Rabobank

Homes in the Netherlands keep getting more expensive; in other countries prices are declining

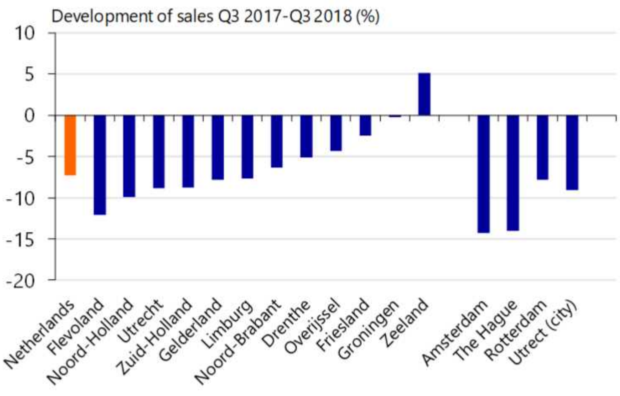
Dutch Housing Market Quarterly
Nic Vrieselaar and Christian Lennartz

- **The number of homes sold in the Netherlands further declined in the third quarter, but prices rose faster: by an average of 9.2 percent**
- **This surprisingly high pace of price rises forces us to increase our already high expectation of 8.7 percent for 2018 to 9.0 percent this year**
- **Prices are increasing rapidly in several developed countries, but in Australia, Sweden and the United Kingdom they are declining again**
- **This seems to be largely due to specific policies in those countries, such as a higher stamp duty in the United Kingdom for buyers of second homes**
- **Nevertheless, these price drops can be a precursor for the Dutch housing market**
- **Partly because of that, we are lowering our price forecast for 2019 from 7.0 to 6.0 percent**
- **That is still a very hefty price increase though, as it means that the average home in the Netherlands will cost more than 300,000 euros next year**
- **The number of sales is likely to decline further to around 225,000 homes in 2018 and to about 210,000 homes in 2019**

Sales keep declining

In the third quarter of 2017 more than 61,000 homes in the Netherlands switched owners, but between July and September of this year that number dropped to less than 57,000. Proportionally the decline was strongest in the province of Flevoland: the number of sales fell by more than 12 percent according to figures of the Dutch Land Registry (see figure 1). In absolute terms it was South-Holland that saw sales slide quickest: 1,143 fewer homes were sold there y-o-y. Groningen, on the other hand, saw sales remain relatively steady while in Zeeland the number of transactions actually went up y-o-y. In the Netherlands as a whole a total of 162,000 owner-occupied homes were sold in the

Figure 1: Flevoland loses momentum

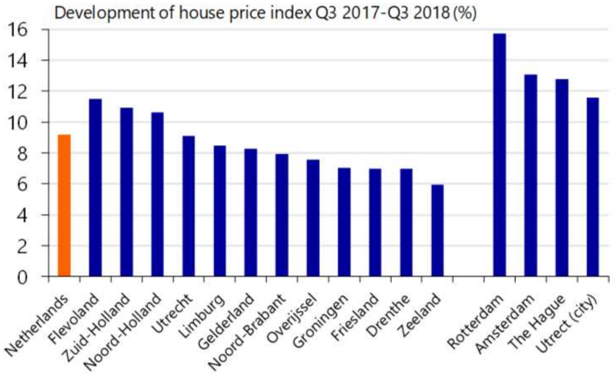


Source: Dutch Land Registry, Statistics Netherlands (CBS) first nine months of 2018, which is about 7.8 percent less than a year earlier. Unsurprisingly the three Randstad provinces and their largest cities (Noord-Holland [Amsterdam], Zuid-Holland [Rotterdam and The Hague] and Utrecht [Utrecht]) saw the largest decline in transactions. At the current rate the number of sales in 2018 is likely to end up below 225,000 homes.

