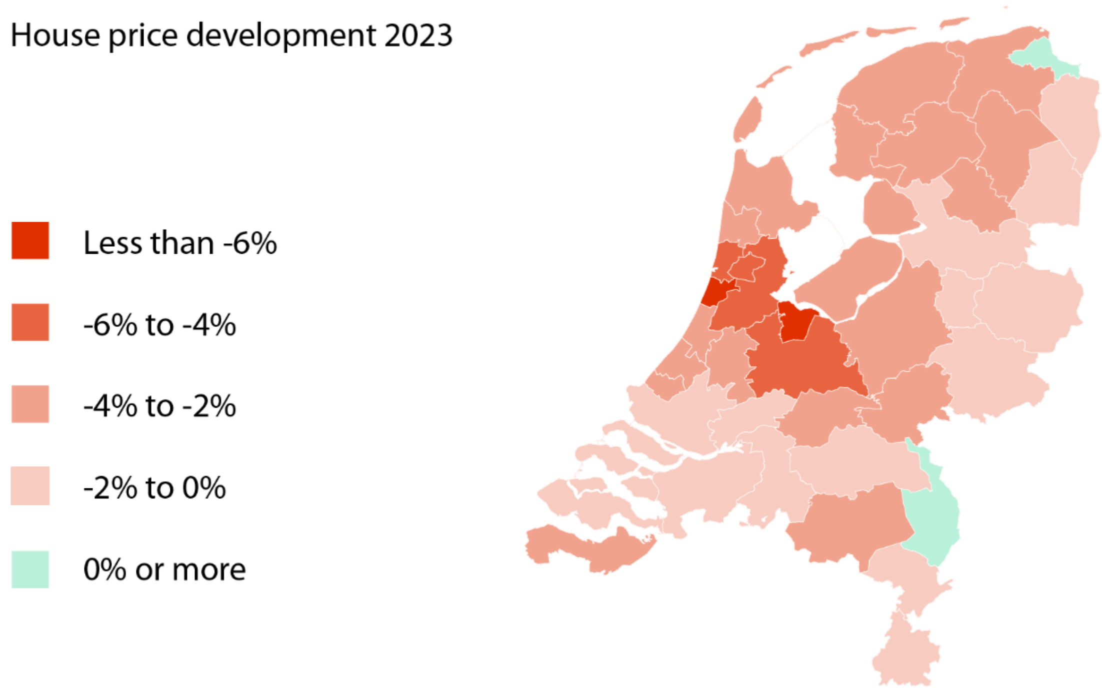


Source: Land Registry/Statistics Netherlands, RaboResearch 2024

Regional picture of house prices

Last year, there were only a few regions where house prices rose (see Figure 5). In the COROP region of Delfzijl, the price level was on average 3% higher, and North Limburg also recorded a plus of 2%. House prices fell most sharply in Het Gooi en Vechtstreek and the Haarlem agglomeration: existing owner-occupied houses became 7% cheaper on average in these regions. Even before interest rates began to rise, an increasing shift in demand for owner-occupied homes was visible from the most expensive housing market regions to regions where affordability was still slightly better. Not surprisingly, house prices fell most sharply precisely in the most expensive regions, as affordability continued to deteriorate from 2022 onwards (see also section "Sales declined slightly less in regions with sharper price declines").

Figure 5: Biggest house price drop last year in northern wing of Randstad conurbation

