Dutch house prices stabilizing earlier than expected, price increase projected for 2024

3 october 2023 16:30 | ***RaboResearch*** | Update

Carola de Groot
Senior Economist Housing Market
Carola.de.Groot@rabobank.nl

Nic Vrieselaar
Senior Economist
Nic.Vrieselaar@rabobank.nl

The decline in Dutch house prices seems to be over sooner than expected. We forecast that prices will stabilize in the second half of this year and will rise a bit again starting next year.

Summary

- After July 2022, house prices in the Netherlands fell relatively hard, but stabilized in June and July of 2023; that's a little sooner than we were expecting earlier this year

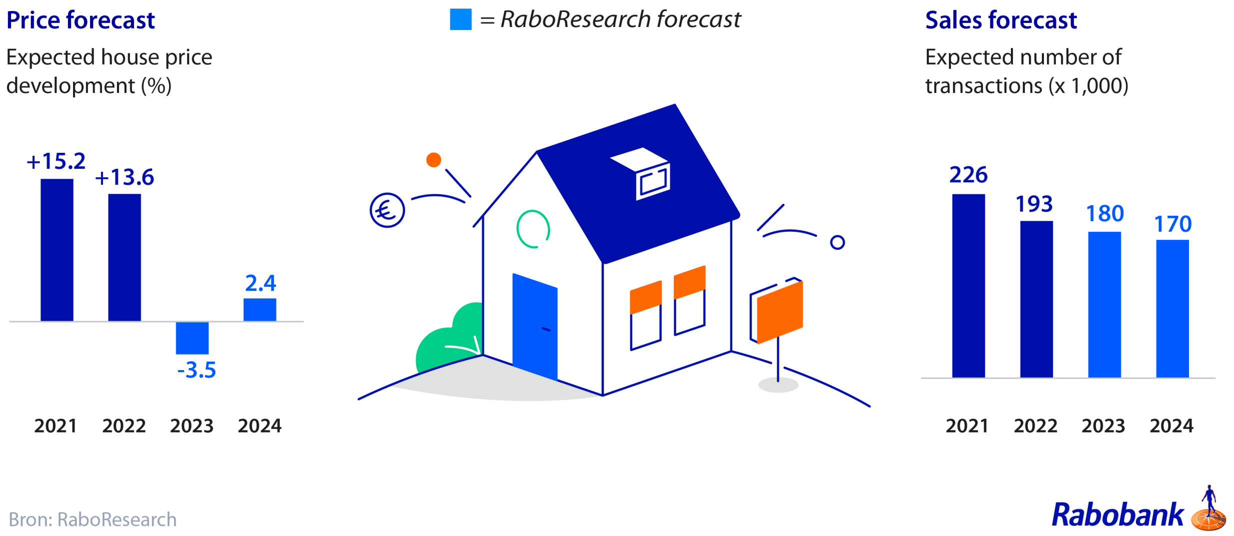
- A likely factor is that nominal wages have risen more than anticipated, allowing potential homebuyers to borrow more than expected

- In a tight market, bigger mortgages mean upward pressure on house prices

- Therefore, we have adjusted our projections for owner-occupied home prices, and now forecast that they will average 3.5 percent lower this year than in 2022. In 2024, prices are expected to increase by an average of 2.4 percent

- We have also revised our sales forecast to reflect our expectation that some 180,000 existing owner-occupied homes will change hands this year. For 2024, we anticipate 170,000 transactions, due in part to an expected sharp dip in new construction, resulting in fewer house moves

This and next year fewer home sales expected

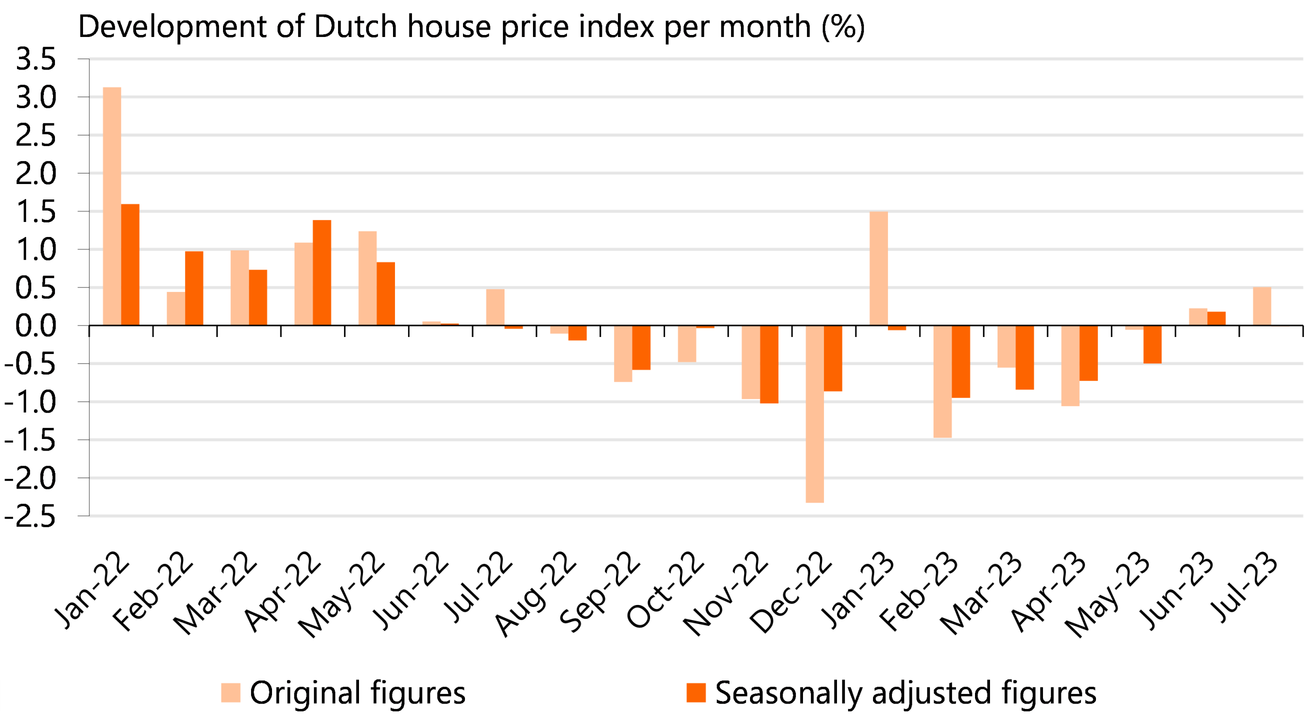


Rising incomes and stagnant mortgage rates inhibit house price decline

After nearly a year of declines, house prices have stabilized somewhat in recent months (*see Figure 1*). In June and July, nominal prices of existing homes for sale were even slightly higher than in the previous month, although this was partly due to a seasonal effect (see "How to read economic figures"). Compared to July of last year, the peak of the market, owner-occupied homes were still 5.4 percent cheaper in the same month this year.

The price stabilization is probably due to the fact that mortgage interest rates have not risen much further in recent months, while nominal incomes in the Netherlands actually increased more than we anticipated in June. As a result, potential homebuyers' borrowing volume is growing relatively rapidly again, after shrinking significantly after last year's quick rise in interest rates. Along with slightly lower-than-expected unemployment, ongoing problems in the private rental sector and somewhat lower house prices, this is driving demand for owner-occupied homes. But in the absence of supply, this quickly works its way through to house prices.

