Housing Market Quarterly Report: House price rise increases

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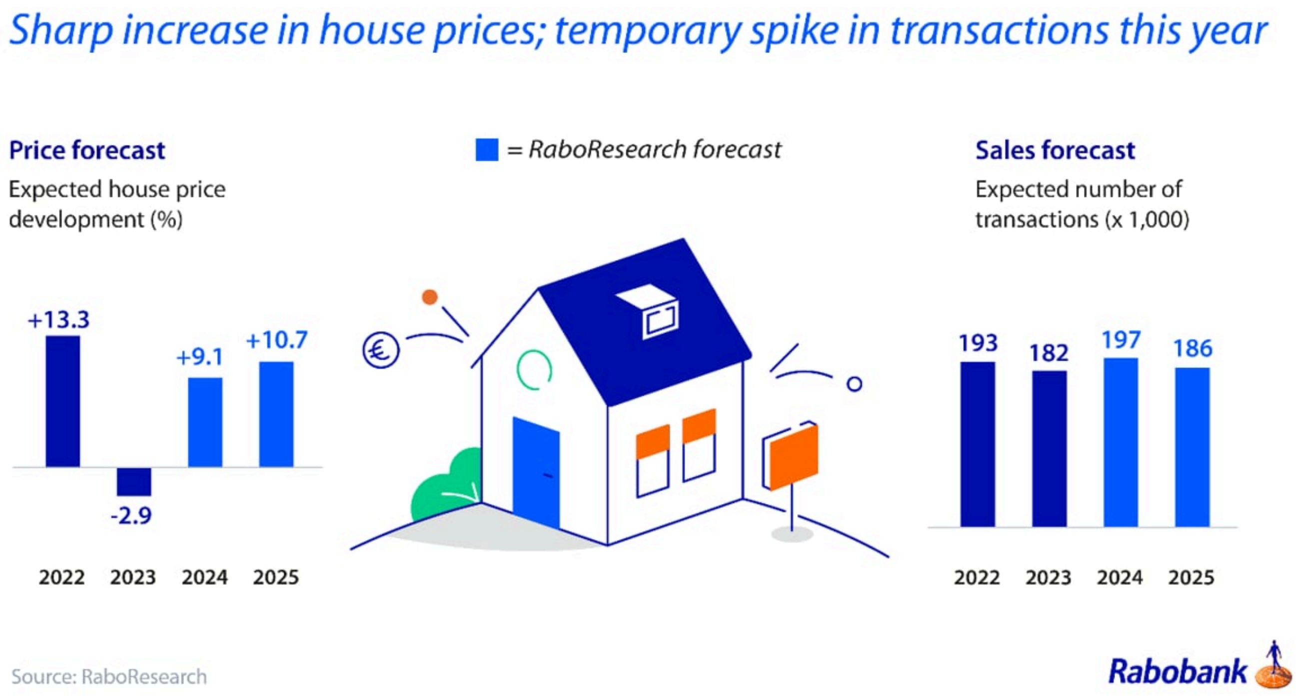
Carola de Groot
Senior Economist Housing Market
Carola.de.Groot@rabobank.nl

Stefan Groot
Senior Economist Housing Market
Stefan.Groot@rabobank.nl

Due to rising incomes and housing shortages, the rise in Dutch home prices is accelerating even faster than previously thought. July marked the first time a double-digit price increase was on the books again. This year we expect house prices to rise 9.1%, with the rise as much as 10.7% next year. Meanwhile, the number of transactions remains under pressure due to lack of supply.

Summary

- In July, we were able to record double-digit growth again for the first time: house prices were 10.6% higher than in the same month a year earlier.
- We expect prices of existing homes for sale to rise by an average of 9.1% in 2024 and 10.7% in 2025.
- The price premium for a house for sale in the northern wing cities of the Randstad is again firmly on the rise; this inhibits the extent to which city dwellers buy a house in their own city. We anticipate that rising regional house price differences will gradually rekindle the migration out of one's own city.
- Although we have seen an uptick in the number of transactions this year, the lack of supply continues to put pressure on the number of transactions; we project 197,000 transactions of existing owner-occupied homes this year and 186,000 next year.
- The end of the dip in new construction appears to be gradually in sight: more new build homes were sold last quarter and more building permits were issued.



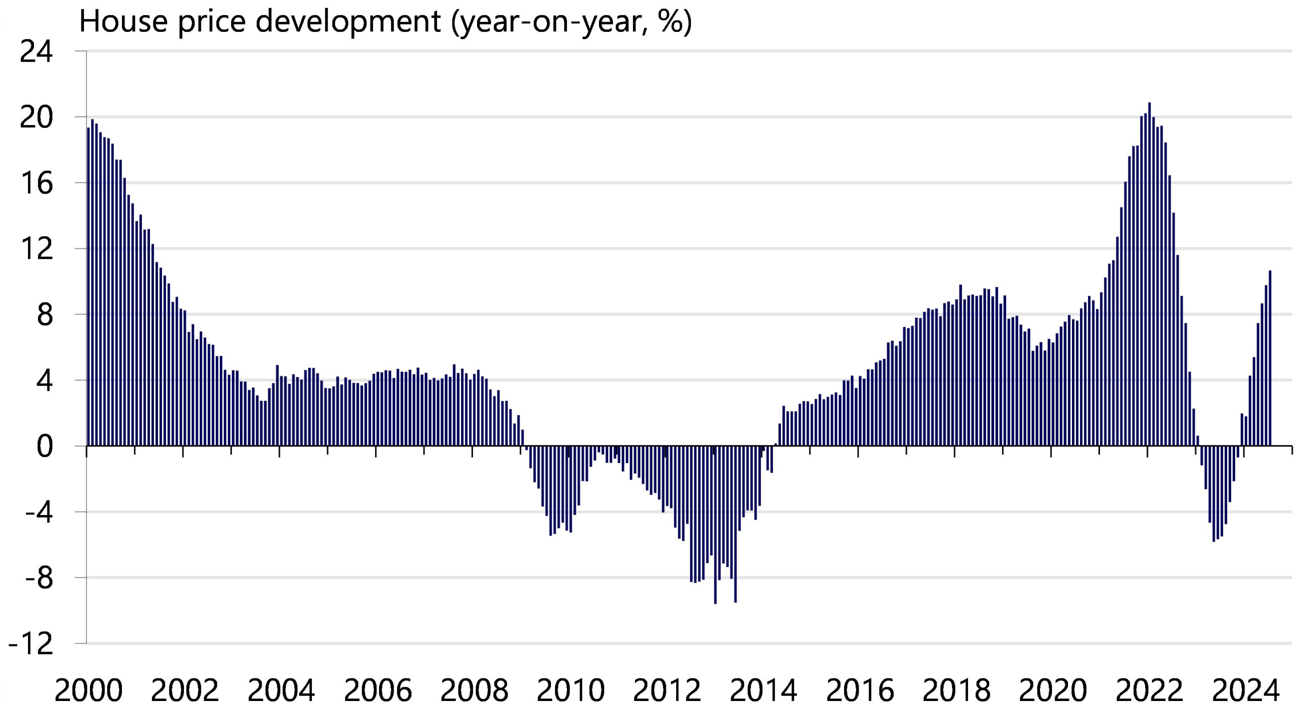
House prices rise by double digits again

Existing homes for sale have become more expensive at a rapid pace in recent months (see figure 1). In July, we saw a double-digit growth rate for the first time since the summer of 2022. Homes for sale were as much as 10.6% more expensive than a year earlier. On average, buyers paid about EUR 44,000 more for the average home sold (see figure 2). Compared to the price peak in 2022, houses are now about 4.6% more expensive again.

The rapid price recovery can be explained by the rapidly increasing demand: many house hunters, thanks to increased incomes, again have more financial opportunities to buy a house. In the second quarter of this year, Collective labor agreement (CLA) wage growth was 6.4%. Since 1982, wages have not risen as fast as they are now. Due to the robust wage increases, the gross modal annual income is expected to be as much as EUR 5,500 higher this year than in 2022. Due to increased wages, a household with two modal incomes can borrow about EUR 14,000 more in 2024 at an interest rate of 4% than in 2022 at an interest rate of 1.5% (see also figure 6). The borrowing capacity has thus increased by about 3.5% in two years. Single people with an income of EUR 28,000 and above can borrow an additional EUR 16,000 from 2024. The borrowing capacity – which is mainly determined by the development of interest rates and incomes – is an important determinant of house prices. The ratio of borrowing capacity to house prices this year is again about the same as in early 2022. Back then, the housing market was overheated and house price appreciation broke all records. Therefore, it comes as little surprise that house prices are again soaring.