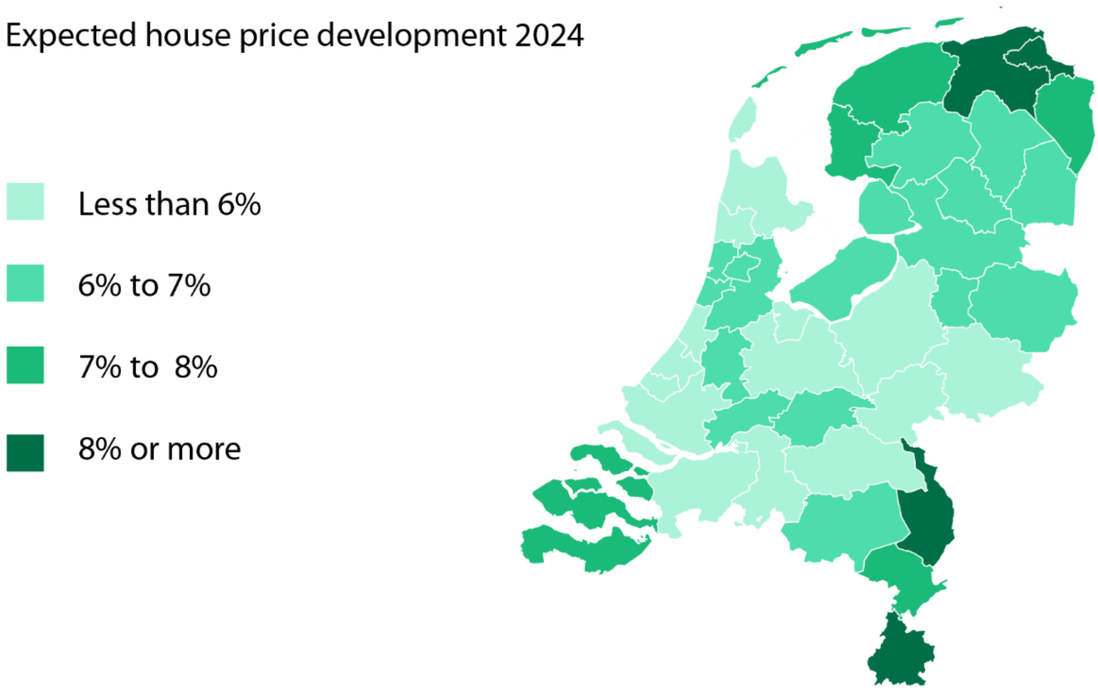


Source: Land Registry/Statistics Netherlands, edited by RaboResearch 2024

We expect house prices to rise solidly next year in all regions (see Figure 6). Even in the fourth quarter of 2023, house prices rose in almost all regions. Price increases expected for 2024 range from 5% in Utrecht to 11% in the Delfzijl region. Prices are expected to rise most strongly in a number of peripheral regions where affordability of owner-occupied housing is still relatively good (or at least not as bad as in other regions) and house prices have risen relatively sharply in the recent past.

Although we expect house price growth in the northern wing of the Randstad to continue to lag slightly behind the national average this year, we do foresee this picture gradually changing. Because supply constraints play a greater role in urbanized regions than in peripheral regions, demand factors – such as borrowing space – have a greater influence on house prices there. The expected increase in borrowing space is therefore likely to drive up house prices in the Randstad more than in regions such as Limburg and Groningen.

Figure 6: Sharp price increases expected this year in all regions

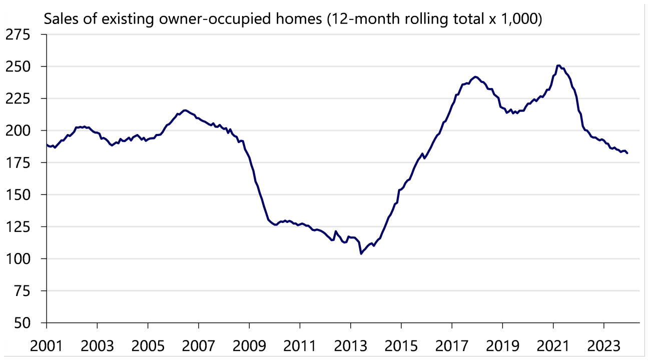


Source: RaboResearch 2024

Relatively few sales expected this and next year

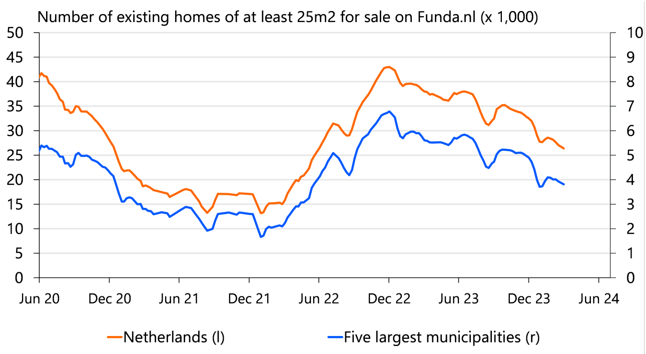
Just over 182,000 existing homes were sold last year, significantly less than in the previous five years when an average of about 218,000 owner-occupied homes changed hands each year (see Figure 7). We also foresee a modest number of sales this year and next: about 185,000 in 2024 and 183,000 in 2025. This is not due to a lack of demand, but to a lack of supply: the number of homes for sale is steadily declining (see Figure 8). Moreover, due to the anticipated dip in housing construction (see the section on new construction below), this decline in supply continues. Especially in 2025, when supply has further reduced due to 2024 sales, that tight supply is expected to put a brake on the number of transactions. We do see sales of yet-to-be-built owner-occupied homes picking up recently, but that – due to the lag between home sales and completion – is not expected to lead to more sales in the market for existing owner-occupied homes until after 2025.

