Rabobank

House prices still on an upward path, but buyer confidence is waning

Dutch Housing Market Quarterly

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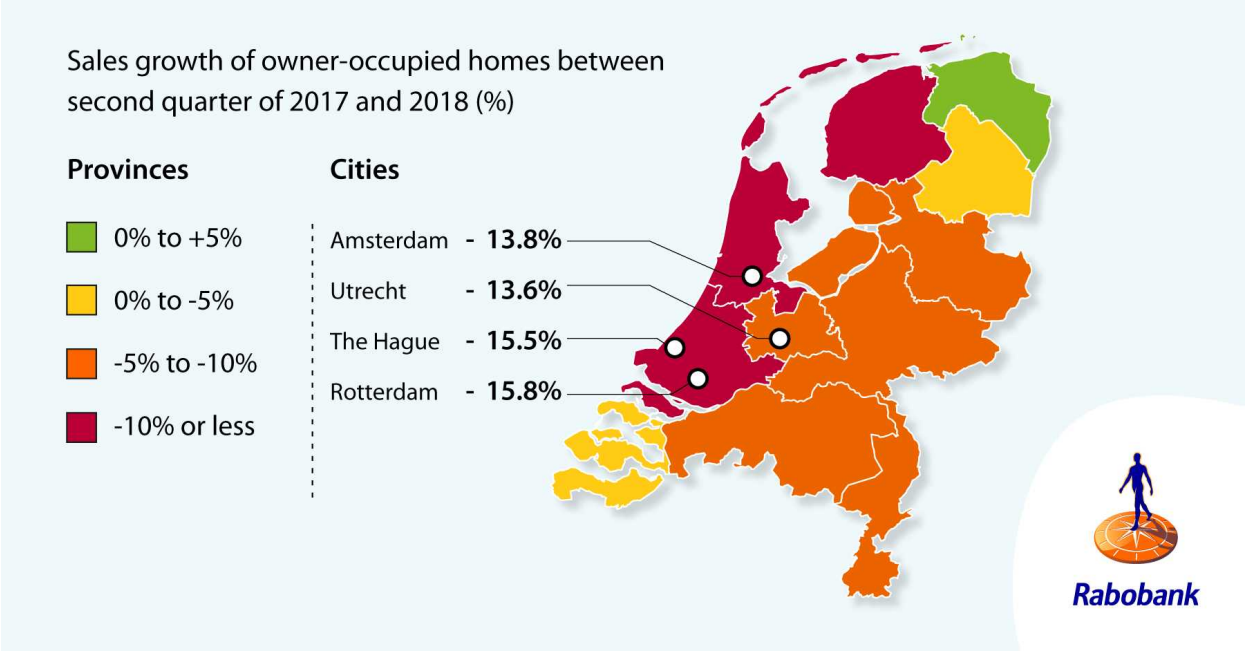
- **In the second quarter of 2018, fewer houses were sold than in the same period last year**
- **For most regions, this may be interpreted as a normalization after the record year 2017**
- **In and around the Randstad, however, fewer houses for sale at higher prices appear to be pulling down the number of transactions**
- **Accordingly, we've reduced our sales forecast to 225,000 units in 2018 and 220,000 units in 2019**
- **House prices in the Netherlands were 8.8 percent higher in the second quarter than twelve months earlier**
- **For the whole of 2018 we forecast a price increase of 8.7 percent. For 2019, we expect prices to increase by another 7 percent**
- **Strong price appreciation is linked with increasing mortgage debt and a growing number of buyers who borrow up to their maximum loan-to-income level**
- **Declining affordability is a major factor in undermining confidence of (prospective) homebuyers in the Dutch housing market**
- **For the first time since the crisis, there are more households that think it is a bad time to buy than households which think it is a good time to purchase residential property**
- **Yet, the mounting scarcity of existing homes for sale as well as the sluggish construction of new-built dwellings means that the upward pressures on house prices will likely remain for the time being**