Figure 1: Price decline flattens out



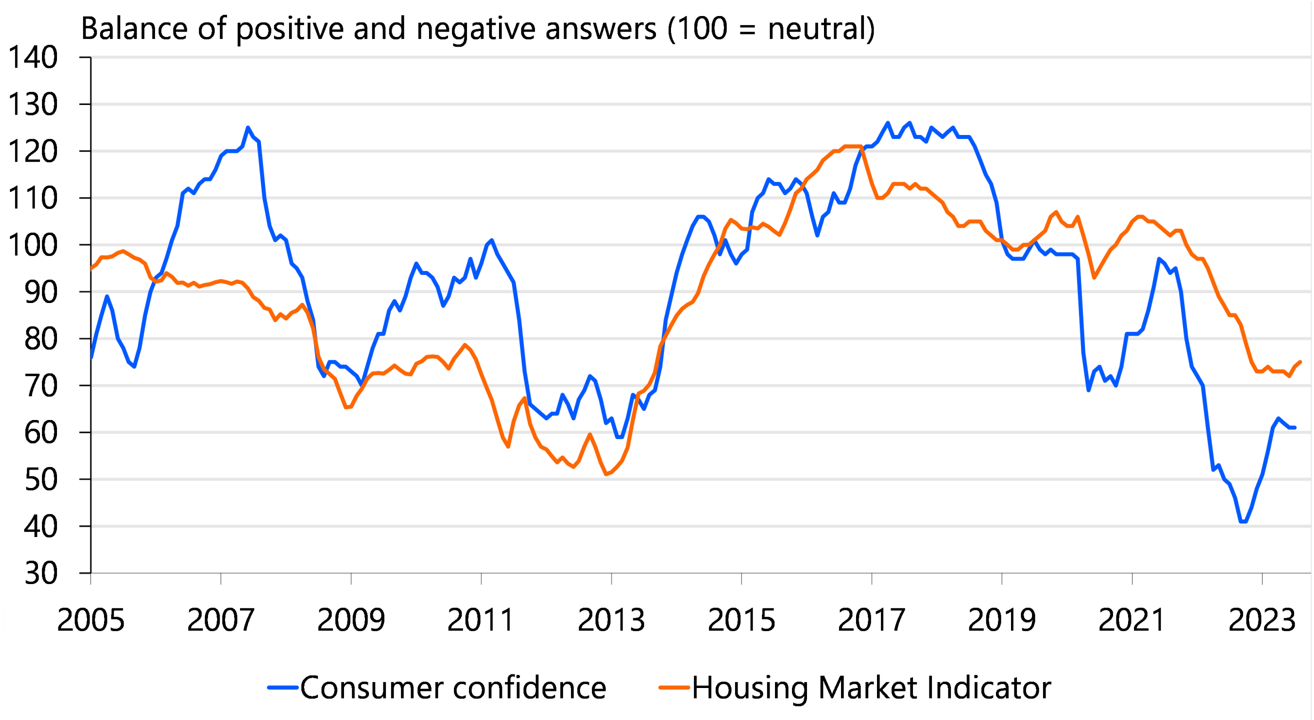
Source: CBS/Land Registry, edited by RaboResearch. Note: own seasonal adjustment (X13)

Confidence does not deteriorate further

In the wake of increasing buying opportunities, confidence in the owner-occupied housing market does not appear to be deteriorating further. After falling sharply last year, confidence in the owner-occupied housing market remained fairly stable in the first half of this year, according to the Owner-Occupied Housing Market Indicator (*see Figure 2*). Due to falling house prices, potential first-time buyers and renters actually have more confidence in the purchase market than owner-occupiers. No though that most people are still pessimistic.

Market parties are also seeing potential home buyers searching more actively again. For example, the number of contact requests per available home has been increasing since the beginning of this year, and both do-it-yourself broker Makelaarsland and brokerage association NVM saw an increase in the number of viewings per home recently.

Figure 2: Confidence does not fall further

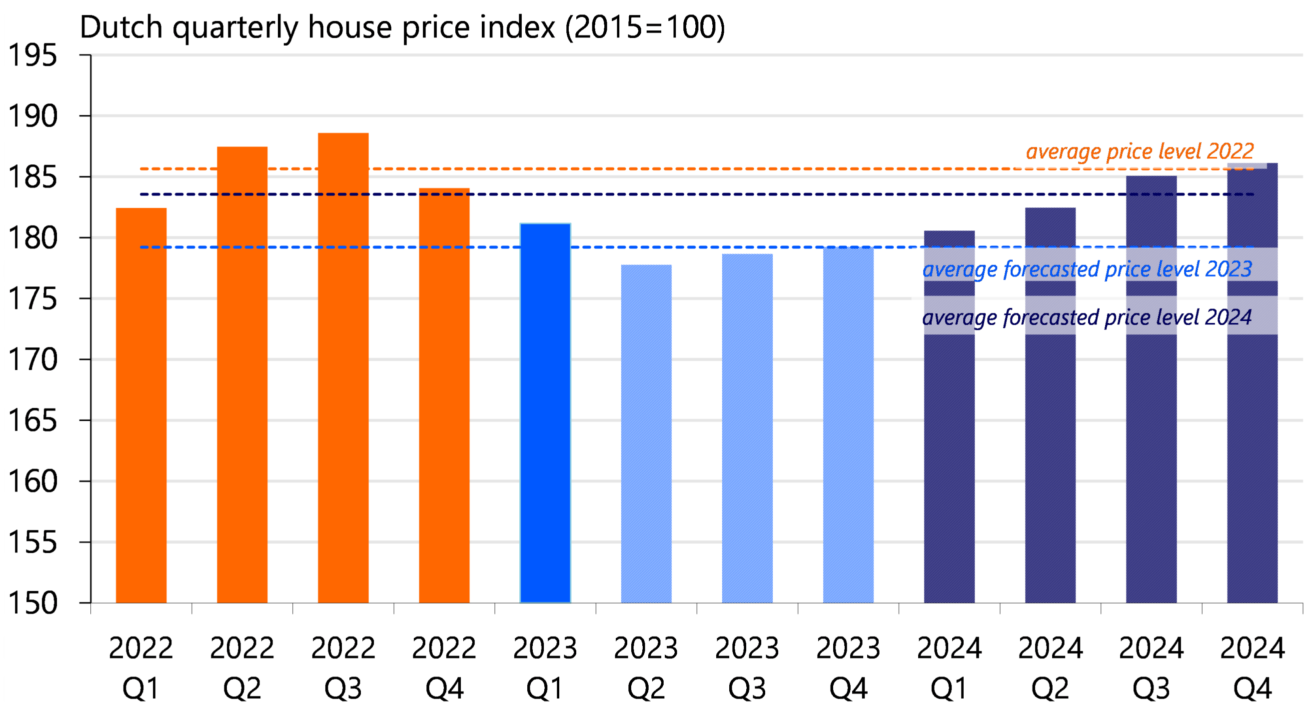


Source: CBS, Home Ownership Association (VEH)/OTB TU Delft, edited by RaboResearch

House prices expected to rise slightly next year

For the rest of 2023, prices of existing homes for sale are expected to remain more or less stable, falling 3.5 percent on average compared to 2022. In 2024, house prices are expected to slowly pick up again: we assume an average price increase of 2.4 percent compared to 2023 (Figure 4). Compared to the previous estimate, we have revised our house price forecast upward. Back in June, we predicted that house prices would continue to decline for roughly six months longer before stabilizing in 2024. But that stabilization now seems to be taking place earlier. As a result, our earlier estimate for 2023 was a lot lower (-5.2 percent) than it is now.