Figure 7: Stagnation in home sales



Source: Land Registry/Statistics Netherlands, edited by RaboResearch 2024

Figure 8: Fewer and fewer homes for sale

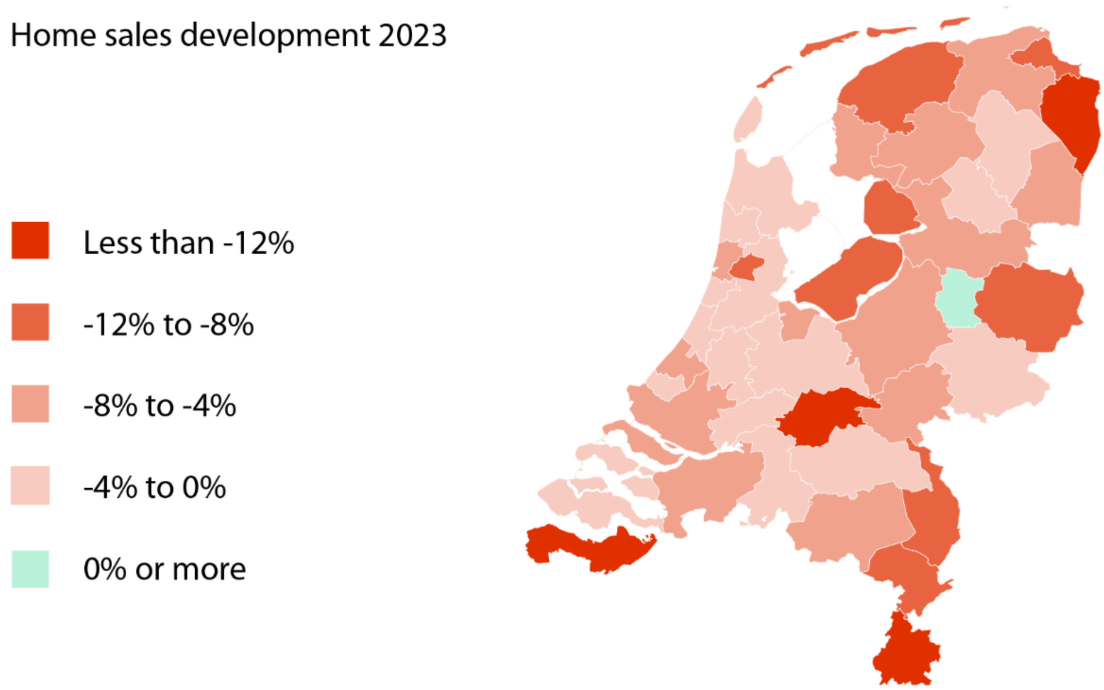


Source: Funda.nl, RaboResearch 2024

Sales down slightly less in regions with sharper price decline

With the exception of the Southwest Overijssel region, fewer existing homes were sold throughout the Netherlands last year than in 2022 – on average, the number of transactions declined 5.5%. This decline was significantly larger in a number of regions, including Flevoland, North Friesland, Southwest Gelderland, Zeeuws-Vlaanderen and the three Limburg COROP regions. Moreover, it is striking that house prices in these regions on average did fall slightly less than in the rest of the Netherlands. And vice versa: in regions where house prices fell more sharply, the number of sales fell slightly less sharply, such as in Greater Amsterdam, Utrecht and around Haarlem (see Figure 9). Thus, although the correlation is small, it appears that the number of transactions held up slightly better in regions where prices adjusted faster. Perhaps home sellers in some regions were more accommodating, reaching an agreement with a potential buyer quicker, resulting in the number of sales holding up reasonably well.