The market for existing owner-occupied homes

Sales keep on declining

Between April and June a total of 52,930 homes were sold in the Netherlands, almost 6,000 less than in the same period a year prior. As in the first three months of 2018, transactions mainly took a dive in the four largest cities, Amsterdam, Rotterdam, The Hague and Utrecht (see figure 1). As we wrote three months ago: the drop in sales in the first quarter was at least partially due to the very strong start of 2017, when the housing market was really peaking in terms of sales. To a lesser extent, this also applies to the second quarter: the number of transactions in that same period a year earlier was much higher than usual. So declining sales in the past quarter can again be at least partially attributed to a sort of normalization of the market.

Figure 1: Fewer homes sold in all provinces but one

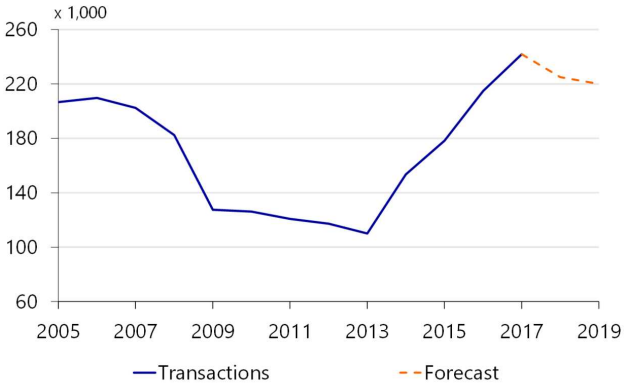


Source: Land Registry

The provinces of Noord-Holland and Utrecht, and especially the cities of Amsterdam and Utrecht, can't hide behind that excuse though: in those regions the number of sales already started stagnating before the second quarter of 2017. In Amsterdam and the city of Utrecht transaction growth already had turned negative around that time already. The fact that the number of sales in North Holland and Utrecht and their largest cities has yet again declined implies that there must be other explanations. Among these are the lack of choice and high prices, which are dragging down the market (see below).

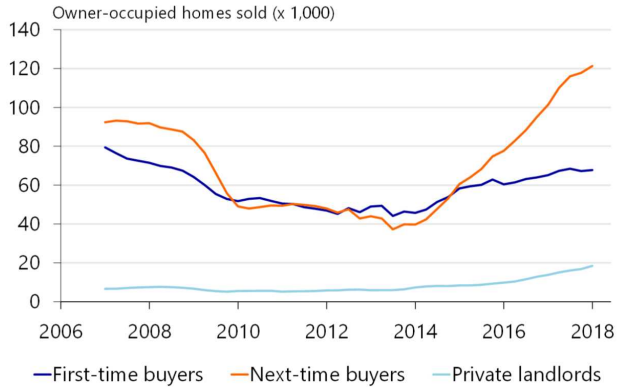
The combination of what could be seen as a normalization in non-urban areas and deteriorating affordability and accessibility in larger cities forces us to downwardly adjust our sales forecast from 235,000 to 225,000 sales for this year, a decline of around 7 percent compared to 2017. Generally, we expect this downward trend to continue all the way into 2019, for which we forecast 220,000 units being sold in the market for existing homes (figure 2).

Figure 2: Number of sales expected to decline further



Source: Land Registry, Rabobank

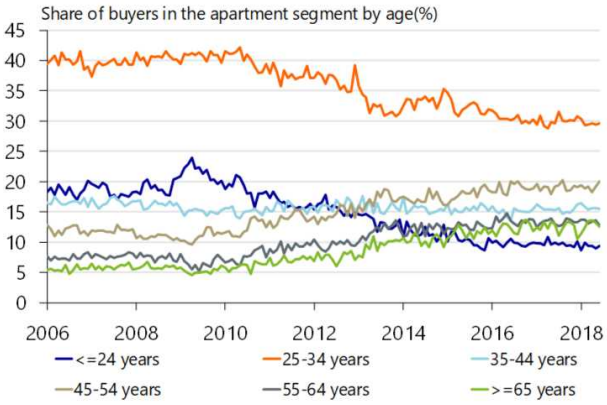
Figure 3: Second-time buyers on the rise (excluding big four cities)