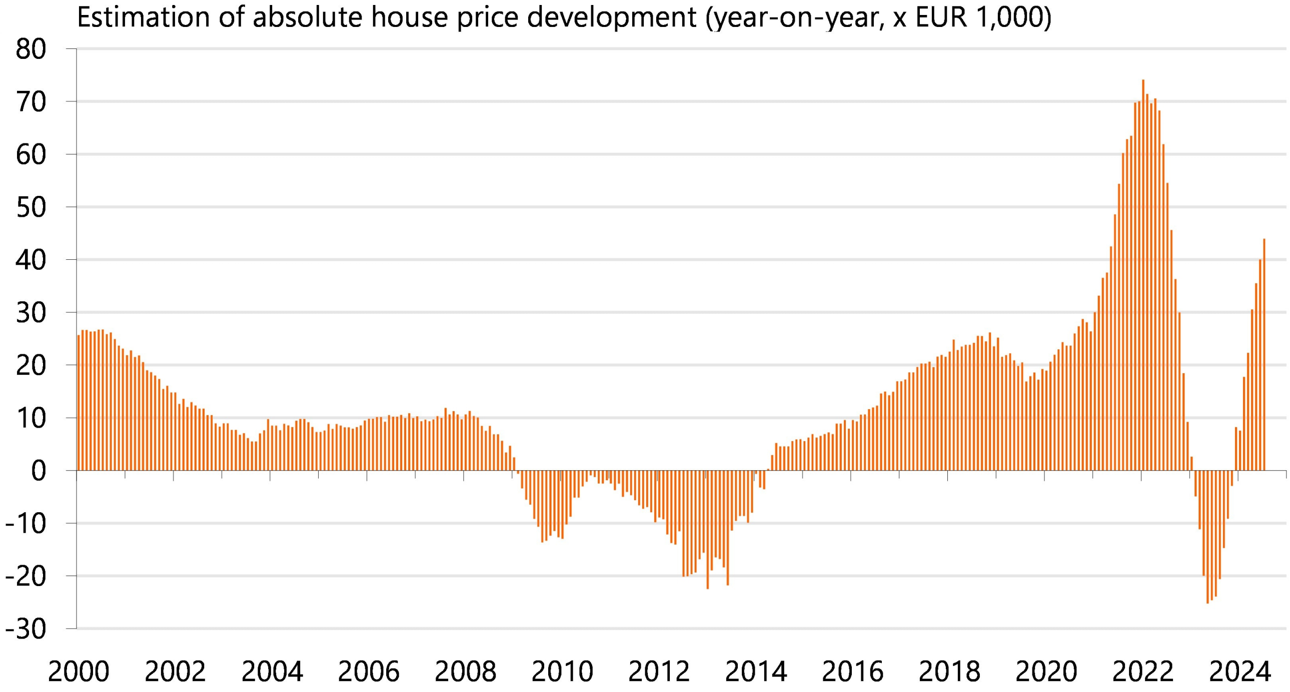
Indeed, in the face of increasing demand, there is still very little supply (see also paragraph Slightly more sales expected in 2024). In fact, due to rising interest rates, new construction has received a severe blow, so that the housing shortage has only increased in recent years, despite the policy ambition. The number of homes for sale has also been falling for more than a year. The stiff competition for scarce houses for sale has also led to massive overbidding. According to brokers association NVM, in the second quarter, two out of every three houses sold were outbid. A year ago, 'only' two out of every five houses sold went for more than the asking price. The scarcity is also evidenced by the fact that house hunters are again making more frequent offers without making conditions around financing, in order to increase the chances of putting in the 'winning bid'.

Figure 1: House prices rise by double digits again



Source: CBS/Kadaster

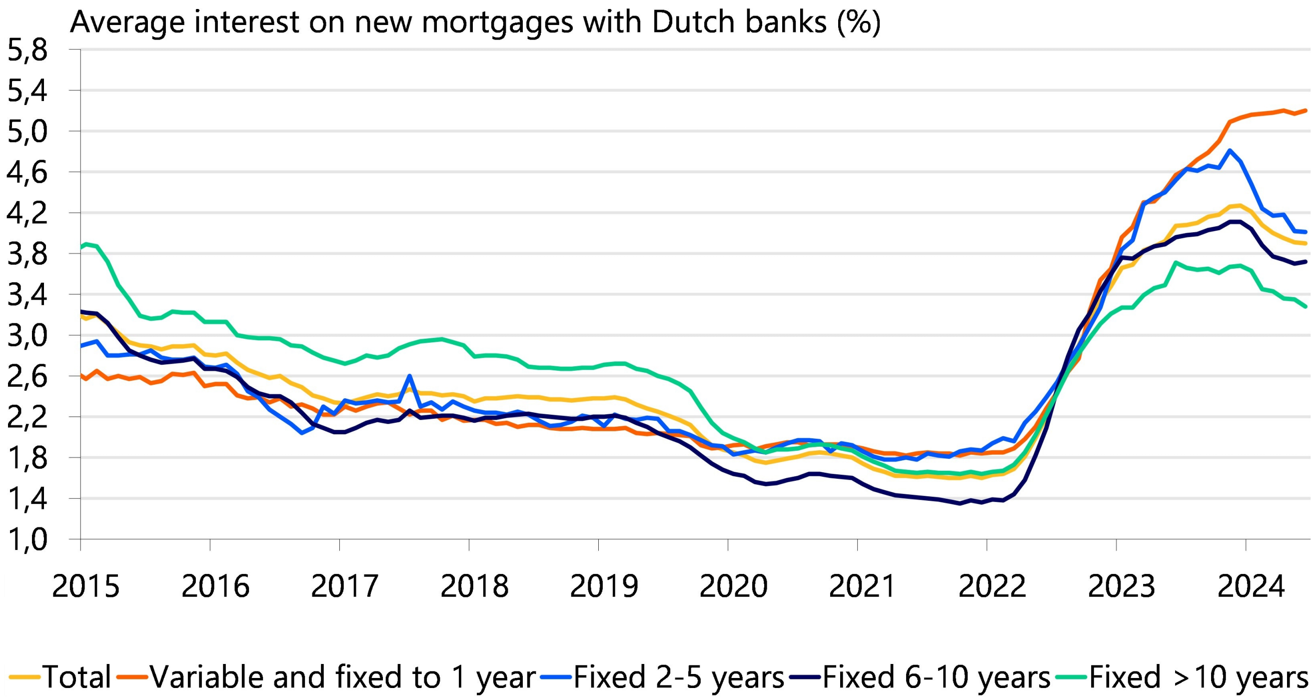
Figure 2: Average home sold in July 2024 EUR 44,000 more expensive than year earlier



Source: RaboResearch 2024, CBS/Kadaster

While incomes have risen sharply, we have seen mortgage rates drop a bit recently (see figure 3). Mortgage rates fell to the lowest level we've seen so far this year, Van Bruggen Adviesgroep reported recently. Homebuyers who chose a 10-year fixed-rate mortgage in the third week of August paid an average 3.82% interest rate (week 34). Earlier this year, the average interest rate was still at 3.98%. Lower mortgage interest rates not only lower monthly costs for the same mortgage amount, but also allow people to borrow a little more and thus offer more on a house.

Figure 3: Mortgage rates fell slightly again



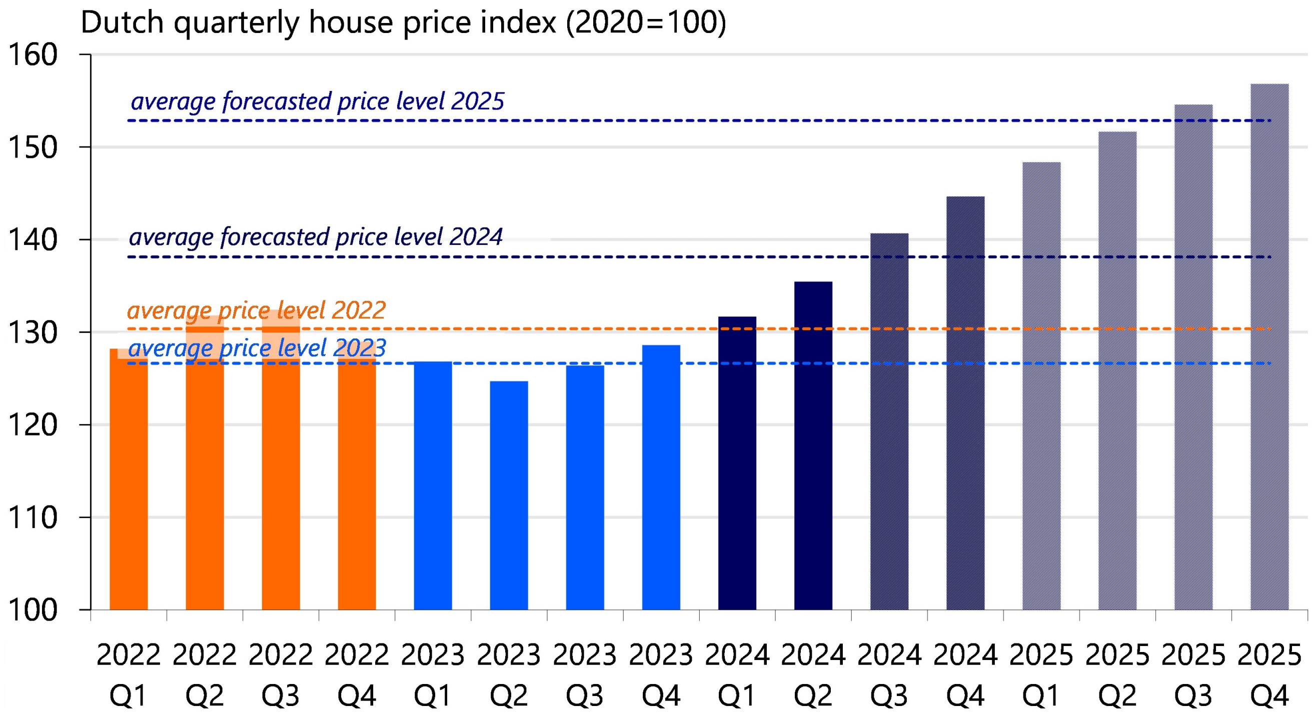
Source: DNB

No relief from hefty price increases for now

We assume that house price appreciation will continue to pick up through the rest of 2024 and next year. For this year, we anticipate an average price increase of 9.1%. Next year, house prices are expected to rise as much as 10.7% (see figure 4). In the last quarter of 2025, they will then be about 13% higher than in July of this year.