Remarkably strong price rise

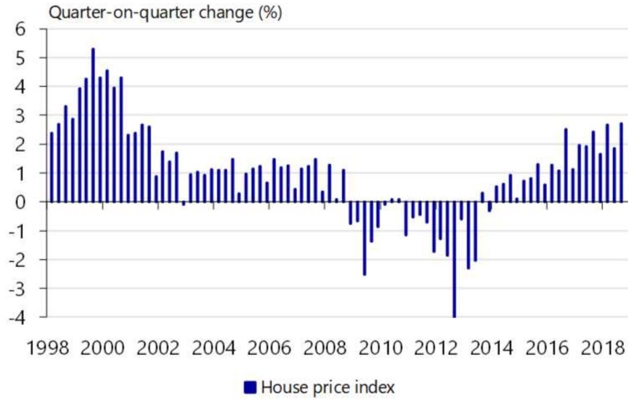
While sales in Flevoland fell hard in the past quarter, the province is at the top of the list of largest regional price hikes (see figure 2). In the third quarter, home buyers in Flevoland paid an average of 11.5 percent more than those who bought a house there a year earlier. Zeeland is at the bottom of the list: in that province buyers had to pay 'just' 6.0 percent more for a owner-occupied home - roughly 12,500 euros more than a year earlier. In the Netherlands as a whole prices rose 9.2 percent between July and September, compared to the same period in 2017. That is the biggest increase in seventeen years of time. The quarter-on-quarter increase was remarkably strong as well at 2.7 percent (see figure 3). That means the average owner-occupied home in the Netherlands saw its price increase by roughly 7,000 euros in just three months.

Figure 2: West versus the rest



Source: Dutch Land Registry, Statistics Netherlands (CBS)

Figure 3: Strong momentum



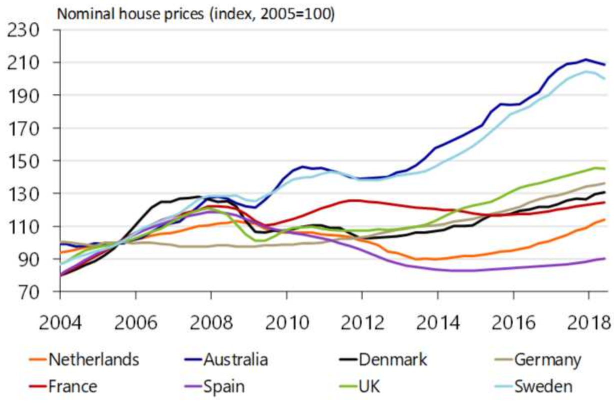
Source: Dutch Land Registry, Statistics Netherlands (CBS)

Worldwide phenomenon, although prices in some countries seem to have peaked

It fits a global trend: in many Western countries houses have become considerably more expensive since 2014, especially in the cities. The Dutch trend is for example comparable to that of Spain and Denmark: a protracted fall in prices after the Great Financial Crisis, with prices (strongly) rising again only in the last few years. But what is undoubtedly more striking in figure 4 is that the prices in Australia, Sweden and to a lesser extent the United Kingdom have been declining.

It raises the question whether this is an omen for other housing markets, including the Dutch. Indeed, several studies, including those [from the International Monetary Fund](), show that the integration of financial markets and synchronized behaviour of real estate investors means that global housing markets are interconnected. Will the decline in Stockholm and Sydney actually prove a precursor to Amsterdam and other Dutch cities? The Netherlands unmistakeably shares a number of developments with these countries, and we are taking this into account in our assessment that there is less and less room for further strong price increases in the Netherlands. Nevertheless, there are also important differences between the Netherlands and for example Sweden, which we will elaborate upon.

Figure 4: Between Denmark and Spain

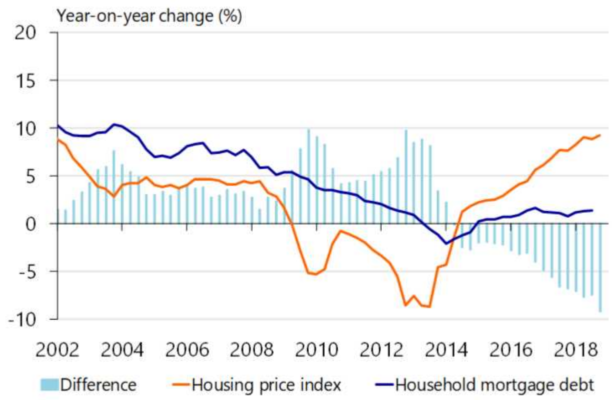


Source: Federal Reserve Bank of Dallas

That the Swedish housing market is on a downwards trend appears to be, just like in Australia, primarily the result of specific policy. The rules regarding interest-only mortgages in the two countries have for example been tightened, and home buyers aren't allowed to borrow as much against their income as before. These are measures that were implemented in the Netherlands a few years ago and had an impact on the housing market at the time. The United Kingdom has become stricter for buy-to-letters, investors in the housing market. This includes a higher stamp duty for those who buy a second home (or more) - a measure that is sometimes suggested in the Netherlands as well - and a limitation of the deductibility of the interest on buy-to-let mortgages. The number of new applications for such mortgages has therefore fallen sharply.