Source: Dutch Central Bank

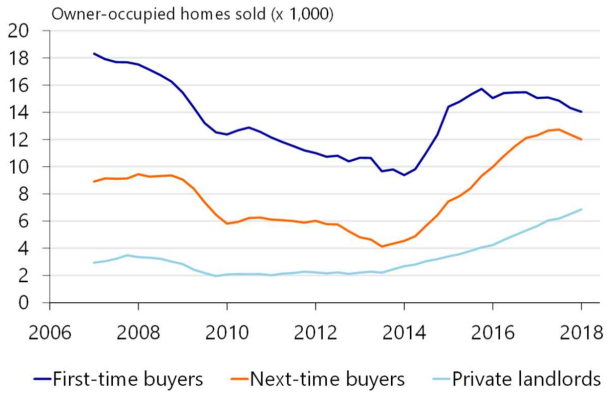
Alongside the general trend of lower sales activities we can also observe specific patterns surrounding the position of different generations on the housing market, showing that younger adults and first-time buyers are becoming increasingly excluded from the property market. Those below the age of 35 years accounted for more than 55 percent of sales before the crisis. By mid-2018 their share had already dropped to 44 percent. A combination of demographic effects (i.e. more older households) and rapid housing wealth accumulation since the end of the crisis has brought older Dutch in a more favourable position to advance on the owner-occupied housing market. Accordingly, figure 3 shows that the number of next-time buyers increased from 40,000 in the period from 2013 to 2017 to around 120,000 people.

Figure 4: Fewer young buyers in the apartment market



Source: Land Registry

Figure 5: Buy-to-let investors are becoming key players in the big four cities



Source: Dutch Central Bank

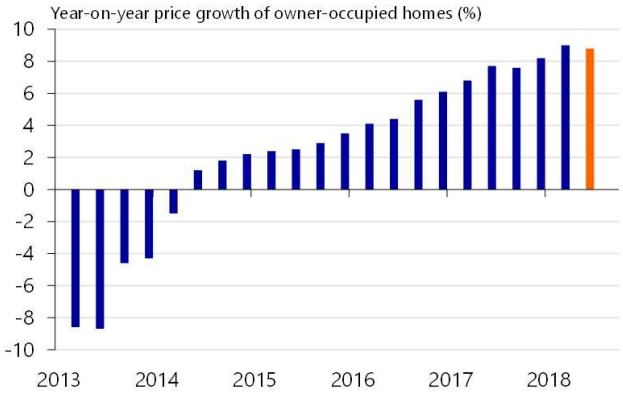
This trend becomes especially clear when looking at the apartment segment. Where younger adults under 35 years bought the lion's share of apartments ten years ago, their share has since dropped by more than 10 percentage points (figure 4). Additionally, figure 5 shifts in the age structure of property ownership is also the result the rising role of private landlords: their share in the number of sales in the four largest cities has more than doubled in the past years, and most often, these are older citizens as well. Because we expect the housing market in these areas to stay tight and remain expensive in the years to come, the position of young buyers is set to decline further in 2018 and 2019.

Prices rise quicker than expected

In the second quarter of 2018, Dutch homebuyers paid considerably more for a house than a year earlier, on average some 285,000 euros. The increase in house prices of 8.8% past quarter was slightly lower than the

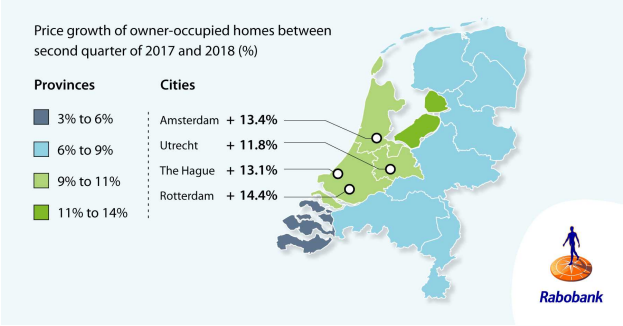
9.0% price increase in the first quarter of 2018 (see figure 6) though.The highest price growth was yet again recorded in the Randstad including the cities of Amsterdam, Rotterdam and The Hague, but also in the adjacent province of Flevoland (figure 7).