Our price forecast has been revised upward significantly from our previous Housing Market Quarterly Report. Last quarter we assumed an average house price increase of 6.7% this year, followed by 5.2% in 2025. The fact that we are raising our price expectations has less to do with adjusted expectations for capital market interest rates, the economic climate or unemployment, but more with the recent acceleration in house prices. We now assume a larger effect of the ongoing housing shortage on house prices than previously thought.

Figure 4: House price appreciation continues solidly in near future

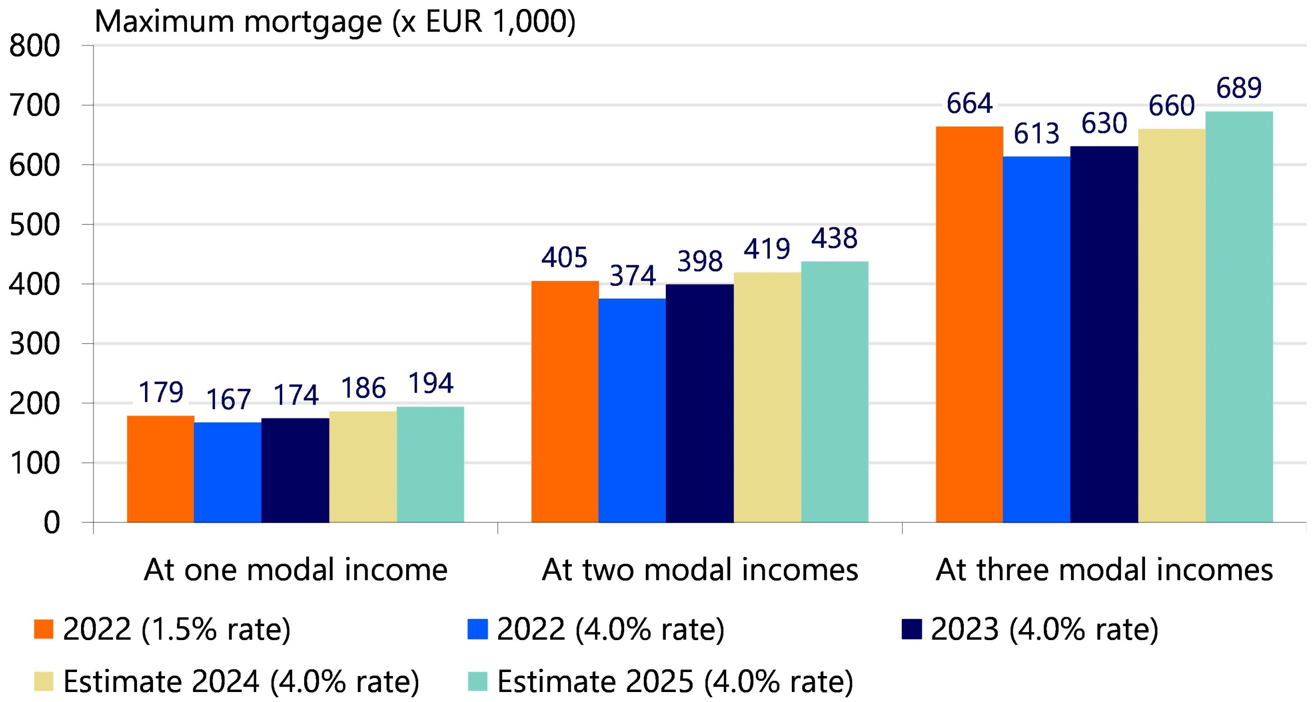


Source: CBS/Kadaster, RaboResearch 2024

Strong wage growth drives demand for owner-occupied homes

Projected wage growth is the main driver of expected house price growth in 2024 and 2025. For 2024, we foresee an average collective bargaining wage increase of 6.1%, and next year wages will continue to rise relatively fast at 5%. According to CPB The Netherlands Bureau for Economic Policy Analysis, the gross modal annual income will reach EUR 44,500 in 2024, followed by EUR 46,500 in 2025. More income means that households can borrow significantly more this year and next for buying a home (see figure 5). At a 4% mortgage rate, a household with two modal incomes can borrow about EUR 21,000 more this year than last year. In 2025, about EUR 19,000 will then be added in terms of maximum mortgage.

Figure 5: Higher wages boost maximum borrowing capacity

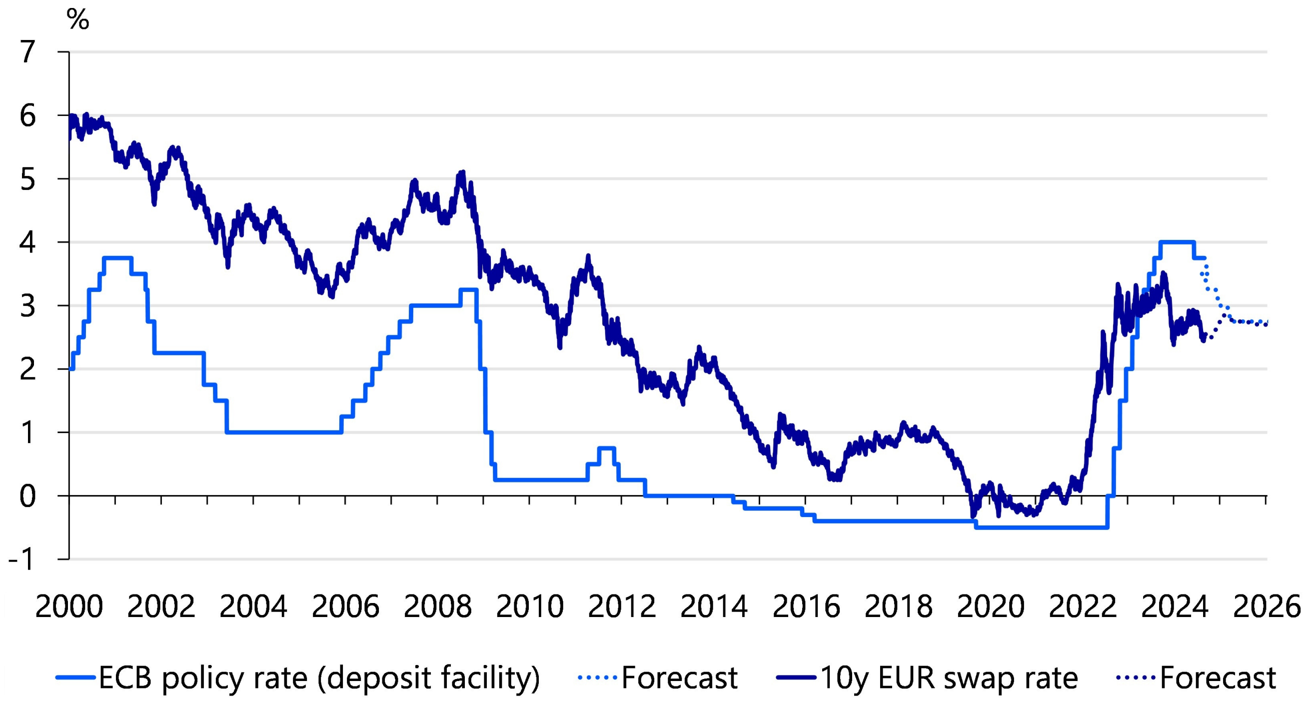


At one modal income, a single-earner is assumed. At twice modal, two-earners with two equal incomes are assumed. At three times modal, two-earner households are assumed, of whom the lowest earner has an income of one modal income. Starting in 2024, the maximum mortgage depends on the energy label. For 2024 and 2025, the average of the maximum mortgage for houses with energy labels A/B and C/D was used. Source: Nibud Financieringslastnormen, CPB, RaboResearch 2024

In terms of the interest rate picture, we do not foresee any major shocks, although this expectation is surrounded by uncertainty. We assume that capital market interest rates will remain stable in the coming years (see figure 6). These interest rates on long-term loans determine mortgage lenders' funding costs and therefore affect the level of mortgage rates. Further cuts in ECB interest rates are expected later this year and next, but financial markets have already factored them into capital market rates. If market expectations about future policy start to shift, for example due to macroeconomic factors such as the development of inflation, capital market interest rates will react accordingly.

The performance of the Dutch economy lags behind potential economic growth this year. The size of the economy is expected to grow by 0.6%. The outlook for next year is better; we expect a GDP growth of 1.4% in 2025. Unemployment is gradually rising, from 3.7% today to 4.1% by the end of 2025. Although this is low in historical perspective, the rising unemployment rate slightly depresses demand for owner-occupied housing.