The policy changes in Sweden and Australia are not just a reaction to the high price rises in the housing market, but also to the strong growth of mortgages. While the national mortgage debt in The Netherlands has only slightly increased since the recovery in the housing market, figures from the European Mortgage Federation show that debt has exploded in Sweden (+ 95 percent) and Australia (+176 percent) in the past ten years. This is reminiscent of the Dutch housing market before 2008, when mortgage debt rose faster than house prices (see figure 5). As a result of these generous lending standards, since 2012 homes in Sweden and Australia have increased in value much faster than the average incomes in these countries (see figure 6). Even more so than elsewhere in the Western world, the development of house prices in these two countries appears to be no longer only explained by, for example, falling unemployment and higher incomes. In the Netherlands, the standardized ratio between price and income is considerably lower than in Sweden or Australia, but close to that in the United Kingdom. And despite stricter loan-to-income standards in the Netherlands since 2013, the ratio is higher than in many other countries. This is probably because equity (e.g. donations from parents) has started to play an increasingly prominent role in buying houses.

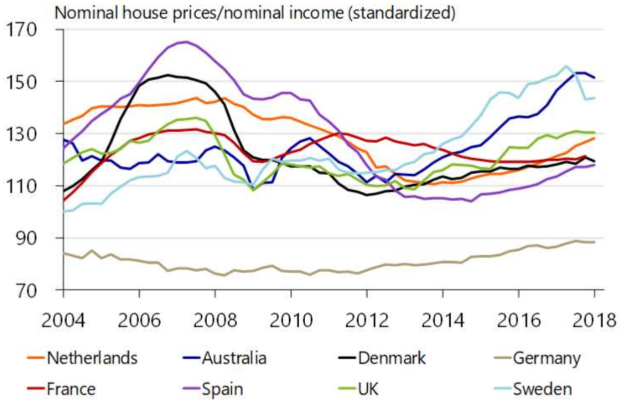
Figure 5: Debt isn't rising as quickly as before the crisis



Source: Statistics Netherlands (CBS), computations Rabobank

It is furthermore indicative to compare house prices not only against income, but also against the rents within a country. Admittedly, most houses that are sold go to owner-occupiers and are not rented out, but in a normal housing market the rent and purchase prices should not be too far apart. The amount that buyers pay for a house is after all a reflection of the (future) rent that they do *not* have to pay as owner-user or that they could receive as a landlord. If the so-called price-to-rent indicator is therefore very high, the chance of speculative price formation and the risk of a bubble is greater. Figure 7 shows that this has indeed been the case in Australia, the United Kingdom and Sweden in the last five years: purchase prices rose considerably faster than monthly rents.

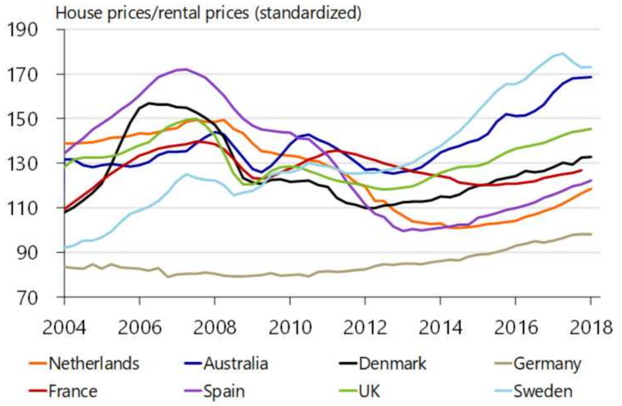
Figure 6: Out of sync with income



Source: OECD

Note: Nominal house prices divided by nominal disposable income per head. Net household disposable income is used. The population data come from the OECD national accounts database. The long-term average is calculated over the whole period available when the indicator begins after 1980 or after 1980 if the indicator is longer. This value is used as a reference value. The ratio is calculated by dividing the indicator source on this long-term average, and indexed to a reference value equal to 100.