Figure 3: Second half of the year slight price increase anticipated



Source: CBS/Land Registry, RaboResearch

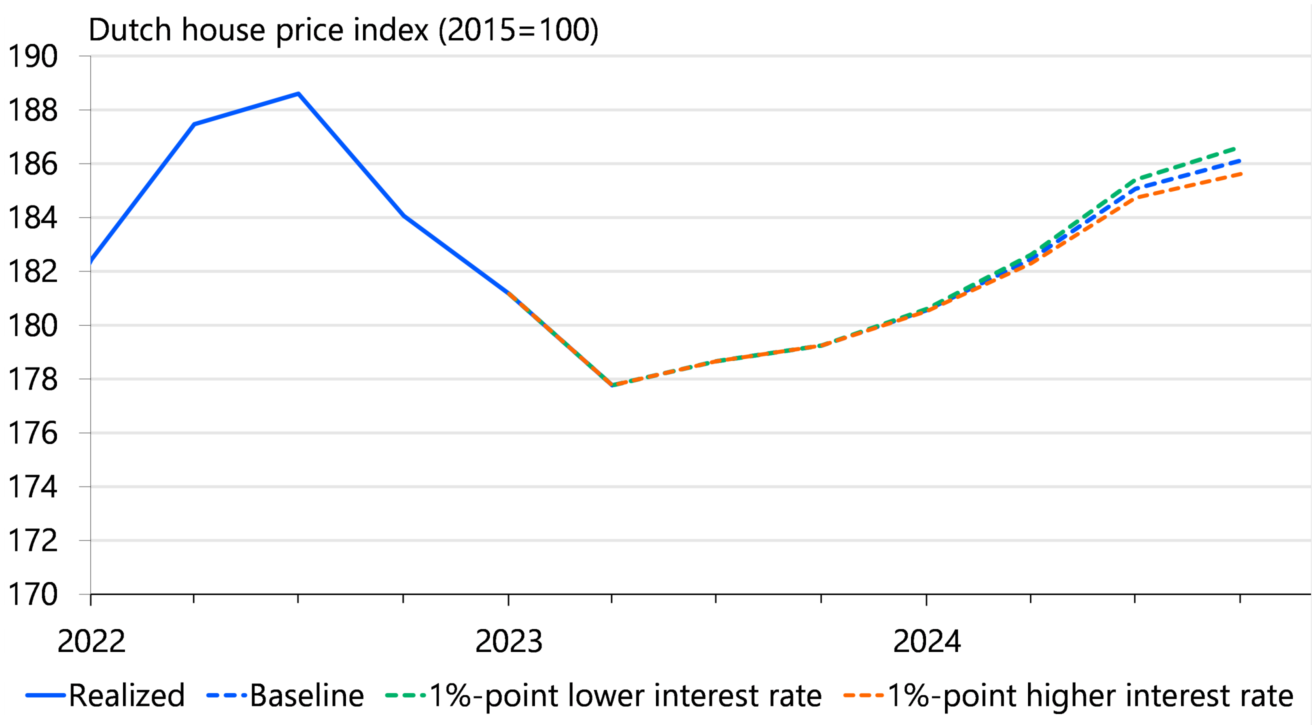
However, the path we expect for house prices is still in line with the effect that a period of high inflation typically has on the owner-occupied housing market. Initially, sharply rising consumer prices lead to higher interest rates, so potential home buyers can and want to borrow less. Thus, demand for owner-occupied homes drops and house prices fall. But over time, high inflation causes stronger nominal wage growth, allowing potential buyers to borrow more again. Demand for owner-occupied homes therefore picks up, leading to rising house prices again.

As we showed in the previous Housing Market Quarterly Report, due to rising incomes, potential homebuyers are estimated to be able to borrow almost the same for a house in 2024 as in early 2022, when mortgage rates were much lower. Moreover, homes have become somewhat cheaper in the meantime. This, along with high employment and continued problems in the private rental sector, is driving demand for owner-occupied housing. But this will soon manifest itself in higher prices, as supply is still limited (and, given the anticipated dip in new construction, is likely to remain limited).

Interest rate remains an uncertain factor

In both this and the previous forecast, capital market interest rates are expected to decline somewhat starting this fall. These rates affect longer-term mortgage rates. But inflation, and thus capital market rates, remain a major uncertain factor in our housing market expectations. Figure 4 therefore shows the impact of higher and lower than expected capital market rates on our house price expectations. Neither scenario differs greatly from the baseline, and the effect is obvious: higher interest rates depress price developments whereas lower interest rates boost house prices more strongly.

Figure 4: Dependence on interest rates



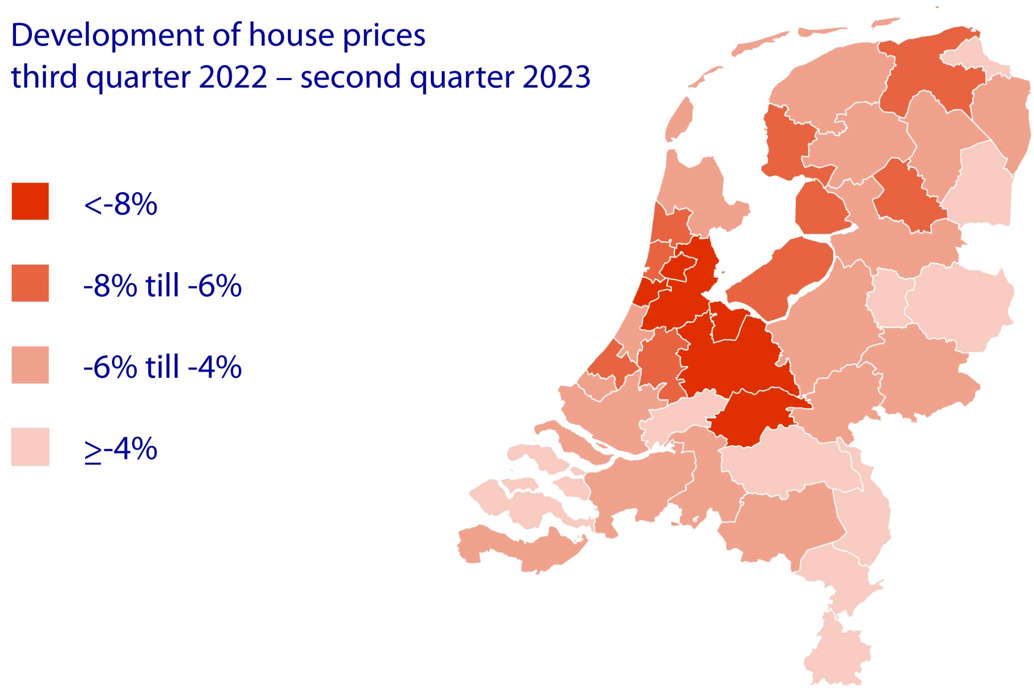
Source: CBS/Land Registry, RaboResearch

House prices in Amsterdam and surrounding areas fell hardest

In most of the Netherlands, the house price index peaked in the summer of 2022. Since then, regions in the northern wing of the Randstad saw prices of existing owner-occupied houses plummet especially hard (*see Figure 5*). In the Gooi and Vechtstreek and the Zaanstreek, existing owner-occupied houses are now about 10 percent cheaper than they were in the third quarter of 2022. And with a drop of more than 8 percent, house prices in the Amsterdam and Utrecht regions have also dropped rapidly. At the edges of the Netherlands, where houses are cheaper on average, prices fell considerably less sharply.

It is not surprising that house prices are falling most sharply in the regions in the northern wing of the Randstad. This is where affordability is most compromised, especially after the strong house price increases of recent years. Since 2015, this has resulted in an increasing migration of urban Randstad residents to cheaper parts of the country. After the opportunity to buy shrank even further due to higher mortgage interest rates, a relatively large number of potential homebuyers likely dropped out, especially in the most expensive regions. This drop in demand could explain the relatively steep drop in prices in the most expensive regions.