Figure 6: Price growth near 9 percent on an annual basis



Source: Statistics Netherlands

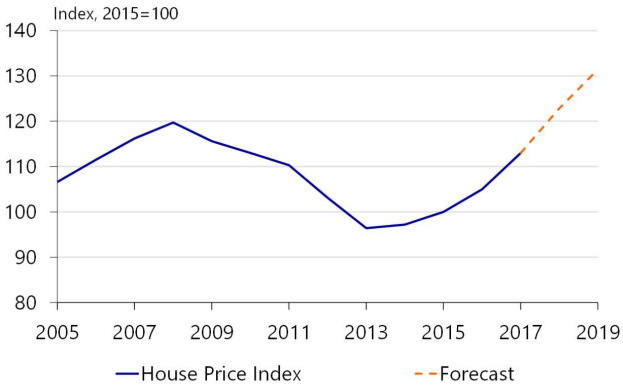
Figure 7: Highest price growth in and near the Randstad



Source: Statistic Netherlands

Possibly, accelerated house price growth is showing some fatigue; however, given the absolute price increases in the first six month of this year, we are adapting our forecast to 8.7 percent (up from 8.0 percent) for the whole of 2018 and 7.0 percent in 2019 (figure 8). Not only is this adaptation justified by recent price trajectories, but it seems that there is no slowing down in terms of the willingness to pay these, at least in the short run. Even though affordability issues are becoming more widespread (see below), the current market practice is that overbidding is becoming more widespread and an almost standard procedure in urban housing markets. Indeed, data from the Realtor association NVM shows that 34% of all existing homes were sold above the asking price in the second quarter. Half a year earlier this was 'only' 27%.

Figure 8: Strong price growth expected in the coming 18 months



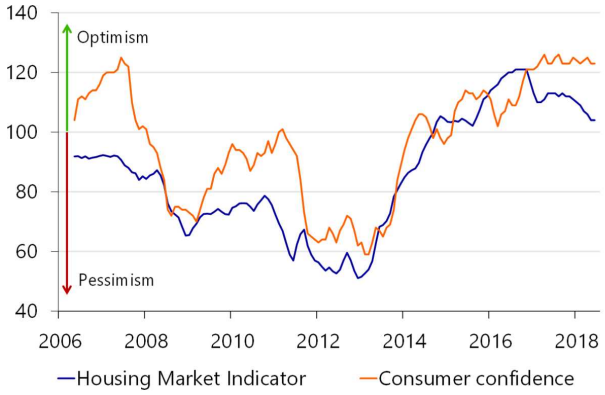
Source: Statistics Netherlands, Rabobank

Underlying factors

Confidence

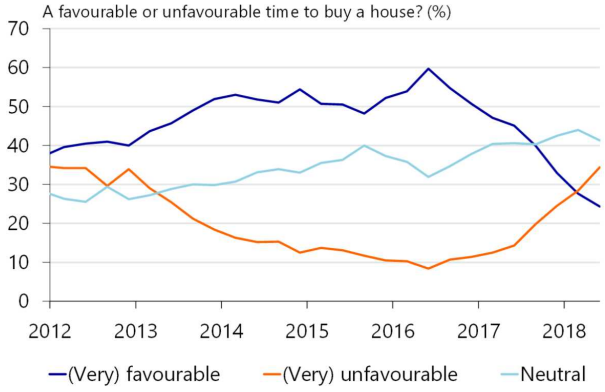
Since 2013, confidence among the Dutch in the economy and the housing market more specifically has contributed strongly to the growing number of sales and strong growth in prices. However, more recently we have seen a steady decline in the confidence of (prospective) homebuyers, with the share of optimists only just exceeding the share of pessimists (see figure 9). If we delve deeper into the underlying data we can see that for the first time since the crisis, the number of Dutch households who feel that it is an unfavourable moment to buy a house is greater than the group that finds it a favourable time (see figure 10). Two underlying factors seem to be important here: partly due to the rising prices on the housing market, the Dutch are increasingly concerned about the affordability of owner-occupied homes. On the other hand, increasing scarcity and the adherent lack of choice seems to dampen buyers' sentiment.