Figure 7: Buy or rent?



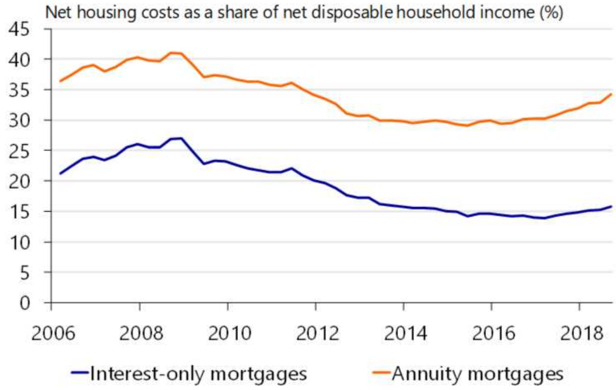
Source: OECD

Note: nominal house prices divided by rent price indices. The long-term average is calculated over the whole period available when the indicator begins after 1980 or after 1980 if the indicator is longer. This value is used as a reference value. The ratio is calculated by dividing the indicator source on this long-term average, and indexed to a reference value equal to 100.

In the Netherlands this indicator is lagging behind those in other countries. Limited access to the social rental sector and increasing inaccessibility of owner-occupied homes have sharply increased the demand for private rental housing, while the supply has lagged behind. The prices in this segment have therefore risen extremely fast. According to OECD figures, Dutch tenants in the private rental sector therefore saw their monthly rates rise faster in recent years than in many other developed countries. Investors in the private rental market were therefore able to pay more for a house because they look at rental income for their return requirements. In combination with competition from other investors and 'ordinary' buyers, this has probably pushed up the housing and rental prices in exchange for a larger supply of private rental homes. But at some point tenants will run into a budget constraint, and probably quicker than the generic price-to-rent indicator suggests. According to figures from Statistics Netherlands, average housing costs in the private rental sector were already more than 40 percent of disposable income in 2015. It could explain why the average rent in Amsterdam according to rental website Pararius has hardly increased since the end of 2015. If rents do indeed reach a ceiling, this can lead to less demand from investors for owner-occupied homes in the long run, or in any case lower willingness to pay very high prices.

The fact that a number of indicators, such as the ratio between house prices and income and the difference between purchase and rental prices, aren't yet reaching the same heights as in Australia, Sweden and the United Kingdom does not mean that Dutch house prices will only continue to rise and rise. Admittedly, as previously mentioned the national mortgage debt in the Netherlands has hardly increased in recent years. But compared to other countries Dutch households already have very high debts. This makes homeowners vulnerable to economic headwinds. Additionally more and more home buyers seem to be at the limit of their borrowing capacity (we discuss this in the previous Dutch Housing Market Quarterly), meaning that housing costs are taking up an increasing share of their disposable income. At the moment, due to the low mortgage interest rates, this is not yet the case (see figure 8), but the affordability may deteriorate in the future if mortgage interest rates rise. It would make a house financially unattainable for a larger group of Dutch people, which could lead to downward pressure on prices.

Figure 8: Lower than before the crisis



Source: Calcasa

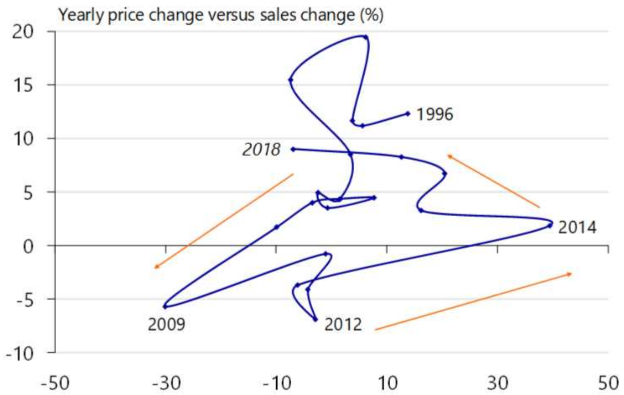
Note: this figure shows the hypothetical housing expenses given recent sales prices, incomes and interest rates. This assumes the average income household is paying the mean sales price. Of course this does not need reflect real consumer behaviour.