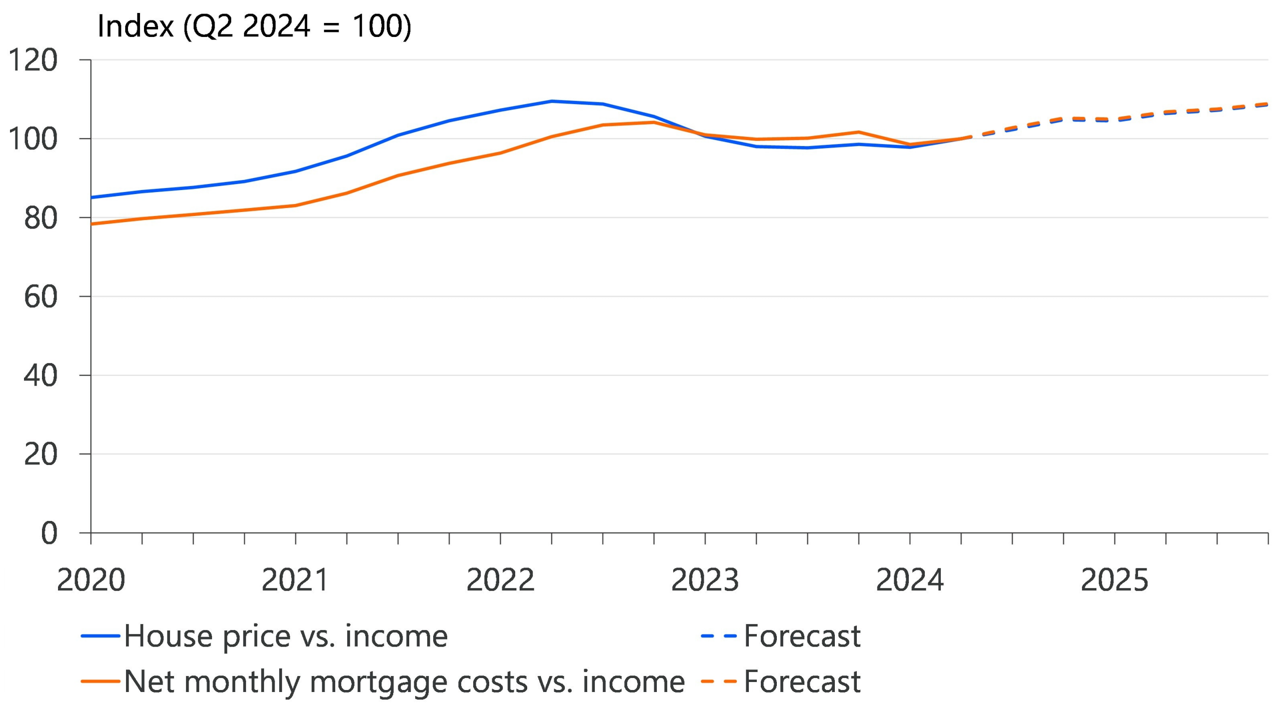
Figure 6: Capital market interest rates expected to remain fairly stable in coming years



Source: Macrobond, RaboResearch 2024

Both house prices and net mortgage costs are expected to rise more than incomes in the coming years, according to our projections (see figure 7). This means that the affordability of owner-occupied housing is gradually deteriorating. Although we expect the robust price increases we are currently seeing to continue for the time being, we assume that deteriorating affordability will eventually cause demand for owner-occupied homes to weaken. At some point, therefore, the housing market will reach market equilibrium, at the point when house price increases roughly match income increases. Whether the market gradually reaches such a market equilibrium is uncertain. In fact, turnarounds in the housing market are difficult to predict because the way house prices respond to fundamental factors such as housing supply, interest rates and economic growth is different in each cycle. For example, it is also possible for positive market sentiments to keep house prices rising longer than is warranted by fundamentals, followed by a period of market correction or low price growth. This is because non-economic factors also determine the rise in house prices.

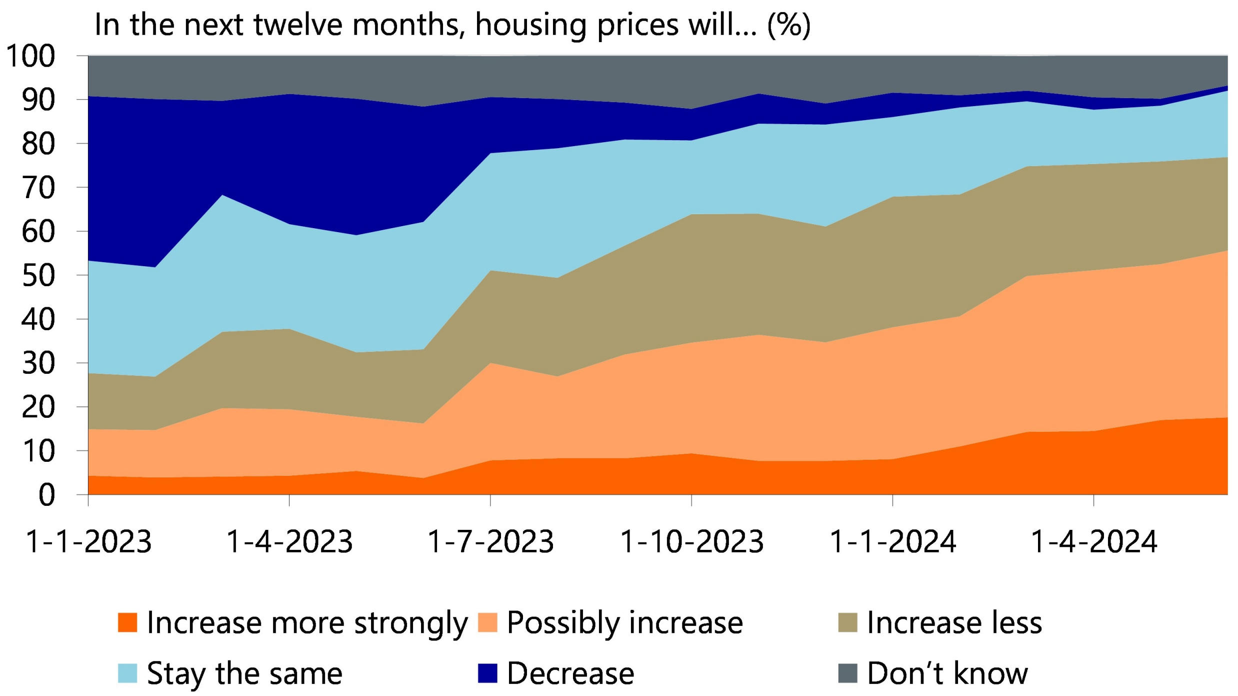
Figure 7: Worsening affordability of owner-occupied housing expected in coming years



Source: Nibud financing charge standards, CPB, RaboResearch 2024

Thus, the house price acceleration at present can probably also be explained by sentiment in the housing market. Meanwhile, just over half of housing consumers expect moderate to strong price increases, according to the Market Indicator of home owners association Vereniging Eigen Huis (see figure 8). The fact that consumers expect house prices to rise further may have a reinforcing effect on the demand for owner-occupied homes. International research shows time and again that consumer price expectations (often based on recent price developments) are a very important predictor of how house prices will actually develop.

Figure 8: Consumers expect rising prices

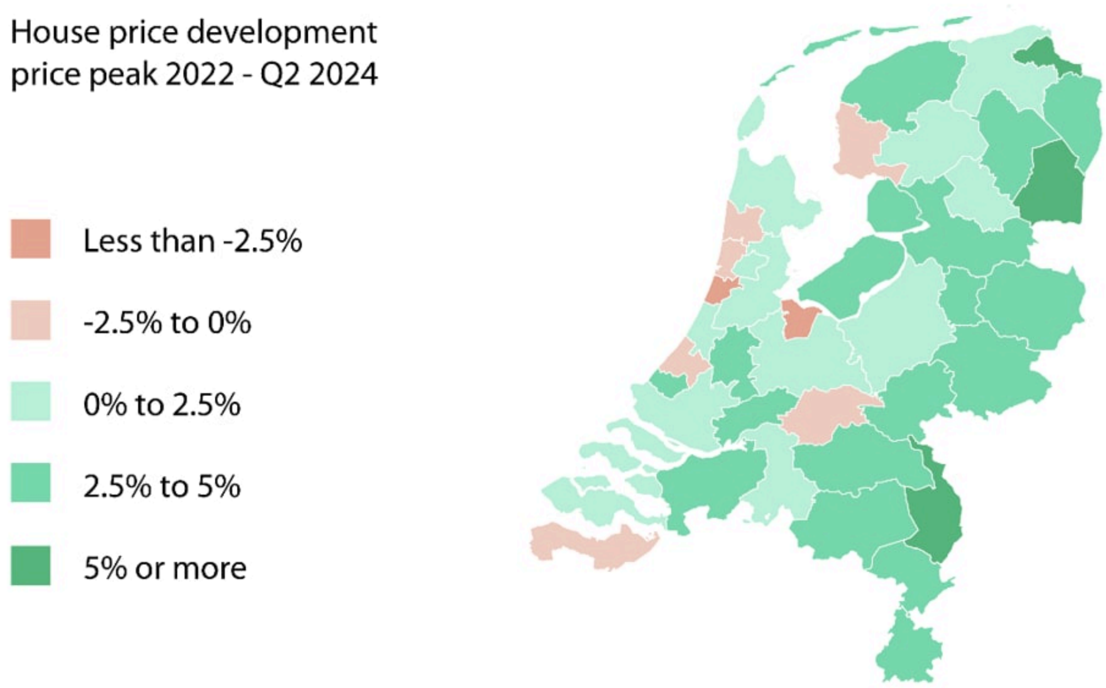


Source: Vereniging Eigen Huis, TU Delft OTB

Regional look at house prices

The pickup in house price growth can be seen in all regions. In the second quarter, there were no longer any regions where prices of existing homes for sale had fallen on a quarterly or annual basis. And while existing homes for sale were still cheaper in the majority of regions early this year than they were in the summer of 2022, that price spike has now been surpassed in the majority of regions (see figure 9). Only in eight of the 40 regions is this not yet the case. For example, existing homes for sale in Het Gooi en Vechtstreek are still about 4% cheaper. Given the pace of recovery, it probably won't be long before all regions record positive house price growth compared to the previous peak.