Figure 5: House price development Q3 2022 - Q2 2023 (%)

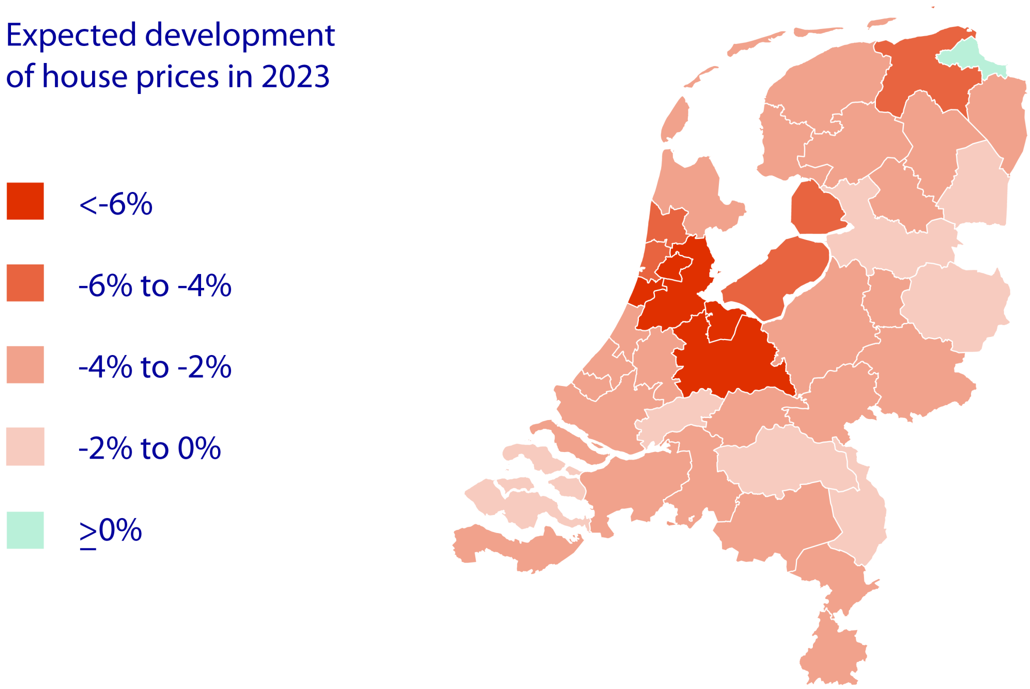


Source: CBS/Land Registry

In line with this picture, we also expect the average house price in the northern wing of the Randstad to drop the most this year compared to last year (*see Figure 6*). In the regions of Amsterdam, Utrecht, the Gooi and Vechtstreek, and also Haarlem and surrounding area, we foresee an average price drop of 7 percent compared to 2022. For the vast majority of regions, we expect a more limited decline of 2 to 4 percent. In Delfzijl and surrounding area, prices of existing owner-occupied houses this year will remain virtually the same as last year.

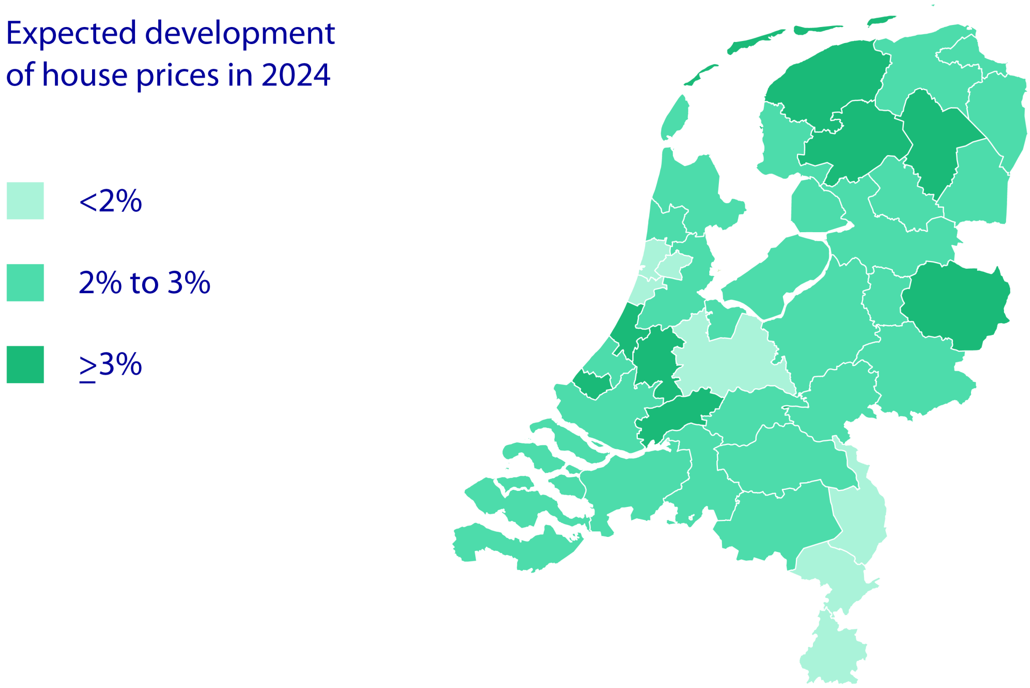
In all regions, we expect a small plus for next year (*see Figure 7*). In some of the regions where prices fell hard this year, price growth is likely to be even slightly lower than the nationally expected 2.4 percent.

Figure 6: Amsterdam and Utrecht see steepest decline



Source: RaboResearch

Figure 7: Slight increase in house price index expected everywhere in 2024

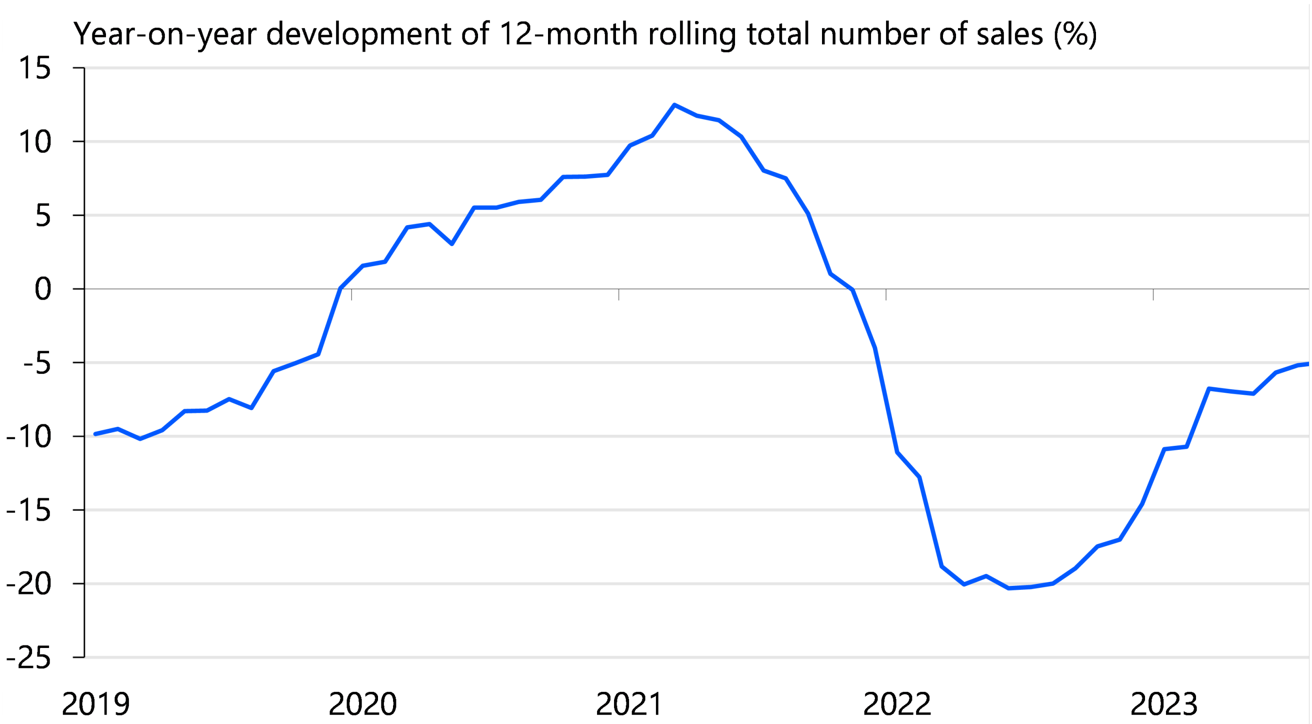


Source: RaboResearch

Fewer homes sold

As of mid-2021, the number of home sales initially declined primarily due to a lack of supply, but subsiding demand took over in 2022. As a result, in the 12 months through July this year, 185,243 existing homes for sale changed hands. This is 10,000 less than in the previous year and the lowest number since early 2016. The rate at which the number of sales is declining has lost some momentum in recent months (*see Figure 8*). Figures from brokers' association NVM also seem to indicate that, after rising sharply last year, home selling times have recently stopped increasing.