Figure 9: Buyer confidence in the housing market is waning



Source: Statistics Netherlands, OTB Research Institute, Vereniging Eigen Huis

Figure 10: Increasing number of households consider it an unfavourable time to buy property



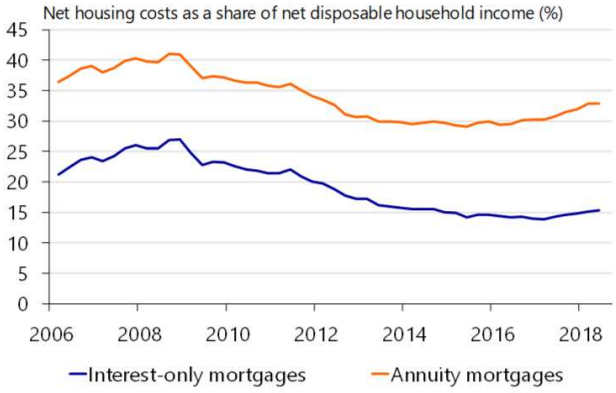
Source: OTB Research Institute, Vereniging Eigen Huis

Affordability

The sentiment that homes have become less affordable and less accessible is confirmed by various indicators. If, for example, we look at the affordability index of research bureau Calcasa, it becomes clear that the average housing costs on the basis of an annuity mortgage takes up a growing share of net income. To be more precise, the annual income of an annuity mortgage rose by 2.1 percent year-on-year to 32.9 percent (see figure 11).

Yet there is some nuance to add to this image: the housing costs of Dutch home owners are still considerably lower than before the crisis. At that time the ratio of average housing costs (excl. utility bills) to average disposable income was at around 40 percent on the basis of an annuity mortgage. Figures from the Dutch Central Bank generally confirm this picture. However, they also signify that affordability has in fact deteriorated among first time buyers, and particularly so in the major urban areas. So, even despite lower interest rates, the financing burden of this group is on average even higher than before the crisis, and it seems to be a matter of months before the peak in housing costs in the second half of 2008 is passed (see figure 12).

Figure 11: Relative housing costs on the rise again



Source: Calcasa

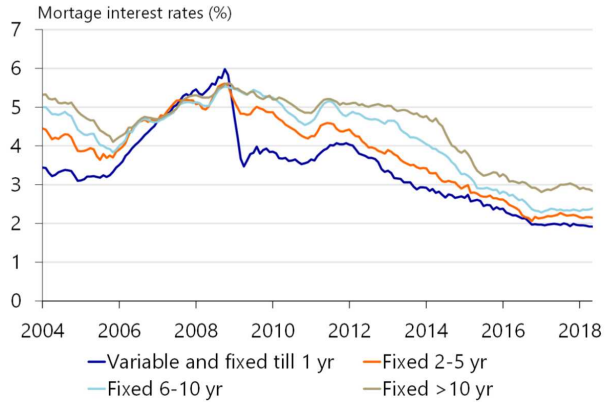
The mounting pressure on housing affordability may have two major consequences: On the one hand, with fewer households having the means to pay the average asking price, competition between buyers will decrease which should translate into lower offers and possibly lower prices eventually. On the other hand, the decreasing number of first-time buyers may have a substantial impact on second-time buyers as well. If they have already find a new home but cannot find a buyer for their current residence their mobility will be impacted negatively as well.