Figure 9: Many regions have already surpassed the 2022 price spike



Source: CBS/Kadaster

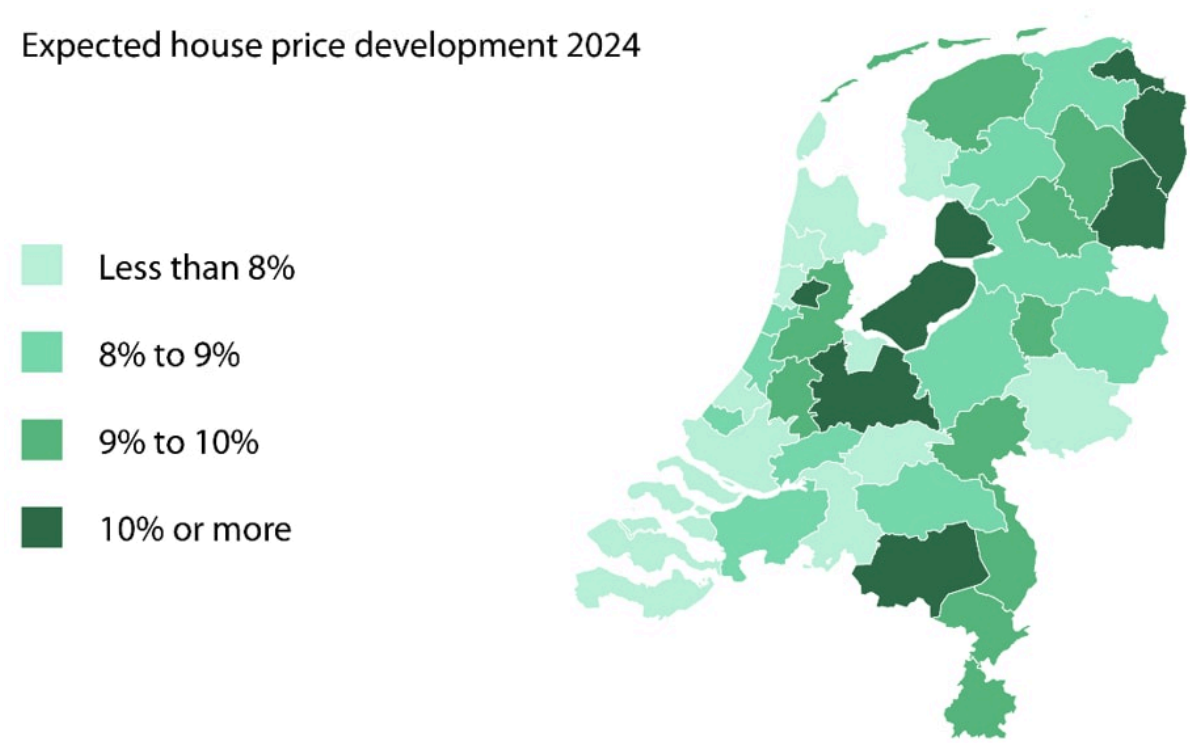
Wide variations in regional house price expectations

All parts of the country this year include regions where house prices are expected to rise sharply and regions where house price growth lags behind the national average (see figure 10). We thus assume a less unambiguous picture than last year, when house prices fell most sharply in the northern wing of the Randstad and the ring around it. Since the data for the first two quarters are already available and we also take into account recent regional market trends in our forecasts, price increases from the first two quarters play an important role in our predictions.

We expect the largest price increase in the Delfzijl region. We expect a 16% increase there. The expected price increase in the Utrecht region is also high at 12%. In the Rest of Zeeland region and in Het Gooi en Vechtstreek we expect the lowest price increase of 6%.

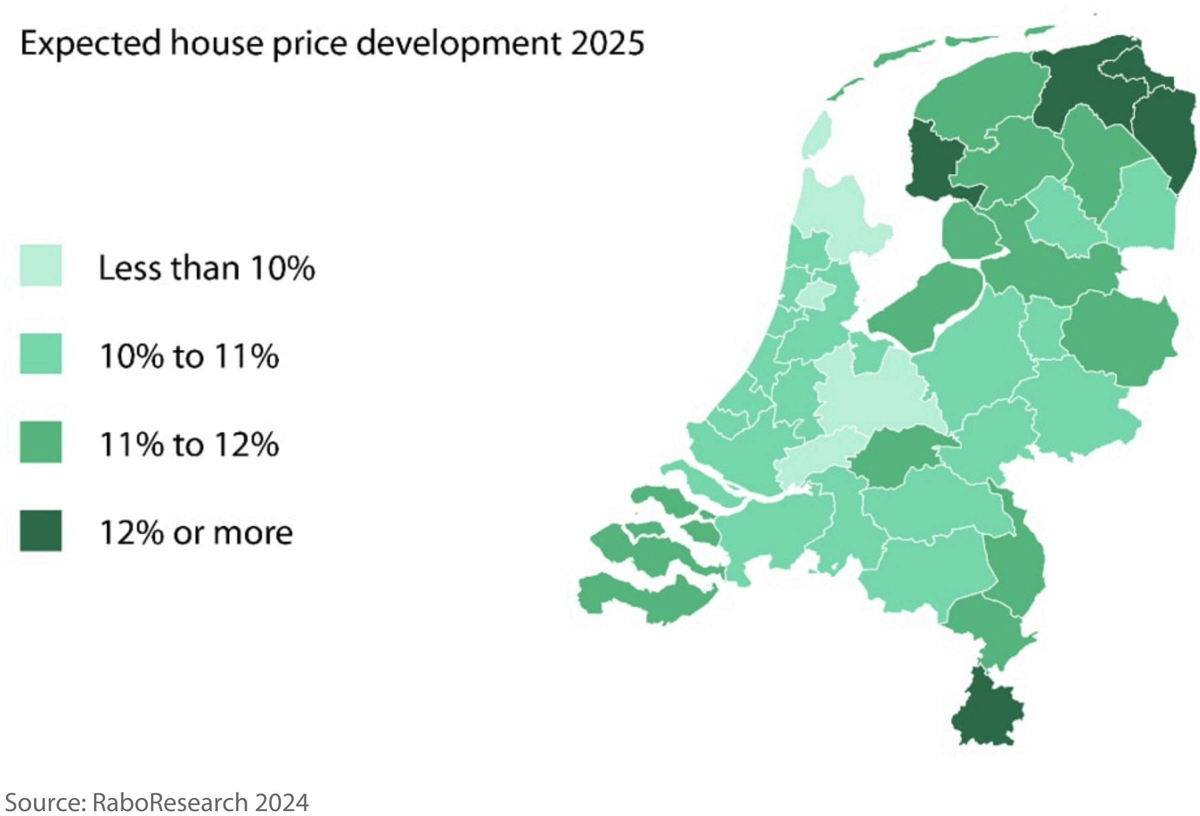
For 2025, we estimate the highest price increases in the northeast of the country and in South Limburg (see figure 11). In parts of the Randstad, price increases are expected to be lowest, but with an average price increase of around 10%, prices are nevertheless expected to rise substantially. The fact that existing owner-occupied houses are rising less sharply in the most expensive regions does not alter the fact that the price difference in euros continues to increase. In euros, the difference between the Randstad and the periphery will continue to increase in the coming years. As a result, the demand for owner-occupied houses in the coming years is expected - as in 2021 and 2022 - to shift back to the regions outside the Randstad (see also the next section).