Figure 9: Fewer transactions in almost all regions by 2023



Source: Land Registry/Statistics Netherlands, edited by RaboResearch 2024

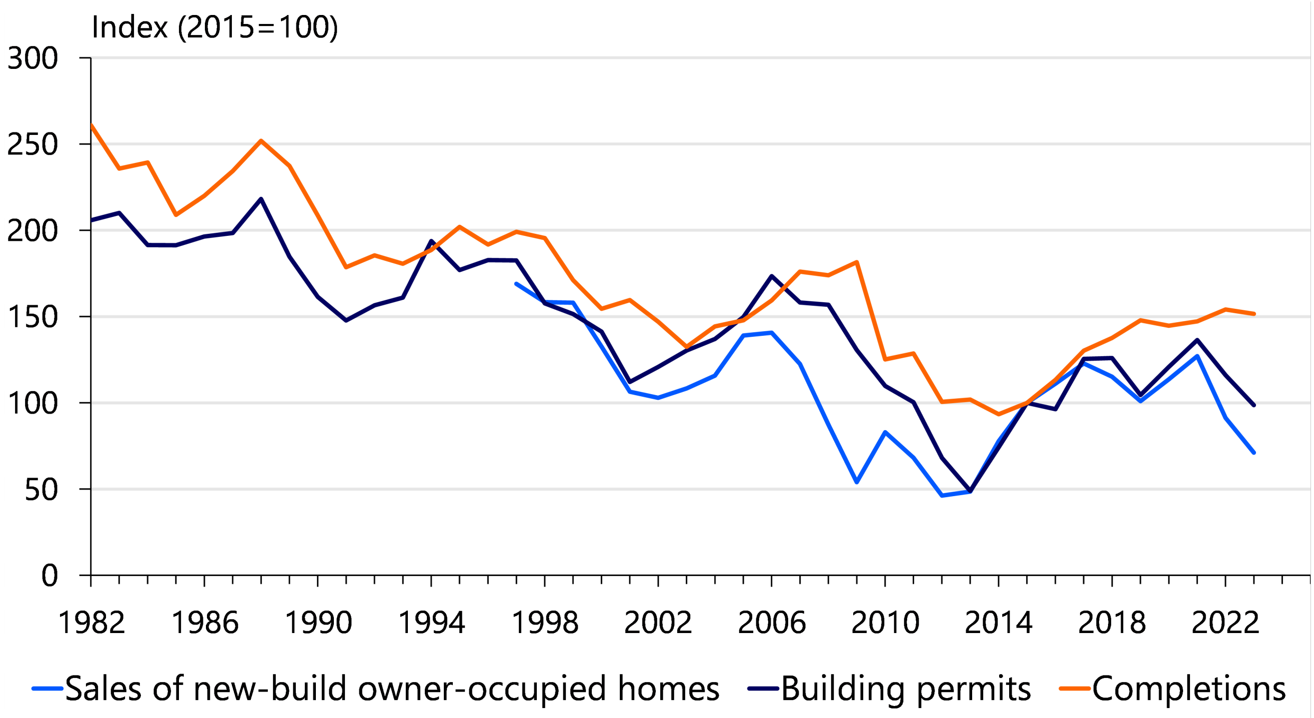
New home sales rebound, but housing shortage persists

While 44% fewer new construction homes were sold last year than in 2021 (the year before interest rates began to rise), and 28% fewer building permits were issued, the number of completed homes actually increased by 3% during this period (see Figure 10). Still, we expect the number of new homes completed to decline in the coming period. In the past, a sharp drop in the number of building permits issued was always followed by a drop in the number of completed homes. After all, a building permit is required to build a house.

Although the relationship between building permits issued and homes delivered is imperfect and indirect, it is nevertheless a strong one. In the long run, the number of building permits issued explains 91% of the variation in the number of housing units completed one year later. For the number of homes completed two years later, it is 78%. There is also a strong relationship with the sale of new construction sales, with this indicator appearing to be a bit further ahead: using only the number of new construction sales, 72% of the number of homes completed two years later can be explained.

The picture shown in Figure 10 is disturbing. Despite years of firm policy ambitions to boost new construction, we now seem to be heading into another few years in which fewer new homes are being added to the housing stock. This puts pressure on the flow in the housing market and also reduces the opportunities for first-time buyers. Although many newly-built homes are purchased by people who already own owner-occupied homes, almost every completed home eventually yields a home that becomes available to a rental or owner-occupied starter. Only if the buyer at the end of the chain permanently withdraws the home from the housing market – for example, by turning it into a vacation home – does this not apply.