Further declining sales expected in 2019; prices well over 300,000 euros

So Swedish, Australian and British house markets are not directly comparable with that in the Netherlands, as described. Some important rules that have already been changed in the Netherlands have now also been implemented in the first three countries. And the gap between, among other things, income and selling prices in has also been much higher – and for longer. Yet there are also aspects in which the Netherlands resembles these countries. The growing divide between the average income and the cost of an owner-occupied home, for example, are making a house financially unattainable for more Dutchmen and women. Furthermore, as we previously mentioned, global housing markets seem to be more closely tied together. We therefore cannot ignore such a signal.

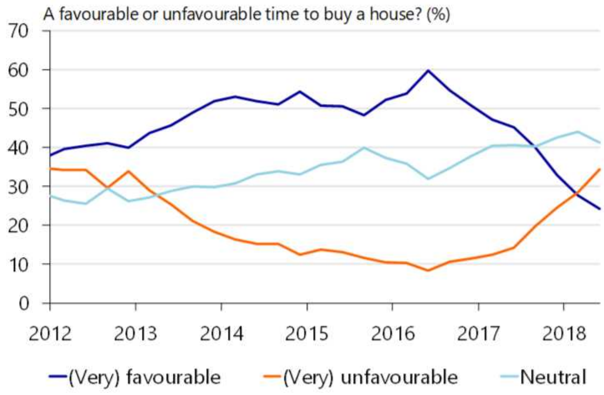
Additionally there are signs within the Netherlands itself that indicate that the housing market is closer to a peak in prices, or at least price growth, than to the bottom. Think of the slowing sales pace, which in the past often preceded lower price rises (see figure 9). Moreover, last quarter figures already showed that fewer and fewer people still find it a favourable time to buy a house (see figure 10), while consumer confidence has also slid in recent months. These factors can lead to less demand for owner-occupied homes. This in turn can lead to fewer bids above the asking price and thus to a more moderate price development.

Figure 9: Cycles on the housing market



Source: Statistics Netherlands (CBS), Dutch Land Registry, computation by Rabobank Note: the 2018 figure is our own prognosis

Figure 10: Pessimists outweigh optimists; neutralists still larger

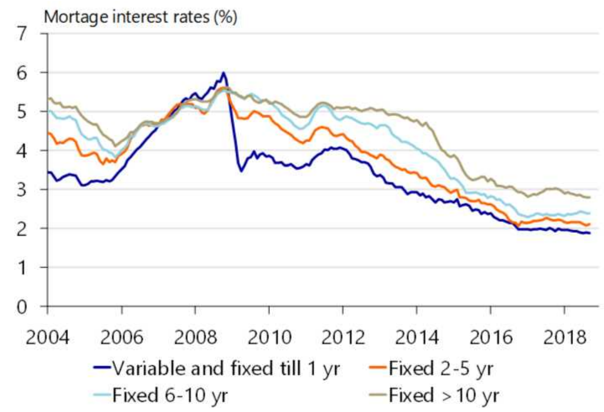


Source: TU Delft/OTB, Vereniging Eigen Huis

There are also reasons that suggest that substantially lower price growth or even a turnaround in prices is still something of the distant future. The number of homes for sale has for example is still dwindling, while the number of permits for new homes has stagnated to well below the level required to absorb housing shortages. Besides, as previously described, the monthly costs of servicing a mortgage are still relatively low because of the low interest rates. In the past quarter mortgage interest rates have even fallen slightly further for the long fixed periods (which are popular among the Dutch) (see figure 11). This also has an effect on investors. On the one hand, low interest rates lowers their return on, for example, savings and bonds, making the housing market attractive as an alternative investment. On the other hand the historically low rates decreases the financing costs for investors. The low interest rates, the low supply and the rising housing shortage are expected to also leave a mark on prices in 2019.