Figure 10: Large regional differences in expected house price increases in 2024



Source: RaboResearch 2024

Figure 11: Largest increase in house prices in 2025 expected outside Randstad



Source: RaboResearch 2024

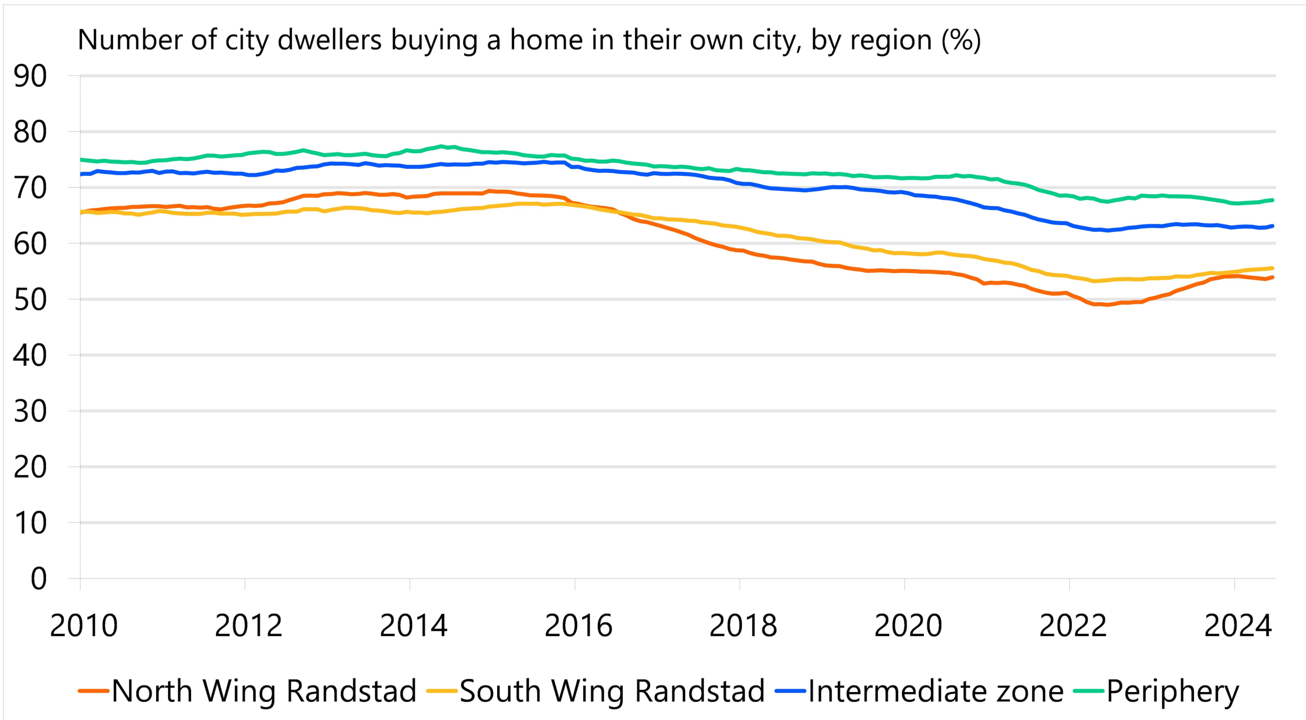
Own city no longer gaining ground

One consequence of the recovering housing market is that home towns are no longer gaining ground for homebuyers looking for properties (see figure 12). Indeed, homebuyers are partly letting their location choice depend on the price of the place. Influenced by high and firmly rising house prices in the urban area of the Randstad, migration out of the city increased for a long time. The high house prices in the most expensive parts of the country encouraged homebuyers to try their luck elsewhere.

But when prices started to fall, this trend stopped. Especially in the northern wing of the Randstad, house prices fell hard during 2022 and 2023. As a result, the price gap with other parts of the country narrowed (see figure 13). By mid-2022, the average square meter price in the cities in the North Wing of the Randstad was over EUR 4,900, which is about EUR 2,500 higher than the square meter price in the peripheral zone. A year later, this difference had fallen to about EUR 2,200. During that period, city dwellers in the northern part of the Randstad again bought a house in their own city somewhat more often. In the southern wing of the Randstad, where house prices declined less, this trend was much less visible.

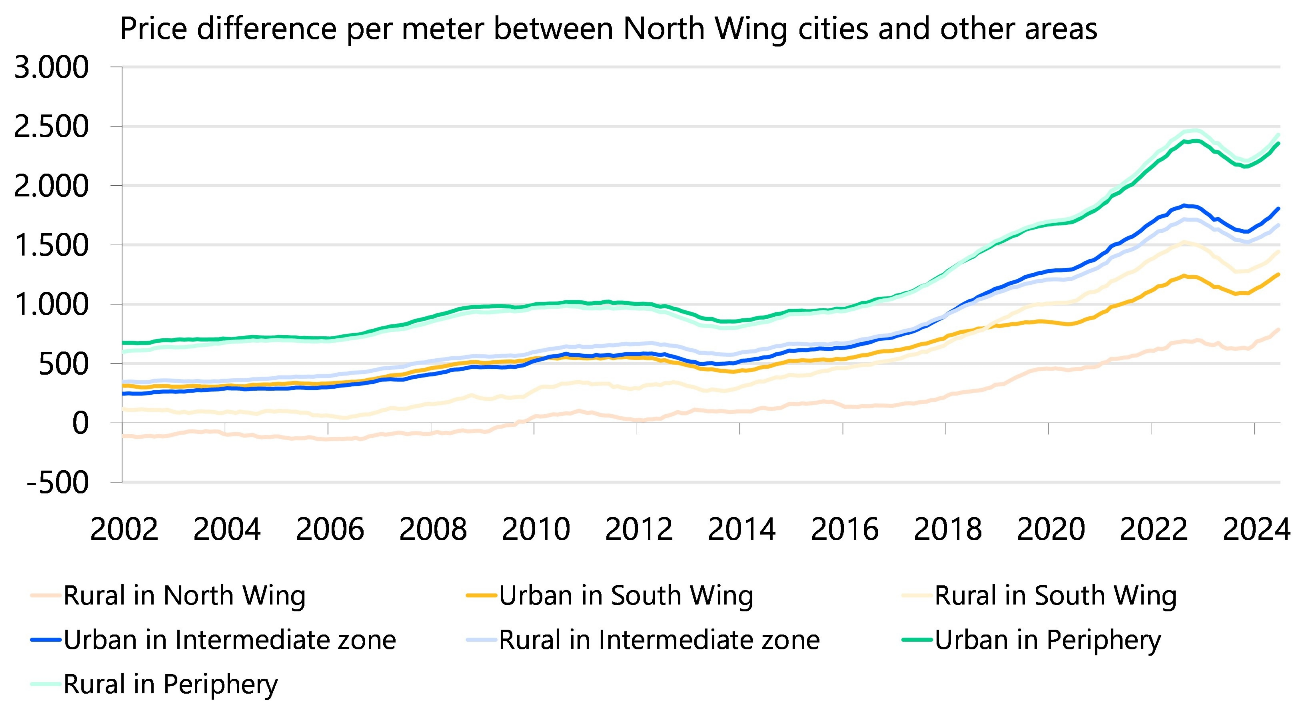
Not unexpectedly, the decline in migration out of the city is proving short-lived. In the wake of rising prices and the once again rising price premium for a house for sale in the North Wing cities, the home city is no longer gaining ground among urban homebuyers in this area.

Figure 12: Own city no longer gains ground



Source: Microdata Kadaster, edited RaboResearch 2024

Figure 13: After a brief decline, price premium rises rapidly again in North Wing cities



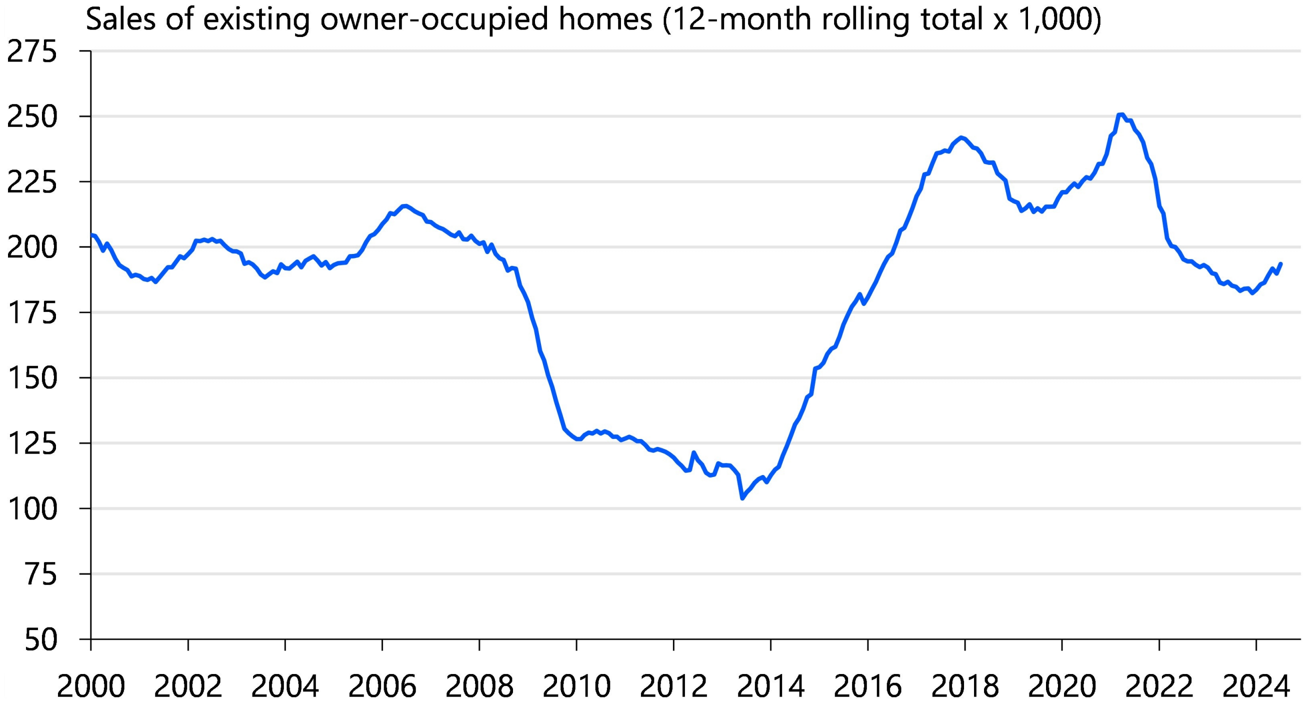
Note: This is the median square foot price of homes sold from 30 to 500 square feet. Figures are based on the 12-month moving average. Source: Microdata Kadaster, edited RaboResearch 2024

Slightly more sales expected in 2024

Since this year, the number of sales of existing homes for sale is picking up slightly (see figure 14). In the period August 2023 to July 2024, about 193,500 houses changed hands. That is 4.5% more than in the same period one year earlier. Looking only at 2024, the sales counter stands at nearly 111,000 homes sold, an 11% year-on-year plus.

In recent months, not only were a few more houses sold, houses were also sold faster. On average, houses were sold within a month (27 days); a year ago this took an average of 34 days (NVM 2024).