Figure 8: Sales decline flattens out

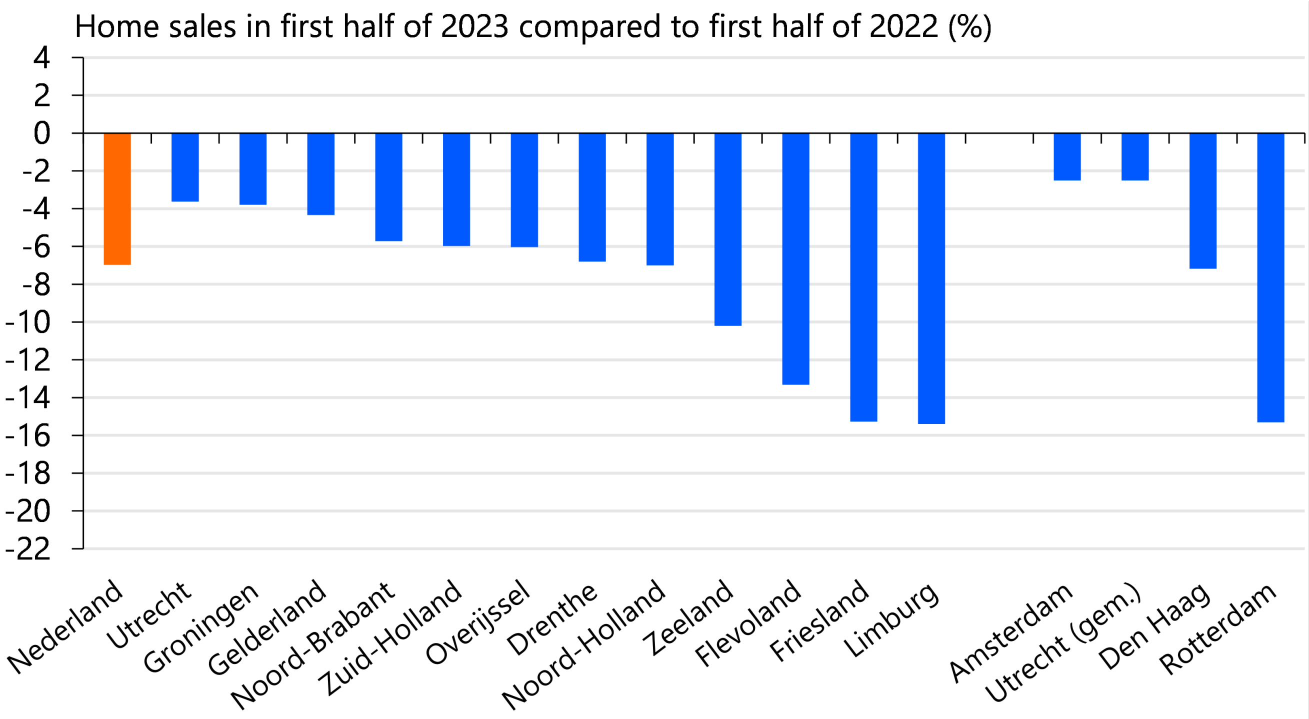


Source: CBS/Land Registry, edited by RaboResearch

Sales not down everywhere

In the first half of this year, 7.0 percent fewer existing owner-occupied were sold than in the first half of 2022. In the provinces of Utrecht, Groningen and Gelderland, the drop was limited to about 4 percent, but in Friesland and Limburg as many as 15 percent fewer houses were sold year-on-year in the first six months of the year. In Amsterdam and the municipality of Utrecht, the decline in the number of sales so far has also been much less than in The Hague and Rotterdam.

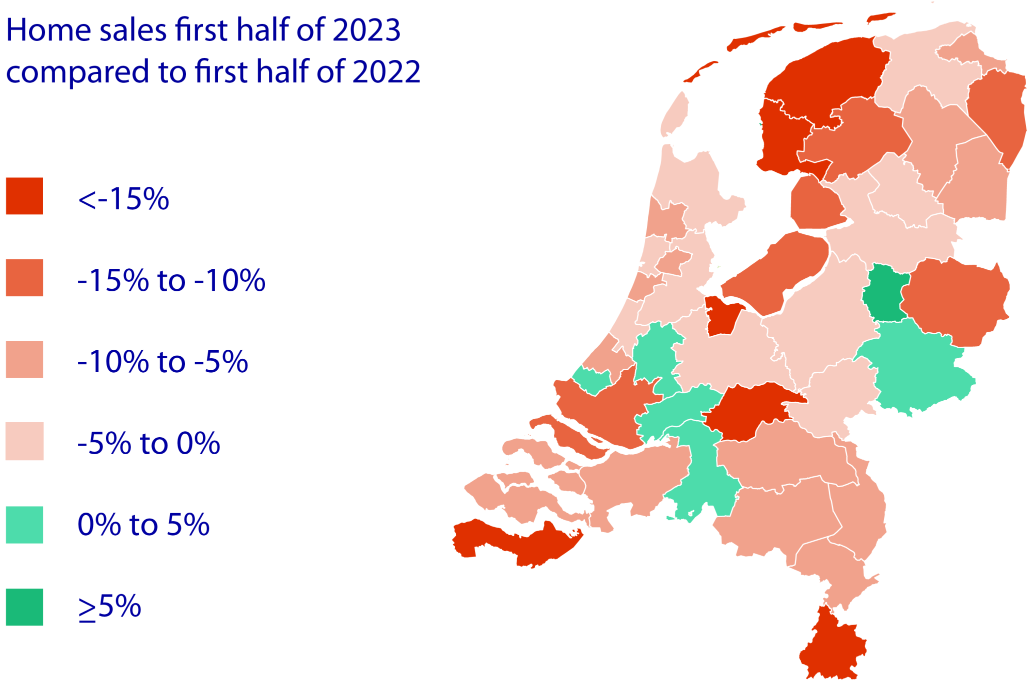
Figure 9: Biggest sales drop in Friesland and Limburg



Source: CBS/Land Registry, edited by RaboResearch

If we zoom in closer on COROP regions, it turns out that there are areas where slightly more houses were sold in the first half of 2023 than a year earlier (*see Figure 10*). In outlier Southwest Overijssel, there has even been an increase of 9.9 percent. This contrasts sharply with the decline of as much as 22 percent in South Limburg and the Gooi and Vechtstreek. One would expect the number of sales to plummet especially in regions where the affordability of owner-occupied homes is squeezed the most. But that does not appear to be the case: in South Limburg, houses are, on average, cheaper than in the relatively expensive northern wing of the Randstad. Even in the municipalities of Amsterdam and Utrecht, where prices are very high, the number of transactions fell only slightly. The relatively younger population of these cities may play a role in this, as it is first-time buyers (more often young adults) who appear to be buying houses about as much as before. And those who are trading up have dropped out in larger numbers. Perhaps the local housing markets in Amsterdam and Utrecht, where prices have fallen harder than elsewhere, are also adapting more quickly to the new market conditions. As a result, buyers and sellers are finding each other faster. Finally, a factor may be that housing investors, who bought many homes in cities such as Amsterdam and Utrecht over the past decade, have been *selling* more homes in net terms since 2022. This may have contributed to a larger housing supply.