In the current climate, this does not seem to be much of an issue: especially in the big cities, private landlords have entered the housing market on a large scale, which means that sellers hardly have to make an effort to sell their current home. The question is under which circumstances this might change in the future. We would argue that the future trajectory of interest rates is the crucial factor here: In the past years low interest rates (figure 13) have stimulated the entrance of buy-to-let investors on the housing market due to low financing costs as well as high yield margins. Should mortgage interest rates gradually rise again it seems likely that the demand from this group is going to wane. Not only will higher yields be reduced by higher interest charges, but alternative investments will also become more attractive again. In that case, the disappearing demand from investors will have to be taken up by owner-occupiers. In view of the growing affordability and accessibility problems among starters and a part of the second-time buyers, this seems difficult to maintain at current price levels, especially in large cities. A price correction in Amsterdam and possibly in other larger cities is in that case a realistic scenario (also Lennartz, 2018).

Figure 12: Housing expenses of starters are growing overproportionately

Source: Dutch Central Bank * Housing expenses (net interest payments plus repayments) are based on annuity loans and the average house price. Before 2013 they were calculated on the basis of 50% annuity and 50% interest-only.

Figure 13: Mortgage rates low and stable

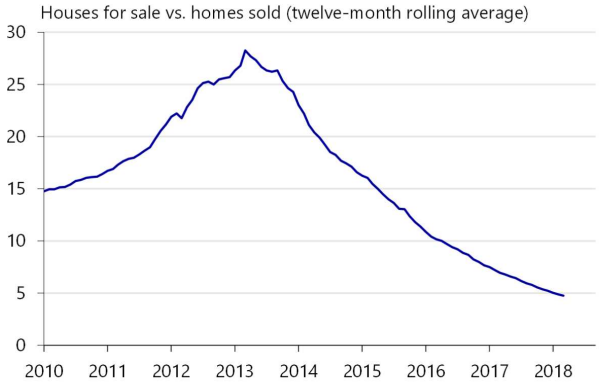


Source: Dutch Central Bank

Scarcity

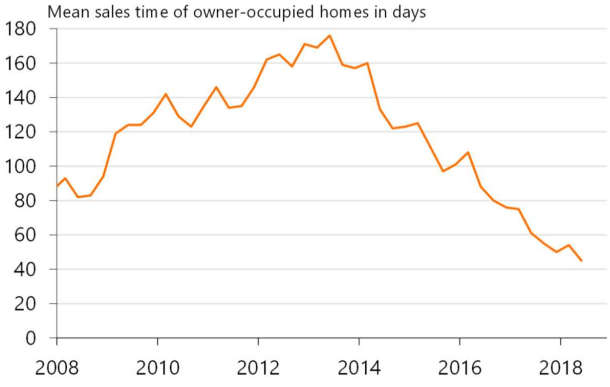
The ever-increasing shortage on the housing market is causing a growing lack of choice for starters and increasingly also for new owners (figure 14). Our scarcity indicator shows that potential buyers can now choose from less than five homes per dwelling sold. In the tightest housing markets such as Amsterdam, Utrecht and Eindhoven, homebuyers can only choose from less than three per property sold. A direct consequence of this is not only that prices are rising sharply – in a tighter market, competition between buyers is increasing and overbidding is becoming the norm – it also rebalances power between sellers and buyers, with the former enjoying an increasingly favourable position. Most strikingly, we see the average selling time of a house dropping further (see figure 15), while it takes an increasingly longer period to transfer a house, i.e. the time-span between the selling procedure and the registration at the Land Registry. The latter is a clear sign that people who are moving on have to make more and more effort to find a suitable home themselves.