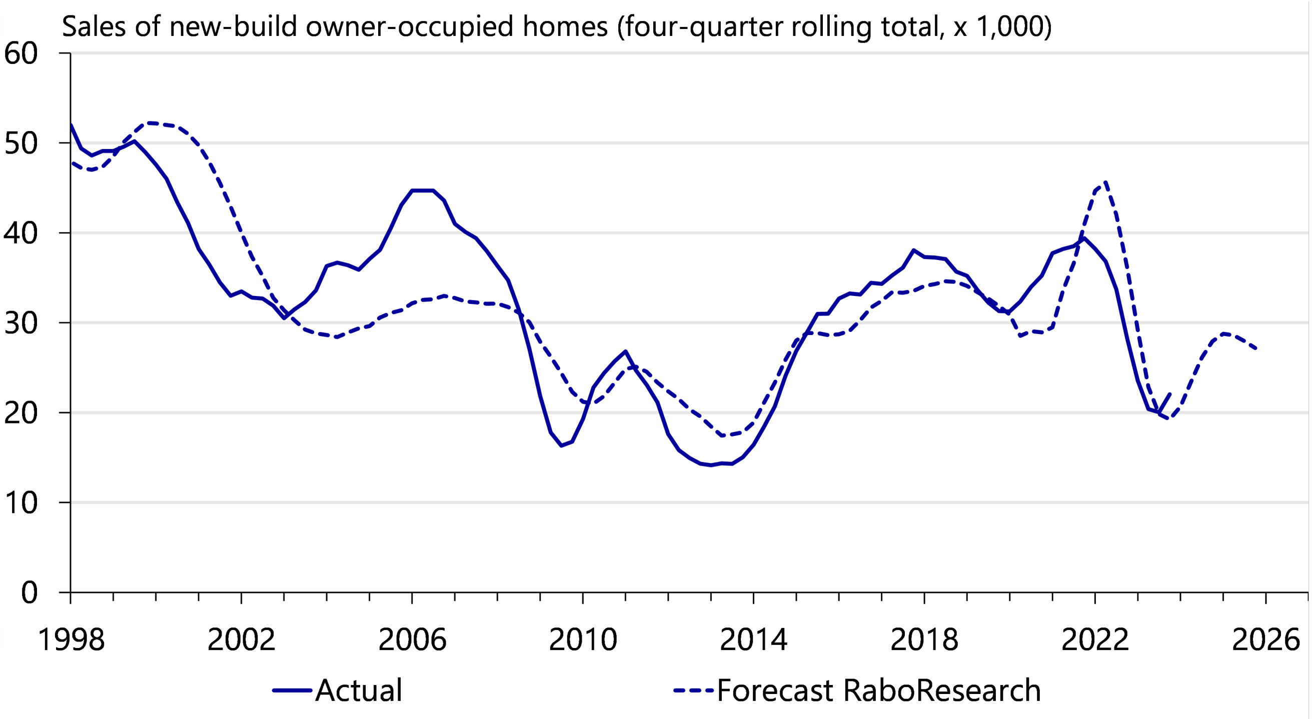
Figure 10: Dip in permits usually heralds dip in new construction



Source: WoningBouwersNL (new construction sales based on warranty certificates), Statistics Netherlands (building permits and delivery of new construction homes) 2024

While the number of completed homes is likely to decline in the coming years, we expect sales of new-build owner-occupied homes to show some recovery (see Figure 11). Like existing homes for sale, new-build homes are becoming more affordable due to soaring wages. More new construction homes have already been sold in recent months, and this trend is expected to continue solidly. Still, for now, we assume that sales will lag slightly behind the period before interest rates began to rise. The boiling over of the housing market, due in part to sharply declining interest rates, then drove demand for new homes. Moreover, the pick-up in demand for new construction is not directly resulting in more completed homes. Homes sold in the next few years will largely not be completed until after 2025.

Figure 11: Revival in sales of new construction homes expected



Note: An explanation of the methodology used can be found in our June 2023 Quarterly Report. Source: WoningBouwersNL (sales of new construction homes based on guarantee certificates), RaboResearch 2024

Source

https://www.rabobank.com/knowledge/d011419519-dutch-housing-market-quarterly-high-price-increases-on-the-horizon