Figure 10: Sales in first half 2023 vs. first half 2022 (%)



Source: CBS/Land Registry

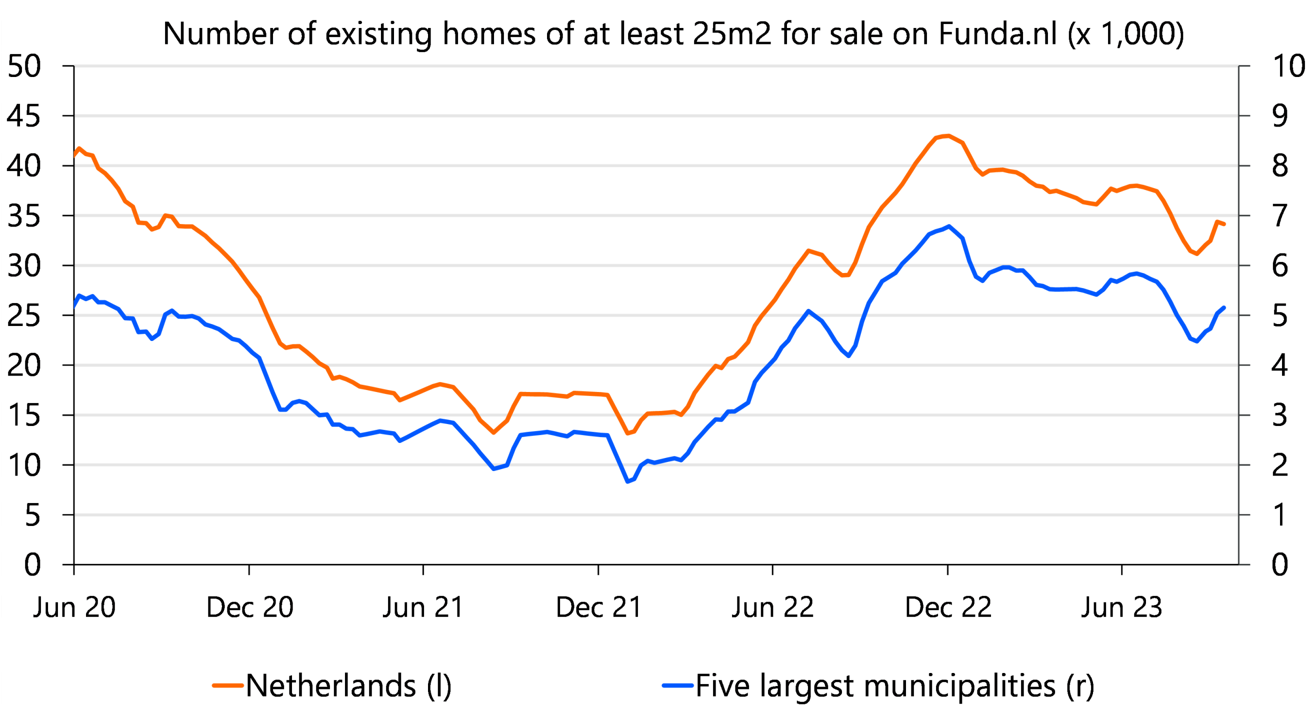
Limited supply expected to push sales down further

We expect 180,000 existing homes for sale to change hands this year, followed by 170,000 sales in 2024. This is more than we predicted in our June estimate, when we assumed 165,000 transactions in both years. In the first seven months of this year, 99,862 existing homes have already been sold, more than anticipated. Despite the upward revision, the number of sales this year is still expected to remain well below last year, when more than 193,000 existing homes were sold.

We expect a further decline in the number of transactions, not due to a further decline in demand, but due to a lack of supply. After the earlier increase in the number of houses for sale last year, we see supply slowly dropping again this year (*see Figure 11*) with fewer people putting their homes up for sale. A likely factor in this is that subsequent-time buyers were much more active before last year's interest rate hike. They often still had a higher mortgage interest rate, and by moving they could switch to the then very low mortgage interest rate. At the same monthly cost, they could then live in a nicer or bigger home. But now that many homeowners have mortgage rates that are similar or even lower than current rates, they are staying where they are. As a result, there is less supply of homes. That is expected to depress the number of transactions in coming years.

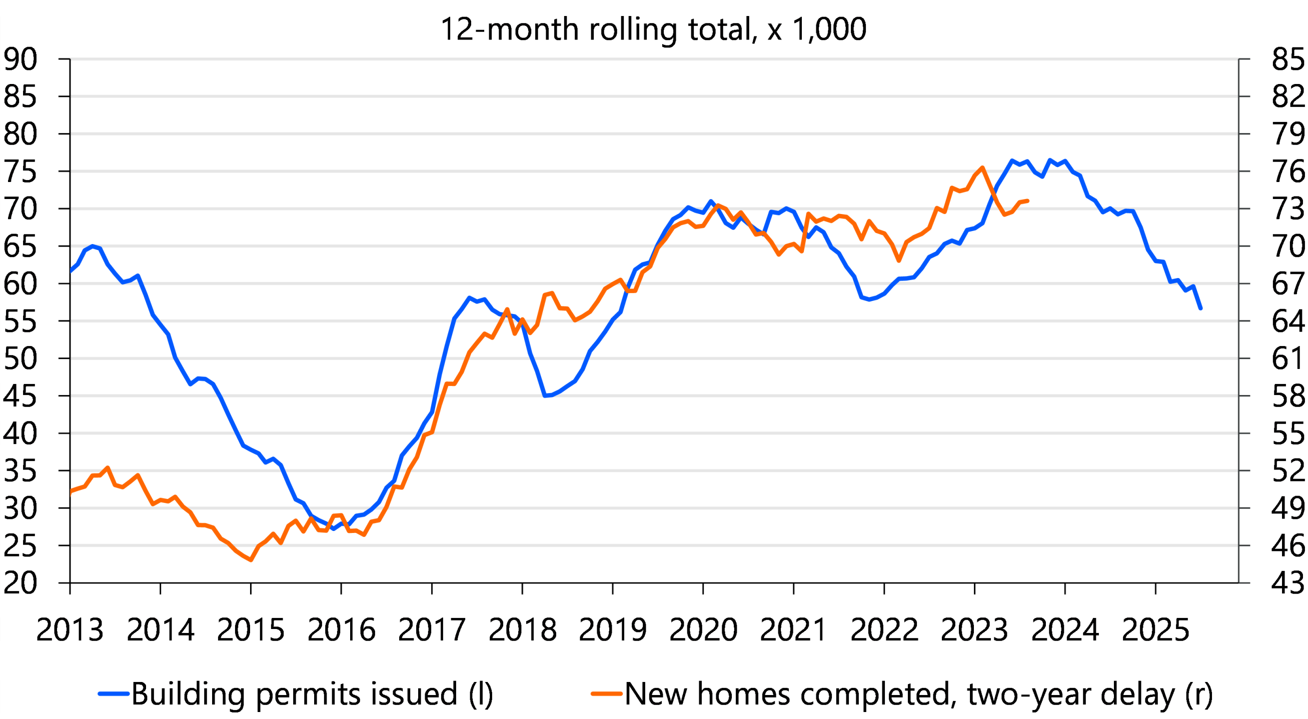
For next year, moreover, we expect that the anticipated decline in new construction will also limit the number of sales of existing homes. The number of building permits issued has been declining for some time. As Figure 12 shows, the number of new construction homes completed typically follows the issuance of permits with a delay of several years. The number of new construction homes sold based on completion guarantee certificates was as much as 47 percent lower in the first half of the year than a year earlier (*see Figure 13*). As a result, fewer people are eventually putting their existing owner-occupied homes up for sale, and homes that are not being put up for sale simply cannot be sold. Therefore, due to the relationship between trends in the number of new construction homes sold and the number of transactions of existing owner-occupied homes, we expect fewer sales for a longer period of time than in 2022.