Figure 14: Scarcity of supply remains a problematic issue



Source: Huizenzoeker.nl, Land Registry, Rabobank

Figure 15: Average time houses for sale are on the market down to 42 days



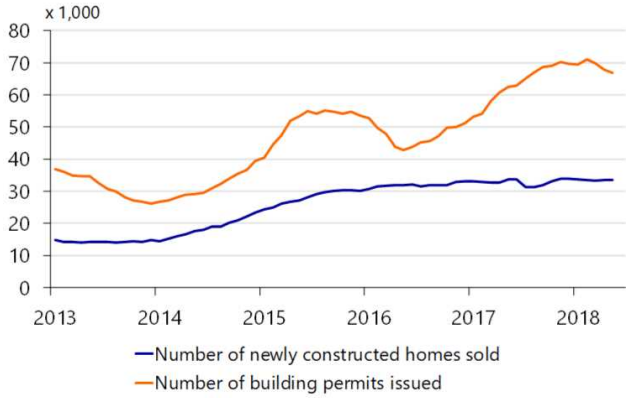
Source: NVM

New constructions

Up until 2018, the market for newly-built homes seemed to have found its way up: both the number of new homes sold and the number of permits issued for new homes had increased substantially in the second half of 2016 and in 2017 as a whole. However, in the first half of 2018 the picture appears to be a lot bleaker: Figure

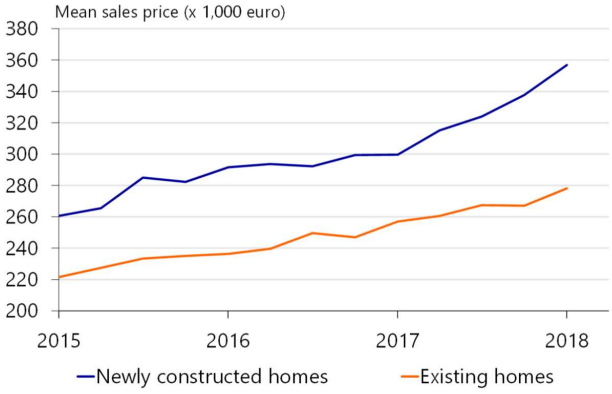
16 shows that the number of both building permits and sales of new homes is decreasing again. Sales fell by around 3.5 percent in the first five months of this year, while the number of building permits fell by around 10 percent. The plans voiced in the National Housing Agenda 2018-2021 to annually add 75,000 homes to the housing stock seem to be nothing but wishful thinking if the current building pace continues: the total construction output is expected to reach a maximum of 67,000 homes this year. Taking into account the demolition of some ten to fifteen thousand homes, it becomes clear that the number of newly-built homes will lag far behind the prospected growth in the number of households.

Figure 16: Building permits and new constructions are down in second quarter



Source: Statistics Netherlands

Figure 17: Average price of newly-built home increasing faster than those of existing homes



Source: Statistics Netherlands

Recent figures from Statistics Netherlands further show that the average purchase price of newly-built houses has risen faster since 2017 than the average price of existing owner-occupied homes (see figure 17). Possibly, this is the result higher quality and more sustainable houses being sold in the former sector, yet the sales process itself also appears to play a role: a larger share of new homes is no longer sold via a lottery process, but by auction. In any case, these figures suggest that the building is mainly built into the more expensive segment, while the largest demand for housing is currently in the cheap and mid-range rental and buying segment. The pressure on these types of homes will therefore probably remain high.

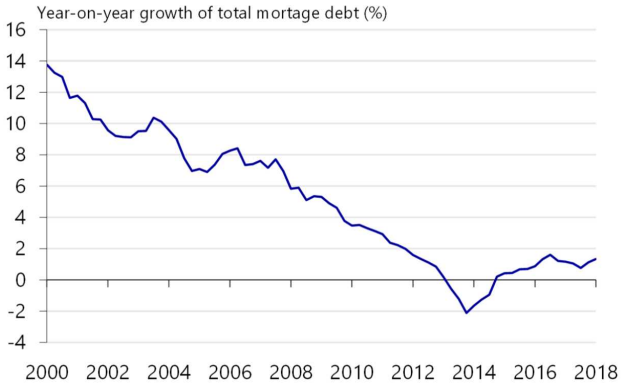
Mortgage market

Aggregate mortgage debt is growing again

Despite the record number of sales and the ever-increasing rise in house prices, mortgage debt in the Netherlands had, quite remarkably barely risen in the post-crisis period. Before the crisis, the picture was quite different: between 2000 and 2008 outstanding mortgage debt in the country doubled to almost 625 billion euros. In relative terms, the Netherlands had come be the 'uncrowned champion' of private household mortgage debt. During and after the crisis, additional repayments and intergenerational transfers for the purchase of a house have contributed to a relatively small rise in mortgage debt. Another reason certainly was the obligation for new buyers to fully pay off their mortgage loan if they wanted to make full use of mortgage interest deduction.