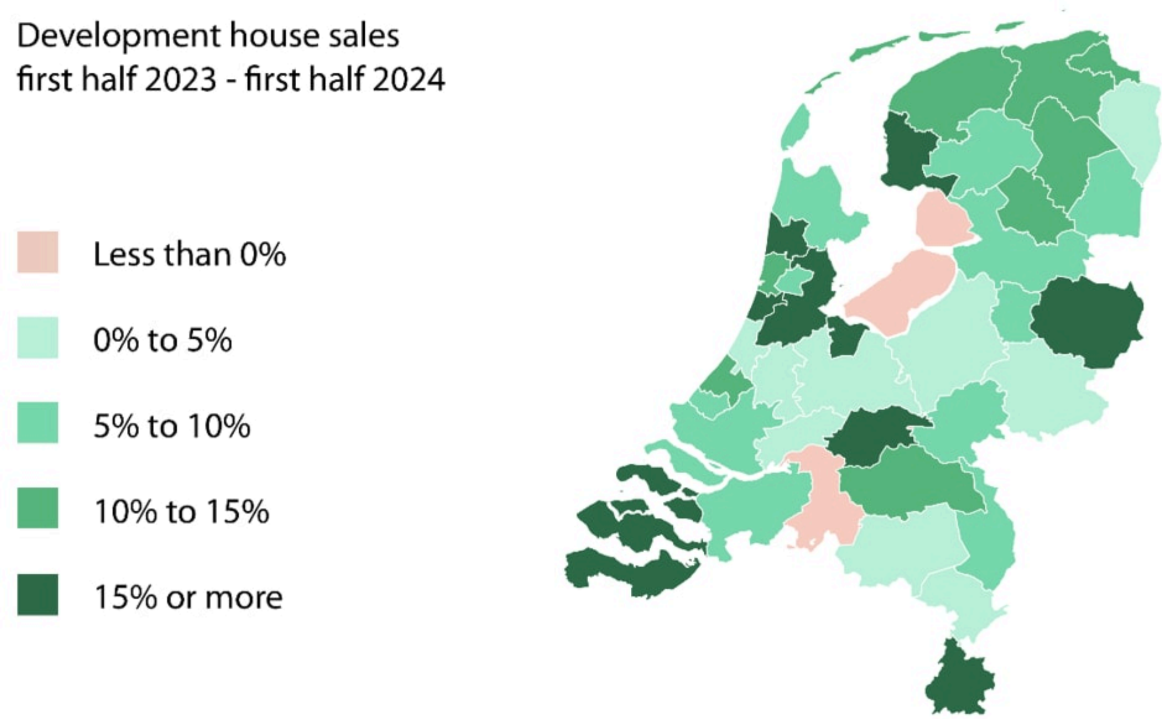
Figure 14: Sales have been on the rise for some time



Source: CBS/Kadaster

The upward trend in the number of sales can be seen in almost all regions (see figure 15). Almost everywhere, more houses were sold in the first six months of 2024 than in the same period a year earlier. In some regions, the number of houses sold was even considerably higher. Strong increases can be seen both in cheaper regions like South Limburg and Zeeuws-Vlaanderen and in relatively expensive regions like Greater Amsterdam and Agglomeration Haarlem.

Figure 15: Sales surplus almost everywhere in the first half of 2024

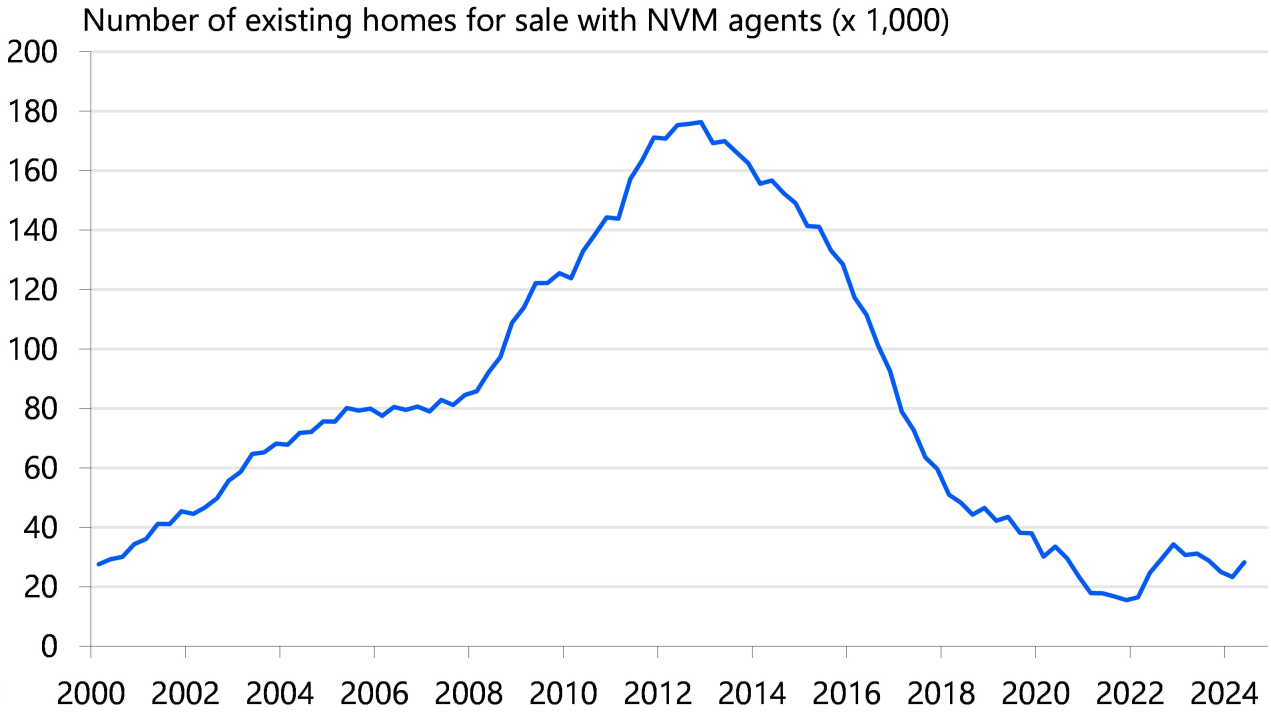


Note: Price development in the first half of 2024 compared to the same period in 2023 in percent. Source: CBS/Kadaster

We expect a total of 197,000 existing homes for sale to change hands this year. For next year, we expect 186,000 transactions. Our forecast has been revised upwards. Last quarter we still expected 188,000 and 182,000 sales in 2024 and 2025, respectively. The adjustment for 2024 is mainly due to the relatively high number of houses put up for sale recently, also compared to previous springs (see figure 16). In the second quarter, NVM brokers listed a total of nearly 43,000 homes for sale, a year-on-year increase of 13%. And in this market, homes put up for sale are selling quickly.

The fact that more homeowners have put their homes up for sale is probably not a structural trend but a temporary (catch-up) effect. When mortgage rates rose sharply, potential homebuyers dropped out and prices began to fall, a portion of homeowners probably temporarily put their selling plans on hold for a while. Now that the market is picking up, it has become easier to sell a home. Sales confidence has increased, and people who waited for market conditions to improve are putting their homes up for sale. The fact that more homes are being put up for sale is also associated with the wave of buy-to-let properties sold off by investors, which has been going on for a while now. Increasingly, rental houses are not re-rented after the tenant leaves, but the house is sold to people who are going to live in it themselves (owner-occupiers), the Dutch Land Registry (Kadaster) recently reported. The Dutch association for real estate agents (NVM) also reports this trend and expect it to continue for the rest of the year. Another reason to increase the number of expected transactions is that the price recovery is smoother than previously expected. And this also leads to new construction picking up faster. When more new construction homes are sold, there is usually also more turnover in the market for existing owner-occupied homes.