Figure 11: Less to choose from again



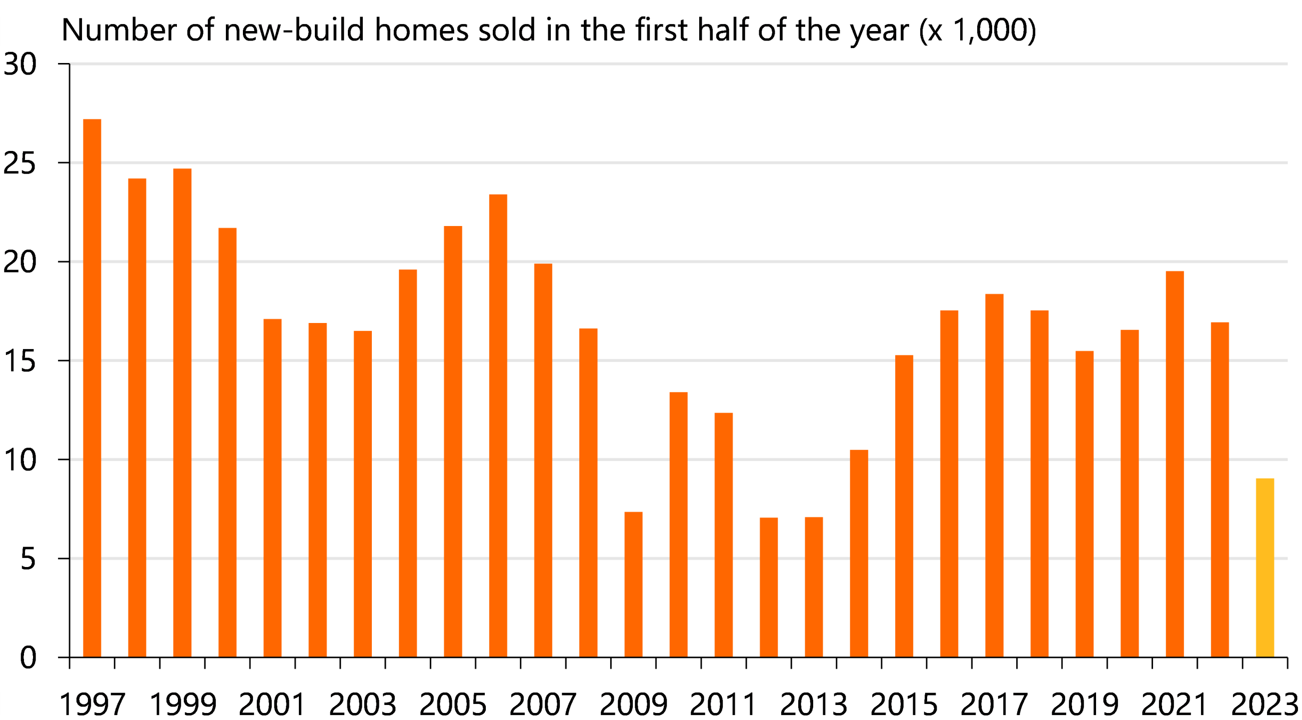
Source: Funda.nl, RaboResearch

Figure 12: Permit dip deeper and deeper



Source: CBS, edited by RaboResearch

Figure 13: Collapse in sales of new construction homes

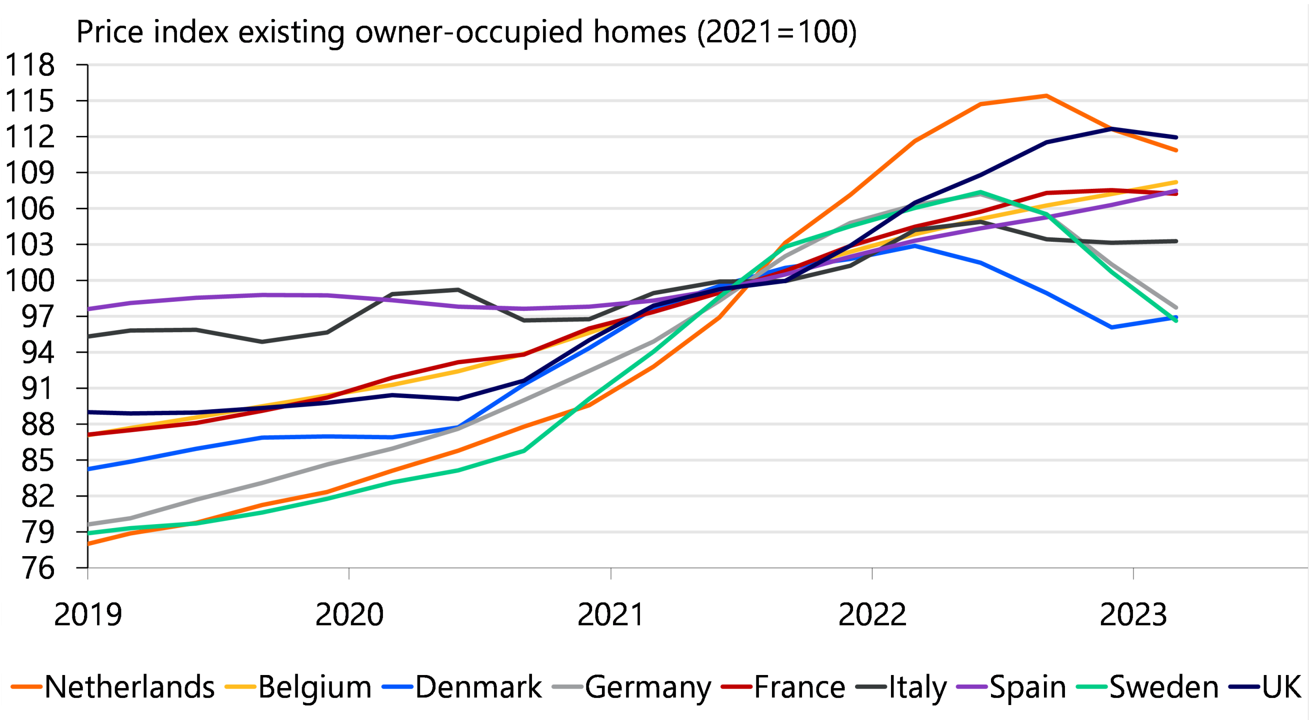


Source: WoningBouwersNL, edited by RaboResearch

House prices abroad also declining, since 2022

House prices have also been falling in other European countries since mortgage rates rose last year, although the timing varies from country to country. For example, figure 14 shows that prices in Denmark already peaked in early 2022; in France and the United Kingdom, prices have only been falling since the last quarter of 2022. In Denmark and Italy prices also fell in 2022, but actually rose again slightly in the first quarter of this year (the most recent quarter for which international statistics are available). In Spain and Belgium, house prices actually continued to rise through the first quarter of this year.

Figure 14: Strong decline in Germany and Sweden



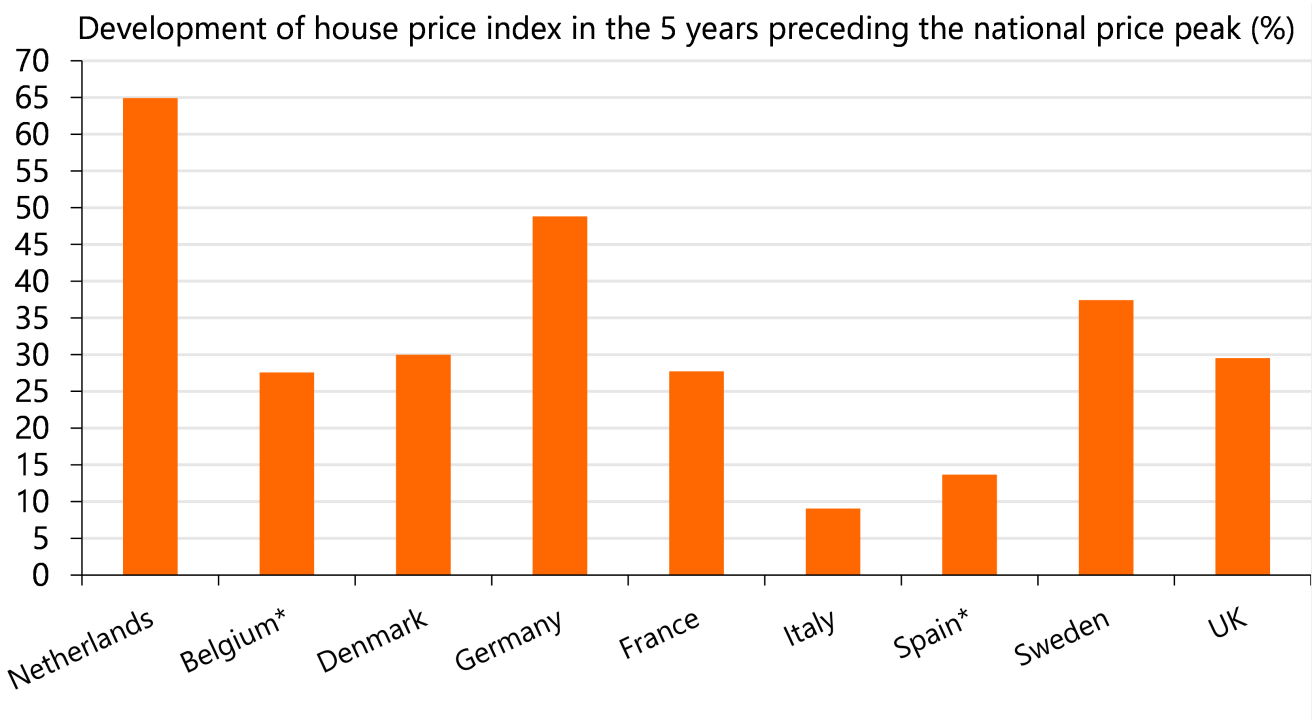
Source: Federal Reserve Bank of Dallas, edited by RaboResearch