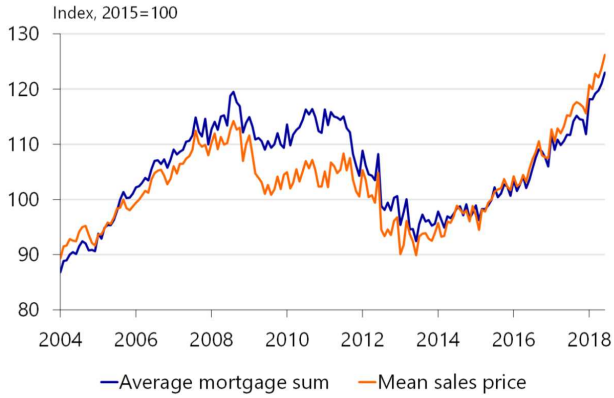
Yet, in the first half of this year total mortgage debt is now slowly increasing again (see figure 18). This is not only due to fewer additional repayments on mortgages, which according to the Dutch Central Bank went down from 17 billion euros in 2016 to 13 billion in 2017. It is also the strong price increases themselves that are putting more pressure on house buyers to take up higher mortgage loans. Accordingly, figure 19 shows that the average mortgage sum in the Netherlands closely follows the trajectory of the average selling price, where nominally both indicators are higher than at their previous peak in 2008.

Figure 18: Total mortgage debt is rising again



Source: Dutch Central Bank, Rabobank

Figure 19: Average mortgage rate on new loans follows trajectory of house prices



Source: Land Registry, Rabobank

In conclusion, the underwater mortgage problem that the Netherlands has experienced during the previous crisis is, in the short run, unlikely to repeat itself to the same extent should house prices fall again. This is primarily due to the repayment obligations implemented in 2011. For the time being, the outlook for the Dutch housing market is still more positive than negative. Yet, issues surrounding rising unaffordability and inaccessibility of housing property as well as rising mortgage debt need to be monitored closely.

Key data

Economic indicators for the Netherlands

	2016	2017a	2018a	2019a
GDP (growth, %)	2.2	2.9	2.9	2.0
Inflation (%)	0.1	1.3	1.6	2.4
Unemployment (% of labour force)	6.0	4.8	3.9	3.6

[a]Rabobank forecasts

House prices

Quarter-on-quarter (%)	2017Q3	2017Q3	2018Q1	2018Q2
Mean sales price (Land Registry)	2.6	-0.1	4.1	2.3
Housing Price Index (Statistics Netherlands/Land Registry)	2.4	1.7	2.7	1.8
WOX (Calcasa)	2.4	1.6	2.5	-

Sales of existing owner-occupied houses

	2017Q3	2017Q4	2018Q1	2018Q2
Houses sold (Land Registry)	61,319	66,188	52,105	52,930
Forced auctions (Land Registry)	0.4%	0.6%	0.5%	0.4%

Building permits issued (twelve-month rolling total)

	2017Q3	2017Q4	2018Q1	2018Q2
Houses (Statistics Netherlands)	68,590	69,739	69,802	-

Mortgage interest rates on new loans (Dutch Central Bank)

Quarter averages (%)	2017Q3	2017Q4	2018Q1	2018Q2
Maturity <= 1 year	1.98	1.96	1.95	1.91
2-5 year	2.23	2.21	2.15	2.15
6-10 year	2.34	2.34	2.34	2.39
> 10 year	3.00	3.00	2.90	2.86

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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 August 10th, 2018.

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