Figure 16. Supply still does not hold out



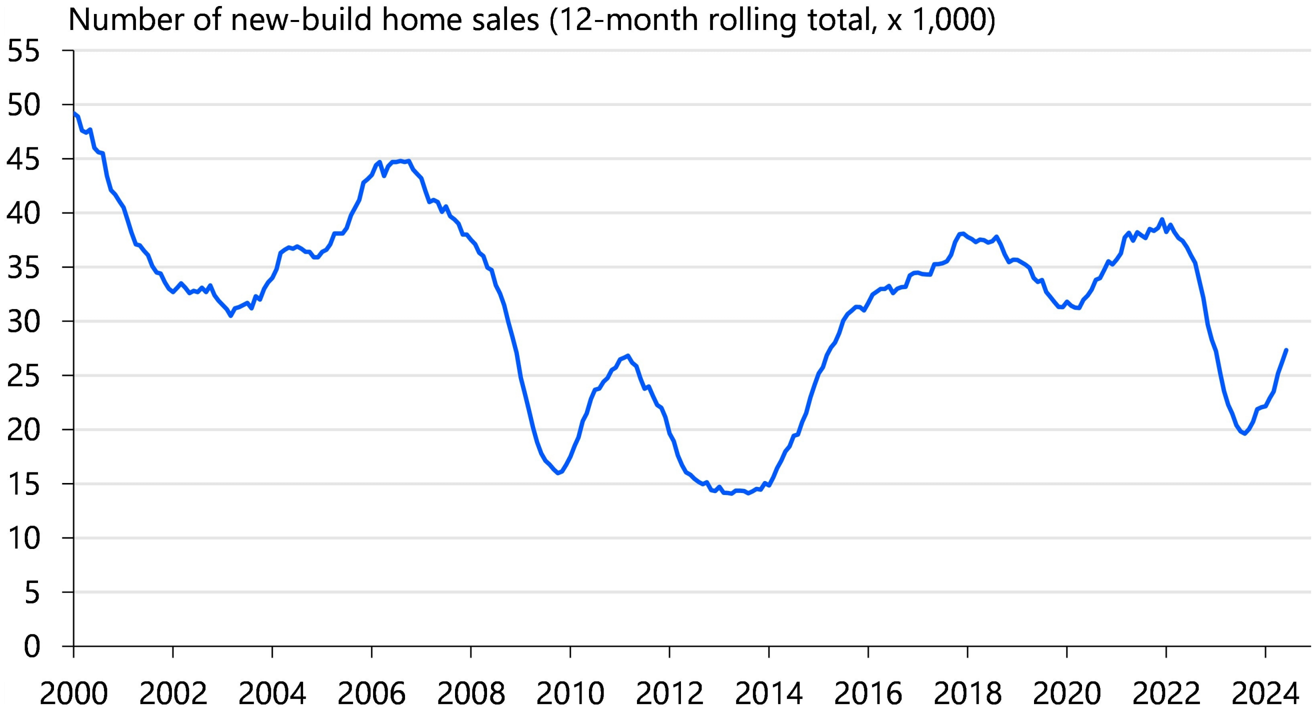
Source: NVM

New construction is picking up

New construction appears to have emerged from the worst of the dip. While earlier we saw a complete collapse in demand for new construction, potential buyers are now finding their way back to new construction (see figure 17). Nevertheless, the number of new build owner-occupied homes sold in the past 12 months is still well below the numbers that changed hands in 2020 and 2021. Looking on a quarterly basis, however, we see that the number of new build owner-occupied homes sold in the second quarter of 2024 was only 8.1% lower than in the second quarter of 2021. Due to the long lead time of new construction projects, it will probably take several more years before more new homes are completed, but the end of the tunnel is nevertheless in sight.

The sharply rising prices of existing homes for sale are driving demand for new construction. Due to sharply rising incomes, relatively expensive new-build homes are also coming back within reach of homebuyers. Because with an average selling price of around EUR 493,000 in the first quarter of 2024, a new build house is considerably more expensive than an existing house (EUR 432,100).

Figure 17: More new build owner-occupied homes sold

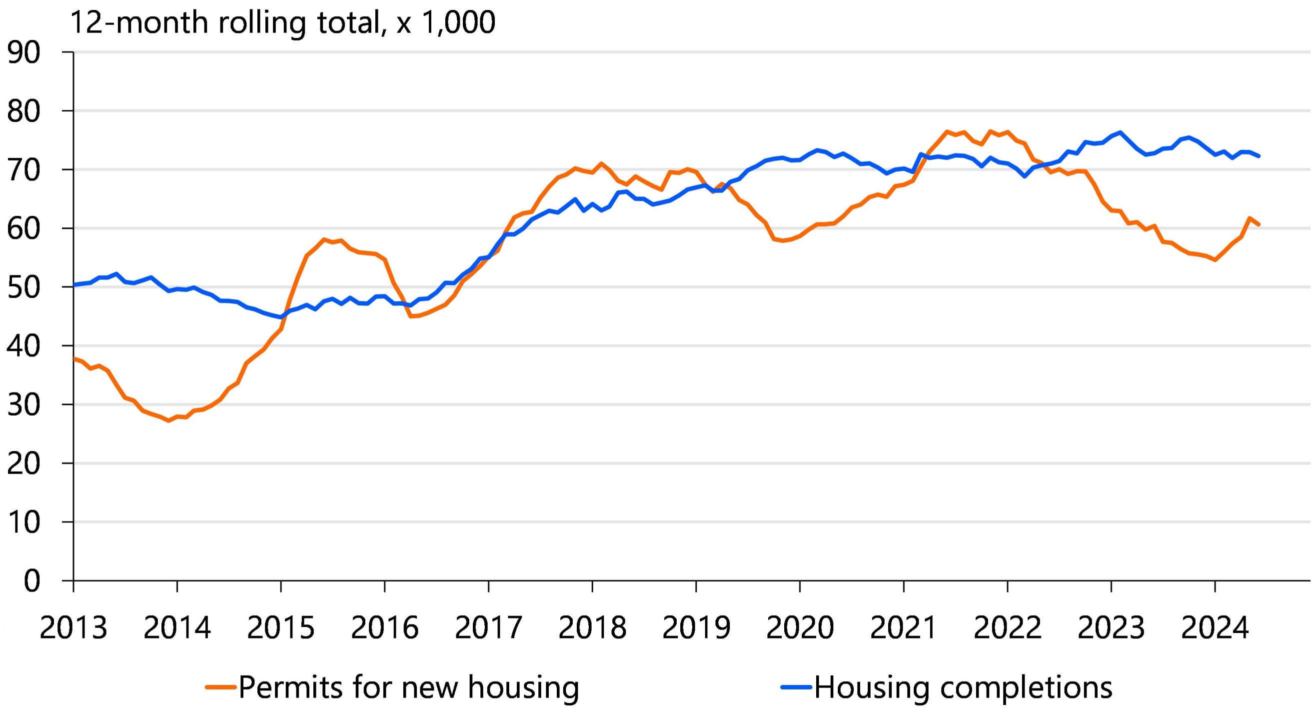


Source: WoningBouwersNL, based on completion guarantees issued by Woningborg, SWK and Bouwgarant

The dip in the number of building permits granted is now behind us (see figure 18). On a positive note, the number of homes under construction is also increasing somewhat again (see figure 19). Although more building permits are being granted, the number of homes for which a building permit has already been granted but construction has not yet started is actually declining. This means that the increase in the number of construction starts is even higher than the increase in the number of building permits granted. For a long time, the number of houses for which permits had been granted but construction had not yet started was actually increasing.

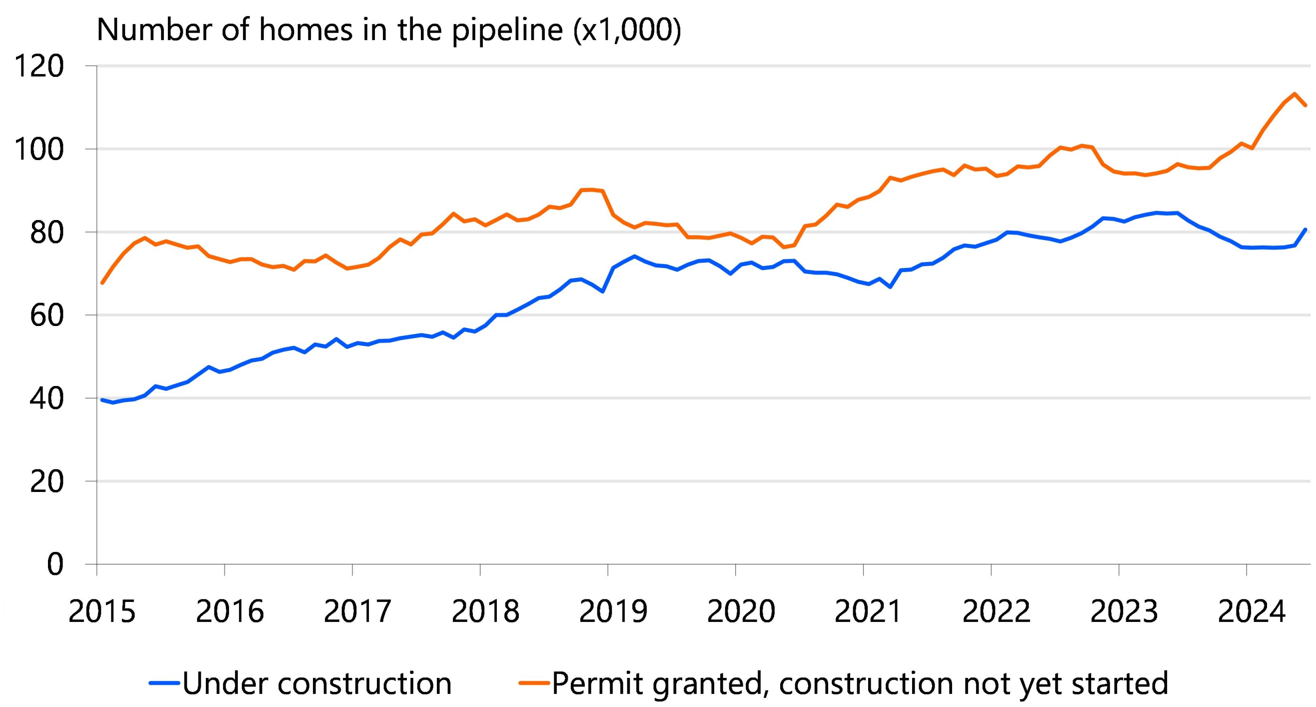
However, despite all these positive signs, it does not appear that new construction will pick up in the foreseeable future to the point where the government target of 100,000 houses per year (through new construction and transformation) will be met. And that also means that the lack of supply will continue to leave a mark on housing market dynamics. We therefore expect the housing market to remain tight in the coming years, and the number of transactions to remain under pressure as a result.

Figure 18: Number of building permits issued rebounds



Source: CBS

Figure 19: Number of houses for which construction has started increases slightly



Source: CBS

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https://www.rabobank.com/knowledge/d011440392-housing-market-quarterly-report-house-price-rise-increases