Partly because of these timing differences, the rate at which prices fall also varies. A house in the Netherlands cost almost 4 percent less in the first quarter of this year than at the peak in the third quarter last year. In Germany and Sweden, where the decline began a quarter earlier, house prices have already dropped 8.8 and 10 percent, respectively. For now, the minus is considerably smaller in France, where prices fell only one quarter so far.

But timing is not the only explanation: the development of house prices in the years before the rise in interest rates also seems to contribute to the speed with which prices have been falling since last year. In fact, in some of the countries where prices are now falling relatively hard, they were still rising at astounding rates in recent years. Like in Sweden, where an existing owner-occupied home was 37 percent more expensive last year than five years earlier. The Netherlands, with a cumulative price increase of 65 percent in five years, even takes the biscuit within this group of nine countries (*see Figure*

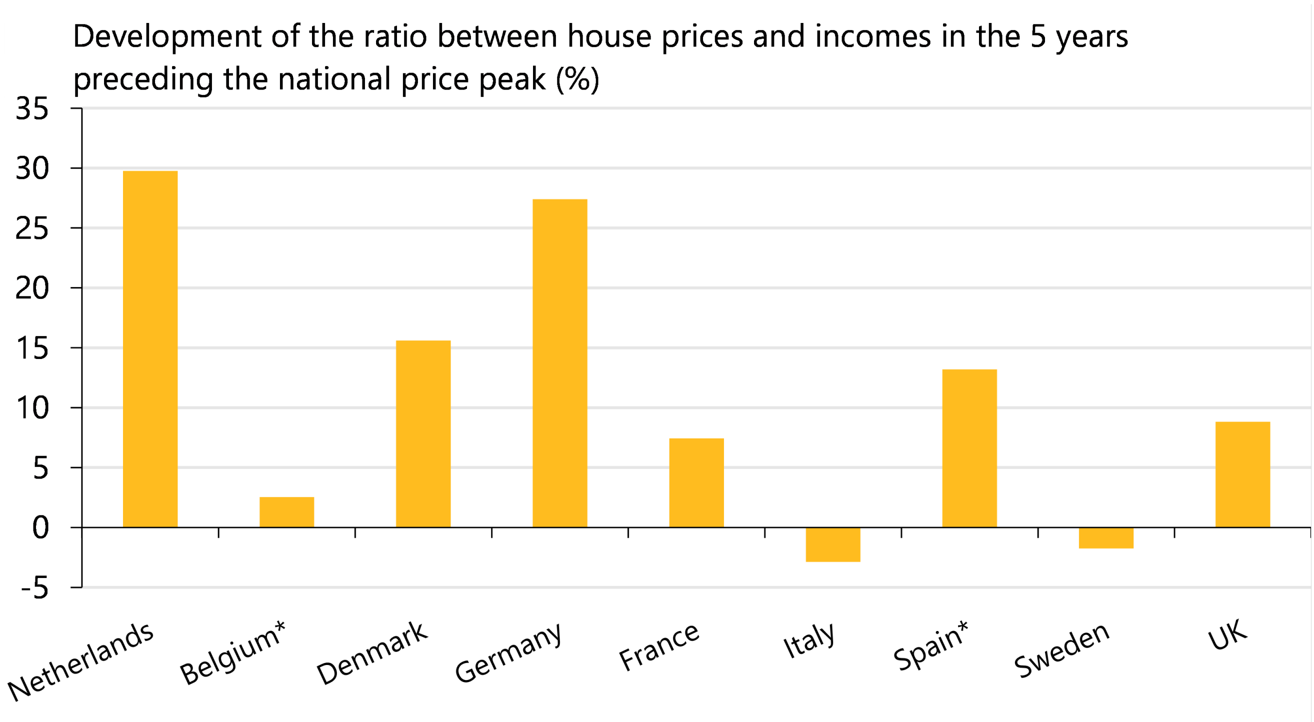
15). Moreover, in the Netherlands, Germany and, to a lesser extent, Denmark, house prices grew much more than household incomes in the five years before the peak. By contrast, in Belgium, where house prices have not declined through the first quarter of this year, the gap between house prices and incomes has barely grown over the past five years (*see Figure 16*).

Figure 15: Previously very strong price increase in the Netherlands, Germany and Sweden



Source: Federal Reserve Bank of Dallas, edited by RaboResearch. Note: House prices in Spain and Belgium have not yet peaked, according to latest available figures.

Figure 16: In many countries, house prices rose faster than incomes



Source: OECD, edited by RaboResearch. Note: refers to the ratio of nominal house prices to nominal household disposable income. Note: in Spain and Belgium, house prices have not yet peaked, according to latest available figures.

The specific national organization of the (owner-occupied) housing market and mortgage market is also likely to play a role in the extent to which an interest rate shock is reflected in house prices. Homebuyers in Denmark, Sweden and the Netherlands, for example, rely more strongly on a mortgage to buy a house in than homebuyers in other countries (see Table 1). A rise or fall in mortgage interest rates, through the maximum loan amount and/or monthly mortgage payments, can have a quicker impact on the demand for and the price of owner-occupied housing, compared to countries that are less reliant on mortgage financing.

Moreover, in Sweden, where prices have fallen the fastest to date, a relatively large proportion of mortgages have short fixed-term interest periods. So when interest rates rise, homeowners there will face rising housing costs much quicker. This doesn't just depress demand for owner-occupied homes from subsequent-time buyers, but can also lead to more supply if homeowners can no longer afford the mortgage and consequently put their homes up for sale.

Finally, tax rules and subsidies for homeowners or homebuyers also vary widely across countries, as does the extent to which (buy-to-let) investment in the housing market has been encouraged or discouraged in recent years. These factors affect the timing with which and the extent to which an interest rate shock is reflected in house prices.

Table 1: Differences between national housing markets

Indicator / country	NL	BE	DK	DE	FR	IT	ES	SE	UK	Verslagperiode
House price decrease per quarter	2.0%	n.a.	2.3%	3.0%	0.3%	0.8%	n.a.	3.5%	0.6%	2022-
Share of homeowners with a mortgage	85%	63%	80%	47%	48%	20%	40%	79%	41% *	2022, *2021
Outstanding mortgage debt vs. hosuehold income	179%	100%	175%	79%	76%	34%	64%	185%	103%	2021
Maximum LTV	100%	90%	95%	78%	87%	71%	70%	85%	unknown	2021
Share of mortgages with fixed interest rates <1 year	12%	5%	24%	10%	3%	17%	25%	44%	6%	2021
Mortgage interest deduction for new home buyers	yes	no (Flanders, Brussels); yes (Wallonia)	yes	no	no	yes	no	yes	no	2021

Source: Federal Reserve Bank of Dallas, Eurostat, UK Office for National Statistics, EMF Hypostat, European Commission, OECD, edited by RaboResearch

Source

https://www.rabobank.com/knowledge/d011382417-dutch-house-prices-stabilizing-earlier-than-expected-price-increase-projected-for-2024