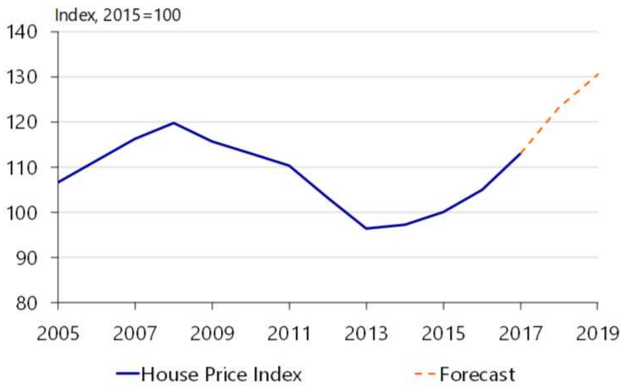
All in all, we are more cautious with our price forecast for 2019. In our previous reports, we assumed a house prices to increase by 7.0 percent in the coming year. We downwardly adjust that expectation to 6.0 percent (see figure 12). In the first nine months of this year, prices rose by an average of 9.0 percent, which is higher than the 8.7 percent we expected for the whole of 2018. We now assume that prices will increase by 9.0 percent on average in 2018. Due to this strong momentum, houses in the first half of 2019 are expected to be considerably more expensive than a year earlier, but it also means that a house will become financially unreachable for more people. In combination with the tighter supply, we therefore assume that in 2018 a total of some 225,000 existing owner-occupied homes will be sold, considerably less than the almost 242,000 transactions in record year 2017. For 2019, we expect the number of transactions to fall further and total some 210,000 sales (see figure 13).

Figure 11: Mortgage rates stable, and low



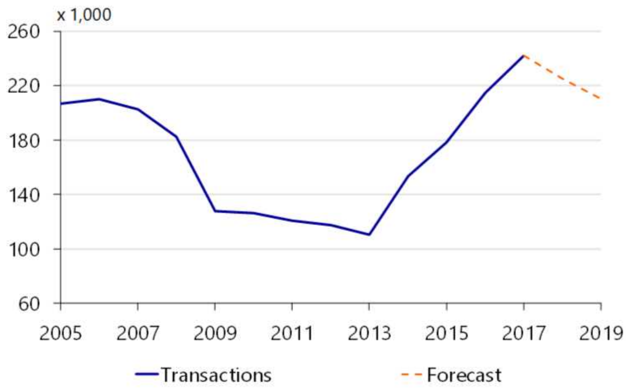
Source: Dutch Central Bank (DNB)

Figure 12: Price prognosis



Source: Rabobank

Figure 13: Sales expectations



Source: Rabobank

Key data

Economic indicators for the Netherlands

	2016	*2017a*	*2018f*	*2019f*
GDP (growth, %)	2.2	2.9	3.0	2.3
Inflation (%)	0.1	1.3	1.7	2.5
Unemployment (% of labour force)	6.0	4.8	3.9	3.6

[a]Rabobank forecasts

House prices

Quarter-on-quarter (%)	*2017Q4*	*2018Q1*	*2018Q2*	*2018Q3*
Mean sales price (Land Registry)	-0.1	4.1	2.3	2.6
Housing Price Index (Statistics Netherlands/Land Registry)	1.7	2.7	1.8	2.7
WOX (Calcasa)	1.6	2.5	2.5	-

Sales of existing owner-occupied houses

	2017Q4	*2018Q1*	*2018Q2*	*2018Q3*
Houses sold (Land Registry)	66,188	52,105	52,930	56,921
Forced auctions (Land Registry)	0.6%	0.5%	0.4%	0.2%

Building permits issued (twelve-month rolling total)

	2017Q4	*2018Q1*	*2018Q2*	*2018Q3*
Houses (Statistics Netherlands)	69,692	70,112	68,053	-

Mortgage interest rates on new loans (Dutch Central Bank)

Quarter averages (%)	*2017Q4*	*2018Q1*	*2018Q2*	*2018Q3*
Maturity <= 1 year	1.96	1.95	1.91	1.89
2-5 year	2.21	2.15	2.15	2.10
6-10 year	2.34	2.34	2.39	2.39
> 10 year	3.00	2.90	2.86	2.86

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 November 12th, 2018.

This data has been carefully incorporated into our analyses. Rabobank accepts. however. no liability

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 and Christian Lennartz

Production coordinator:
Christel Frentz

Author(s)

Nic Vrieselaar

RaboResearch Netherlands

+31 6 2216 2257

Nic.Vrieselaar@rabobank.nl

Christian Lennartz

RaboResearch Netherlands

+31 30 21 62666

raboresearch@rabobank.nl